



TECHNIQUES FOR COLLECTING AUDIT EVIDENCES IN FINANCIAL AUDITS CONDUCTED BY AUDITING COMPANIES IN VIETNAM: AN OVERVIEW

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Abstract: In Vietnam, the auditing profession was only born in about over 20 years and rapidly it became growing. In this overview, we highly reviewed techniques used for collecting audit evidences in financial audits, which is implemented by auditing companies including state, internal and independent audit firms. These techniques have been successfully applied in audit practices in many cases in Vietnam, but there is some limitation, which is necessary to be adjusted to some extent. In this overview, we also gave some recommendations for companies as well as audit industry to make use of in practices.

Index terms: auditing, techniques, procedure and financial.

I. INTRODUCTION

In Vietnam, the auditing profession was only born in about over 20 years. The audit market is now considered booming with the average annual growth rate of 10% and there is a lack of supply side in terms of qualified accountants and audit firm with good practice. An independent research shows that in the next 2 years, Vietnam will need 3,000 more Vietnamese qualified CPA and 2,000 more internationally qualified accountant (such as AICPA, ACCA and CPA Australia) to meet the demand of the market. It seems hard to achieve given the fact that so far there have been only 970 people granted VN CPA certificate (up to 30 May 2005). It is believed that auditing in Vietnam will develop rapidly with radical changes with the establishment of Vietnam Association of Certified Practising Auditor (VACPA) on April 15, 2005 and the hand-over of certain controlling functions from the MoF to this independent accounting body. As a part of the economy, the formation and development of audit activities are both objective indispensable of the market economy and an important component of the macroeconomic management system of economics-finance and play an active role in the socio-economic development in general and for each enterprise in particular. One of the factors contributing to the success of that test is audit evidences. The quality of audit evidences is closely related to the quality of the audit. The field of financial statements audit is always considered an area containing many risks in auditing activities. So in order to make honest conclusions about the status of financial operations of the unit, it is required that the auditors must collect sufficient and highly reliable audit evidences. The audit evidences has a vital position for the quality of the audit, the establishment forms an opinion and an audit conclusion. Today, the work of gathering evidences is becoming increasingly difficult, requiring catching up with the variety of information, the level of sophistication of fraud. Being aware of the importance of the problem, the topic "Techniques for collecting audit evidences in financial audits conducted by auditing companies". On the basis of systematizing the practical issues of applying the audit evidences collection methods, topic will propose solutions to improve the methods of collecting audit evidences in auditing

2. CHARACTERISTICS OF APPLYING TECHNIQUES TO COLLECT AUDIT EVIDENCES

2.1 Overview of techniques for obtaining auditing evidences of financial statements

The objective of a financial audit is to provide opinions on the audited financial statements based on assessments of collected evidences. The auditor's decisions depend very much on the evidence obtained. The audit report recognizes the auditors' opinions, it is the most important product of an audit, its accuracy and rationality depend on a lot of the evidence collected by the auditor in the audit process.

According to Vietnamese auditing standards, auditing evidences is all documents and information collected by auditors relating to the audit and based on this information, the auditors form the concluding opinions.

Audit evidences are information or detailed documents collected by auditors as a basis for their comments on audited financial statements and activities.

The audit evidences here may be verbal information, written information, book vouchers, inventory records, customer confirmation.

Decisions of auditors on collecting audit evidences

Decision on auditing procedures to be applied: Companies has set a general standard on audit procedures to be applied to each part. Sample audit program provides detailed steps for conducting audit procedures, data sources, working papers corresponding to specific sections such as Cash, Inventories, Fixed Assets, etc. Procedures in the chapter Data-based programming may be affected. The audit program is standardized for all audits and can be more detailed with the performance of each specific customer.

Example of an audit program Fixed asset items in a standard audit program in accordance with audit companies (according to companies' file):

Analysis procedures:

Comparing and understanding the fixed asset depreciation cost fluctuations with fluctuations in this period with the previous period and the investment plan to purchase assets of enterprises to find abnormal fluctuations.

Check the details:

- In case of witnessing stock count at the time of closing the accounting book: The auditor checks whether the customer complies with the regulations on stock count of fixed assets? Conclusion about the reliability of stock count results.
- In case of not participating in stock count at the end of the year: The auditor collects documents related to the stock count that the customer has performed (stock count report, stock count method, instructions, ...). Interview customers about the stock count procedures used to assess the reliability of the inventory provided.
- Collect or make a summary table by group of assets at cost, depreciation: beginning balance, end balance, increase or decrease in the period.
- Reconciliation of arising amount and balance of fixed assets, depreciation of fixed assets at the end of the period between the detailed book and general ledger and financial statements. Compare the detailed balance at the beginning of this period with the balance at the end of the previous year.
- Original price of fixed assets: Check the detailed sample of some fixed assets increased and decreased during the year (specify the requirements of the selected sample). Check whether fixed books, cards, and records are in accordance with current regulations.
- Collect a detailed list of fixed assets at the end of the period, check to confirm that these assets exist, qualify as a fixed asset and be classified accordingly.
- Check cut-off to see if any fixed asset must be recorded this year that the unit recorded in the following year? Check voucher, invoices, delivery records about fixed asset increased transactions after the end of the audited year.
- Collect information on depreciation method, depreciation rate and depreciation period of fixed assets. Check and recalculate to ensure consistency of depreciation method.

Decision on sample size

Once the method of selection has been chosen, the sample size can fluctuate from including an item to all items in the overall survey. The decision to choose how many items to control must be performed by the auditor and they do for each method of audit. Sample size for any predetermined format is likely to change from one audit to another. However, with items that generate less business, big value, we can check all the details for this item in detail.

Decisions on items must be selected separately

After the sample size has been defined for each individual procedure, the next step is identify the individual items to check. For example, the auditor decided to choose 160 payment vouchers from a total of 5000 vouchers to compare with the cash register. The auditor can select a specific time period and check 160 first-rate checks, select 160 vouchers with the largest amount, select the checks at random, or select checks that the auditor think that they have the most flaws, or can combine all of the above methods. The selected special elements can be:

- The elements of biggest value, important, unusual or often have errors in the past: for example, the receivable items often choose the large arising industries, general and administrative expenses often choose unusual content such as guest reception bill, ...

- The elements are suitable for the purpose of collecting information: select a number of invoices such as bill of cash to see are there sufficient signatures of authorized people ?, ...

Decide on the time to complete the modalities

A financial statements audit often a period of one year, one year and an audit usually take weeks or months. After the end of a period, the audit will be completed. Determining the timing of audit procedures may change very early or may be very long in the accounting period. In the financial statement audit, customers often want the audit to be completed within a period. Auditors determine the start and end time of the audit procedures set out after reaching agreement with customers. This result is reflected in the audit program.

2.2. Applying techniques to collect audit evidences in auditing Financial Statements performed by audit companies

In order to obtain sufficient and effective audit evidences, the auditor must apply certain methods during the evidence collection process. Depending on the conditions, circumstances and characteristics of the financial audit object, the auditor will determine the application of appropriate evidences collection methods to achieve the set objectives.

Currently, companies uses all seven techniques according to the audit standards issued by the Ministry of Finance, namely: material inspection, document verification, sending confirmation letters, analysis, observation, recalculation and interview.

2.2.1. Stock count

The process of stock counting or participating in the inventory of tangible assets of auditors. Objects of material inspection are inventory, cash balance, investment securities, receivable debts and tangible fixed assets.

Material inspection is a direct means of verifying whether the asset exists, so it provides the most reliable audit evidences. In general, material inspection is an objective method of verifying both quantity and type of assets. In some cases, it is also a useful method to assess the situation or quality of assets. However, it also has the disadvantages that the evidence provided is not enough to verify the existing property, whether it is owned by the company or if it is a leased or mortgage asset. It has not enough grounds to judge the quality, status, and obsolescence of assets. Furthermore, material examination does not indicate whether the property is properly evaluated or not, with respect to the principle of asset assessment. Thus, to overcome the disadvantages of material inspection, auditors must use a combination of other methods to gather valuable evidences and higher persuasion.

Examples of cash in hand assets:

Before participating in the stock count, the Auditors gather information from customers on the time and place of cash stock count, and notify customers about the participation of the Auditor: time, place of participation and number of participants in the stock count.

In the process of implementing the cash fund stock count, the Auditor considers the customer company employees: cashier, cash accountant, direct accountant to count cash in the safes according to each type of value money recorded results on working paper serve as a basis for making a record of fund stock count. Then compare the countable results with the cash balance on the book, if there are errors, find the cause.

At the end of the treasury inventory process, the auditor and the client's staff agreed and signed the fund inventory minutes.

2.2.2. Inspection of documents and records

As a process of review and verification of auditors through checking and comparing vouchers, documents and accounting books to prove that the information presented in the financial statements is complete and truthfully.

In examining documents, the evidence obtained depends on the audit objectives or in other words, the audit objective is the basis for selecting specific inspection procedures. The two procedures for inspection of documentation often are inspection of document and checking conclusions.

Inspection of documentation: is the comparison between the balance or the number of transactions with the documents. The audit objective here is to determine whether the recorded operations actually exist and whether the money is real (the goal of existence), because each economic activity in the unit is usually audited. Proven by at

least one voucher, there is always a large number of vouchers available, reflecting books. For example, businesses often retain a customer order, a shipping document, a copy of the sales invoice for each sales operation. If checking according to the accounting book sequence, ie from the original voucher to the accounting book and to the accounting newspaper, the auditor will get evidences of whether the arising transactions have been fully recorded. Conversely, if checking from the accounting report to the accounting book and finally the accounting voucher, the auditor will obtain evidences of whether the data recorded in the accounting book is full of documents.

Check conclusions: From a previous conclusion, the auditor collected documents as evidences for the establishment to conclude. In this way, the auditor needs to determine the scope to be checked and compared, then the auditor just checks and collects documents and documents related to the previous conclusion.

This method gives us evidences as proof. Evidences is a form of evidences that is widely used in audits because collecting them is relatively easy and convenient, and because they are available, on the other hand, the costs to collect them are smaller than those other methods. Sometimes the document is the only logical proof if the auditor cannot find other types of evidences.

When collecting evidences according to the method of document inspection, the auditor should pay attention to: the reliability and independence of the documents to prove, in case the documents have been repaired or erased by the provider or fake. Therefore, auditors need verification, checking through other methods.

Example with fixed assets:

+ With fixed assets increased during the year: Auditors check documents to ensure accuracy and truthfulness, timely and owned by the company.

For new fixed assets: check the decisions of the Board of Directors, purchase contracts, invoices, procurement procedures, asset handover minutes, check accounting entries, ...

To compare the date of recording the increase of fixed assets in the accounting books with the records of delivery and receipt of original documents to ensure that the time of recording fixed assets is reasonable.

+ Reduced fixed assets: check documents to ensure the accuracy and truthfulness of asset reduction operations.

+ Reconciliation with other operating parts to search for fixed asset liquidation which has not been recorded in the book: Comparing, checking between fixed assets with the liquidation and sale of fixed assets in the period Check the board meeting minutes, bank statements, loan confirmation ... and make sure that your liquidation, pledge and mortgage are properly recorded.

2.2.3. Confirmation letter

Is the method of auditor receiving a reply from a third independent component to verify the accuracy of the information that the auditor suspects. Because the certification forms are from sources that are independent of the customer company, they are highly valued and often used as evidences. However, assertions are relatively expensive and can cause problems for those who provide them. Therefore, they are not used in all cases.

Whether the certifications are used depends on the reliable needs of the situation as well as the evidence available in the plan. Generally, assertions are not used to verify individual economic operations between organizations. For example, sales operations, because auditors can use vouchers for this purpose. Similarly, assertions are rarely used in fixed asset audits because they can be fully verified by documentation and physical inspection.

In order to be considered reliable, assertions must be controlled by the auditor from their preparation until they are resent. If the customer controls the preparation of the confirmations, the sending or receiving of the replies, the auditor will lose control, as well as the independence from which the credibility of the evidence is reduced. .

Audit companies has a very strict requirement of controlling the certification process to ensure that the information collected is reliable. The auditor also needs to ensure that the contents of the confirmation letter are sent to the correct address and that the feedback will be sent directly to the Auditor. The auditor must also consider whether the feedback is sent to the people involved.

If the sending of confirmation letter has no response, the auditor will perform other audit procedures instead. Such additional auditing procedures must provide adequate audit evidences about the documentation bases of the financial statements that require confirmation of the offer. Alternate audit procedures can be a detailed check of transactions that generate balance, or check transactions arising after the cut-off date to ensure the balance is recorded as real.

2.2.4. Analytical procedures

This is the method of using the process of comparing relationships to determine the reasonableness of the data on the report of the audited entity. This is the most general skill to exploit audit evidences, which is applied in all cycles of financial audit: inventory cycle, sales cycle and collection, buying cycle and Payments, pay cycles and deductions based on wages, mobilization cycles and repayments.

Analysis is a key ability of auditors to find unusual relationships or changes in practice when setting up hypotheses about the relationship between data, estimating data to be checked, and compare with actual figures. The analytical method is mainly based on the process of comparing the relationship between financial information with each other or between financial information and non-financial information. Commonly used analyzes include:

Comparison between periods: The auditor compares the financial information this period against the previous period or between periods. Specifically, compare the financial statements of this period against the previous one or compare the balances, the arising number of accounts to consider between different periods. For example, the process of comparing the ratio of total balances in the current year to the previous year, analyzing the changing trend of per diem at the sales department, if this cost increases for 5 years and the increase in revenue. It means that the sales department has helped increase revenue through its operations. If the revenue does not increase, it will be unreasonable with the strong operation of the sales department, the auditor must ask questions doubting the reasonableness of the expense and will learn more to make a correct conclusion.

The negative of this method only applies to comparable information ie item indexes with the same content and calculation method. In addition, the method cannot accurately determine the impact of a company's performance or environment beyond the time of comparison.

Comparison between reality and plan: Compare indicators between actual figures with accounting numbers or plans, budget is the basis for measuring and assessing risks for many activities. Since then, auditors can clearly see the errors in financial statements or major fluctuations in production and business need to consider and appraise. For example, the large difference between the actual cost and the planned price or inventory with the inventory norm, the actual output value with the plan.

When using this method, the auditor determines whether the estimate has been properly established and whether the goal is reasonable. If the budget is rigid and unreasonable, a review is required.

Comparison of the industry average: Normally, within certain scope of the audited units have similarities with the industry's criteria such as: profitability, turnover ratios capital, inventory, cost coefficient. External sources of industry data make it a more reliable measure than a simple comparison with the estimates or standards set by the audit unit.

However, the industry's targets are usually medium indicators and based on a wide range of possible levels of activity, containing uneven factors between units. Therefore, compared to the indisputable criteria of the industry, it is necessary to carefully analyze and explain the factors of scale, management organization, different accounting methods between units in the industry.

Comparison based on the relationship between accounts: The accounting system makes the accounts automatically contact each other. For example: Depreciation expense account will be related to accumulated depreciation account, interest expense account can match with loan account. In addition, some accounts may be contacted in another way. Suppose, commission costs can be a specific percentage of revenue and undue debts cannot exceed a percentage of deferred sales. By re-checking the relationship between accounts, auditors can detect errors in accounting handling.

Compare with operational data: the data operated by the operating department give valuable information comparable to the figures of the accounting report. Example: Number of employees comparing with data on salary, product volume compared with cost price, number of exported shipments can be compared with inventory. Frauds such as inventory recognition that exceed production capacity, salary costs that exceed consumption volume can be detected through this comparison method. Even when there are no such frauds, this comparison method still helps auditors determine the quality of internal control systems and unit accounting.

Comparison with economic data: By comparing the aggregate data on the operation of the audited units with economic data, the auditors can assess the overall development trend and relationships. , find possible risks for the unit that may have been overlooked, allowing an assessment of the overall rationality of the unit. Example: Comparing the bad debt level of a bank with the market condition, it operates to assess its level of activity. If the debt level is slightly lower than normal in a stable market, it may be acceptable but still too low in the unstable market, it is very likely that the bad debt level is incomplete.

Comparison with non-financial data: Non-financial comparisons and trends are often valuable to auditors such as employee turnover, production statistics, providing a comprehensive perspective on audited units. Such information always adds relevance to financial information. Information originating from outside industry or economic data has useful additions to analytical procedures. For example: For an auditing object in the service industry, the population growth statistics will be valid when the auditor evaluates the reasonableness of revenue changes.

The above analytical methods are widely used to evaluate information to collect audit evidences. They are considered to be highly effective methods because of low cost, low collection time, but the evidence is accurate,

synchronous and valuable in accounting data, showing generality and not falling into specific operations.

Although there are many advantages as above, when auditors use analytical methods to collect audit evidences, attention should be paid to the following points:

The essential relationship between the comparison criteria, the comparison criteria must be similar in content and comparison with the calculation method between them must have a certain relationship with each other.

Auditors must use analytical methods in combination with other methods when evaluating indicators and key items to find appropriate audit evidences.

When the internal control system is not effective, auditors must be cautious when analyzing to find audit evidences and should combine with other methods.

2.2.5. Observation

Is the method of auditors using senses to evaluate certain activities. During the audit, there are many opportunities to conduct listening, seeing, touching, and smelling to evaluate a large range of things. For example: To know the status of machines and equipment that consider rusty machinery or not, auditors can walk around the factory to get a general impression of customer equipment and give general assessments. about the status of machines and equipment. The actual observation will provide audit evidences with high reliability but only at the time of observation.

The observation method is very useful in many parts of the audit to collect audit evidences but it does not yet show its fullness, so it should be combined with many other methods. On the other hand, the effectiveness of this method depends greatly on the qualifications and experience of the auditors

2.2.6. Recalculation

The recalculation process is aimed at checking the accuracy of the data, of accounting recording and making accounting reports. The validity of the evidence depends on the information used to recalculate. For example: Adding up sales and inventory invoices, adding diaries and sub-books, checking the process of calculating depreciation costs and accrued expenses or performing recalculation techniques with the item of value-added tax by calculating the total debt incurred acc133 compared with the VAT declaration. The calculation method again provides audit evidences with high reliability in arithmetic.

2.2.7. Interview

Is the method of auditors collecting handwritten information or verbal information of customers for auditor's questions. Interviews can be done through questionnaires or in writing. Interviewing techniques and experience play a very important role in obtaining credible and objective audit evidences.

The interview process consists of 3 stages: Planning, conducting interviews, and conclusions.

The planning phase of the auditor must determine the purpose, content, interview subjects, time, location, interview, key points to interview and discuss.

During the interview phase, in this stage, the technique of questioning the auditor's question is very important. The questions should be short, easy to understand, right purposes, creating a comfortable psychology for the respondents.

Concluding stage, auditors must pay attention to the qualifications of the interviewees to draw the right conclusions to serve well for the purpose of audit.

However, the audit evidences obtained during the interview process is not reliable because of the subjectivity of the respondents, this method is mainly done to strengthen other methods.

3. SOLUTIONS TO COMPLETE THE TECHNIQUES FOR COLLECTING AUDIT EVIDENCES

3.1. Stock count

Auditors should directly participate in the stock count to reduce risks at the lowest level and obtain evidences with the highest reliability, and also to assess the value of assets and accounting processes. In addition, if it is not possible to directly participate in the stock count, the auditors should expand the detailed selection of samples for some operations of these assets. The purpose of evaluating the effectiveness of the internal control system, considering the recognition of asset value in the right period. Besides, auditors also need to consider honesty and independence of third parties by collecting information from audit reports of other auditors about the corresponding asset items on the inspection process control, management, stock count procedures

3.2. Analytical procedures

Auditors need to use all three analytical procedures: rationality, trend analysis and rate analysis. Specifically, check the reasonableness in the analysis and comparison of actual data against the number of plans, compare the unit's criteria with the industry average, ... Rate analysis assesses some financial ratios main: inventory turnover rate, rate of return, ...

At the same time, auditors should apply analytical procedures right from the planning stage in order to design an effective audit program and allocate the importance and risk to the items in a reasonable manner.

In addition, auditors should analyze financial and non-financial information of other units in the same industry and the industry average. Since then there is an overview and better understanding of customers in terms of competitiveness, business performance of customers in the market.

3.3. Interview

The auditors need to find out about the customer and set up a system of questions to assess the suitable internal control system. Since then, auditors will assess the accuracy and objectivity of customers' internal control system. This table presents questions according to the detailed objectives of the internal control system. Questions are designed in the form of "yes" and "no". Along with that, next to the prepared questionnaire, depending on the specific situation of each interview, the auditor may consider asking additional questions. Thereby helping auditors to better understand the accounting process of customers and in combination with other audit procedures will help auditors gather evidences of efficiency and reliability. In addition, flowcharts are also useful for generalizing, helping to more accurately comment on the audit procedures that apply to activities and to easily indicate which control procedures need to be supplemented to obtain evidences suitable for audit conclusions and limiting audit risks.

3.4. Inspection of documentation

Based on the sample selection method, the auditor chooses the operations that are based on the professional judgment and the auditor's calculations but cannot check the whole because the workload is too large. The selected sample should be highly representative, limiting the risk so auditors should combine different sampling methods to achieve the best results. Auditors should enhance random sampling with operations with similar characteristics. At the same time, combined with the non-random sampling method, select the sample according to the auditor's judgment to not miss the operations that the auditors found abnormal signs ...

Using information technology, random sample selection through computers will help auditors save time and reduce errors in the sampling process. This way has the advantage of being highly probable, helping to computerize the audit work, the calculation of auditors is also more accurate, saving time. At the same time, it is recommended to combine the evaluation experience of the Auditor for the sample selected to achieve the highest efficiency.

3.5. Confirmation letter

Confirmation letters are usually objective and accurate because they are provided by a third party and the evidence obtained from this technique is often reliable.

In order to use the confirmation letter effectively, right from the audit plan, the auditor needs to collect information, detailed tables by subjects, set up the debt age analysis for each customer, ... and Select the confirmation mailing form before starting an audit to increase the time for confirmation mail. In order to limit risks, auditors should send confirmation letters to all subjects. This helps the auditor collect the confirmation letter in a timely and complete manner, from which the auditing evidences can be obtained, give an audit opinion and issue an audit report on time, minimize the risks and improve the quality of the audit.

3.6. End of audit

In order to limit the risk, the team leader should closely monitor the steps taken by the team members during the audit process to check whether the evidence is complete and may require additional to complete. In addition, the team leader may request to increase the staff or increase the audit time if necessary to avoid omission of procedures that may significantly affect the data on the financial statements.

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