

strict the extent of the audit than not to restrict the extent of the audit, the auditor need not complete his review of the EDP accounting control.

Tests of Compliance

The purpose of tests of compliance is to provide reasonable assurance that accounting controls are being applied as described. These tests answer the questions—where, how and by whom.

Some EDP accounting control procedures leave visible evidence of their performance (i.e., batch total errors); others do not (i.e., error detection routines imbedded in programs). SAS No. 3 suggests that the auditor test these imbedded routines by submitting transactions "... to determine that no transactions tested have unacceptable conditions or that unacceptable conditions present were reported and appropriately resolved." The SAS suggests that this may be done manually, if conditions permit, or by the use of computer programs.

The problem with this approach is that it will not establish (1) under what conditions, if any, the controls will be inoperative; (2) whether

there are other accounting controls which are not being tested for.

SAS No. 3 appears to have recognized this problem by suggesting, as an alternative approach, the actual review and testing of the programs used to process the data. They add that this alternative may not be too good unless assurance can be established that these tested programs were the ones actually used. This is true even when the use of test data is relied upon. The auditor must take steps to ensure that the program used for the test data is the same one used during other times of the year to process the client's data. If such steps are not taken, the tests are useless.

Conclusions

SAS No. 3 represents an attempt to expand upon Section 320 of SAS No. 1, but without fully recognizing some of the differences introduced by EDP and their effect upon the auditor's obligation to review the client's internal control.

This arises from the auditor's classical reliance upon the review of the evidential matter as his primary source of evidence with reliance upon internal controls (1) for further assurance of the reliability

of the evidence and (2) to determine the extent to which audit tests are to be restricted.

The computer programs are part of the evidential matter which must be reviewed if the auditors are to satisfy themselves.

SAS No. 1 recognizes the fact that internal control procedures may vary in their application as the client's personnel meet changing situations. The computer portion of EDP systems is incapable of changing to meet these varying situations unless (1) they have been preprogrammed for them or (2) the programs are revised. As a result, we have the opportunity to determine if, and under what circumstances, the internal control procedures built into the programs will be inoperative. Unfortunately, SAS No. 3 does not discuss this and, as a result, leaves one with the impression that the review of processed transactions is sufficient for evaluating the controls imbedded in the programs.

It should concern us that the courts could recognize that this type of information is available and could impose this review requirement upon us. Unfortunately, our professional pronouncements have not sufficiently emphasized this point. Ω

Accounting Firms' Market Research

The accounting firm must be aware of changes in its clients, its community and business in general. This points out the need for marketing research. Like other management tools, marketing research must be used with good judgment. The research could be complex, consisting of surveys and statistical computations which require the use of sophisticated computers and all their paraphernalia, or could be as simple as looking up information in the telephone book. The problem that the accountant faces is how to tell how complex a system or combination of systems is necessary to provide the desired information. The determination of which services should be offered depends on the needs of the clients and the ability of the accounting firm to provide competent service in those areas. If the accounting firm does an adequate job on market research so that it has determined the target market and the market segment on which it will concentrate, resolving the question of the product/service offering becomes a relatively simple task.

— Excerpt from "Expanding an Accounting Firm: Factors to Be Considered," by Brent M. Davies. *The National Public Accountant*, December 1975, pp. 27-28.