

BULETIN

UiTM CAWANGAN NEGERI SEMBILAN
KAMPUS SEREMBAN
EDISI 10 2025

F
P
N
S
3



fpnuitmn9s3



<https://encr.pw/FakultiPerakaunanS3>

Understanding The Role of Substantive Testing in Audit Fieldwork

Nur Asnani Amirah Asman, Saflina Azis and Mustafa Kamal Mat

Introduction

External audits play a vital role in ensuring the transparency, reliability, and accuracy of financial statements. They are fundamental to maintaining public confidence in the capital market and safeguarding the trust of investors, regulators, and the public. In Malaysia, this responsibility is reinforced by regulatory oversight from bodies such as the Audit Oversight Board (AOB), the Malaysian Institute of Accountants (MIA), and the Malaysian Accounting Standards Board (MASB).



However, the audit environment has become increasingly complex. Common challenges include incomplete client documentation, ineffective internal controls, and intentional misstatements driven by management pressure to achieve financial targets. These issues highlight the importance of substantive testing, which serves as a key mechanism for detecting material misstatements and ensuring the credibility of audit opinions. Despite its importance, substantive testing is often weakened by inadequate planning, time pressures, and confusion among less experienced auditors in distinguishing

between tests of controls and substantive procedures. Additionally, the adoption of Malaysian Financial Reporting Standards (MFRS), technological integration, and increasingly sophisticated business models demand a more structured, risk-based approach to substantive testing.

Discussion

Substantive testing refers to audit procedures performed to obtain direct evidence regarding the accuracy, validity, and completeness of financial statement assertions (Audit Board, 2024). These procedures fall into two main categories:

1. Tests of details – including verification of receivables, examination of contracts, and inspection of supporting transaction documents.
2. Analytical procedures – involving comparisons of financial information with prior years, industry averages, or auditor-developed expectations to detect anomalies.

In Malaysia, the significance of substantive testing has grown alongside regulatory expectations. The MASB's adoption of MFRS, which is aligned with International Financial Reporting Standards (IFRS), has increased the technical complexity of financial reporting (MASB, 2023). Auditors must therefore exercise professional judgment in identifying high-risk areas such as revenue recognition, financial instruments, and related party transactions.



digital solutions to enhance

The Audit Oversight Board (AOB), under the Securities Commission Malaysia, has consistently emphasised in its inspection reports that weaknesses in substantive procedures remain one of the most common findings among audit firms (AOB, 2022). Such weaknesses not only reduce audit quality but also undermine public confidence in the financial reporting ecosystem. At the same time, technological advancement is reshaping substantive testing. Tools such as Computer-Assisted Audit Techniques (CAATs) and advanced data analytics now enable auditors to analyse entire populations of transactions, detect irregularities, and improve audit sampling. The MIA's Digital Technology Blueprint (2021) encourages Malaysian firms to embrace digital solutions to enhance audit quality. However, without sufficient training, auditors risk

misinterpreting automated outputs or over-relying on technology without applying critical professional scepticism. Equally important is the reliability of audit evidence. External confirmations and third-party documents provide stronger assurance than internally generated records, which may contain bias. Comprehensive documentation of audit work is also critical to supporting audit conclusions and ensuring compliance with AOB inspection standards.

Recommendations

To strengthen the effectiveness of substantive testing in Malaysia, the following measures are recommended:

1. Client Preparedness – Companies should maintain well-organised records and ensure the timely provision of supporting documents. This reduces delays and enhances audit efficiency.
2. Training and Supervision – Audit firms must invest in structured training for interns and junior auditors, supported by active supervision from senior staff. The use of standardised audit programs and checklists can improve consistency and minimise errors.
3. Technology Integration – Firms should leverage CAATs and data analytics in a manner consistent with the MIA’s Digital Blueprint, while ensuring that auditors are adequately trained to evaluate results critically.
4. Risk-Based Approach – Substantive procedures should prioritise high-risk accounts and transactions, with risk assessments updated regularly throughout fieldwork.
5. Time and Resource Allocation – Realistic timelines and adequate staffing are crucial to avoid superficial testing and ensure sufficient depth of audit procedures.
6. Robust Documentation – Clear and comprehensive records of procedures, evidence, and conclusions strengthen the credibility of audit findings and compliance with AOB expectations.
7. Effective Communication – Open and professional dialogue between auditors and clients enhances mutual understanding, accelerates information flow, and supports high-quality audits.

Conclusion

Substantive testing remains a cornerstone of the auditing process in Malaysia. It provides direct evidence on the integrity of financial statements, supports reliable audit opinions, and reinforces public confidence in corporate reporting. With the adoption of MFRS, heightened regulatory scrutiny, and digital transformation under Malaysia’s MyDIGITAL agenda, auditors must continuously refine their methodologies. Effective substantive testing requires not only technological tools but also professional scepticism, strong training, and adherence to ethical standards. By enhancing audit quality through robust substantive procedures, the Malaysian audit profession can continue to uphold transparency, accountability, and integrity in financial reporting, thereby contributing to the stability of the capital market and the protection of public interest.



References

- Audit Oversight Board (AOB). (2022). *Annual Inspection Report 2022*. Securities Commission Malaysia. <https://www.sc.com.my/aob>
- AuditBoard. (2024). *Substantive Testing: Key Definitions, Goals, and Best Practices*. <https://auditboard.com/blog/substantive-testing-key-definitions-goals-and-best-practices>
- Malaysian Accounting Standards Board (MASB). (2023). *Malaysian Financial Reporting Standards (MFRS)*. <https://www.masb.org.my>
- Malaysian Institute of Accountants (MIA). (2021). *Digital Technology Blueprint*. Kuala Lumpur: MIA. <https://www.mia.org.my>