

chapter-8 Analytical Procedures (SA-520)

Analytical Procedures - Evaluation of financial information
 - through analysis of
 - plausible relationships among
 - Both financial & non-fin. data

Examples of A.P. having Consideration of

Comparisons

- Comparable Inf. (Prior periods)
- Anticipated Results client determined Auditor determined using non-fin. data
- Similar Industry Information

Relationships

Among f. inf. (Predictable Trend)
 Between fin. & non-fin. info.
 (Turnover to no. of units sold)
 (Payroll cost to no. of employees)

Scope & Objectives of SA-520

obtain relevant & reliable evidence when using Substantive Analytical Procedures (SAP)

Design & Perform AP near the End of audit (forming overall conclusion on consistency of f.st. with auditor's understanding)

Purpose of Analytical Procedures

- Meaning & examples -
- Comparison of items of P&L with that of previous period → Reasons for change in profit
- Comparison of expense ratio with last yr's → extent of increase/decrease in exps. relative of sales.
- Income of Entity (Some exps. are directly related) → like Sales Commission

If differences are material. *Ascertain* reasons. (Doubt of manipulation)

Overall, it helps identifying unusual tr./events/ratios/trends identifying comm, matters having audit implications.

Timing of A.P.

1) Planning phase

- understanding clients Business, potential risk
- Determining NTE of Audit Procedures
- Uses Both financial & non financial data

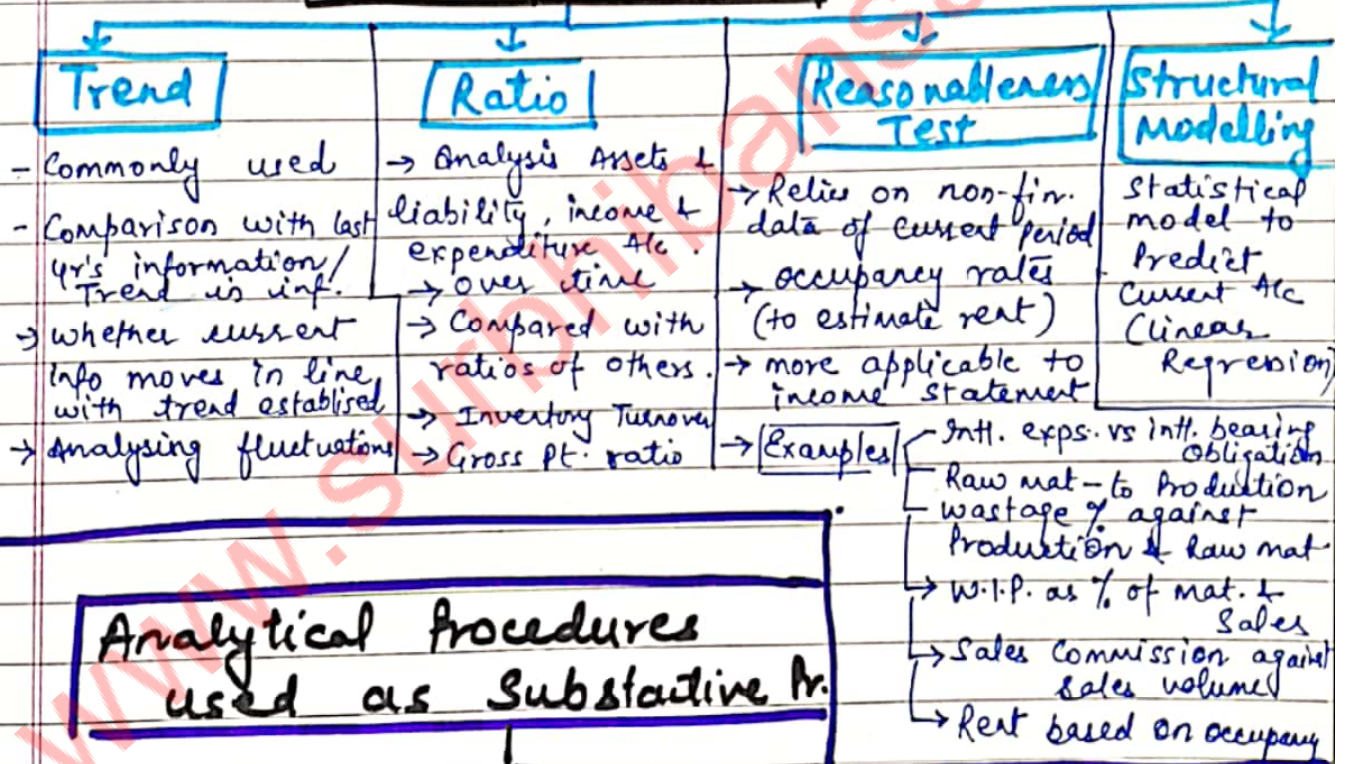
2) Testing phase

3) Complete phase

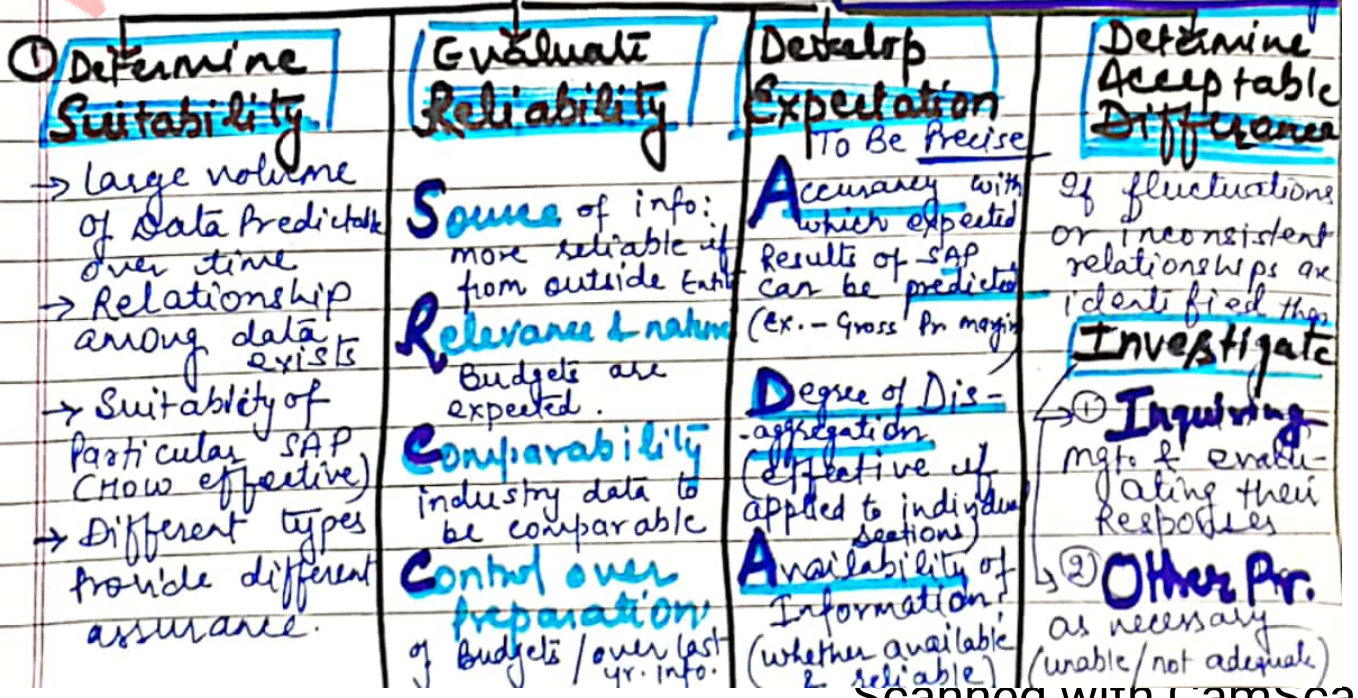
FACTORS TO BE CONSIDERED FOR SAP

- **Source** (more predictable if numerous, similar transactions (Routine) but non-routine not)
- **Availability** (of reliable/Relevant data will facilitate)
- **Predictability** (More appropriate when relationship is expected to exist & continue)
- **Disaggregation** (Directly affect its usefulness)
- **Assertion** (useful for completeness, valuation, measurement not for right/obligation)
- **Type of A/c** (for Income st. A/c)
- **Inherent Risk** (if high risk - only SAPs not sufficient)

Techniques (SAP)



Analytical procedures used as Substantive Pr.



Analytical Procedures that assist when forming overall Conclusion

- Conclusions drawn from results of AP - intended to corroborate conclusions formed during audit of individual ^{items.}
- Assists auditor to draw reasonable conclusions (Base for ^{audit opinion})
- If result of AP identifies previously unrecognized RMM → Revise assessment of Risk (SA 315) & modify further audit procedures.

Considerations Specific to Public Sector Entities

- Relationship between fst. items (as in case of business entity) may not be relevant in PSUs.
- Little/No relationship between revenue + expenditure
- Acquisition of Assets may not be capitalised
- Industry Data/Comparative data - may not be available.
- Some Relationships may be relevant but not all.