

CHAPTER 8 ANALYTICAL PROCEDURE

Q	Reference	Question	Answer
1	ICAI Module	Define Analytical Procedures	As per the Standard on Auditing (SA) 520 “Analytical Procedures” ‘the term “analytical procedures” means evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount. Thus, analytical procedures include the consideration of comparisons of the entity’s financial information with as well as consideration of relationships.
2	ICAI Module	What are the factors that determine the extent of reliance that the auditor places on results of analytical procedures? Explain with reference to SA-520 on “Analytical procedures	The reliability of data is influenced by its source and nature and is dependent on the circumstances under which it is obtained. Accordingly, the following are relevant when determining whether data is reliable for purposes of designing substantive analytical procedures: (i) Source of the information available. for example, information may be more reliable when it is obtained from independent sources outside the entity; (ii) Comparability of the information available. for

			<p>example, broad industry data may need to be supplemented to be comparable to that of an entity that produces and sells specialised products;</p> <p>(iii) Nature and relevance of the information available. for example, whether budgets have been established as results to be expected rather than as goals to be achieved; and</p> <p>(iv) Controls over the preparation of the information that are designed to ensure its completeness, accuracy and validity. for example, controls over the preparation, review and maintenance of budgets.</p>
3	ICAI Module	<p>While carrying out the statutory audit of a large entity, what are the substantive procedures to be performed to assess the risk of material misstatement</p>	<p>Sustantive roceures to e performe to assess te ris of material misstatement: As per SA 330, “The Auditor’s Response to Assessed Risk”, substantive procedure is an audit procedure designed to detect material misstatements at the assertion level. They comprise tests of details and substantive analytical procedures. est of etails: The nature of the risk and assertion is relevant to the design of tests of details. For example, tests of details related to the existence or occurrence assertion may involve selecting from items contained in a financial statement amount and obtaining the relevant audit evidence. On the other hand, tests of details related to the completeness assertion may involve selecting from items that are expected to be included in the relevant financial statement amount and investigating whether they are included. In designing tests of details, the extent of testing is ordinarily thought of in terms of the sample size. Substantive analytical procedures: Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time. The application of planned analytical procedures is based on the expectation that relationships among data exist and continue in the absence of known conditions to the contrary. However, the suitability of a particular analytical procedure will depend upon the auditor’s assessment of how effective it will be in detecting a misstatement that, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated.</p>