

ANALYTICAL PROCEDURE

12/12/2023

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MEANING

- evaluations of financial information through analysis of plausible relationships among both financial and non-financial data.
- It also encompasses such investigation as it is necessary for identified fluctuations or relationship expected in a significant amount.

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NATURE OF ANALYTICAL PROCEDUREAP having consideration of comparisons of entity's FS.

Prior periods

Anticipated results of the entity

- (estimation of Depreciation)
- budget, forecast
- Expectation

Similar industry's ratio of an entity sales to amt rec. with industry avg.

AP having consideration of Relationship with:

Expected to confirm a predictable pattern

ex: Gross Margin %

B/U financial info. & relevant non-financial info.

ex: payroll, No. of employees.

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AP may be segregated into following major:

as a examples:

Comparison of client with

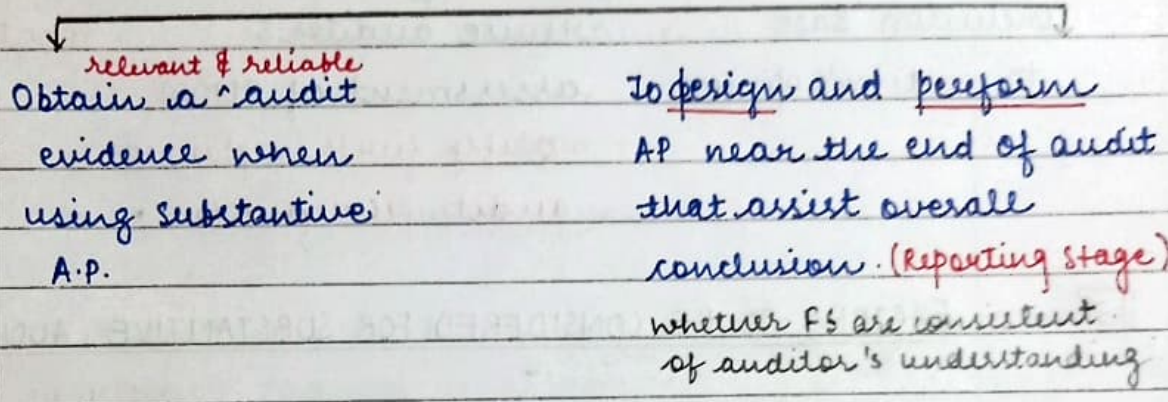
- Industry data
- Similar prior period data.
- client determined expected results
- auditor determined expected results
- expected results using non-financial data.

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PURPOSE AND TIMINGS OF ANALYTICAL

AP use comparisons or relationships to assess whether account balances or other data appears reasonable.

OBJECTIVE OF THE AUDITOR.

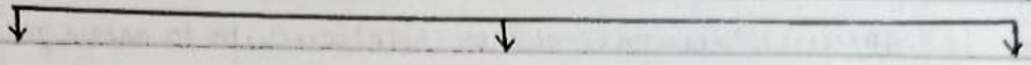


At Planning Stage	While performing audit	Near the end of audit
<ul style="list-style-type: none"> → auditors obtain understanding about client business & Identifies Risk, (ROMM) → Help in determining the N, T, E procedure. 	<ul style="list-style-type: none"> → <u>assertion level</u> may be <u>TOD</u>, substantive A.P. or both. → Based on auditor's <u>judgment</u> expected <u>effectiveness & efficiency</u> → Reduce audit risk at the <u>assertion level</u> to an acceptably low level. → Inquire of mgt. as to reliability & Info. 	<ul style="list-style-type: none"> → forming an overall conclusion as to whether FS are consistent with understanding of audit.

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ANALYTICAL PROCEDURE THAT ASSIST WHEN FORMING AN OVERALL CONCLUSION.



- Intended to corroborate conclusions
- Assist reasonable conclusion base to auditor's opinion.
- Results may identify a previously unrecognized ROMM.
- SABIS require to revise auditor's assessment of ROMM.
- modify further planned audit procedures.
- May be similar to those that would be used as risk assessment procedures.



FACTORS TO BE CONSIDERED FOR SUBSTANTIVE AUDIT PROCEDURE

- 1) Availability of Data
Reliability and Relevant data facilitate effective procedure
- 2) Disaggregation
available data directly affect the degree of its usefulness in detecting misstatement.
- 3) Account Type
more useful for certain types of accounts than others.
Income Statement → more predictable
Balancesheet a/c → Net effect of judgment (greater mgt jud)
- 4) Nature of Assertion
Substantive AP → may be more effective in providing evidence
Predictive AP → used to address completeness, valuation.
- 5) Inherent Risk or "What can go wrong?"
Nature of ROMM in order to determine if SAP can be used audit evidence.

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Inherent Risk ↑ - design TOD to address higher I.R.
when significant Risk identified, audit evidence obtained solely from SAP is unlikely to be sufficient.

6) Predictability

more appropriate - account balance or relationship of/w items? ^{predictable data}
Predictable relationship: Reasonably expected to exist or continue overtime.

7) Source:

more predictable → Routine process.
more difficult to predict → Non-Routine.

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TECHNIQUES AVAILABLE AS SUBSTANTIVE AUDIT PROCEDURE

Design of Substantive Audit Procedure is limited only by the availability of reliable data & experience & creativity.

<u>Trend Analysis</u>	<u>Ratio Analysis</u>	<u>Reasonableness Test</u>	<u>Structural Modelling</u>
<ul style="list-style-type: none"> - Comparison of current data with prior period data. - Current balances account with in line with trend establishment. with previous bal. a/c. 	<ul style="list-style-type: none"> - Analysis of assets & liability a/c as well as revenue & expense account. - Individual BIS difficult to predict but relationship to another a/c often more predict. 	<ul style="list-style-type: none"> - does not rely on events of prior period. but upon non-financial data audit period under consideration - Tests generally <u>more</u> applicable to Income Statement a/cs & certain accrual & prepayment a/c. 	<ul style="list-style-type: none"> - Modelling tool construct a statistical model from financial non-financial data of prior a/c period to predict current a/c Balances. (eg. Linear Regression.

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ANALYTICAL PROCEDURES USED AS SUBSTANTIVE TEST

- 1) Determine the **suitability** of particular substantive A.P. for given **assertions** taking a/c of assessed RMM & TOD.
- 2) Evaluate **Reliability** of data; taking source, comparability and Nature and relevance of info. available & control over preparation which the auditor's expectation to **record amts.**
- 3) Develop an **expectation** of recorded amts & ratio, evaluate whether expectation is **sufficiently precise** to identify a misstat.
- 4) Determine **amt. of any difference** of recorded amts from expected values that is acceptable without further statement.

SUITABILITY OF PARTICULAR ANALYTICAL PROCEDURES FOR GIVEN ASSERTIONS :

- | | | |
|---|---|---|
| <ul style="list-style-type: none"> - Large volume trans. tend to be predictable over time. - Continue in absence of known condition of contrary as data expectation exists. | <ul style="list-style-type: none"> - Unsophisticated predictive mode may be effective as an analytical procedure. | <ul style="list-style-type: none"> - Diff AP provide different level of assurance - eg: Rent Rates, no. of apartment and vacancy rates |
|---|---|---|

EXTENT OF RELIANCE ON ANALYTICAL PROCEDURE

- | | | | |
|---|--|--|---|
| <p>Source of info.
eg: more reliable
→ obtain independent source of o/s entity</p> | <p>Comparability
eg: broad industry data need to supplemented to comparable</p> | <p>Nature & Relevance
eg: Budget established.</p> | <p>designed to ensure its completeness.
Controls over preparation
eg: controls, Review and maintenance</p> |
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EVALUATION OF WHETHER THE EXPECTATION IS SUFFICIENTLY PRECISE

- 1) Accuracy with which the expected results SAP can be predicted
eg: Source data.
- 2) The degree to which info. can be disaggregated.
- 3) The availability of info., both financial and non-fin.

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AMOUNT OF DIFFERENCE OF RECORDED AMOUNTS FROM EXPECTED VALUES THAT IS ACCEPTABLE

Auditor's determination of amt of difference from expectation accepted without further investigation is influence by materiality.

Consistency with desired level of assurance.

SA 330 Obtain more persuasive audit evidence the higher audit evidence risk.

Risk ↑ Amt diff considerable accepted without investigation decreases → in order to achieve desired level of persuasive

individually → misstatement
aggregated → material misstatement

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INVESTIGATING RESULTS OF ANALYTICAL PROCEDURE

- 1) Inquiry of management and obtain appropriate audit evidence relevant to management's responses.
- 2) Performing other audit procedures as necessary in the circumstances.

— x — x — (100% completed) — x — x —

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