

(b) Analytical Procedures (An. Pro.)

Intro: An. Pro. performed as R.A.P. may identify entity's aspects, that auditor was unaware.
&
help in assessing RMM to respond to assessed risks. (FAP)

(Main)
• An. Pro. may include both financial & non-financial info. \Rightarrow Relation b/w Sales & \Rightarrow Sq. ft of selling space or volume of goods sold.

• It may help to identify unusual transⁿ / amounts / trends / ratios, that may have audit implications. (TAMTR)

• It may assist in identifying RMM due to fraud.

eg Till last year sales growth was 10%. Yoy \rightarrow This year sales grew by 40% \uparrow
S.F. \times volume of goods \uparrow
 \rightarrow Risk of fictitious sales.

(Other point): when An. Pro. use aggregated data, it can only provide broad indication of whether M.M. exists.

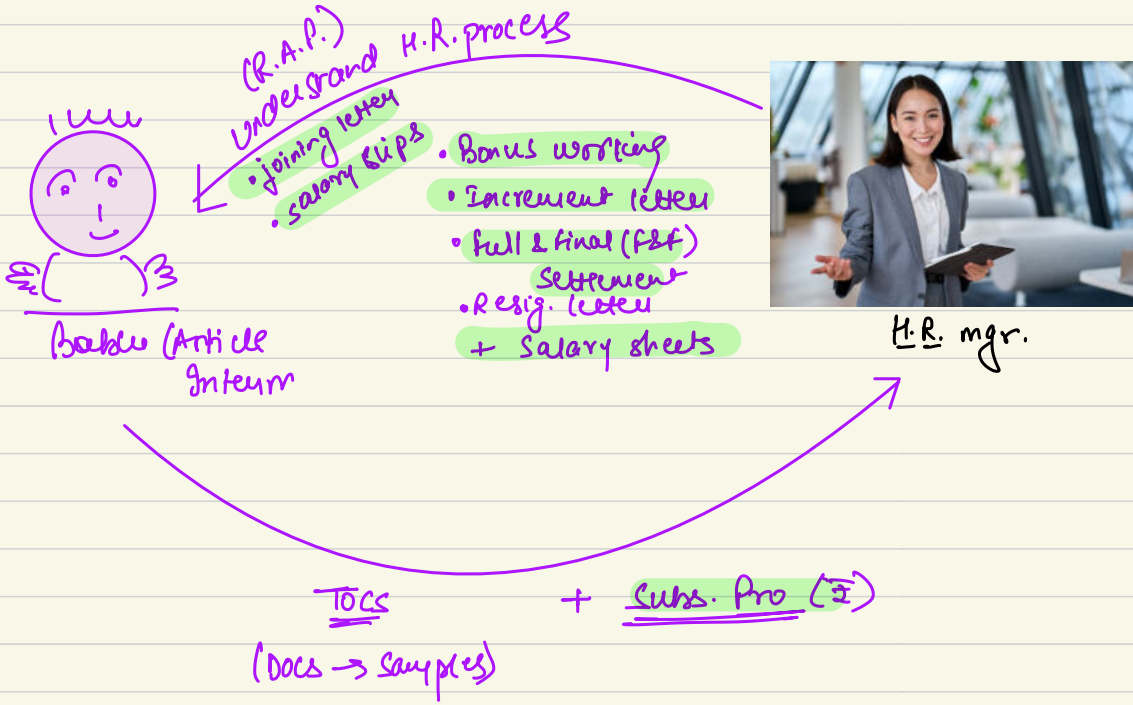
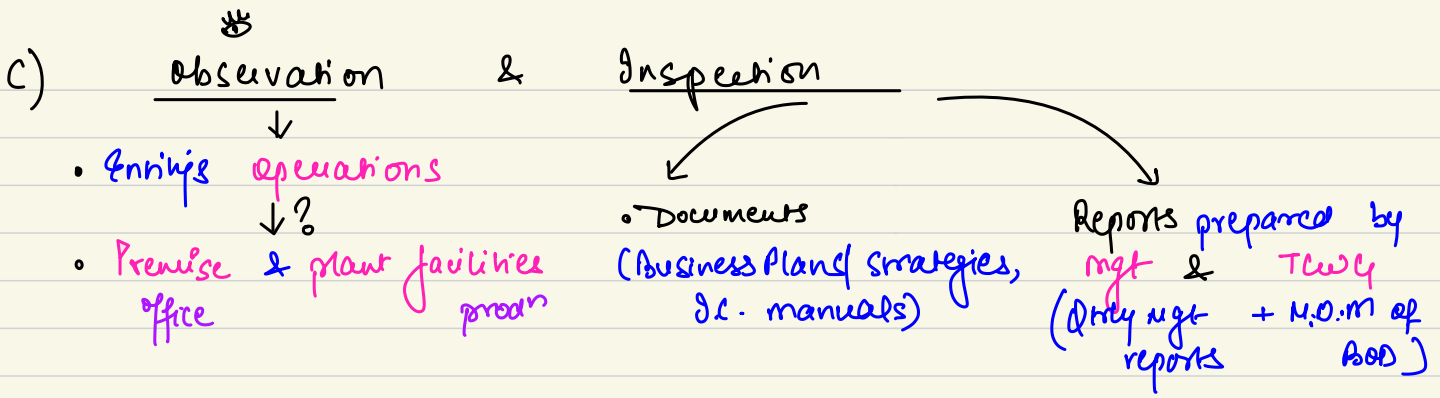
• Consideration of other info. gathered when identifying RMM with such An. Pro. to understand & evaluate results of An. Pro.

Case I
(Aggregated Data)

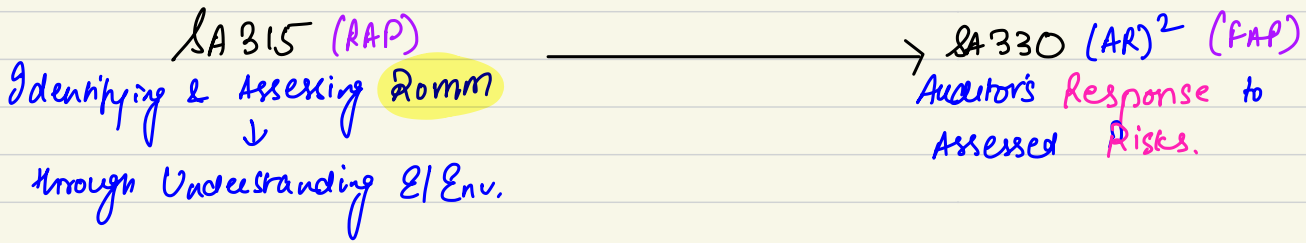
Jio Revenue vs Airtel Revenue
(upar upar se)

Case II
(Specific Data)

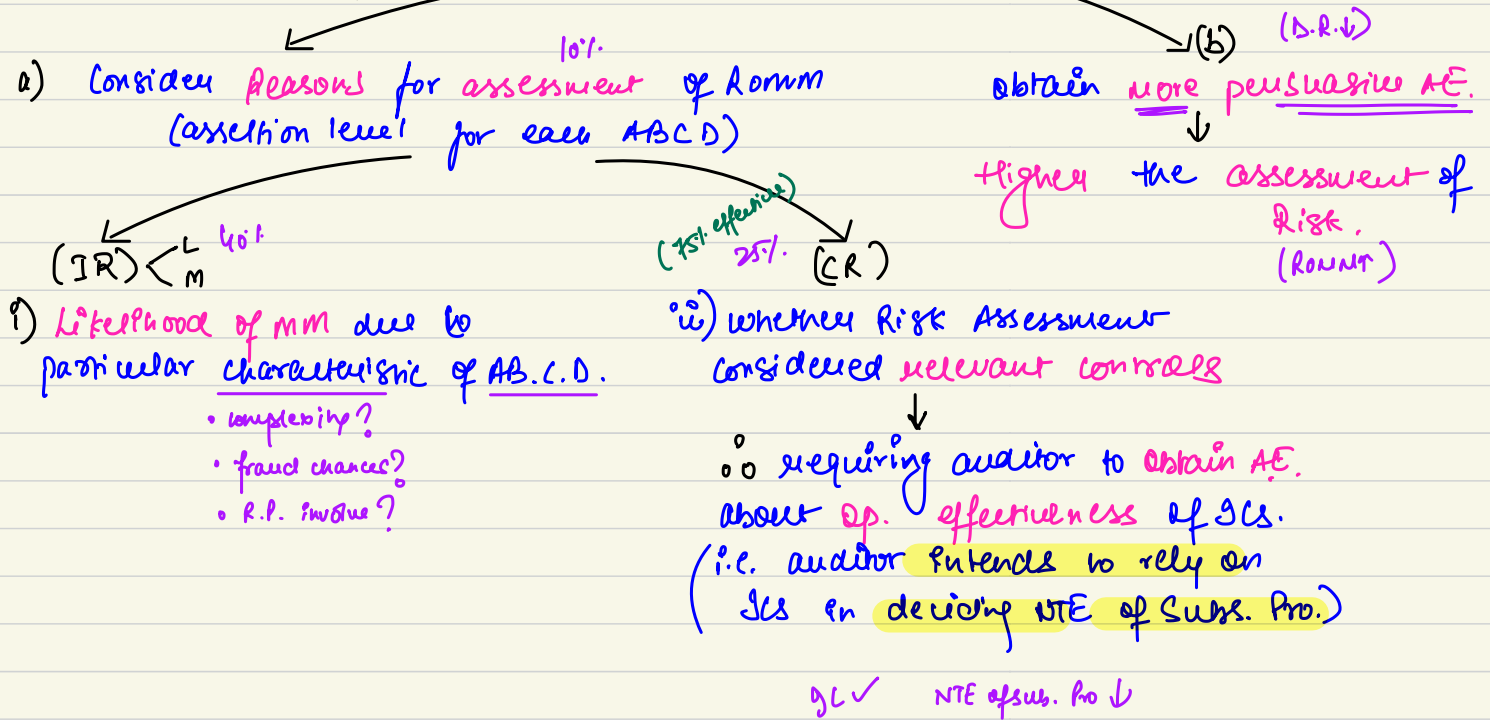
Jio Broadband vs. Airtel Broadband



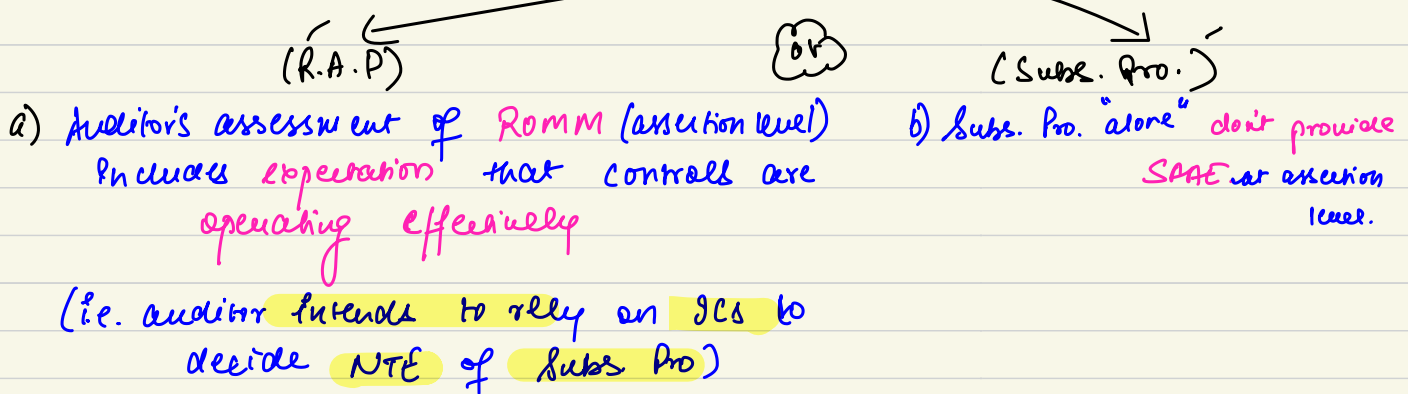
- Bahubali → Bahubali Returns
- Dhoom → Dhoom 2
- Gomaal → Gomaal Returns



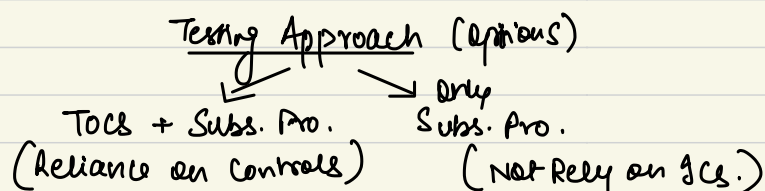
When designing F.A.P, auditor shall :



Why TOCs? To obtain SAE about operating effectiveness of GCS.



NOTE: More persuasive AE → Greater the Reliance on Controls.



Test of controls (ToCs) [A E I O U]

Inquiry + Observation
 of GC having **no audit trail**
 X **actual**
 eg. identifying who performs fⁿ
 & not merely who is supposed
 to do it

J.C: Inventory count performed
 by 2 employees
 Inquiry Observation

Inspection of Docs.
 ↓
 Supporting transⁿ
 eg. verifying if
 transⁿ is **authorised**

J.C P.O. > 1,00,000 authorised
 by Sr. mgr.
 ↓
 Samples check.

Reperformance
 i.e. **Independent execution**
 of GC.
 eg. Preparing **B.R.S.**

* **ToCs on Specific**
Computerised applⁿ
 or
IT fⁿ
 eg. Access/Prog. change
 controls.

Atc System
 ↓
 password protected?
 ↓
 updates
 ↓
 authorised?

Nature & Extent of controls

A.E. about operating effectiveness of GCs. Including

How (Prepare + Approve)
 B.R.S. - B? R?
 Monthly?

How
 GCs applied during period

By whom
 they were applied

Consistency
 with which they were
 applied.

⇒ **Indirect controls**: If GCs depend upon other GCs.
 ↓ (yes)

If so, then test op. effectiveness of indirect controls.

I. Primary Control

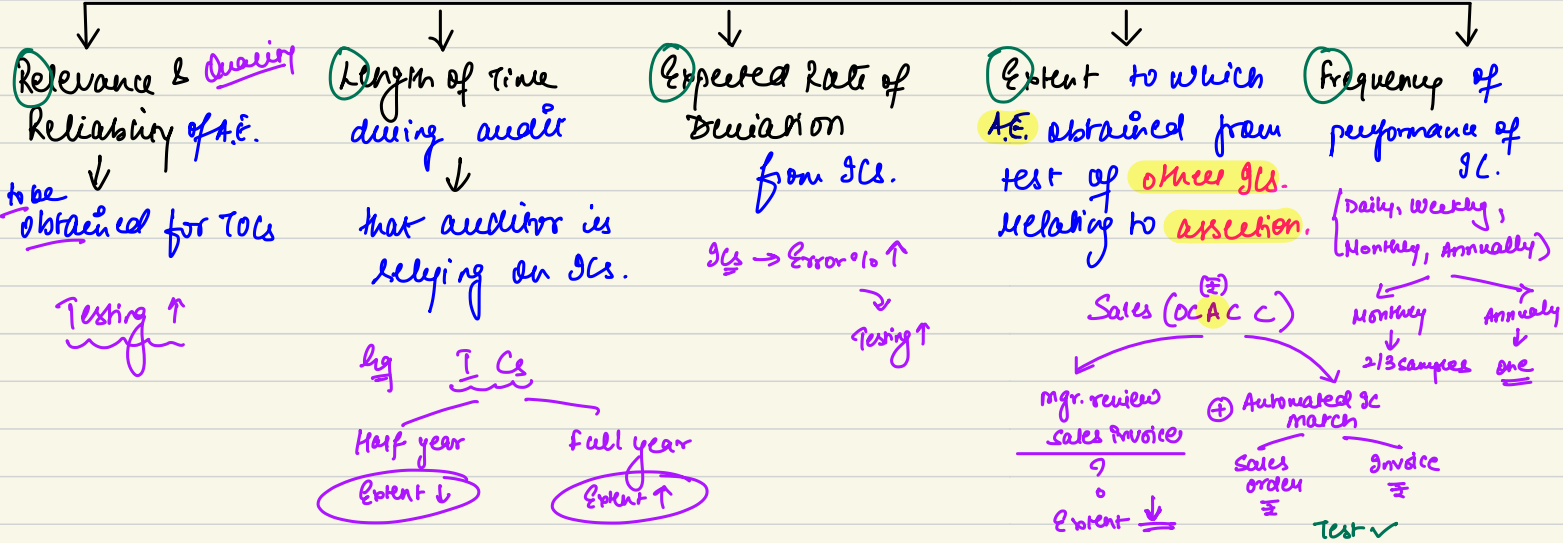
Approval of P.O. (> 1,00,000) → Sr. mgr.

↓ **Indirect Control**
 II. Ensure only Sr. mgr can Access his system.

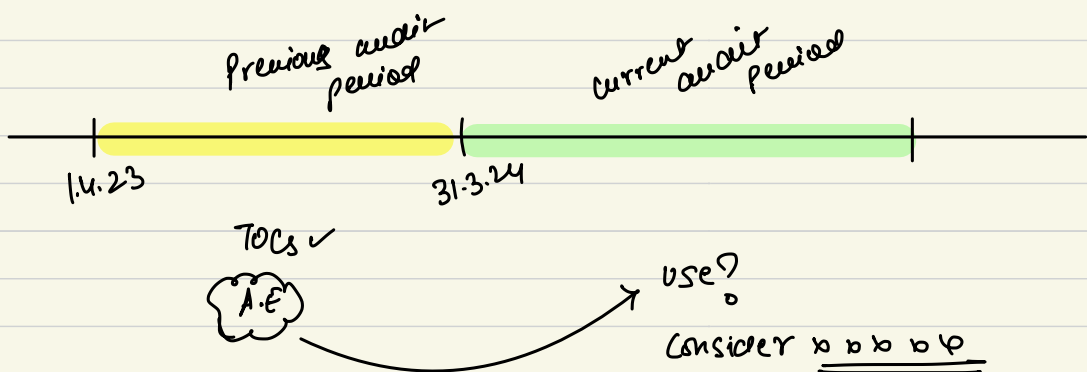
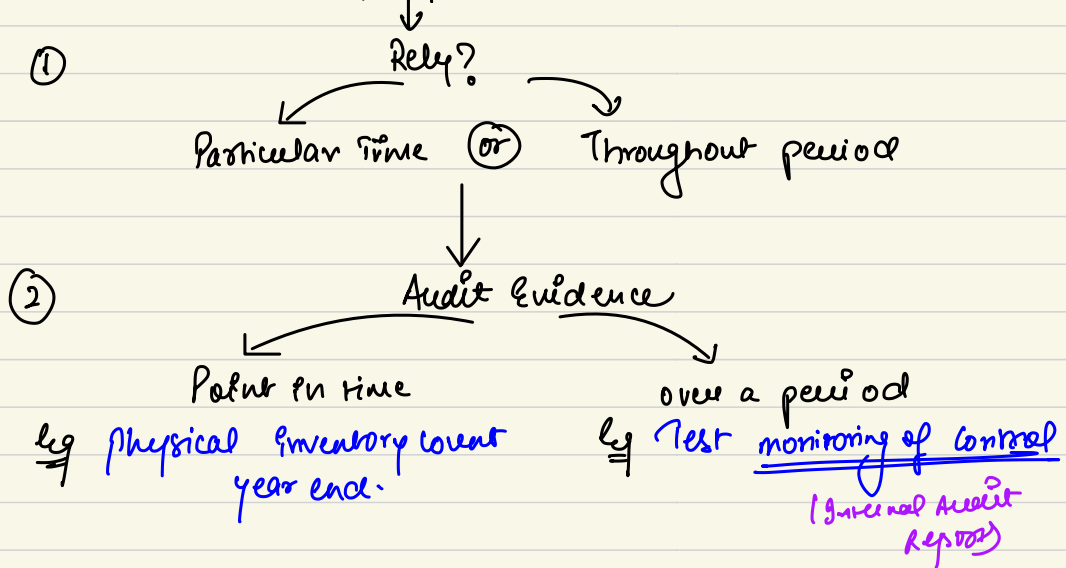
Re LEEF

Extent of TOCs (kitna Evidence)?

Matters



Planning of TOCs (Read)



Using Evidence (TOCs) obtained in Previous Audits

Consider?

Effectiveness of

Control & ITS applⁿ
 Including
 • Nature & extent of deviations noted in prev. audit
 • whether any personnel changes!

Other elements of I.C.
 • C.Env.
 • R.A.P
 • Monitoring

General IT controls
 (Access security, prog. change etc)

(Risk)

Risk arising from characteristics of I.C. whether its Manual or automated

ROM & extent of reliance on I.C.

NOTE: If auditor has A.E. of previous audit → check if it's relevant for current audit by obtaining A.E.
 ↓
 of whether any sig. changes in I.Cs.

Specific Inquiries when deviations in I.Cs identified

When deviations from I.Cs detected, auditor makes specific inquiries to:

Understand matter & its potential consequences.
p.o. unauth. purchases unauthorised!

Also, determine whether,

a) TOCs provide appt. Basis for Reliance on I.Cs.

(No)

TOCs ↑

b) Addⁿ TOCs are necessary

or

Subs Pro. ✓

c) Potential ROM: addressed using Subs. Pro.

Substantive Procedure

Audit Pro. to detect M.M. at assertion level (A.B.C.D)

Test of Details (TODs)

- Vouching (P.C.)
- Verification (B.S.)

Subs. An. Pro.

Nature & Extent of Subs. Pro.

Depending on **circumstances**, auditor may decide:

- i) Performing **only An. Pro.** is sufficient to reduce A. Risk to acceptably low level.
Rommlv
eg Risk assessment is supported by **TCS** *CRV*
- ii) **Only TCS** appropriate.
Rommlv
- iii) **Combination** of **Sub. An. Pro.** & **TCS** appropriate.
Independently
Employee Exp. (1 month → Docs) 5 x 12 m
TCS → comfort

Note: If results from TCS unsatisfactory ⇒ **Increase** | **decrease** the extent of **Subs. Pro.**

Why Subs. Pro. are necessary?

(R.A.P.)

Auditor's risk assessment is **judgmental**,
∴ may not identify all R.O.M.M.

(T.O.C)

∴ There are **inherent limitations** of TCS.
including mgt. oversight of TCS.