

SA 520 "ANALYTICAL PROCEDURES"

Meaning of Analytical Procedures

“Analytical Procedures” means

- Evaluation of financial information
- Through analysis of relationships
- Among both financial and non-financial data.

*Comparison of data
Verification=TOB*

It also encompasses 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.

Auditor's Procedures

- Determine the suitability of particular substantive analytical procedures for given assertions, taking account of the assessed risks of material misstatement and tests of details, if any, for these assertions; *Relevance*
- Evaluate the reliability of data from which the auditor's expectation of recorded amounts or ratios is developed, taking account of source, comparability, and nature and relevance of information available, and controls over preparation; *Reliable*
- Develop an **expectation** of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to identify a misstatement that, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated; and
- Determine the amount of any difference of recorded amounts from expected values that is acceptable without further investigation as required.

Factors affecting reliability of Source Data *IMP*

- **Source of the information available:** For example, information may be more reliable when it is obtained from independent sources outside the entity;
- **Comparability of the information available:** For example, broad industry data may need to be supplemented to be comparable to that of an entity that produces and sells specialised products;
- **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
- **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.

Analytical Procedures that Assist when Forming an Overall Conclusion

- The auditor shall design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.
- Conclusions drawn from the results of analytical procedures are intended to verify conclusions formed during the audit of individual components or elements of the F.S. This assists the auditor to draw reasonable conclusions on which to base the auditor's opinion.
- Results of analytical procedures may identify a previously unrecognised RMM. In such circumstances, SA 315 requires auditor to revise the auditor's assessment of the RMM and modify the further planned audit procedures accordingly.

- Analytical procedures performed in accordance with above may be similar to those that would be used as risk assessment procedures.

Investigating Results of Analytical Procedures

If APs performed in accordance with this SA identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, the auditor shall investigate such differences by:

- (a) Inquiring of management and obtaining appropriate audit evidence relevant to management's responses; and
- (b) Performing other audit procedures as necessary in the circumstances.

Audit evidence relevant to management's responses may be obtained by evaluating those responses taking into account the auditor's understanding of the entity and its environment, and with other audit evidence obtained during the course of the audit.

The need to perform other audit procedures may arise when, for example, management is unable to provide an explanation, or the explanation, together with the audit evidence obtained relevant to management's response, is not considered adequate.