

imp for theory

SA-520 Analytical Procedures

Audit Procedures → Refer Pg-5 (SA 500)

(RAP) Risk Assessment Procedures

SA 315

Further Audit Procedures
(Also called Responses to Assessed Risk)

Test of Controls
(Compliance Procedures)

Substantive Procedures

Test of Details

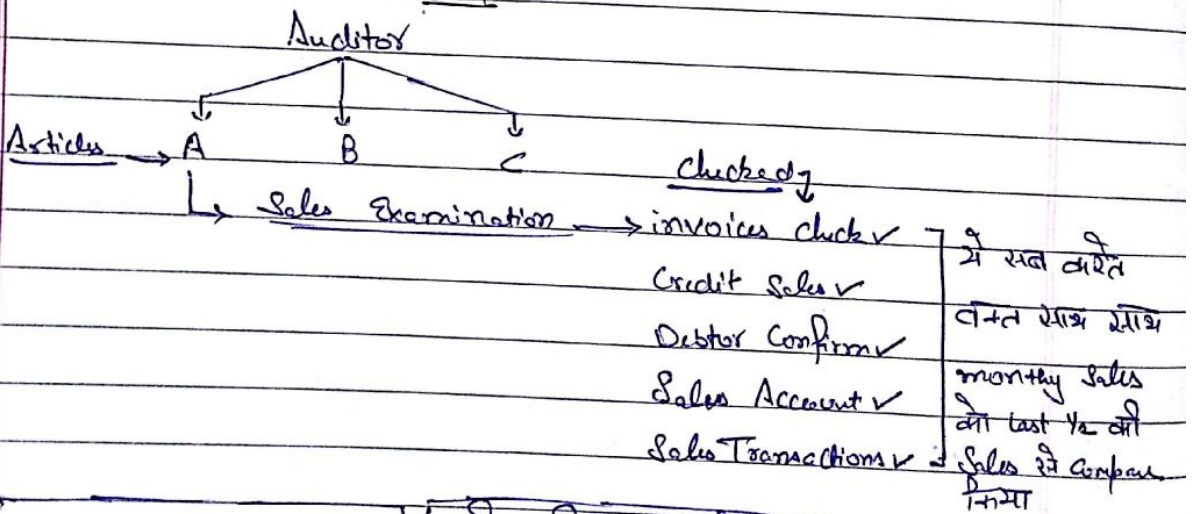
Substantive Analytical Procedure

- Vouching
- verification

SA-520

e.g. → Ratio Analysis
→ Comparative Analysis

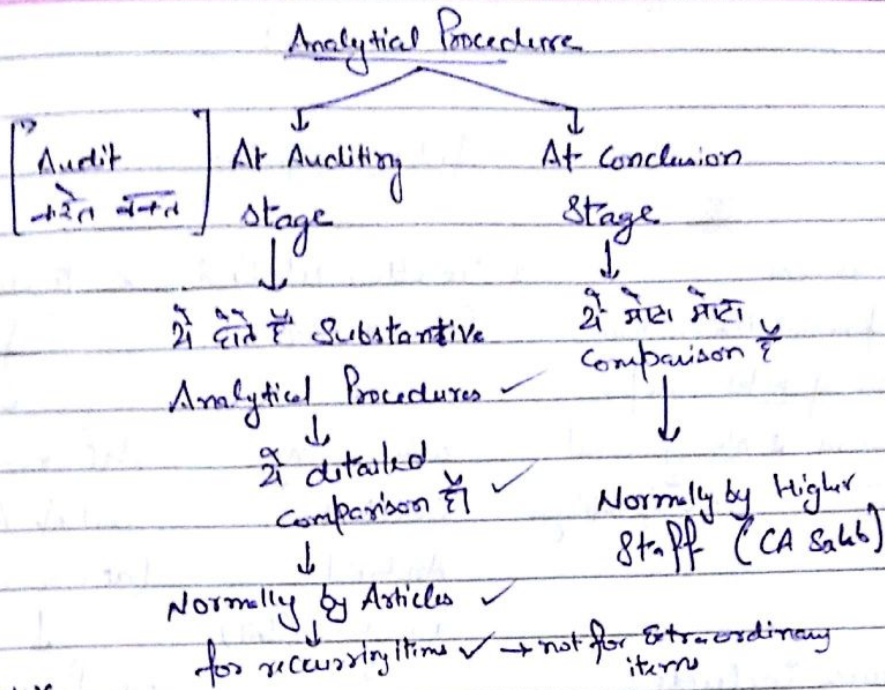
Concept



May 2015 Sales → 12 lac
May 2016 Sales → 4 lac

Sales increase 1/2 as compared to last 1/2

→ Audit Procedures
→ Extend → → → →
→ doubt



Ques

Substantive ~~Procedure~~ Analytical Procedure is a stage of Analytical Procedure

Analytical Procedures SA 520

Meaning of AP

Analytical Procedures means:

- Evaluation of financial information
- through analysis of Relationships
- among both financial & Non-financial data
 - ↓ Sales
 - ↓ No. of Employees

Auditor's objective

1. To obtain Reliable & Relevant A.E.
↓
when using Substantive Analytical Procedures (SAP)
↓
Method in SASO → ICAIOR

2. To design & Perform A.P. near the end of Audit (at conclusion stage)
↓
when forming an overall conclusion on P.S.

Nature of AP

Analytical Procedures include:

Consideration of Comparisons

- of Entity's financial information with
 - Comparable information of Prior Periods e.g. P. & S. Sales
 - Anticipated / expected Results e.g. Budgets, forecasts
 - Similar industry information e.g. Comparison with outside entity

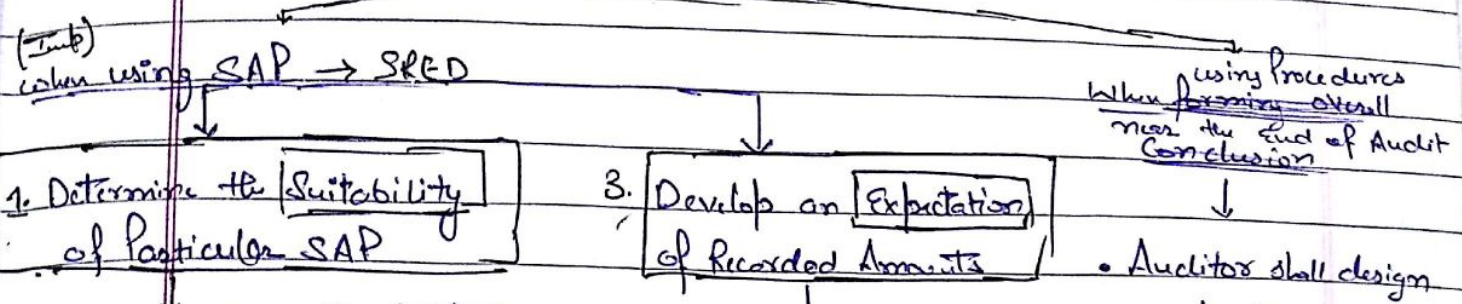
Consideration of Relationships

- among elements of financial information
 - ↓ e.g. Gross margin Percentages (G.P. Ratio)
- among Elements of both financial & Non-financial information
 - ↓ e.g. Pay Roll costs to No. of Employees

In exam
Start ans with this line:
SA 520, Analytical Procedures deals with the auditor's use of Analytical Procedures as

- Substantive Analytical Procedure and
- as procedures near the end of Audit that assist the auditor when forming overall conclusion on P.S.

Auditor's Procedures/Considerations



a) SAP are more suitable for those transactions which have large volume (e.g. Sales) that tend to predictable over time
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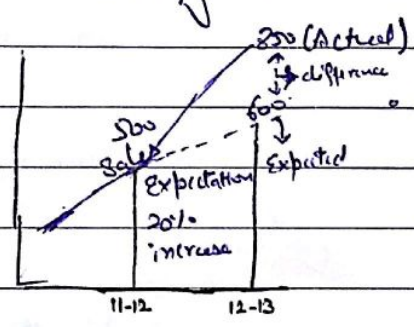
a) Auditor shall develop an expectation of Recorded Amounts x Ratios

A.P. near the end of Audit.

b) Particular SAP may be considered suitable → when Test of details are performed on same assertion (Sales in our e.g.) + Comparison with P.Y.

b) Expectations should be sufficiently precise to identify RMM.

which assist the auditor in forming overall conclusion



→ go whether the F.S. are consistent with Auditor's understanding of Entity

c) Different types of AP provide different level of Assurance.

1) Nature of AP influenced by Nature of Assertion.

2. Evaluate Reliability of data to be compared

4. Determine the differences between Recorded Amounts with Expected values

→ Reliability of data is influenced by following

a) Source of Information (more reliable if obtained from independent source)

SA 330 Requires auditor to obtain more Persuasive Evidence if he identifies

b) Comparability of information

High Risk

c) Relevance of information [Budgets should be Realistic]

Thus, for Risky items, Acceptable diff should be low

d) Control over preparation of information.

Low diff High diff

Inquiry from Mngt Perform other procedures

How? ← Possibility of RMM. further investigate

SA - 520 Analytical Procedures

Meaning: Analytical Procedure Means:

Evaluation of Fin. Information through

Analysis of Relationships

(A) Consideration of Relationship

Among Elements of Fin. Info

Among Elements of Fin & Non-fin. Info

Among both fin & non-fin. data

Consideration of Comparison

- C - Comparable Info
- A - Anticipated
- C - Comparative Study
- S - Similar Industry info

(B)

Auditor Procedures ⇒ Consideration

SRED

1	2	3	4
<p>Suitability of Particular SAP</p> <p>↓</p> <p>D - Diff. AP diff. Assurance</p> <p>P - Particular SAP</p> <p>S - SAP are more suitable</p>	<p>Evaluate Reliability</p> <p>↓</p> <p>S - Source of info</p> <p>R - Relevance of info</p> <p>C - Comparability</p> <p>E - Control over info</p>	<p>Develop Expectation</p>	<p>Determine Difference between expected & Actual</p>