Analytical Procedures

General Information

- Evaluations of financial information using relationships among financial (example?) and nonfinancial data (example?)
- Need to know client’s business and industry
- Actual, Expectations, Compare, Differences, Evaluate
- Why might you find differences?
- When are A/P used? When “should” they be used?

General Information

- Advantages of A/P?
- Disadvantages of A/P?
- Sources of expectations (adv and disadv?)
  - PY
  - Budgets
  - Relationships with other financial data
  - Industry information
  - Nonfinancial data

A/P During Planning

- Purpose: NTE, understanding, specific risks
- Aggregated data
- Inquiry, to do list, limited evaluation of client responses – why?

A/P During Substantive Tests

- What are substantive tests? Purpose?
- Difference b/w internal control testing and substantive testing
- Balance objectives – A/P and tests of details
- A/P may be enough, others not
- Dependent upon reliability/precision of expectation, also if account involves substantial estimation – little detail (example?), and if more predictable (I/S)

A/P During Substantive Tests

- Reliability and precision of expectation
- Data from independent sources (w/i and outside client)
- If internal data – adequate controls?
- Tested in the CY or PY?
- Data from a variety of sources
- Identification of explanatory IVs
- Disaggregated data (examples?)
A/P During Substantive Tests

- So what does a precise/reliable expectation give you?
- If difference is not significant (?) – assurance (detail testing needed?)
- If difference is significant – inquiry and corroboration – confidence in estimated audit adjustments

A/P During Final Review

- Purpose: assessing conclusions reached (refer back to testing), evaluation of overall financial statements
- Aggregated data
- Did we cover all differences that approach materiality? Audit documentation should be able to explain and have tested differences