

PLANNING AND ANALYTIC PROCEDURES

November 15, 2018



Objectives



- * Review planning procedures – “Do the right things in the right order.”
- * Review high performance analytics – “What is the purpose; are expectations specific, do we appropriately support the conclusion??”
- * Discuss the challenges and opportunities we face – “How can we help each other get better??”

Planning



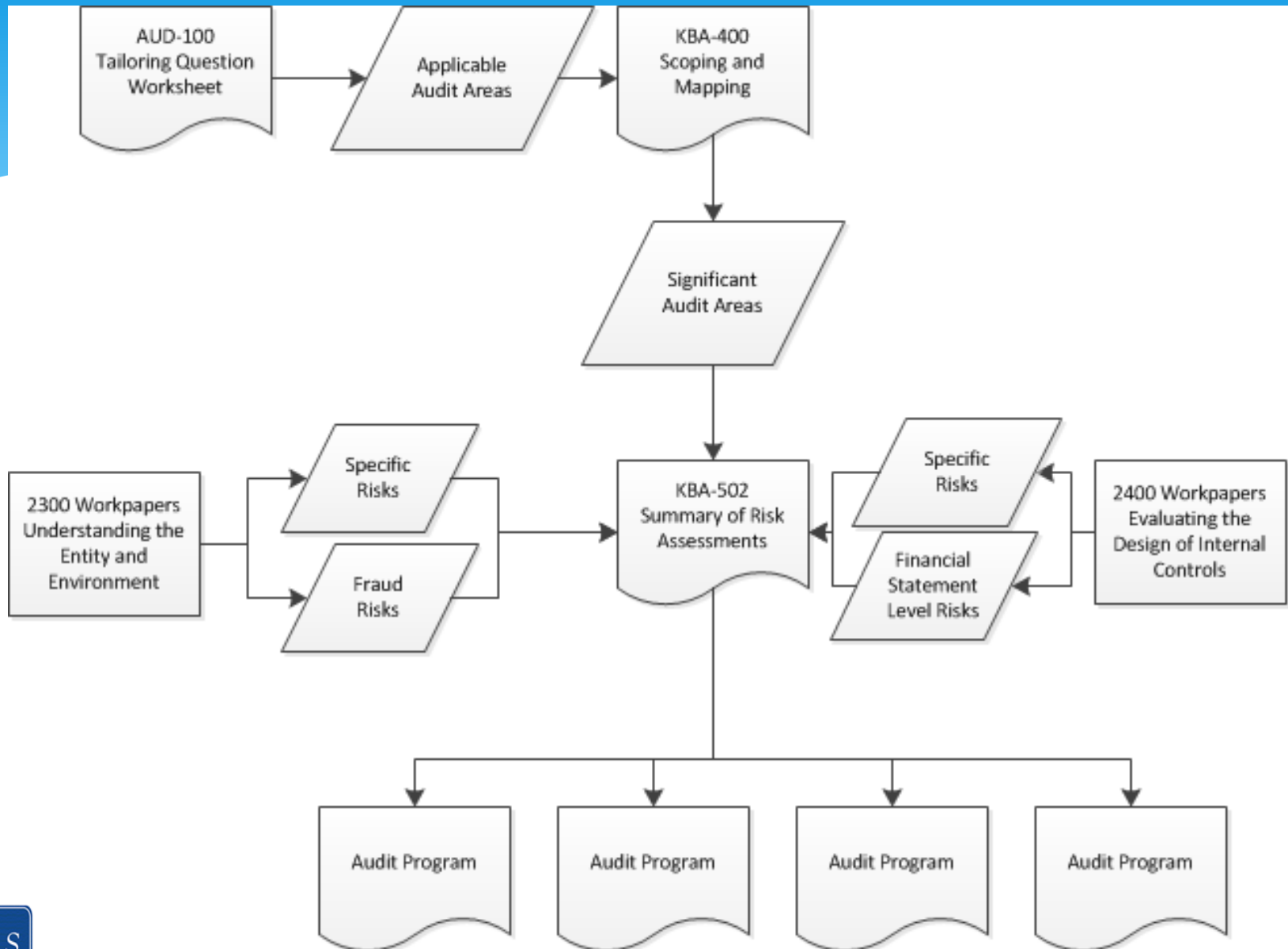
- * Do the right things in the right order!
- * Risk-based, analytic driven approach
- * Before planning visit:
 - * EL and other planning forms possible
 - * Preliminary analytic
 - * Keep the purpose in mind – risk identification
 - * Begin with the end in mind
 - * Review financials

Planning

<https://www.youtube.com/watch?v=M66ZU2PClCM>



What goes into developing an audit program?



Planning



- * What are the challenges we face in planning?
- * What opportunities do these challenges create?

Fundamentals of an Analytic

- * Purpose
 - * Why are we doing this procedure?
 - * What balance/assertion are we testing?
- * Expectation
 - * Be specific, use nonfinancial drivers
- * Procedure
 - * Develop the estimate
- * Conclusion



Why Analytics?



- * Get to know the client and their business
- * To assist in planning the nature, timing and extent of other audit procedures
- * To obtain evidential matter about particular assertions related to account balance or classes of transactions
- * To perform the overall review in the final stage of an audit

AU-C Section 520

Analytical procedures involve comparisons of recorded amounts, or ratios developed from recorded amounts, to expectations developed by the auditor. The auditor develops such expectations by identifying and using plausible relationships that are reasonably expected to exist based on the auditor's understanding of the client and of the industry in which the client operates. Analytical procedures also included a consideration of financial relationships, for example:

- 1. Among elements of financial information, such as key performance indicators.*
- 2. Between financial information and relevant nonfinancial information, such as payroll costs to number of employees.*
- 3. Similar industry information, such as comparison of entity's ratio of sales to accounts receivable and gross margin percentages with industry averages or other entities of comparable size in same industry.*



Analytics in Planning



- * To assist in planning nature, timing and extent of auditing procedures
- * Should focus on enhancing understanding of client's business and transactions and identifying areas of specific risk
- * Generally high level data

AU-C 520 – Analytics as Substantive Tests

- * Used to achieve audit objective or increase efficiency in achieving those objectives
- * Analytics may not provide the desired level of assurance for some assertions
- * Effectiveness and Efficiency of Analytics can depend on:
 - * Nature of assertion being tested
 - * Plausibility and predictability of the relationship between data
 - * Reliability and availability of data used to develop expectation
 - * Precision of the expectation
- * Acceptable difference from expectation



AU-C 520 – Analytics and Overall Review

- * To assist in assessing the conclusions reached and in the evaluation of overall F/S presentation
- * Should include reading the F/S and notes and considering:
 - * Adequacy of evidence gathered in response to unusual or unexpected balances
 - * Unusual or unexpected balances or relationships not previously identified

AU-C 230 – Audit Documentation

- * AUDITOR MUST DOCUMENT ALL OF THE FOLLOWING:
 - * Evidence of auditor's basis for a conclusion about overall achievement of objectives of the auditor.
 - * Evidence the audit was planned and performed in accordance with GAAS.
 - * Any significant findings or issues arising during the audit, conclusions reached, and significant judgments made in reaching those conclusions.



Types of Analytic Procedures



Trend Analysis – comparison of balance to prior periods

Ratio Analysis – comparison of ratios for current period to prior periods, budget, industry standards

Model-Based Procedures – use of client data and relevant external data to develop an expectation

When can we use analytics in substantive testing?

- * What Areas?
- * Interim?
- * Balance Sheet and
Income Statement!



Analytics

What are the challenges we face in developing and completing analytics?

What opportunities do these challenges create?



Review of Objectives

- * Review planning procedures – “Do the right things in the right order.”
- * Review high performance analytics – “What is the purpose; are expectations specific, do we appropriately support the conclusion??”
- * Discuss the challenges and opportunities we face – “How can we help each other get better?”
- * Don’t be Bob the Turkey!
- * Questions?



Thank
you

