

THE VALUE OF ANALYTICAL REVIEW PROCEDURES

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Analytical procedures are an essential, efficient and effective tool used by accountants to understand a company's financial position, results of operations, cash flows and/or their changes from year-to-year. In fact, accountants are *required* to perform analytical procedures for audits performed in conformity with Generally Accepted Auditing Standards in the United States ("GAAS") and in connection with reviews of financial statements performed in conformity with Statements on Standards of Accounting and Review Services ("SSARS").

Analytical procedures are also key forensic tools that are often applied when performing business appraisals, or by senior management when reviewing the results of operations of a business segment (or the entire business).

ANALYTICAL PROCEDURES

Analytical procedures are defined in AU-C Section 520.04 as consisting of "evaluations of financial information through analysis of plausible relations among both financial and nonfinancial data. Analytical procedures also encompass 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."

EXAMPLES OF ANALYTICAL PROCEDURES

- Comparing current financial statement(s) with statements for comparable prior period(s);
- Comparing current financial information with anticipated results, such as budgets or forecasts;
- Comparing current financial information with relevant nonfinancial information;
- Comparing ratios and indicators for the current period with expectations based on prior periods;
- Comparing ratios and indicators for the current period with those of entities in the same industry;
- Comparing relationships among elements in the current financial period with corresponding relationships in the financial information for prior periods (for example, category of expense as a percentage of sales, asset type as a percentage of total assets, and percentage change in sales to percentage change in receivables).

HOW ANALYTICAL PROCEDURES ARE UTILIZED

Analytical procedures may include such statistical techniques as data mining, trend or regression analysis and may be performed manually or with the use of computer-assisted techniques. Analytical procedures assist the accountant in planning the nature, timing and extent of procedures; test the particular assertions related to account balances or classes of transactions; and performing an overall review of the financial information in the final review stage of an engagement.

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