Using analytical procedures effectively: practical insights for audit quality

2 September 2025

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Click on the **Q&A** button in the bottom toolbar to open the submit question prompt.

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ICAEW's revised Continuing Professional Development (CPD) Regulations brought in new CPD requirements, including a minimum number of hours and an ethics requirement.

This webinar could contribute to up to 1 hour of verifiable CPD, so long as you can demonstrate that the content is relevant to your role.

Find out more about how these changes affect you at icaew.com/cpdchanges.

Today's speakers

Graham Gardner,
Kreston Reeves

Ben Hamar,
S&W

The SAP Blueprint
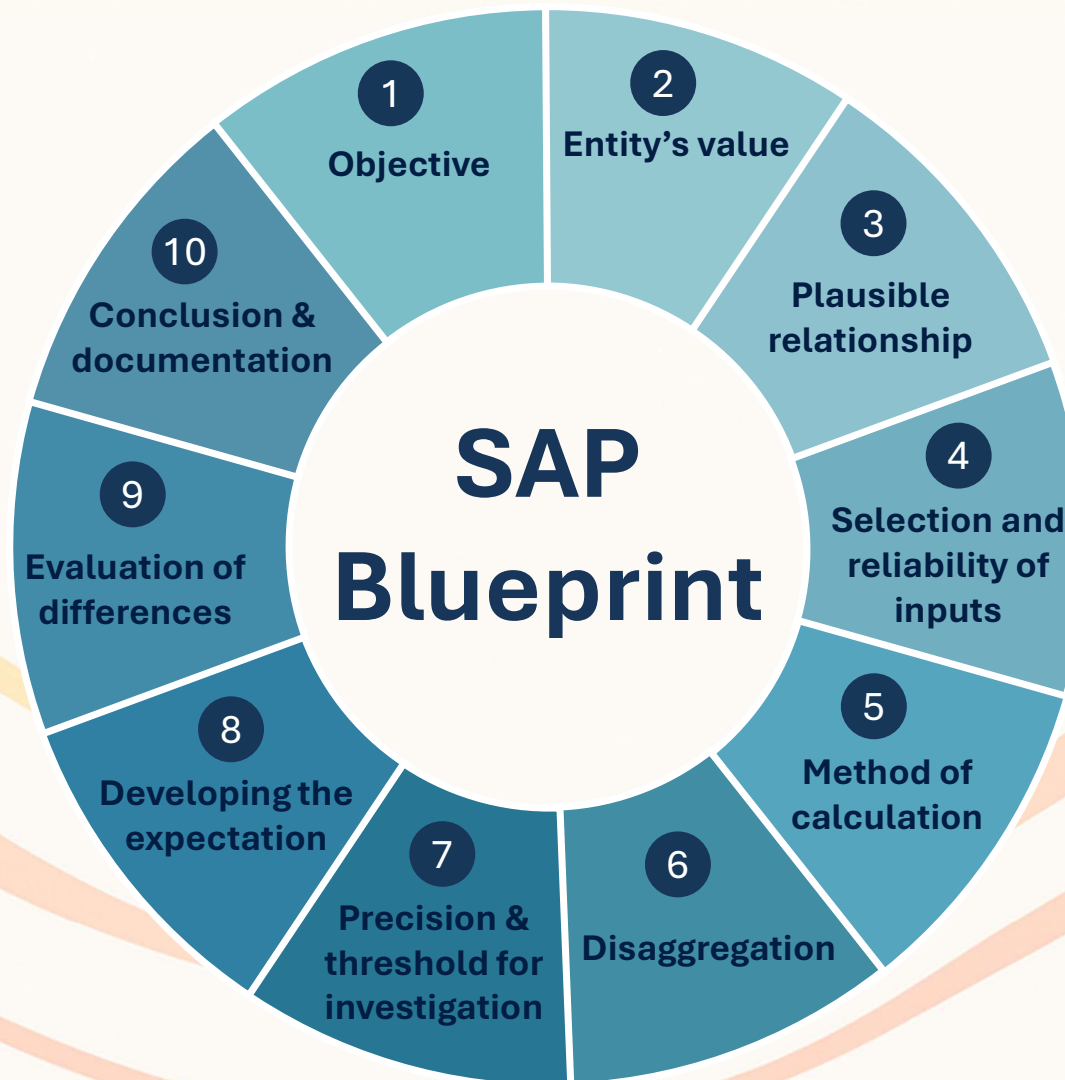
Learning Outcomes
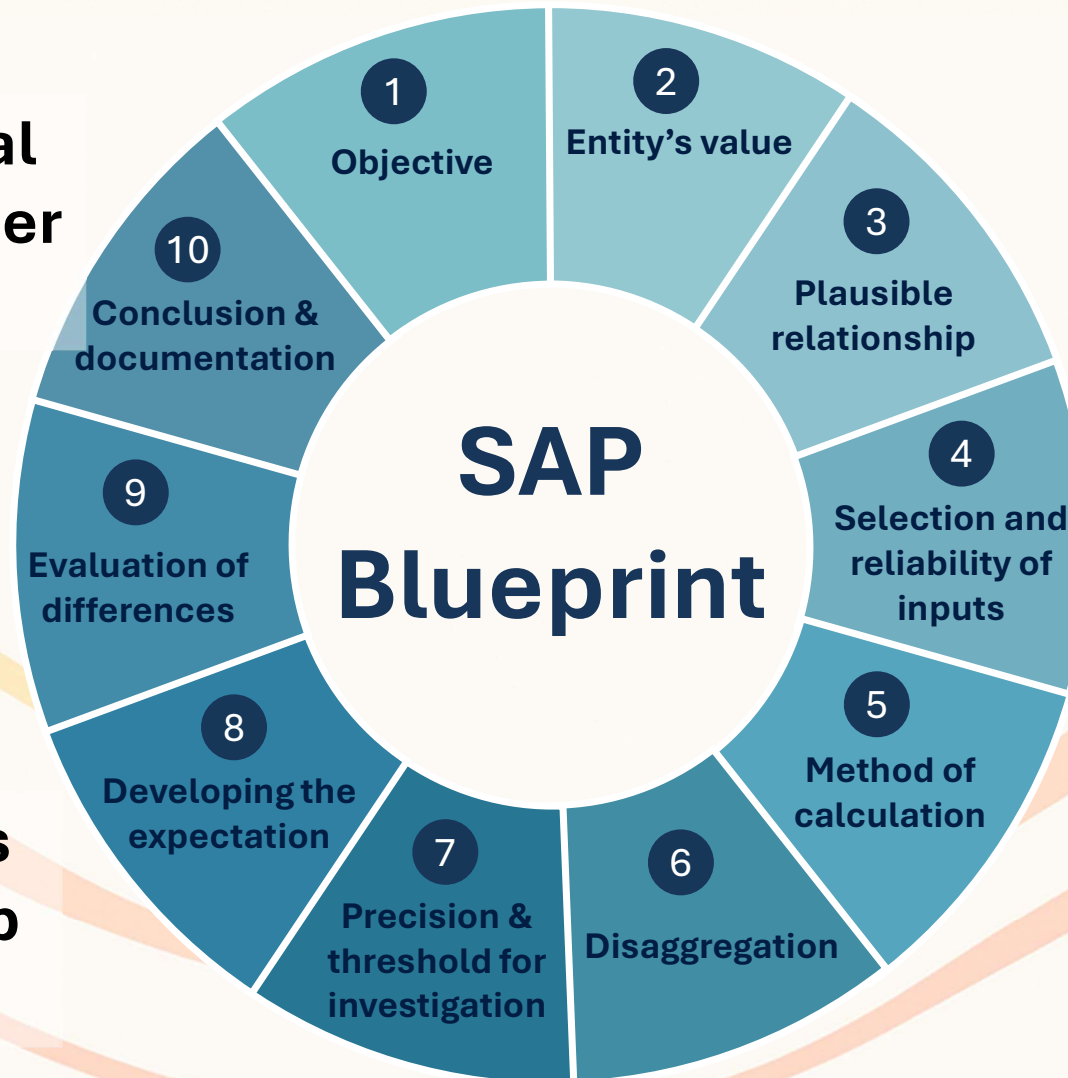
Define analytical procedures under ISA (UK) 520.

Avoid common pitfalls.

Document SAPs so they stand up to review.

Identify types of analytical procedures.

Identify when SAPs are appropriate.

Design SAPs that yield persuasive audit evidence.

SAP Blueprint

1. Objective
2. Entity's value
3. Plausible relationship
4. Selection and reliability of inputs
5. Method of calculation
6. Disaggregation
7. Precision & threshold for investigation
8. Developing the expectation
9. Evaluation of differences
10. Conclusion & documentation

Objective
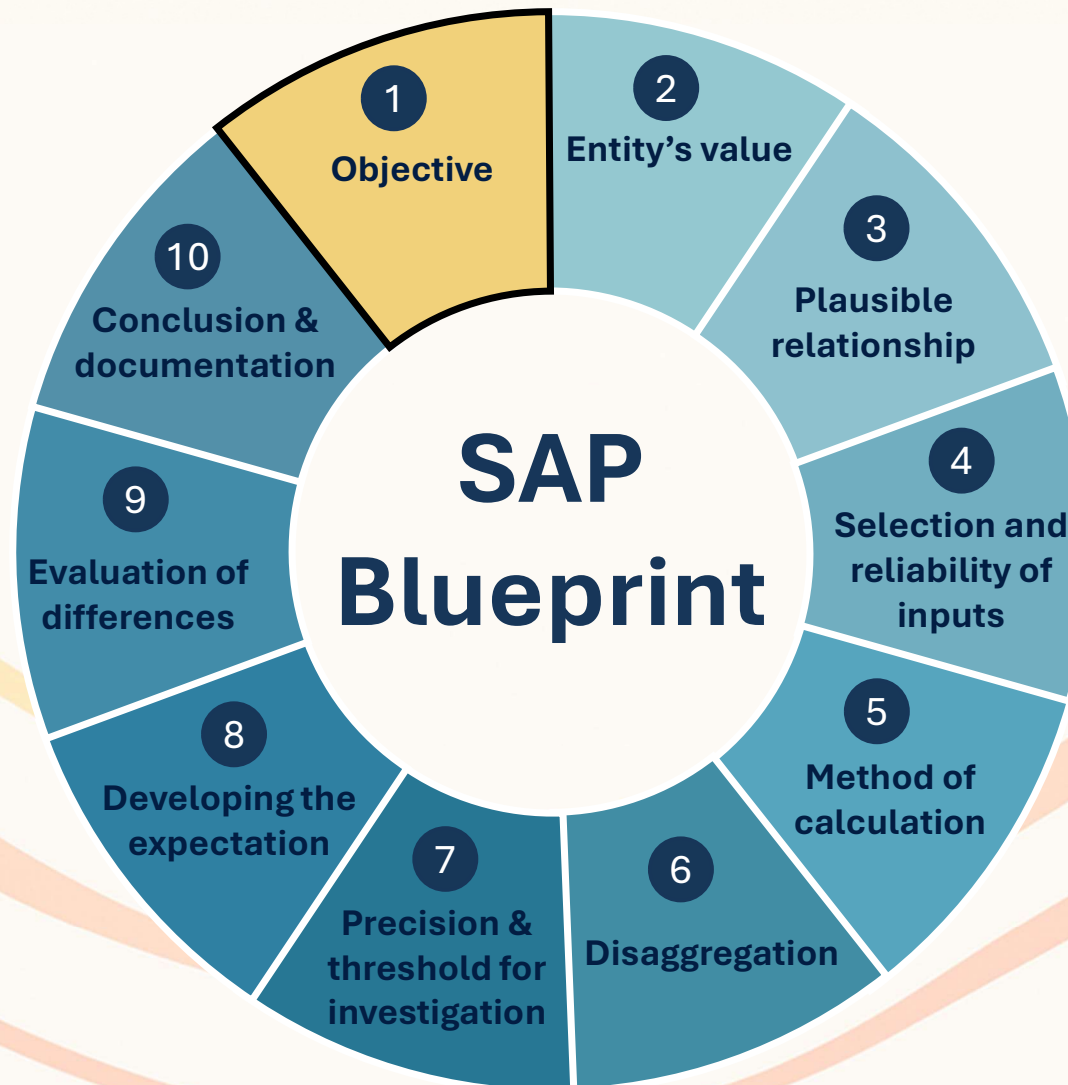
Analytical Procedures

*"Evaluation of financial information through **analysis of plausible relationships** among both **financial** and **non-financial data**."*

- Planning Analytics (*ISA 315*)
- **Substantive Analytical Procedures (*ISA 520*)**
- Final Analytics (*ISA 520*)

Risk Assessment vs. Substantive

Risk assessment procedures – *"The audit procedures designed and performed to **identify and assess the risks of material misstatement**, whether due to fraud or error, at the financial statement and assertion levels."*

Likelihood and Magnitude of misstatement

Substantive procedure – *"An audit procedure designed to **detect material misstatements** at the assertion level."*

Evidence of (the absence of) misstatement

When can we perform SAPs?

- Where there is a sufficiently predictable relationship

- Where it is efficient to do so

- Not as the only substantive procedure over sig risks

Entity's value

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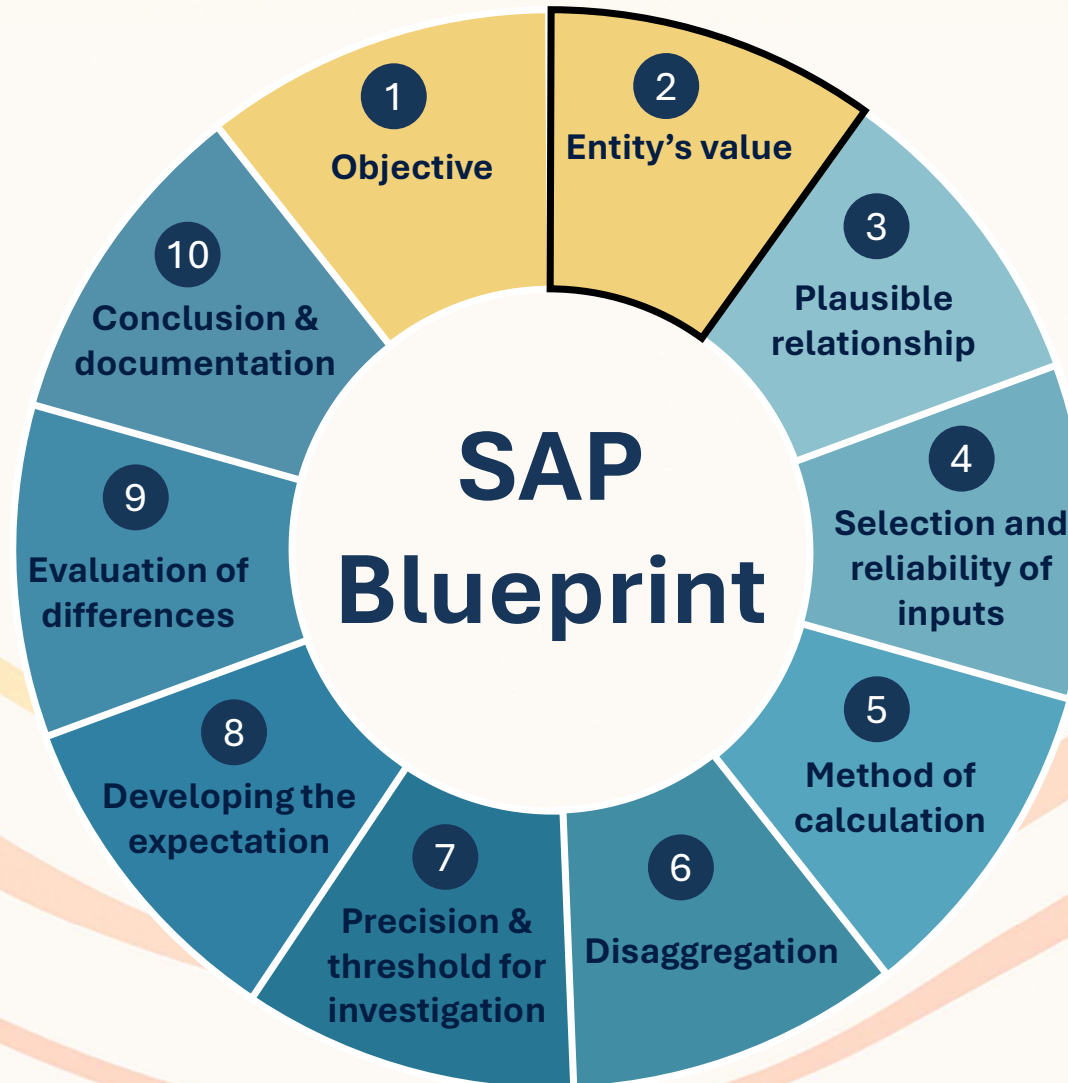
Entity's value

- Obtain a thorough understanding of the balance

- Whole account vs. part of the account?

- Define the value being audited

Plausible relationship
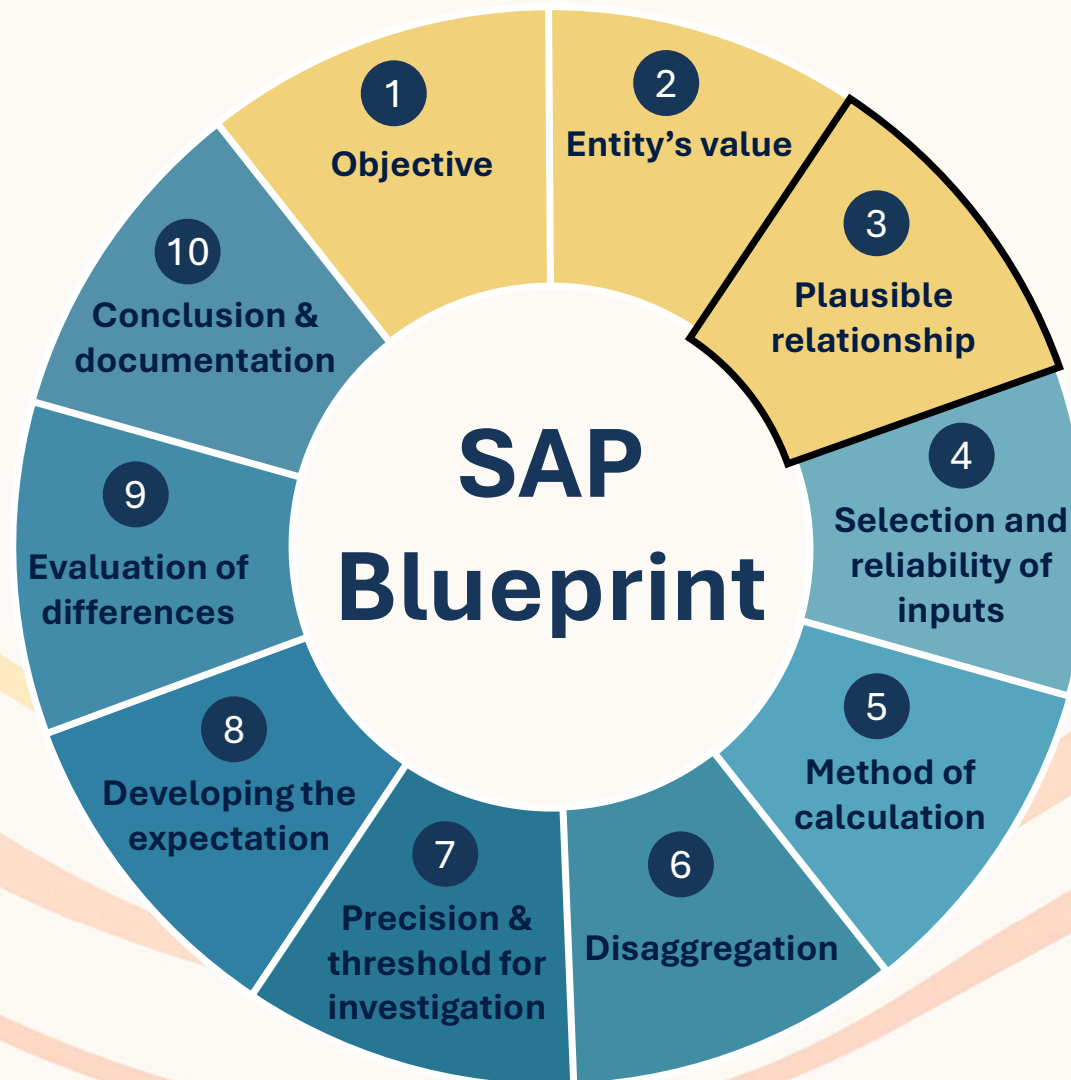
Plausible and predictable

- Must be sufficiently plausible and predictable to allow substantive evidence to be obtained

- Must be stable enough to form the basis of a reliable expectation

- Consider factors which may weaken predictability (e.g. outlier transactions)

- Must allow a sufficiently precise expectation to be developed

Inputs to the SAP

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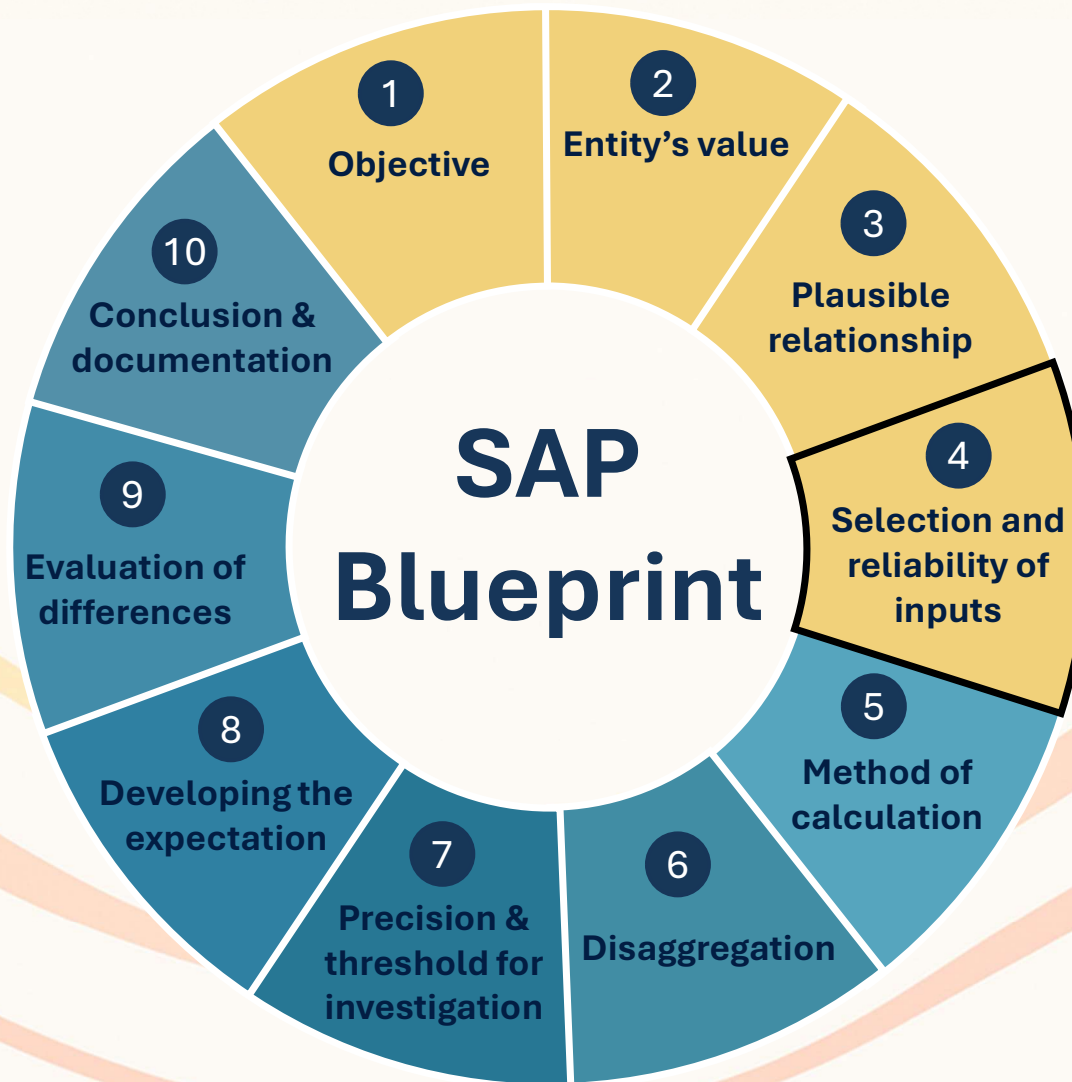
Data Inputs

- Beware of circular auditing - use independent inputs!

- Use inputs external to the entity wherever possible

- Test reliability of data inputs

Method of Calculation

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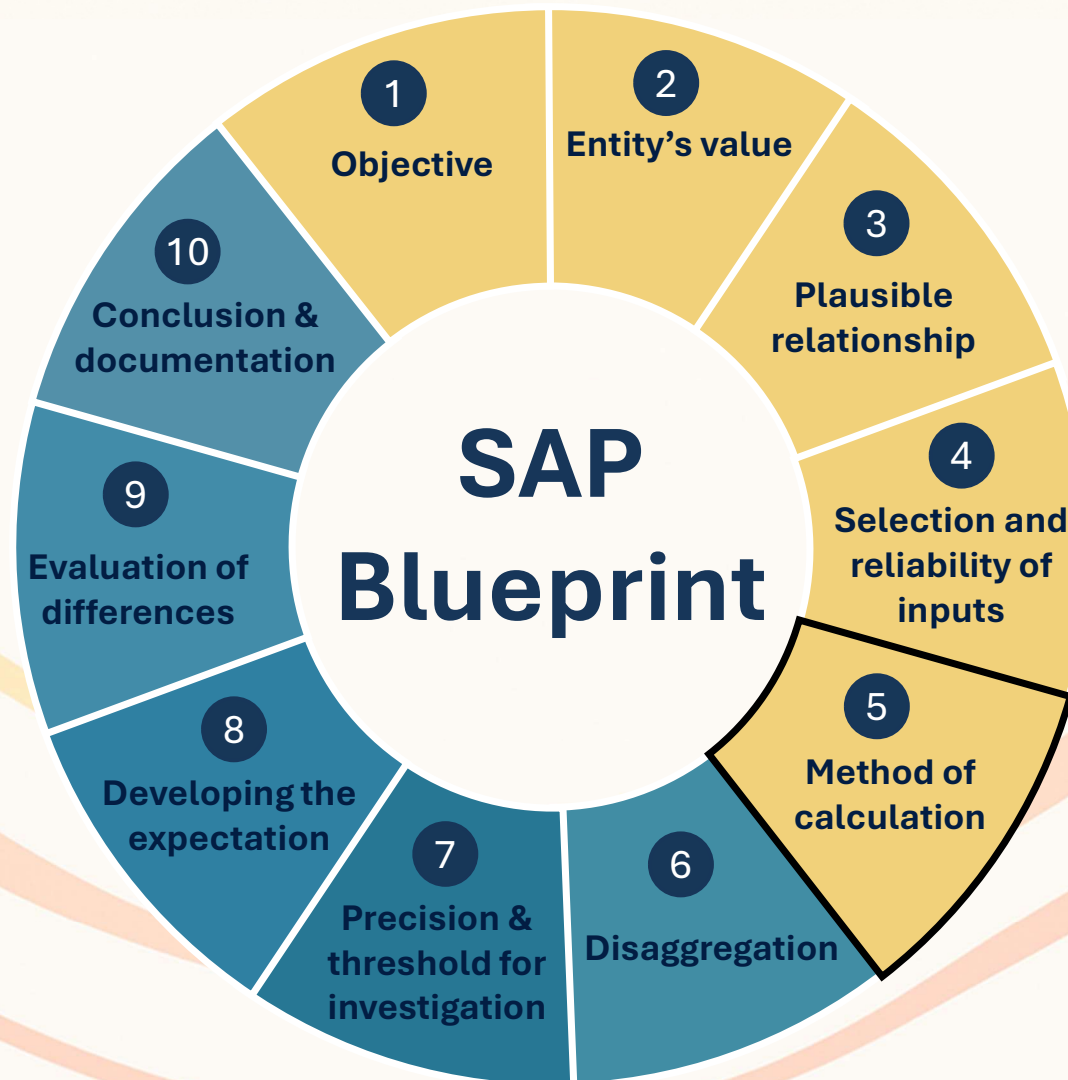
Method of calculation

- Select the model for developing the expectation e.g. trend, ratio, regression, predictive analysis

- Keep focus on the plausible relationship – avoid overengineering

- More complex ≠ more persuasive

- Pre-validation – back-test the model on previous periods to assess validity

Disaggregation

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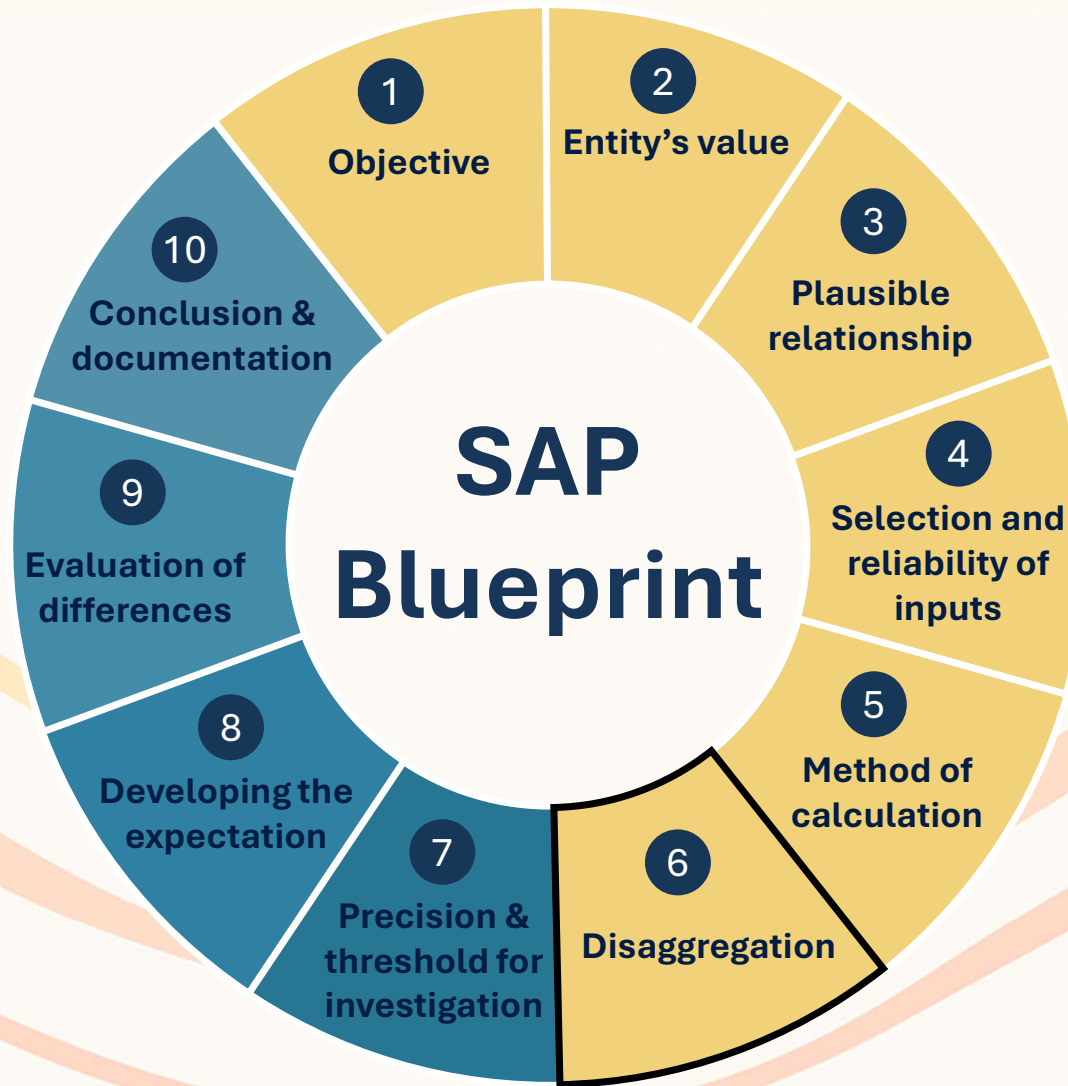
Disaggregation

- Involves breaking down the balance into sub-populations to reduce noise

- Examples include analysis by month, by customer type, or by product

- Typically increases precision at the cost of additional data requirements and work effort

- Introduces aggregation risk

Precision & Threshold

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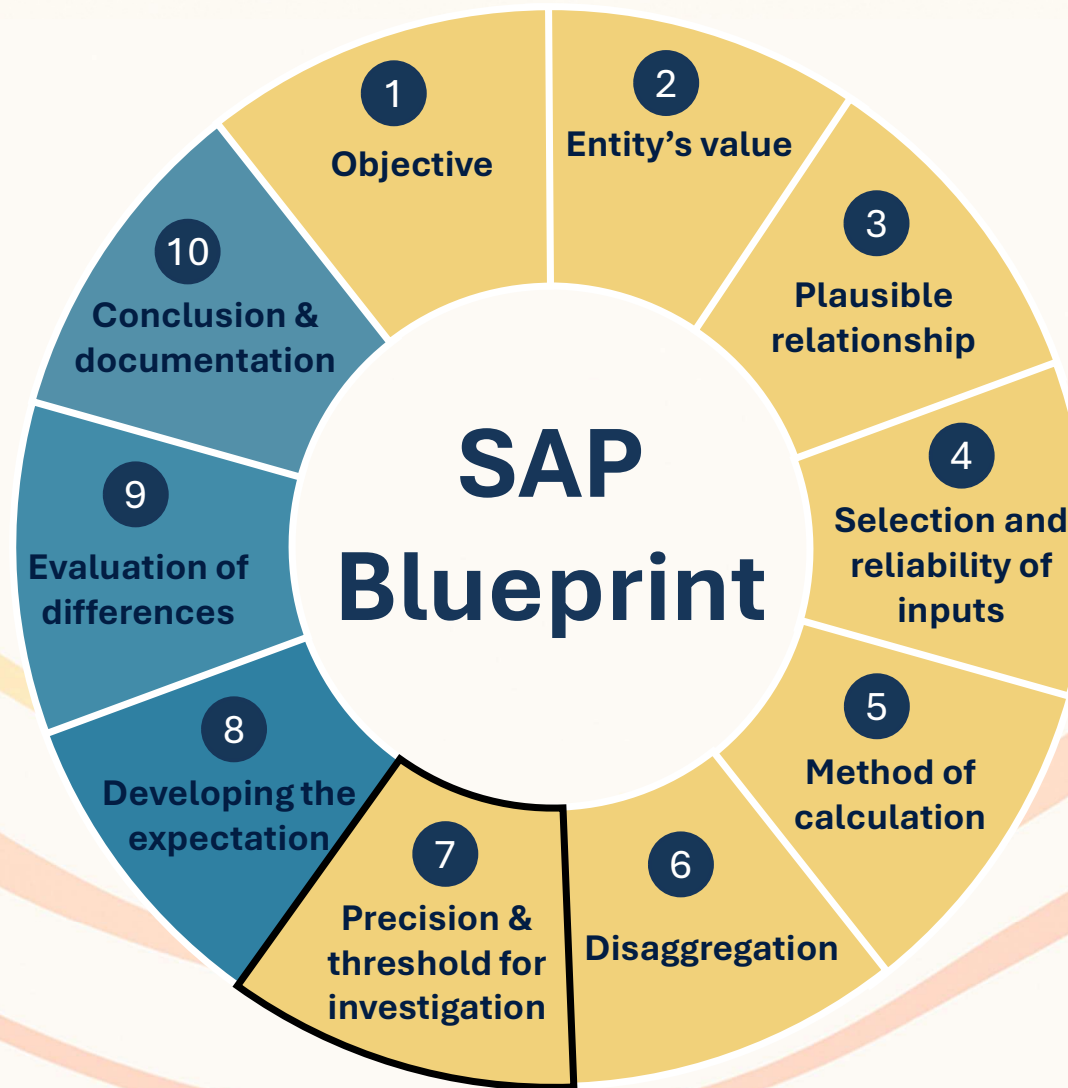
Precision and Threshold

- SAP must be *sufficiently precise* to detect a material misstatement at the assertion level
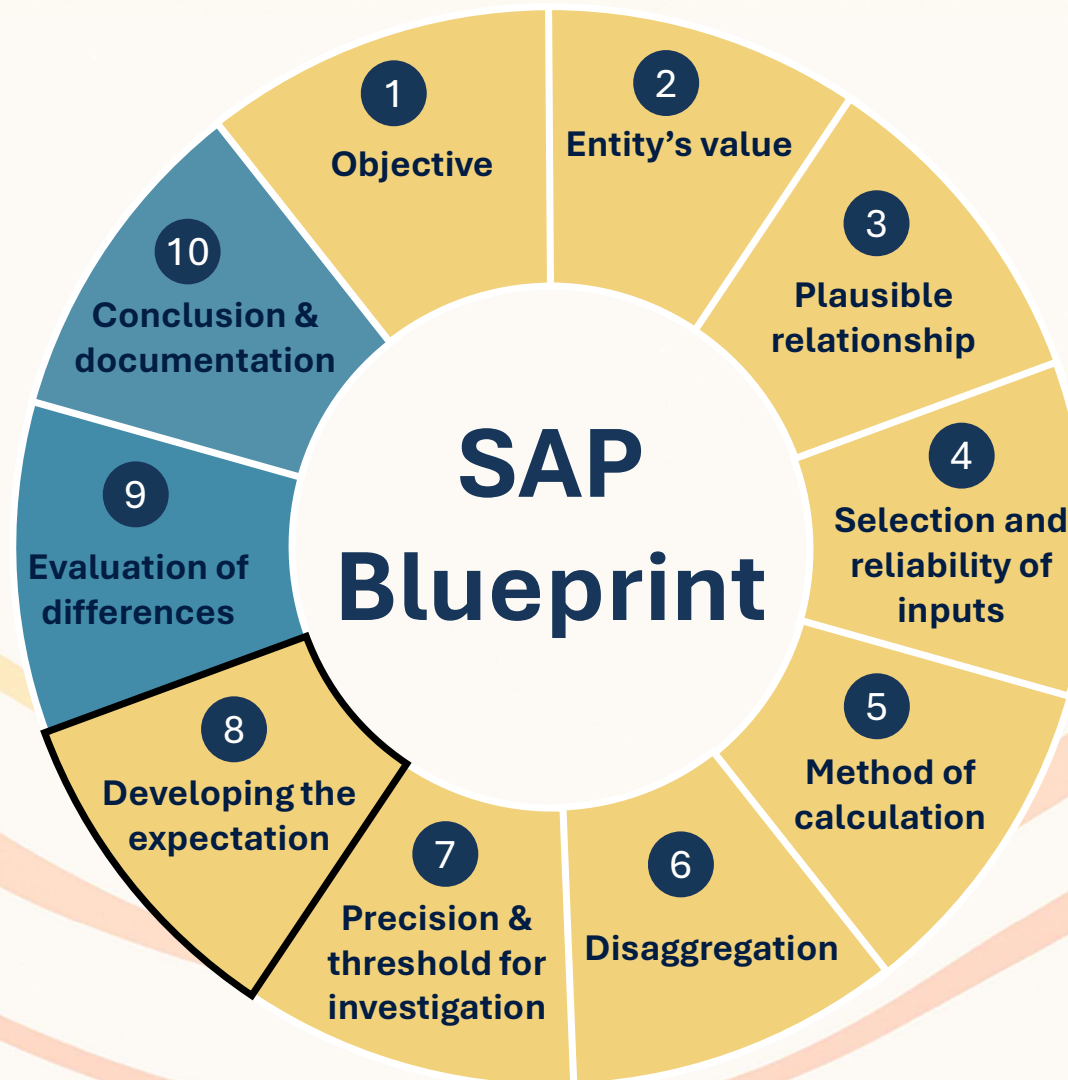
- Not automatically PM!

- Threshold is based on expected precision of the SAP (and always <= tolerable misstatement)

- May set a lower threshold for higher risk balances

Developing the Expectation

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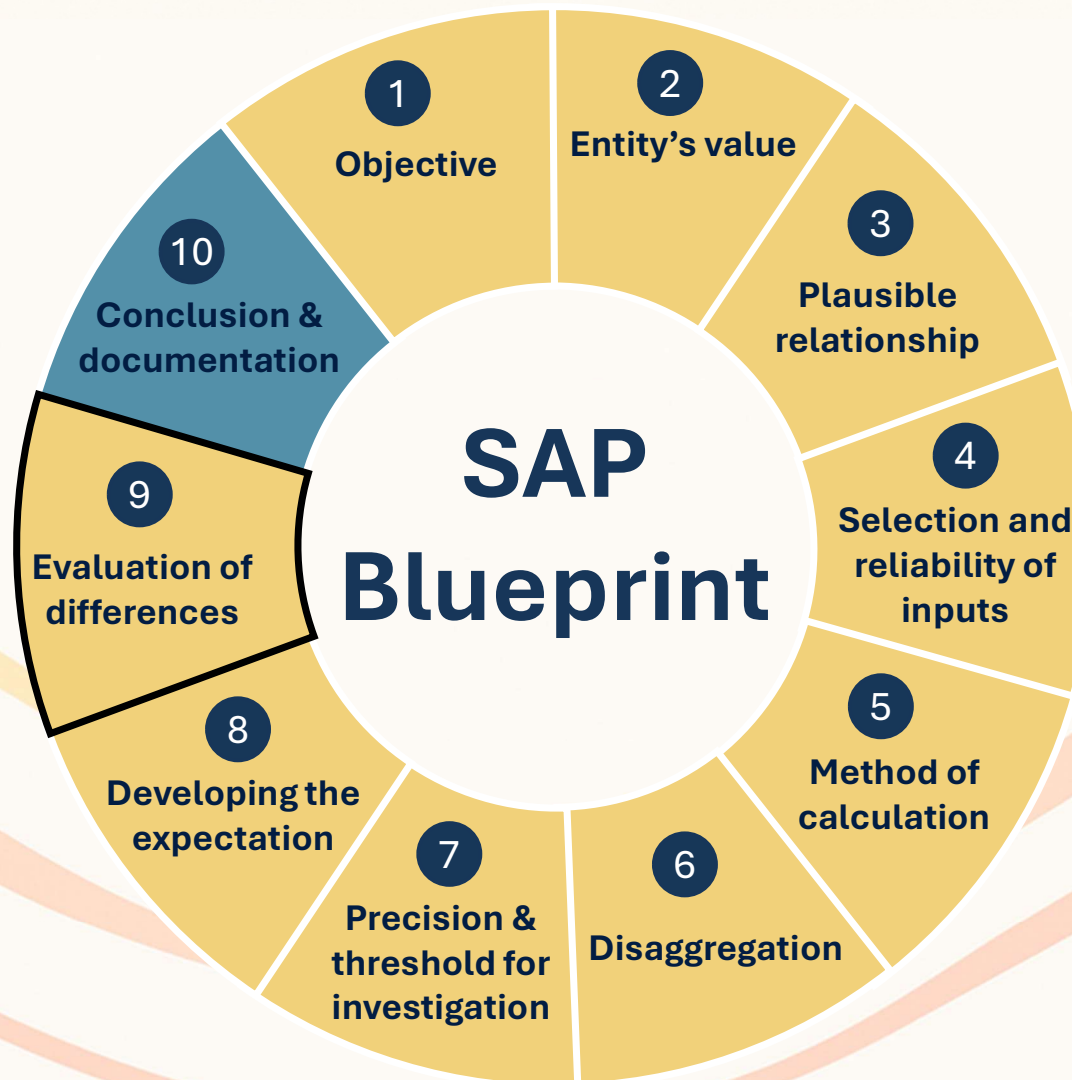
Developing the Expectation

- Apply the chosen method with the selected inputs and disaggregation

- Be sure to document all assumptions, adjustments, and data transformations applied

- Reconsider method and threshold where necessary

Evaluation of Differences

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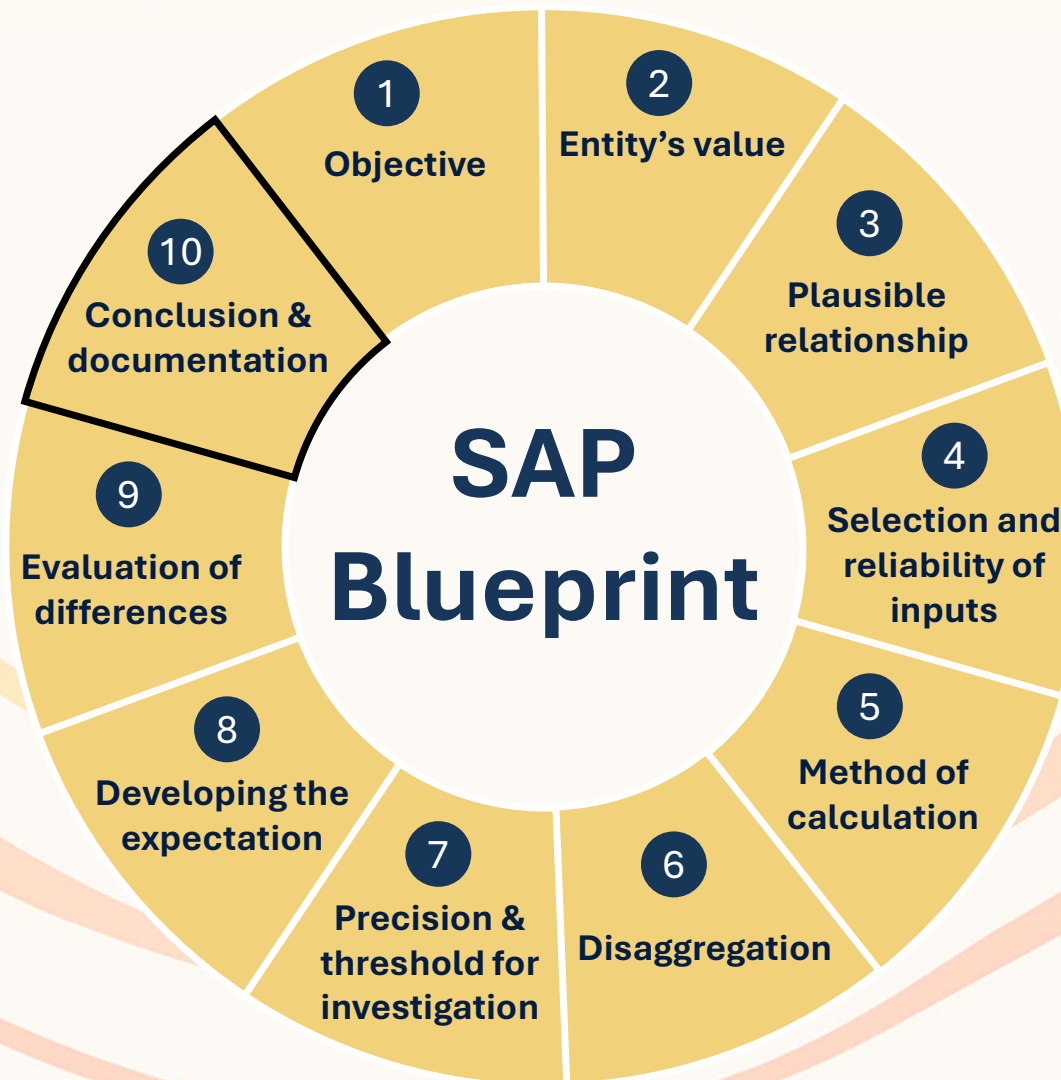
Evaluation of Differences

- Compare the entity's value to expectation

- A misstatement is applied in relation to the threshold

- **Investigate differences above the threshold using procedures beyond inquiry!**

- Update risk assessment, method, and threshold as needed

Conclusion and Documentation

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Conclusion and Documentation

- Conclude on whether the SAP *provided sufficient and appropriate evidence* over the assertion/s

- Cross-reference to follow-up procedures and their results

- Document all 10 elements of the blueprint

Practical tips

Don't	Do
Significant risk (unless paired with other test)	Lower risk
High value/ Low volume	High volume/ Low value
Complex relationship	Simple correlation
Hard to verify inputs	Reliable data

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Practical tips

One test of detail	ToD and SAR
Junior staff	Senior staff
Outsourcing	More likely on site knowledge
Larger sample size	Smaller sample size for ToD

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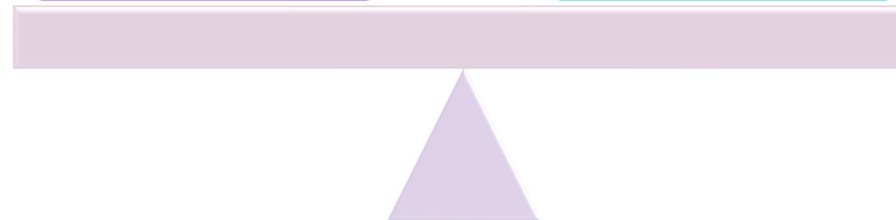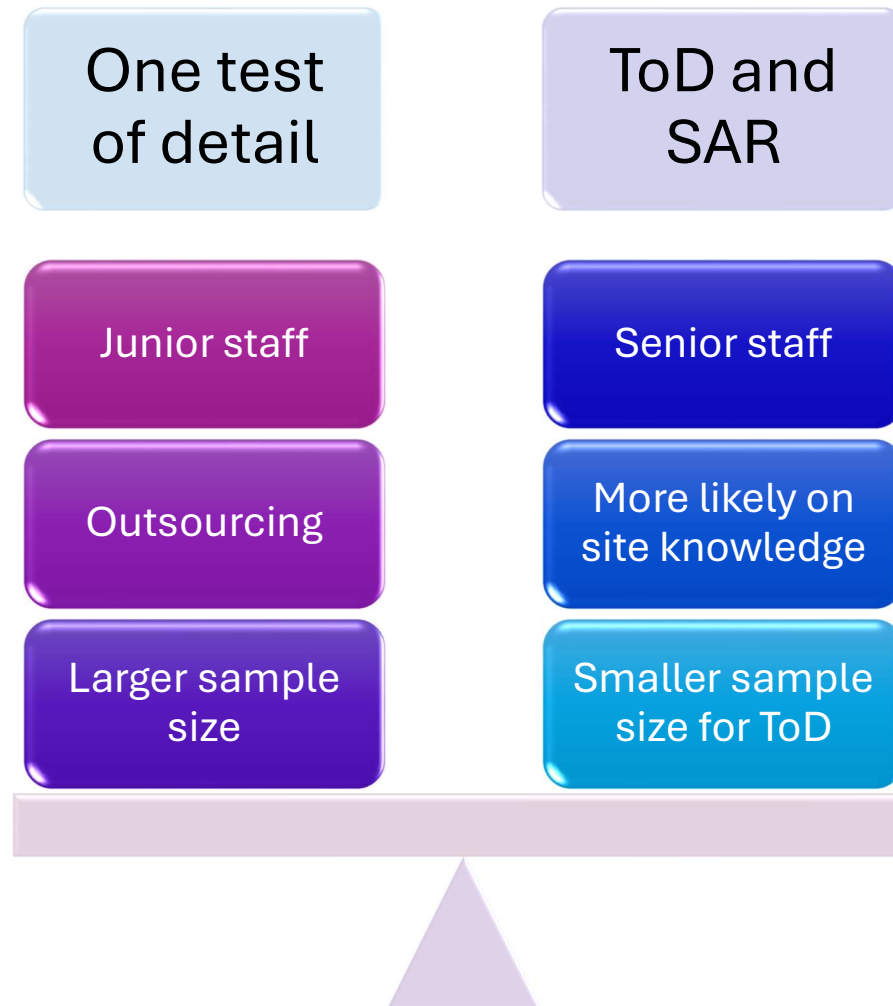
Common Income Scenarios

Revenue
- Prices
- Volumes

Rent
- Charge per unit
- Occupancy

Interest
- Annual rate
- Balance outstanding
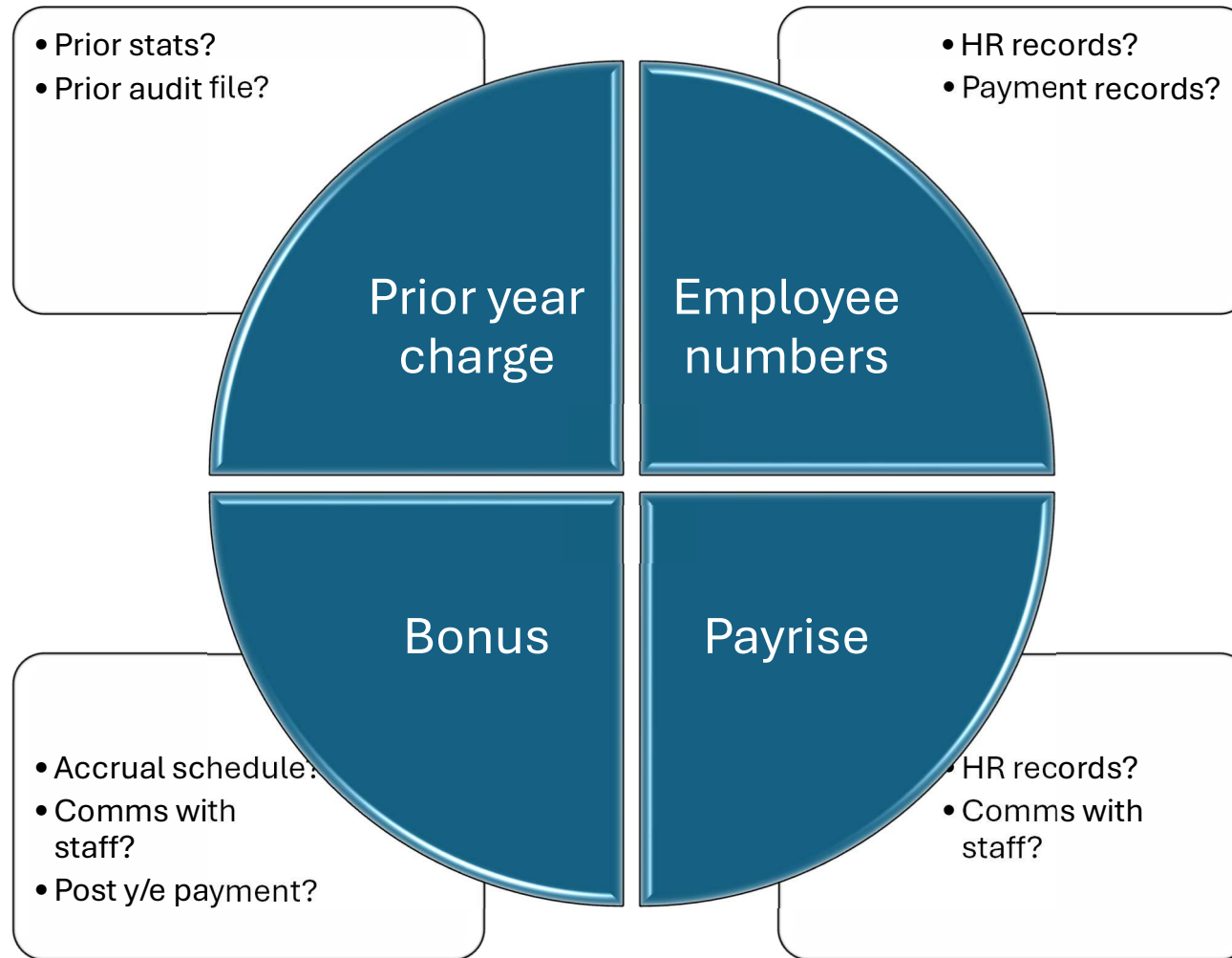
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Opportunities in SME Audits

FS area	Most likely to use SAR	Key considerations
Intangible assets	Amortisation	Volume and timing of additions/disposals
Tangible assets	Depreciation	Volume and timing of additions/disposals
Stock	Multi site retail	Similarity of stores or key ratio to use
Debtors	Multi site prepayments	Similar sites ability to forecast prepaid rent
Cash	Petty cash if at all	Materiality of non-bank cash
Creditors	Multi site accruals	Similar sites ability to forecast accrued regular costs
Revenue	High volume predictable or independently forecastable	Independent systems where easy to test one system and use to forecast other
Cost of sales	Predictable mark up, multi site retail/food & drink	Similarity of stores or key ratio to use
Admin expenses	Payroll	Variations in payroll
Finance income / expenses	High number of loans at similar rate	Efficiency

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Proof in total

		£k
Wages and Salaries 20x1		15,159
Per TB wages and salaries 20x2		17,216
Difference		2,057
Salary increase 20x2	5%	758
Number employees 20x1	354	
Number employees 20x2	360	
Impact more staff		257
Bonus		1,000
Remaining diff		42

		£k
Wages and Salaries 20x1		15,159
Number employees 20x1	354	
Average salary 20x1	42,822	
Salary increase 20x2	5%	
Average expected salary 20x2	44,963	
Number employees 20x2	360	
Expected wages and salaries 20x2		16,187
Acceptable variance		250
Per TB wages and salaries 20x2		17,216
Variance		1,029
Explanations	£1m bonus in 20x2, nil in 20x1	
Remaining variance		29

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Evidence for the expectation

Prior year charge
- Prior stats?
- Prior audit file?

Employee numbers
- HR records?
- Payment records?

Bonus
- Accrual schedule?
- Comms with staff?
- Post y/e payment?

Payrise
- HR records?
- Comms with staff?

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Q&A

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