

**ASA 520**  
(October 2009)

# Explanatory Statement

## *ASA 520 Analytical Procedures*

Issued by the **Auditing and Assurance Standards Board**

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This document contains draft proposals to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions and/or proposals to be contained in a published Exposure Draft or Auditing Standard. No responsibility is taken by the AUASB for the results of reliance, actions or omissions to act on the basis of any information contained in this document (including appendices), or for any errors or omissions in it.



**Australian Government**

**Auditing and Assurance Standards Board**

## **Obtaining a Copy of this Explanatory Statement**

This Explanatory Statement is available on the Auditing and Assurance Standards Board (AUASB) website: [www.auasb.gov.au](http://www.auasb.gov.au)

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## **Reasons for Issuing Auditing Standard ASA 520 *Analytical Procedures***

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 520 *Analytical Procedures* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is as an independent statutory board of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001* (the Act), the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required to have regard to any programme initiated by the International Auditing and Assurance Standards Board (IAASB) for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards. The IAASB has undertaken a programme to redraft, and in some cases, revise, in “clarity” format, the entire suite of ISAs. Accordingly, the AUASB has decided to revise and redraft the Australian Auditing Standards using the equivalent redrafted ISAs.

## **Operative Date**

ASA 520 *Analytical Procedures* is operative for financial reporting periods commencing on or after 1 January 2010.

## **Purpose of Auditing Standard ASA 520 *Analytical Procedures***

The purpose of the Auditing Standard is to establish Requirements and to provide Application and Other Explanatory Material regarding the auditor’s use of analytical procedures as substantive procedures (“substantive analytical procedures”). It also deals with the auditor’s responsibility to perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion on the financial report.

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### Main Features

The Auditing Standard:

- (a) sets out the procedures an auditor is to undertake when designing and performing substantive analytical procedures;
- (b) requires the auditor to design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion on the financial report; and
- (c) requires the auditor to investigate fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.

### Preamble and Overall Objectives

ASA 520 is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied. ASA 520 is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

### Process of making Australian Auditing Standards

The AUASB's Strategic Direction, *inter alia*, provides that the AUASB develop Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;
- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the underlying standards;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

In implementing the FRC's Strategic Direction, the AUASB has undertaken a process of revision and redrafting of the Australian Auditing Standards that has:

- updated the form, layout and content of the Australian Auditing Standards;

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- addressed the legal enforceability of mandatory obligations;
- maintained clarity of the auditor's obligations;
- incorporated appropriate references to Australian laws and regulations;
- clearly identified, by use of the prefix "Aus", AUASB additions to paragraphs in the Requirements or the Application and Other Explanatory Material; and
- included other amendments as necessary.

### **Consultation Process prior to issuing the Auditing Standard**

The AUASB has consulted publicly as part of its due process in developing the Auditing Standard. Exposure Draft ED 19/09 *Proposed Auditing Standard: Analytical Procedures* (Re-issuance of ASA 520), was issued on 19 June 2009 with a 30 day comment period.

As an integral part of its consultation with the public, the AUASB sought comments on specific questions including:

- the completeness and accuracy of references in the Auditing Standard to relevant laws and regulations;
- the significant costs, if any, and benefits, of compliance with any additional Requirements under the Auditing Standard; and
- whether or not there exist any matters of public interest affecting the issuance of the Auditing Standard.

Submissions were received by the AUASB and these were considered as part of the development and finalisation of the Auditing Standard.

### **Regulation Impact Statement**

A *Regulation Impact Statement* (RIS) has been prepared in connection with the redrafting of Australian Auditing Standards in Clarity format, including ASA 520 *Analytical Procedures*.

The RIS has considered both the expected benefits and expected costs of the introduction of clarified auditing standards, including comments provided by stakeholders during the redrafting process. It concluded that expected

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benefits to users of audit services, users of audit reports, auditors and the Australian economy in general are, on balance, likely to outweigh expected costs.

### **Main Differences from ASA 520 *Analytical Procedures* (April 2006)**

The main differences between the Auditing Standard and the Auditing Standard that it supersedes, ASA 520 *Analytical Procedures* (April 2006), are:

1. Auditing Standard ASA 520 is written in the 'clarity' format using the equivalent International Standard on Auditing (ISA 520 *Analytical Procedures*) as the underlying Auditing Standard. Consequently, the format, layout, and paragraph numbering styles are different from the extant Auditing Standard.
2. The following requirements included in the Auditing Standard are in part, or full, additional compared to the extant Auditing Standard:
  - (a) When designing and performing substantive analytical procedures, either alone or in combination with tests of details, as substantive procedures in accordance with ASA 330, the auditor shall:
    - Determine the suitability of particular substantive analytical procedures for given assertions, taking account of the assessed risks of material misstatement and tests of details, if any, for these assertions;
    - Evaluate the reliability of data from which the auditor's expectation of recorded amounts or ratios is developed, taking account of source, comparability, and nature and relevance of information available, and controls over preparation;
    - Develop an expectation of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to identify a misstatement that, individually or when aggregated with other misstatements, may cause the financial report to be materially misstated; and

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- Determine the amount of any difference of recorded amounts from expected values that is acceptable without further investigation as required by paragraph 7 of this Auditing Standard. (Ref: Para. 5)
3. The following Requirements in the extant Auditing Standard are now included in Auditing Standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*:
- (a) The auditor shall apply analytical procedures as risk assessment procedures to obtain an understanding of the entity and its environment. (Ref: Extant Para 5)
  - (b) The auditor shall apply analytical procedures as risk assessment procedures to obtain an understanding of the entity and its environment. (Ref: Extant Para 12)