Gollob Morgan Peddy
CERTIFIED PUBLIC ACCOUNTANTS

Kevin Cashion, CPA
Gollob Morgan Peddy Partner
kevin@gmpcpa.com

Understand How Auditors Use Analytics

Understanding how auditors use analytical procedures can help your business with possibly conducting your own analytics to enhance productivity and possibly minimize errors in your accounting before those errors start to grow.

What are analytics?
The AICPA's auditing standards define analytical procedures as "evaluations of financial information through analysis of plausible relationships 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 tests include:

- Trend analysis
- Ratio analysis
- Reasonableness testing
- Regression analysis

Auditors use analytics to understand or test financial statement relationships or balances. Significant fluctuations or relationships that are materially inconsistent with other relevant information or that differ from expected values require additional investigation.

What are the four phases of the analytical audit process?
Performing analytical procedures generally follows this four-step process:

1. From an expectation
2. Identify differences between expected and reported amounts
3. Investigate possible reasons for differences
4. Evaluate the differences

For differences that are due to misstatement (rather than a plausible explanation), the auditor must decide whether the misstatement is material (individually or in the aggregate). Material misstatements typically require adjustments to the amount reported and may also necessitate additional audit procedures to determine the scope of the misstatement.

Anticipate audit inquiries and requests
Done right, analytical procedures can help make your audit less time-consuming, less expensive and more effective at detecting errors and omissions. But, to avoid surprises in the coming audit season, notify your auditor about any major changes to your operations, accounting methods or market conditions that occurred during the past year.

This insight can help auditors develop more reliable expectations for analytical testing and identify plausible explanations for significant changes from the balance reported in prior periods. Moreover, now that you understand the role analytical procedures play in an audit, you can anticipate audit inquiries, prepare explanations and compile supporting documents before fieldwork starts.

Understanding how auditors sue analytics as described above can help you develop your own analytics that you can do internally throughout the year to help with your business's operations and efficiencies.

For more thoughts and questions, please reach out to Kevin at kevin@gmpcpa.com and he would be happy to help you.