

AUDIT STRATEGY
AUDIT PLANNING AND
AUDIT PROGRAMME

[SA 300] planning and audit of financial statements

- 1st. states objective of auditor in planning an audit.
- 2nd objective of auditor in planning an audit is to perform audit in an effective manner.

Why planning audit is necessary?

- > To perform audit effectively and in timely manner.

Adequate planning benefits the audit of FS in

several ways: P S C A M S

A -> To devote appropriate attention on important areas.

P -> To identify the problem, on timely basis, can also resolve.

M -> Helps properly organize and manage the audit engagement.

S -> Assists in selection of audit team members on basis of their capabilities and competence.

S -> Facilitate the direction and supervision of engagement team members.

C -> Coordination of audits done by other experts.

Planning of an audit - enunciated

- > audit risk is reduced to acceptable low level.
- > Reduces risk of inappropriate opinion by auditor's ~~skill~~ being clear & opinion

Nature of planning

- > Planning is not a discrete phase, it is continuous and iterative process.
- > Includes timing of certain activities and audit procedures that need to be completed prior.

Planning considers such matters prior to the risk of material misstatement, identification and assessment of

- > Analytical procedures to be applied or risk assessment procedures.
- > understanding legal and regulatory framework of entity.
- > perform risk assessment procedures
- > Determination of materiality
- > Involvement of experts

Discussion of elements of planning with entity management.

2 Elements of planning

preliminary activities

- > Auditor's considers whether relation with client should be continued
- whether ethical requirements and independence continue to be complied

planning activities

- > Establishes overall audit strategy
- > scope, timing, direction
- > audit plan

auditor will perform audit procedures regarding

- > Integrity of overall management
- > competence of engagement team members

In case of initial audit engagement, auditor shall also communicate with preceding auditor

To evaluate compliance with Independence, the engagement partners shall

- > obtain info about circumstances to identify threat or independence
- > re-evaluate the info to see if there are any threats
- > If there are threats on independence auditor shall take appropriate act to eliminate threat or withdraw from audit engagement if permitted by law.

Planning activities

The process of establishing the overall audit strategy assists the auditor to determine subject to the completion of the audit's with assessment procedures (Audit strategy)

What -> What resources (about engagement team members)

How much -> Amt of resources (no. of team members)
When -> when to deploy resources
How -> how to manage, direct and supervise

- Ascertain Nature/Extent of resources required for audit engagement
- selection of engagement team members and assigning work to them
- stepping more time to **audit** with high risk of Material misstatements
- assigning assets of high skills of material misstatements to engagement team members.

Development of an audit plan (300)

- **Audit strategy** is **Task setting a framework**
- But **Audit plan** is more detailed
- Nature/Time/extent of every audit procedure.

→ NTE of planned risk assessment procedures

→ NTE of planned further audit procedures at assurance level

→ Other planned audit procedures sequenced to be carried out so that engagement complies with SAs

~~SA's~~

Audit plan and audit strategy are not distinct

Go not a sequential process they are **closely** inter-related. change in one could result to change in another

→ **Overall audit strategy and audit plan is prepared by auditor.**

Auditors can discuss element of planning with entity's management without compromising effectiveness of audit.

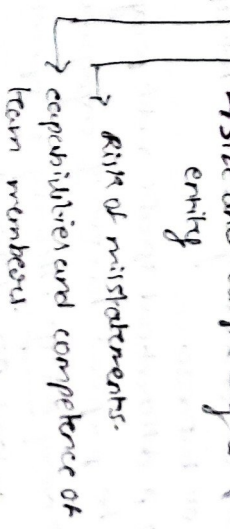
Changes to planning & audit strategy during

Audit:

- **Because of** unexpected events
- changes in **conditions** obtained from audit procedures
- new audit evidence obtained from audit procedures

Planning, supervision and review of work of engagement team

depends on



Auditors' work documents

Overall audit strategy

↓

key decisions

made during audit & communication

of significant matters to engagement team

numbers

the audit plan

↓

Review of nature, timing and extent of work performed

with adjustment

performed

changes made during the audit

to allow us our audit plan and strategy for changes

Record on

Assurance of auditor's opinion obtained

any significant changes made during the audit

to allow us our audit plan and strategy for changes

Audit programme

- Audit programme consists of series of verification procedures to be applied on FI and account of co.
- For obtaining sufficient evidence
- list of verification steps
- steps are interrelated
- It's a detailed plan of applying the audit procedures

→ Business vary in nature, size and composition of works
 → So one audit programme is not applicable to all business

- A different and specific audit programme should be prepared for every engagement
- every entity's efficiency & operation of internal control are different.

Assist the engagement members to keep an open mind:

- Assistants to think beyond audit programme
- Include relevant matters not originally included
- Keep relevant matters in audit programme
- Report significant matters to senior / partners.

Periodic review of audit programme is necessary:

- To find whether audit programme is sufficient to obtain Audit evidence and knowledge about transaction
- client policy may change, which the auditor may not be aware of and hence he will follow on outdated programme and audit will be conducted negligently.

→ periodic review will remove the inadequacies of audit programme is changed by

- until the Audit programme is changed by principals all have to follow the same audit programme

construction of audit programme

Auditor has flexibility in deciding when to perform audit procedures.

★ But some should be considered at only particular time verifying inventories by clients personnel or verifying securities, bank balances and cash

★ Four purpose of constructing audit programme following points should be kept in mind

- Stay within scope and limitation of assignment
- Audit programme should exist in written form that what exactly has to be done
- determine the evidence reasonably available
- Apply only those steps and procedures through which reasonable procedures performed
- Professional judgement consider the possibility of errors which give evidence
- Stay within scope & limitations of engagement.
- consider the possibility of errors
- determine evidence available and identify best
- perform evidence available and identify best evidence which gives necessary
- coordinate the procedures performed
- apply useful steps and verification procedures to accomplish the purpose
- written audit programme
- include audit objective of each area of audit

Auditor picks evidence from variety of field

→ Examination

Physically

Document

Statement & explanation from mgmt/employee and third party (e.g. bank)

M → Master

~~1 → State of present condition and~~

S → State of internal control

S → Subsidiary and memorandum records

Arithmetical calculation by auditor

Advantages of audit programme:

→ Assistant will get least set of instructions of work.

→ Total perspective of work would be known.

→ Selection of assistant according to their competence and capabilities becomes easy.

→ With written and pre determined programme, danger of ignoring or overlooking ~~work~~ ~~tasks~~ will be reduced and audit will proceed in systematic manner.

→ Assistants by putting their signature on programme accept the responsibility for work assigned out by them, if required then work can be tracked.

→ Principal can control progress by examination of audit programme covered up by assistants.

→ It serves as guide for succeeding year.

→ It serves as evidence in event of any change of requirement being brought against auditor.

Disadvantages of audit programme:

→ work will become mechanical, with out pursuing objective as assistant may follow audit programme.

→ It timely revision may not done. audit programme ~~will~~ ~~may~~ may be over rigid.

→ may fall initiative of efficient assistant.

efficient assistants may have better of audit programme and will cover their deficiencies.

Steps to form a complete audit system (auditors)

1. Determine the scope of the audit.
2. Determine the objectives of the audit.
3. Determine the nature of the audit.
4. Determine the extent of the audit.
5. Determine the timing of the audit.
6. Determine the resources required for the audit.
7. Determine the responsibilities of the audit team.
8. Determine the reporting requirements of the audit.
9. Determine the communication requirements of the audit.
10. Determine the documentation requirements of the audit.