

2. AUDIT STRATEGY, AUDIT PLANNING AND AUDIT PROGRAMME

Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan

Benefits of Planning

- Appropriate Attention To Important areas
- Identify and Resolve the potential Problems
- To Conduct Efficient and Effective Audit
- Selection of Team Members
- Direction and Supervision of Team & Review of Work
- Coordination with Other Auditors and Experts

Planning is a CONTINUOUS process

Planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement

Planning, however, includes consideration of the timing of certain activities and audit procedures that need to be completed prior to the performance of further audit procedures. Such as

- **Analytical procedures** to be applied as risk assessment procedures.
- Obtaining a general understanding of the **legal and regulatory framework** applicable to the entity and how the entity is complying with that framework.
- The determination of **materiality**.
- The involvement of **experts**.
- The performance of other **risk assessment procedures**

Involvement of key engagement team members in planning audit

The involvement of the engagement partner and other key members of the engagement team in planning the audit draws on their experience and insight, thereby enhancing the effectiveness and efficiency of the planning process

Discussion of elements of planning with entity's management

The auditor may decide to discuss elements of planning with the entity's management to facilitate the conduct and management of the audit engagement. When discussing matters included in the overall audit strategy or audit plan, care is required in order not to compromise the effectiveness of the audit.

Planning Process- Elements of Planning

The elements of planning can be categorized as under:

- Preliminary engagement activities
- Planning activities

Preliminary engagement activities: It assists the auditor in identifying and evaluation events or Circumstances that may affect auditor's ability to plan and perform the audit engagement

1. Performing procedures regarding the continuance of the client relationship; Acceptance and Continuance of Client Relationships and Audit Engagements

- Ensure that appropriate procedures regarding the acceptance and continuance of client relationships
- Integrity of principal owners and key Mgmt.
- Competence of engagement team to perform the audit engagement
- Implications of matters that have arisen during current and previous audit engagement may need to be considered

2. Evaluating compliance with ethical requirements, including independence. Auditor Shall

- Continuously evaluate compliance with ethical requirements including independence
- remain alert, for evidence of non-compliance of Ethics by Engagement Team members
- Obtain relevant information from the firm to identify and evaluate circumstances and relationships that create threats to independence
- Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards
- The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action

3. Establishing an understanding of terms of engagement

It is in the interests of both the entity and the auditor that the auditor sends an audit. Engagement letter before the commencement of the audit to help avoid misunderstandings with respect to the audit. It ensures that there is no confusion with the client regarding terms of the engagement

Establishing the overall audit strategy:

Overall Audit Strategy sets the scope, Timing and Direction of the audit and Guides the development of more detailed Audit Plan.

In establishing the overall audit strategy, the auditor shall:

- Identify the characteristics of the engagement that define its scope
- Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required
- Consider the factors that, in the auditor's professional judgment, are significant in directing the engagement team's efforts
- Consider the results of preliminary engagement activities
- Ascertain the nature, timing and extent of resources necessary to perform the engagement

The process of establishing the overall audit strategy assists the auditor to determine, subject to the completion of the auditor's risk assessment procedures such matters as

- The resources to deploy for specific audit areas
- The amount of resources to allocate to specific audit areas
- When these resources are to be deployed, such as whether at an interim audit stage or at key cut-off dates
- How such resources are managed, directed and supervised.

Audit Plan

Once the overall audit strategy has been established, an audit plan can be developed to address the various matters identified in the overall audit strategy, taking into account the need to achieve the audit objectives through the efficient use of the auditor's resources

SA-300 states that auditor shall develop an audit plan that shall include description of :

- The nature, timing and extent of planned risk assessment procedures
- The nature, timing and extent of planned further audit procedures at assertion level
- Other planned audit procedures that are required to be carried out so that the engagement complies with SAs

Relation between Strategy and Plan

- Audit strategy sets the broad overall approach to the audit whereas audit plan addresses the various matters identified in the overall audit strategy
- Audit strategy determines scope, timing and direction of audit.
- Audit plan describes how strategy is going to be implemented
- The audit plan is more detailed than the overall audit strategy that includes the nature, timing and extent of audit procedures to be performed by engagement team members
- These are Closely Inter related

Changes to Planning during the course of Audit

The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit as a result of:

- Unexpected events
- Change in conditions
- Audit evidence obtained

Direction Supervision and Review work of Team members

The nature, timing and extent of the direction and supervision of engagement team members and review of their work vary depending on many factors, including:

- The size and complexity of the entity.
- The area of the audit.
- The assessed risks of material misstatement
- Capability and competence of team members

Documentation

The documentation of the overall audit strategy is a record of the key decisions considered necessary to properly plan the audit and to communicate significant matters to the engagement team.

The documentation of the audit plan is a record of the planned nature, timing and extent of risk assessment procedures and further audit procedures at the assertion level in response to the assessed risks

The auditor shall document:

- The overall audit strategy
- The audit plan
- Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes

Meaning of Audit Programme

An audit programme is a detailed plan of applying the audit procedures to obtain sufficient evidence to enable the auditor to express an informed opinion on a company's financial statements and accounts

It consists of a series of verification procedures to be applied in the given circumstances.

The purpose of the audit programme is to accomplish the audit objectives

General Points of Audit Programme

Evolving One Audit Programme – Not Practicable for All Businesses: Businesses vary in nature, size and composition; work which is suitable to one business may not be suitable to others.

Assistant should be instructed to note and report significant matters coming to his notice, to his seniors or to the partners or proprietor of the firm engaged for doing the audit

There should be periodic review of the audit programme to assess whether the same continues to be adequate for obtaining requisite knowledge and evidence about the transactions

Constructing an Audit Programme – keep in mind the following points

- Stay within the scope and limitation of the assignment
- Prepare a written audit program
- Determine the Evidence reasonably available and identify the best evidence
- Apply only those steps and procedures which are useful in accomplishing the verification purpose
- Include the audit Objective of Each Area
- Consider all possibilities of error
- Co-ordinate the procedures to be applied to related items

Advantages of Audit Programme

1. Provides the assistant carrying out the audit with clear instructions of the work to be done
2. Provide a total perspective of work to be performed
3. Selection of assistants for the jobs on the basis of capability becomes easier when the work is rationally planned, defined and segregated
4. Prevents danger of ignoring or overlooking certain books and records
5. The assistants accept responsibility for the work carried out by them
6. Principal can control the progress of the various audits in hand by examining initiated programmes
7. Serves as a guide for audits to be carried out in the succeeding year
8. Serves as evidence in the event of any charge of negligence being brought against the auditor

Dis-Advantages of Audit Programme

1. Work may become mechanical
2. Parts of the programme may be carried out without understanding of the objective
3. Programme may become rigid and inflexible
4. Business may change, but the old programme may still be carried on
5. Changes in staff or internal control may require precaution in different points than originally planned
6. Inefficient assistants may take shelter behind the programme
7. Hard and fast audit programme may kill initiative of efficient and enterprising assistants