

## Chapter 2 "Audit Planning, Strategy and Execution"

### 2.1 - Audit Planning

### 2.2 - Audit Strategy

<b>Meaning</b>	<ul style="list-style-type: none"> <li>→ Developing an overall plan for the expected scope &amp; conduct of audit and</li> <li>→ Developing an audit programme showing NTE of Audit procedures</li> </ul>
<b>Importance of planning</b>	<ol style="list-style-type: none"> <li>1. To devote attention to important areas</li> <li>2. Identify &amp; resolve potential problems.</li> <li>3. Organized and managed audit.</li> <li>4. Selection of suitable ET.</li> <li>5. Coordination of work done</li> <li>6. Direction &amp; supervision of engagement team.</li> </ol>
<b>Factors affecting Nature &amp; Extent of Planning</b>	<ul style="list-style-type: none"> <li>• Size and Complexity of Auditee (Client).</li> <li>• Past Experience</li> <li>• Changes in Circumstances</li> </ul>
<b>Aspects to be covered</b>	<ul style="list-style-type: none"> <li>• Acquire knowledge of client accounting system, policies &amp; IC procedures.</li> <li>• Establishing expected degree of reliance on IC.</li> <li>• Determining the NTE of audit procedures.</li> <li>• Coordinating the work to be performed.</li> </ul>
<b>Factors to be considered</b>	<ul style="list-style-type: none"> <li>• Terms of engagement</li> <li>• Nature &amp; timing of reports</li> <li>• Legal or statutory requirements.</li> <li>• Accounting policies &amp; changes therein.</li> <li>• Effects of new accounting/auditing pronouncements.</li> <li>• Identification of significant audit areas.</li> <li>• Setting of materiality levels.</li> <li>• Degree of reliance on internal control.</li> </ul>

**Meaning:** Designing Audit Approaches to achieve necessary audit assurance at the lowest cost.

<b>Steps involved in Audit Strategy</b>	<ol style="list-style-type: none"> <li>1. <b>Obtaining knowledge of business:</b> It provides a frame of reference within which auditor exercises his professional judgment to assess risk, to plan audit, to evaluate audit evidence &amp; providing quality services.</li> <li>2. <b>Performing Analytical Procedures at Initial Stages:</b> To assess the potential for material misstatement in the F.S. as a whole.</li> <li>3. <b>Evaluating Inherent Risk:</b> On the basis of <ul style="list-style-type: none"> <li>• prior audit experience,</li> <li>• controls exercised by management,</li> <li>• Significant changes since last assessment.</li> </ul> </li> <li>1. <b>Evaluating IC System:</b> By documenting extent of computerization, preparing/updating flowcharts to record the transactions.</li> <li>2. <b>Formulating Audit Strategy:</b> Requires consideration of: <ul style="list-style-type: none"> <li>• Engagement objective</li> <li>• Knowledge of client's business</li> <li>• Preliminary judgments as to materiality</li> <li>• Identified inherent risks</li> <li>• Extent of compliance testing</li> <li>• NTE of Substantive testing</li> <li>• Points relating to planning and controlling the audit.</li> </ul> </li> </ol>
<b>Benefits</b>	<ol style="list-style-type: none"> <li>1. Employment of Qualitative Resources.</li> <li>2. Allocation of appropriate quantity of resources.</li> <li>3. Determining the timing of deployment of resources.</li> <li>4. Better management of resources in terms of direction, supervision, timing of team meetings etc.</li> </ol>

#### Relationship - Audit Strategy & Audit Planning

- Inter-related to each other because change in one would result change in other.
- Audit strategy is prepared before the audit plan and provides the guidelines for developing the audit plan.

## Quick Revision Summary of Chapter 2

### 2.3 - Audit Programming

### 2.4 - Stages of Audit Execution

<b>Meaning</b>	<ul style="list-style-type: none"> <li>Detailed plan of work</li> <li>comprises of techniques and procedures,</li> <li>may also contain objectives for each audit step.</li> </ul>	
<b>Matters to be considered</b>	<ul style="list-style-type: none"> <li>Nature of business.</li> <li>Overall Plan</li> <li>System of internal control and accounting procedures.</li> <li>Size and structure of organization.</li> <li>Information regarding the organization.</li> <li>Accounting policies followed.</li> </ul>	
<b>Development of Audit programme</b>	<b>First Time Audit</b>	<ul style="list-style-type: none"> <li>Draw a broad outline</li> <li>Filled up the details on a consideration of deficiencies in internal control.</li> <li>Determine the special procedures needs to be applied.</li> </ul>
	<b>Subsequent Engagement</b>	Review earlier programme and modified on account of: <ul style="list-style-type: none"> <li>Experience gained during the previous audit.</li> <li>Important changes in internal control system, accounting procedures etc.</li> <li>Evaluation of internal control for current year.</li> </ul>
<b>Circumstances requiring changes</b>	<ol style="list-style-type: none"> <li>Substantial increase in Volume of turnover.</li> <li>Significant changes in accounting procedures.</li> <li>Observation w.r.t. ineffective internal control.</li> <li>Substantial increase in book debts or inventory.</li> <li>Suspicion as to misappropriation of assets.</li> </ol>	

<b>Stage - I</b>	<b>Execution Planning</b>	During execution planning, auditor should consider manpower requirement, qualification of members of ET, time factor etc.
<b>Stage - II</b>	<b>Risk and Control Evaluation</b>	Auditor need to conduct a detailed assessment of risk and control as per requirements of SA 315. Steps involved in assessment of risk are: <ul style="list-style-type: none"> <li>List the risk that need to be reviewed for each segment of audit.</li> <li>Capture for each risk the controls that exist or those that are needed</li> <li>Determine the steps required to test the effectiveness of each controls.</li> </ul> Note: While making Risk & Control assessment auditor need to consider the Materiality levels.
<b>Stage - III</b>	<b>Testing</b>	<ul style="list-style-type: none"> <li>As required by SA 330, auditor should test operating effectiveness of IC to determine whether controls are operating as designed.</li> <li>Auditor should perform appropriate substantive procedures (ToD and SAP) so as to collect SAAE w.r.t. completeness, accuracy and validity of accounting data.</li> </ul>
<b>Stage - IV</b>	<b>Reporting</b>	<ul style="list-style-type: none"> <li>The auditor should review and assess the conclusions drawn from the audit evidence obtained as the basis for the expression of an opinion on the F.S.</li> <li>Opinion so farmed should be expressed in form of audit report as required by SA 700.</li> </ul>