

Chapter 2 - Audit Strategy, Planning and Programme

Topics covered: (1) Auditor's Responsibility for planning an Audit of F.S.

(2) Audit Strategy

(i) Meaning

(ii) Benefits

Imp:

(iii) Factors to be considered while establishing Audit Strategy:

As per SA-300 "Planning an audit of financial statements" requires the auditor to establish audit strategy that sets the scope, timing and direction of audit. For this purpose, auditor shall consider following factors:

✓ (a) Identify the Characteristics of engagement.

For Ex: ✓ Financial Reporting Framework;

✓ Nature of Business Segments to be audited;

✓ Industry specific reporting requirements;

✓ Expected use of audit evidences obtained in previous audits.

Characteristics

Reporting Objectives

Factors - direct ET efforts.

Result of P&A

NTE of Resources

✓ (b) Ascertain Reporting Objectives of the Engagement.

For Ex: Time table for reporting - Interim or final

Meeting with Mngt. and TCWG as to (i) NTE of audit work;

(ii) Type and Timings of Reports;

(iii) Timings of Review of work of ET.

✓ (c) Factors that are significant in directing the ET efforts:

For Ex: - Volume of transactions;

- Significant industry developments;

- Significant changes in FRF;

✓ Significant recent developments as to changes in legal environment.

(d) Results of Preliminary Engagement Activities:

For Ex: Results of previous audit engagements that indicates deficiencies in Internal Control and actions taken to address them;
Need to exercise and maintain professional skepticism.

(e) NTE of Resources required to perform the audit Engagement.

For Ex: Selection of members of engagement team
Assignment of work among ET members.

(3) Audit Planning:

- (A) Development of Audit plan: Once audit strategy is established by the auditor, audit plans are to be developed.
Audit plans are based on understanding of client's business and include description of following:
- (a) NTE of Risk Assessment Procedures to be performed.
 - (b) NTE of Further Audit Procedures [Compliance Procedures and Substantive Audit Procedures] to be performed.
 - (c) Other Planned audit procedures to be performed.

* RAP: Procedures performed to obtain understanding of entity, its environment and Internal Control so as to identify and assess RoMM.

* Compliance Procedures: Procedures performed to evaluate the Internal Control System.

* Substantive Procedures: Procedures performed to examine the accounting records and financial information contained in financial statements.

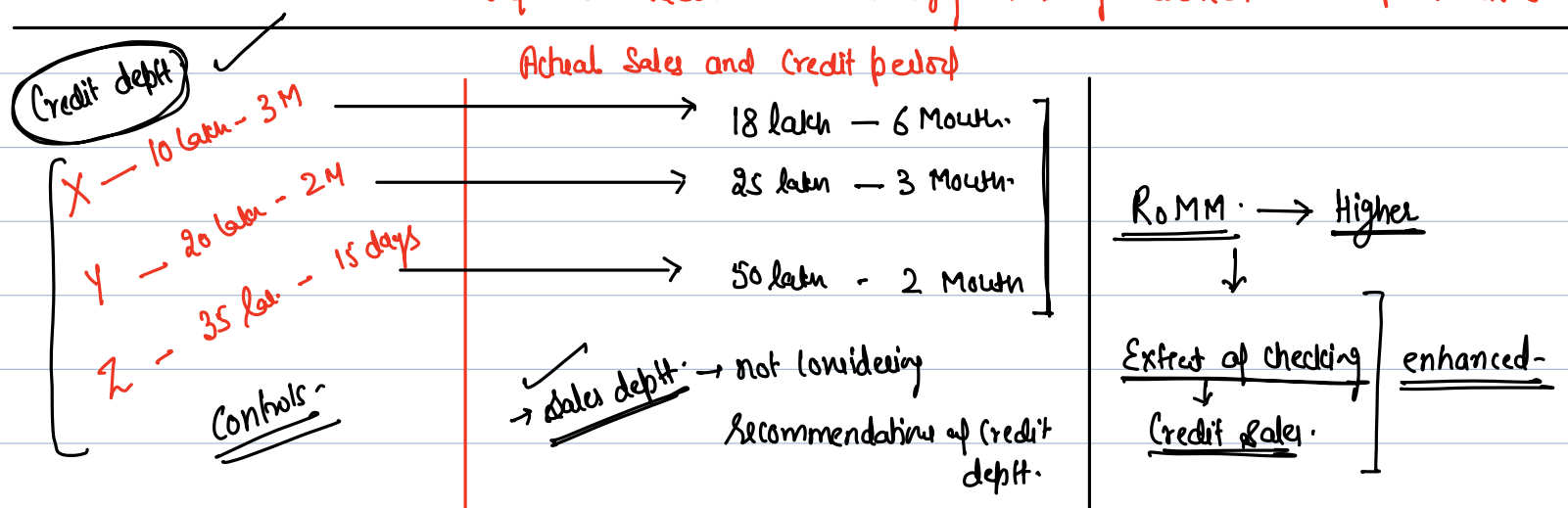
(B) Relationship between Audit Strategy and Audit Plan:

- Audit strategy sets the scope, timing and direction of the audit.
- Audit planning involves development of overall audit plan that covers the NTE of audit procedures. (i.e. RAP, FAP and others)
- Audit strategy and audit plans are interrelated to each other, as changes in one may require changes in another.
- Generally, audit strategy is prepared before audit plan and audit plans contain more detail than the audit strategy.
- Audit Strategy provides a basis for development of overall audit plan.

(C) Changes in Planning decisions:

- Planning is a continuous process and auditor may be required to update its strategy and audit plan during the course of audit.
- Changes in strategy and plans may be required, based on new developments.
for Ex. (a) Unexpected Events;
(b) Change in Circumstances; or
(c) Audit Evidences obtained from results of audit procedures performed.

Example: Audit Evidences obtained through performing substantive procedures may contradict with audit Evidences obtained through tests of controls; which requires auditor to modify NTE of further Audit procedures.



(D) Planning the direction, supervision and review of work of ET Members:

- As per SA 300, auditor shall plan the NTE of direction and supervision of work to be performed by ET Members and review their work.
- Planning of NTE of direction, supervision and review depends upon the following factors:
 - (a) Size and Complexity of client's business;
 - (b) Area of the audit;
 - (c) RoMM;
 - (d) Capability and Competency of ET Members.

(E) Documentation: Auditor shall document the following:

(a) Audit Strategy: Record of Key decisions considered necessary to properly plan the audit and to communicate significant matters to ET.

(b) Audit Plan: - Record of planned NTE of RAP and FAP
- Record of proper planning of audit procedures that can be reviewed and approved prior to audit.

(c) Changes in Audit Strategy and Audit Plan: Record of Explanations why significant changes are made in audit strategy and audit plan; and procedures finally adopted in the audit.
