

Audit Planning, Strategy and Execution

Benefits/Advantages of Planning in an Audit of FS

- 1) **Attention to Important areas**
- 2) **Timely resolution** of Potential Problems
- 3) **Proper Organisation and Management** of Audit Engagement.
- 4) **Proper Selection of Engagement Team**
- 5) **Direction and Supervision** of Engagement Team
- 6) **Easy Coordination** in work done by auditors of components & experts

Nature and Extent of Planning

So far as the nature of planning is concerned, it would vary according to-

1. **Size and Complexity of the Auditee** - If the size and complexity of org. of which audit is to be conducted is **large**, then much **more planning activities** would be required.
2. **Past Experience & Expertise** - key engagement team **members' previous experience & expertise** also contributes towards variation in planning activities.
3. **Change in Circumstances** - Another factor contributing towards variation in planning activities is change in circumstances.

Contents of an Audit Plan (SA 300)

Auditor should develop an audit plan that shall include description of -

1. NTE of planned RAP, as determined under **SA 315**
2. NTE of planned further audit procedures at the assertion level, as determined under **SA 330**
3. **Other planned audit procedures** that are required to be carried out so that engagement complies with SAs.

Changes to Planning Decisions

Auditor may need to modify the overall audit strategy and audit plan due to below mentioned factors-

- result of unexpected events,
- changes in conditions, or
- AE obtained from the results of audit procedures.

Further, the auditor would also have to **modify the NTE** of further audit procedures, based on the revised consideration of assessed risks.

Factors while establishing Overall Audit Strategy

- 1) **Determination of Characteristics of Audit:** Identify characteristics of the engagement that defines its scope.
- 2) **Reporting Objectives:** Ascertain reporting objectives of engagement to plan the timing of audit and nature of the communications required.

- 3) **Team's Efforts:** Consider the factors that are significant in directing the engagement team's efforts.
- 4) **Considering result of preliminary engagement activities:** Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner **for the entity is relevant**.
- 5) **NTE of Resources:** Ascertain NTE of resources necessary to perform the engagement.

Benefits of Overall Audit Strategy

- 1) **Employment of Qualitative Resources:** Resources to deploy for **specific audit areas**, such as - use of experienced team members for high risk areas or involvement of experts on complex matters.
- 2) **Allocation of Quantity of Resources:** allocation to **specific audit areas**, such as - no. of team members assigned to observe inventory count at material locations
- 3) **Timing of Deployment of Resources:** such as whether at an interim audit stage or at or close to key cut-off dates.
- 4) **Management of Resources:** How such resources shall be managed, directed and supervised, such as when team briefing and debriefing meetings are expected to be held.

Considerations in Establishing Overall Audit Strategy

Some of the factors that the auditor may consider:

(A) Characteristics of the Engagement

- FRF.
- Industry-specific reporting requirements such as reports mandated by industry regulators.
- Expected audit coverage, including the no and locations of components to be included.
- Extent to which components are audited by other auditors.
- Expected use of audit evidence obtained in previous audits.
- Effect of information technology on the audit procedures.

(B) Reporting Objectives, Timing of Audit, & Nature of Communications

- Entity's timetable for reporting.
- Organization of meetings with management regarding audit work (NTE)
- Discussion with management regarding type and timing of reports to be issued.
- Discussion with management regarding communications on the status of audit work.
- Communication with auditors of components regarding types and timing of reports to be issued.
- Nature & timing of communications among engagement team members.

(C) Significant Factors, Preliminary Engagement Activities, and Knowledge Gained on Other Engagements

- Determination of materiality (SA 320).
- Preliminary identification of areas where there may be a higher risk of MM.
- Results of previous audits including the identified deficiencies and action taken to address them.
- Significant business developments affecting the entity.
- Significant industry specific developments and development in the economic environment.
- Significant changes in financial reporting framework, such as changes in accounting standards.

(D) NTE of Resources

- Election of the engagement team and the assignment of audit work to the team members.
- Engagement budgeting.

Documenting the Audit Plan

The auditor shall document-

1. **Overall audit strategy;**
2. **Audit plan;** and
3. Any **significant changes made** during the audit engagement to the overall audit strategy or audit plan, and reasons for such changes

Documentation of these matters assists auditor as under: -

- ↳ **Record of Key Decisions**
- ↳ **Record of NTE of RAP**
- ↳ **Record of reasons for change in audit strategy and plan**

Relationship b/w Overall Audit Strategy & Audit Plan

- Audit strategy is prepared **before** audit plan.
- Audit plan is **more detailed** than the overall audit strategy.
- Audit strategy and audit plan **are inter-related** because change in one would result into change in the other.
- Audit strategy provides the **guidelines** for developing the audit plan. It establishes the scope and conduct of the audit procedures and thereby, works as basis for developing a detailed audit plan.
- **Detailed audit plan** would include the NTE of the audit procedures so as to obtain SAE.

Audit Programme

Prepared to allocate work to team members which may include the list of audit procedures & instructions to be followed.

Formulating an Audit Programme

Important matters which need to be considered in this regard are -

- a) **Nature of business in which the organisation is engaged:** considering technical, financial and accounting set-up of the company.
- b) **Overall plan:** If in drawing the audit programme, any divergence from the overall plan becomes necessary, first **overall plan should be modified** after due consideration and thereafter, only that specific matter may be taken in the audit programme.
- c) **System of IC and accounting procedures:** study and evaluation of IC helps auditor to **establish reliance** he can place on the ICs in **determining the NTE** of his substantive auditing procedures.
- d) **Size of the organisation and structure of its management:** An increase in the size of the organisation **enhances the complexity** of examination of its accounting records.
- e) **Information as regards organisation of the business:** obtain info - client's history, business, purpose and nature of engagement.
- f) **Accounting and management policies:** Accounting and management policies which have been followed in the **past** and whether these have

Few circumstances where in the audit program would have to be suitably altered

- 1) If the audit procedures were designed for a certain volume of turnover and **subsequently the volume have substantially increased**. Also, significant changes in accounting organisation, procedures and personnel subsequent to the audit procedures.
- 2) **IC procedures were not as effective as assumed** at the time the audit programme was framed.
- 3) **Extraordinary increase** in amount of book debts or that in the value of stocks as compared to that in PY.
- 4) **Suspicion** has aroused during the course of audit or information has been received that assets have been misappropriated.

Audit Execution

Key phases in the audit execution stage are

- 1) Execution Planning
- 2) Risk and Control Evaluation
- 3) Testing
- 4) Reporting