

Chapter - 2 "Audit Strategy, Audit Planning and Audit Programme"

Topics Covered:

(1) Auditor's Responsibility for planning an audit of F.S.

(a) Audit Strategy:

(i) Meaning

(ii) Benefits

Imp:
(iii) factors to be considered while establishing audit strategy:

SA-300 "Planning an audit of financial statements requires the auditor to consider below mentioned factors while establishing audit strategy:

(a) Identify the characteristics of Engagement;

(For Ex: FRF; Nature of Business segments to be audited; Industry specific Reporting requirements; Expected use of Audit Evidences obtained in previous audit).

- Characteristics of Engagement
- Reporting objectives
- Effort - direct-ET
- Preliminary Eng. Activities
- Resources

CR/EP/PR

(b) Ascertain Reporting objectives of the Engagement;

(For Ex: Time table for reporting - Interim or Final; Meeting with Mngt. and TCWG as to (a) NTE of Audit work; (b) Type and Timings of Reports; Timing of Review of work of ET)

Those charged with Governance (e.g. BOB)

(c) Factors that are significant in directing the engagement team efforts.

(For Ex: Volume of transactions; Significant industry developments; Significant change in FRF (AS); Significant recent developments as to changes in legal environment).

(d) Results of Preliminary Engagement Activities.

(For Ex: Results of previous audit engagement indicating deficiencies in Internal Control; Need to maintain Professional Skepticism).

(e) NTE of necessary resources required to perform the audit.

(For Ex: Selection of ET; Assignment of work)

Engagement Team

(3) Audit Planning:

(A) Development of Audit Plan: Once audit strategy has been established, audit plan can be developed.

- Audit plans are based on understanding of client's business.
- Audit plan shall include description of:
 - (a) NTE of Risk Assessment Procedures to be performed.
 - (b) NTE of Further Audit Procedures to be performed.
 - (c) Other planned audit procedures to be performed.

(B) Relationship between Audit Strategy and Audit Plan:

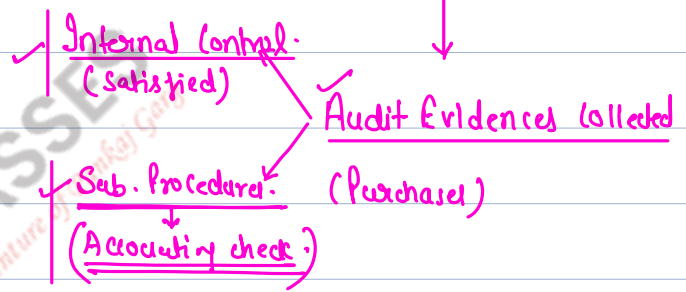
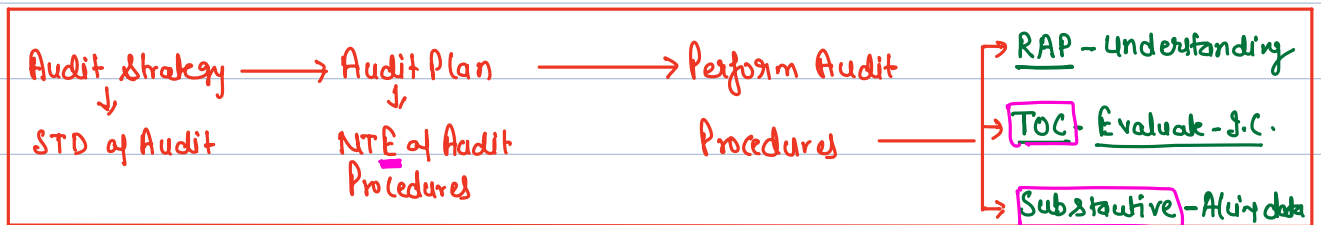
- Audit strategy establishes the scope, timing and direction of the audit.
- Audit planning involves development of overall audit plan that covers the NTE of audit procedures (RAP, FAP and others).
- Audit strategy and audit plan are interrelated to each other, as changes in one may require changes in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

(C) Changes in Planning:

- 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, like:
 - (1) Unexpected events;
 - (2) Changes in condition; or
 - ✓(3) Audit evidence obtained from results of

audit procedures performed.

For Example: Audit Evidence obtained through performing substantive procedures may contradict with the audit evidences obtained through tests of controls; which requires auditor to modify nature, timing and extent of further audit procedures.



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

- As per SA-300 "Planning an audit of financial statements, auditor shall plan the nature, timing and extent of direction and supervision of work to be performed by engagement team members and review their work.

- Planning of NTE of direction, supervision and review depends upon following factors:

(a) Size and complexity of client's business;

(b) Area of the audit;

(c) Risk of Material Misstatement; and

(d) Capability and competency of engagement team members.

(E) Documentation: Auditor shall document the following:

(i) Audit Strategy: Record of key decisions considered necessary to properly plan the audit and to communicate significant matters to Engagement team.

(ii) 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.

(iii) Changes in audit strategy and audit plan: Record of explanation why significant changes are made and procedures finally adopted in the audit.

Note: Written record of audit strategy and audit plan shall form part of audit documentation.

H.w.: (Only Reading - Audit Programme)