

Chapter - 3 "Audit Planning, Strategy and Execution"

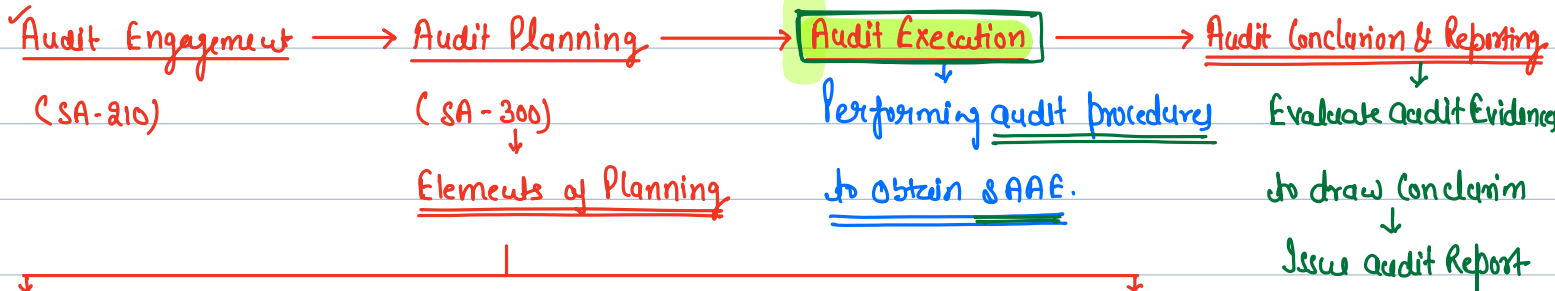
Topics to be Covered:

(1) SA-300 "Audit Planning, Audit Strategy and Audit Programme"

(2) SA-600, 610, 620

(3) SA-540, 520

(1) Audit Process:



(A) Preliminary Engagement Activities

(B) Planning Activities

- (1) Perform Procedures w.r.t. Client Acceptance / Continuance as prescribed by SA-220.
- (2) Ensure compliance of Ethical Requirements as required by SA 220.
- (3) Establish understanding of terms with client as per requirements of SA 210.

I. To Establish Audit Strategy

Audit Strategy: Designing audit approach to obtain necessary assurance, at lower cost with optimum utilisation of resources.

Audit strategy sets out the Scope, Timing and Direction (STD) of Audit and Development of overall Audit Plan.

Sub: Benefits of Audit Strategy:

- (i) Employment of Qualitative Resources
- (ii) Determining appropriate number of Resources. (Quantity)
- (iii) Deployment of Resources (Timing)
- (iv) Management of Resources (Direction, Supervision, Review)

II. To develop Overall Audit Plan

↓ includes

- (a) Detailed description of N, T, E of RAP.
- (b) Description of NTE of FAP (Response to assessed Risk) [ToC + Substantive]
- (c) Other planned audit procedures necessary to be performed.

Factors to be considered:

I. While Establishing Audit Strategy

- (a) Consider Characteristics of Engagement
- (b) Ascertain Reporting Objectives of Engagement
- (c) Significant factors to direct the EA Efforts
- (d) Results of Preliminary Engagement Activities
- (e) NTE of resources necessary to perform audit.

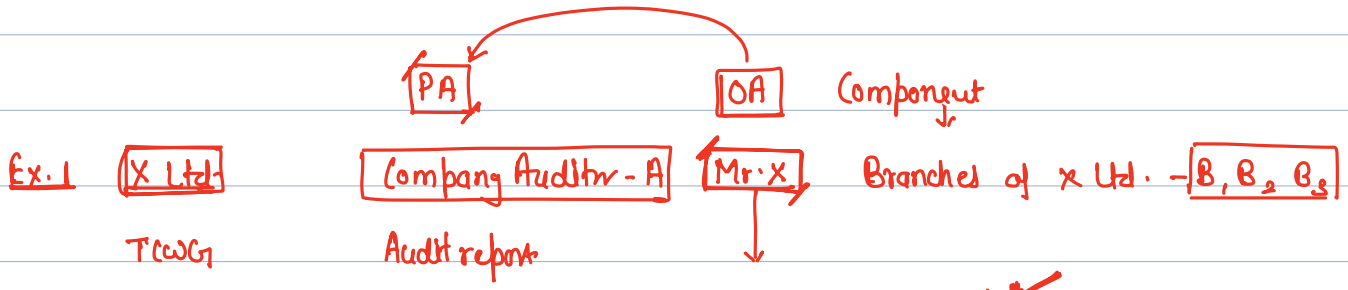
II. While developing Audit Plan

- (a) Size and complexity of client's business;
- (b) Past Experience of working with client;
- (c) Changes in Circumstances since completion of previous audit.
- (d) Terms of Audit Engagement.

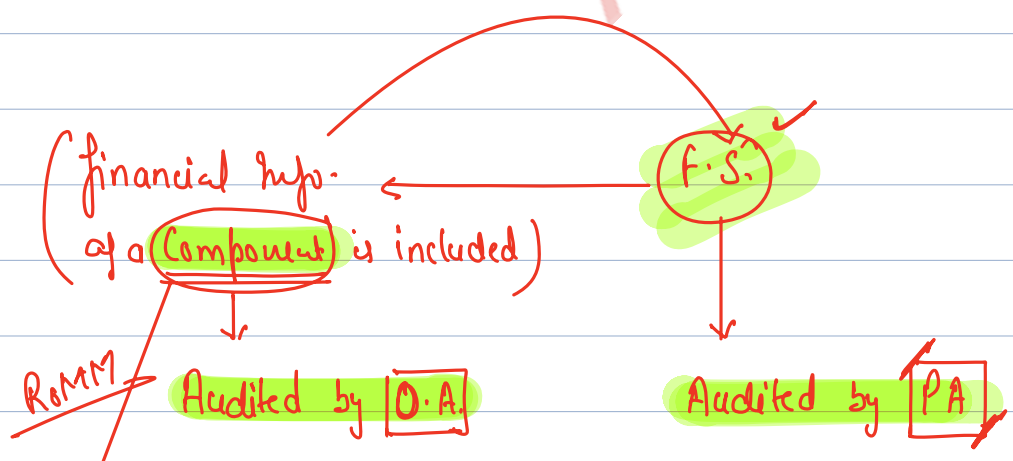
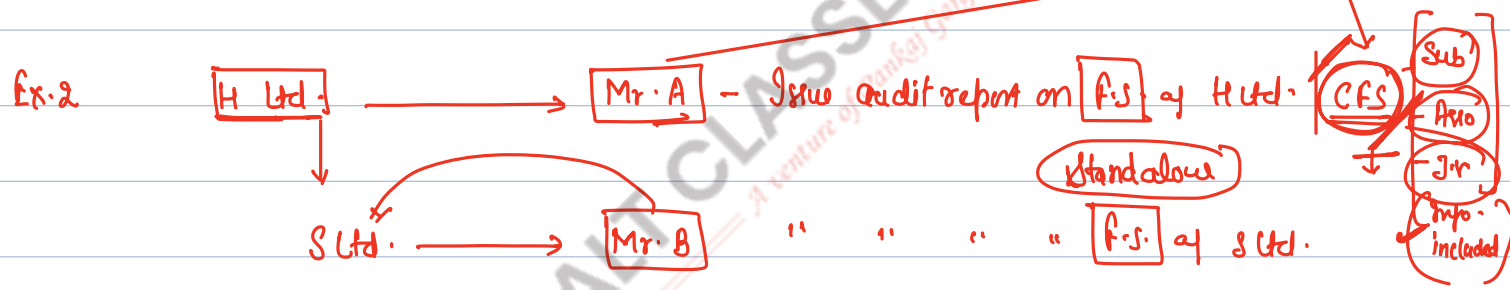
General Points:

- (a) Planning is not a discrete phase of audit; rather it is a continuous process, that starts from end of previous audit engagement and continues till the end of current audit engagement.
- (b) Auditor shall update and change overall audit strategy and audit plan, as necessary during the course of audit.
Changes may be required due to: Unexpected Events;
Changes in Circumstances;
Results of Audit Evidences obtained.
- (c) Audit Strategy and audit plan are inter-related to each other; changes in one may require changes in other.
- (d) Auditor shall document (a) Overall Audit Strategy (b) Audit Plan (c) Changes in audit strategy and audit plan, along with reasons for changes.
- (e) Audit plan contains more detail than audit strategy.
- (f) Detailed plan of audit, prepared by auditor, which comprises of set of techniques and procedures, to be applied during the audit, for collection of Evidences and forming the opinion is known as Audit Programme.

(2) Using the Work of Other Auditors (SA-600):



- Audit report on accounts of branches
- includes observations of OA
- (a) Mngt. of Branch X
 - (b) TCWG of X Ltd. X
 - ~~(c) PA - Mr. A.~~ ✓✓
 - (d) All of the above X



- (Branch, division, department, sub, associate, J.V.)

(i) Factors to be considered before acceptance as Principal Auditor:

Before accepting any engagement as Principal auditor, following factors to be considered:

- (a) Materiality of position of financial information which PA audits.
- (b) PA Knowledge w.r.t. business activities of component.
- (c) ROMM of financial information of components audited by other auditor.
- (d) Performance of additional procedures regarding the components audited by OA.

(ii) PA procedures while using work of OA:

PA is entitled to rely upon the work of OA unless there are special circumstances to make it essential for him to visit the component and to examine the books of accounts and records maintained by the component.

For this purpose, PA is required to perform the following procedures:

- (a) Evaluate the competency of OA, if OA is not a CA.
- (b) Perform adequate procedures to obtain SAAE to determine the appropriateness of work of OA.

↓ Examples:

- (i) Inform OA, following matters:
 - (a) Areas requiring special consideration;
 - (b) Time table for completion of audit;
 - (c) Procedure for identification of Inter-Component transactions.
- (ii) Advise OA of significant accounting, auditing and reporting requirements and obtain representations as to compliance therewith.
- (iii) Consider significant findings of OA.
- (iv) Perform supplementary tests, if required of records and financial information of component.
- (v) Document the following:

(a) Components audited by OA.

(b) Name of OA.

(c) Audit procedures performed by PA and Conclusions reached.

(d) Conclusion as to immateriality of any Component.

(e) Manner of dealing with audit report of other auditor.

(iii) Coordination between PA and OA :

- PA and OA should coordinate with each other and for this purpose, PA may issue written communication to OA as to the procedures, special considerations, timings etc.
- OA, knowing the context in which his work is to be used by PA, should ensure the following :
 - (a) Adherence to time table;
 - (b) Share significant observations with PA;
 - (c) Comply with relevant statutory requirements; and
 - (d) Reply to Questionnaire, if any, given by PA.

(iv) ^{Imp-} Reporting Consideration and Division of Responsibility :

- When PA rely on the work performed by OA he should state in his audit report as to division of responsibility, in Other Matter Para as per SA 706, indicating the extent to which financial information of components audited by OA have been included in the f.s. of the Entity.

For Ex: No. of divisions, branches etc. audited by OA; Total assets, revenue of the Components etc.

- If PA concludes that work of OA cannot be used and SAAF not available w.r.t. financial information of Components, PA needs to modify (Q/D) the report as per SA 705.
Component F.I. - Material but not pervasive. M+P

Note: If OA issues Modified reports, PA should consider whether subject of modification is of such nature and significance; that it requires modification in PA Report.

Ex

SA



Opinion on financial
Info. of a Component
(for. Ex. - Branch)



- Unmodified opinion

- Qualified opinion

- Adverse opinion

- Disclaimer of opinion

PA



Opinion on financial statements
of Entity (which includes financial
info. of component)

Manner of dealing

Unmodified opinion (if satisfied)

Modified opinion (if not satisfied)

(Qualified / Disclaimer)

→ Ignore (if immaterial for Co. as a whole)

→ Qualification (if deems material)

→ Ignore (if immaterial)

→ Qualification (if Material but not Pervasive)

→ Adverse (if Material + Pervasive)

→ Ignore (if immaterial)

- Qualification (Material but not Pervasive)

- Disclaimer (Material + Pervasive)