

Chapter - 2 "Audit Strategy, Planning and Programme"

(i) Auditor's responsibility to plan an audit of f.s. :

(A) Meaning of Planning: Planning involves developing an overall audit plan for the expected scope and conduct of audit and developing an audit programme showing NTE of audit procedures.

Note: SA-300 "Planning an audit of f.s." guides the auditor in establishing audit strategy and developing overall audit plan. Auditor's objective as per SA 300 is to plan the audit so that it will be performed in an effective, efficient and timely manner.

^{Imp} (B) Benefits of planning :

- (i) To devote attention to important areas of audit.
- (ii) To identify and resolve potential problems on timely basis.
- (iii) To perform audit in an efficient and effective manner through proper organising and managing the activities.
- (iv) Planning assist the auditor in selection of engagement team members with appropriate competency and capabilities.
- (v) Planning facilitates direction and supervision of ET members and review of their work.
- (vi) Planning helps in coordination of work performed by auditors of Components and Experts, if any.

Imp: (*) Planning - a Continuous Process:

- Planning is not a discrete phase of audit; rather is a continuous process that begins shortly after completion of previous audit and continues till completion of current period engagement.
- Planning involves consideration of timing of certain activities that need to be completed prior to performance of further audit procedure. For example, auditor need to consider certain matters like:
 - (a) Analytical Procedures to be applied as R.A.P.
 - (b) Obtaining an understanding of applicable legal and regulatory framework.
 - (c) Determination of Materiality.
 - ✓ (d) Involvement of Experts.
 - (e) Performance of other R.A.P.

(d) Involvement of Key ET Members: for following purposes



- (a) Ensuring their participation;
- (b) Taking benefit of their experience and insights; and
- (c) increasing efficiency and effectiveness of planning.

(e) Discussion of Elements of Planning with Management:

- Auditor may discuss elements of planning with the entity management to facilitate the conduct and management of audit.
- Auditor should take care that while discussing audit strategy and audit plan with entity management, effectiveness of audit should not be compromised.

(f) Elements of Planning:



(A) Performing procedures regarding Continuation of client relationship (SA 220)

(B) Evaluating compliance with Ethical requirements including Independence (As required by SA 220)

(C) Establishing the terms of engagement with client (As required by SA 210)
[Details already covered in SA 210 and 220]

(A) Establishing Audit Strategy
(B) Developing Overall audit Plan.

(ii) Audit Strategy: Designing optimised audit approach to achieve necessary audit assurance, at lowest cost within the constraints of information available.

Imp:

Benefits of audit strategy:

(A) Employment of Qualitative Resources:

Deploying appropriate resources for specific audit area, like experienced members for high risk area.

(B) Allocation of Quantity of Resources:

Allocating appropriate number of resources to specific audit areas.

(C) Timing of Deployment of Resources: whether at an interim stage or at key cut-off dates.

(d) Management of resources: i.e. managing, directing and supervising the resources.

Timing
Quantity / Quality
Management } Resources

TQM

Imp: Establishment of Overall audit Strategy:

SA-300 requires the auditor to establish audit strategy that defines scope, timing, and direction of audit. and guides the development of overall audit plan.

In Establishing audit strategy, auditor shall consider the following factors:

(i) Identify the characteristics of the Engagement that defines its scope

→ Examples: (A) FRF applicable to Entity
(B) Nature of Business segments to be audited.
(C) Industry specific reporting requirement.
(d) Expected use of Evidences obtained in previous audits.

✓ (ii) Ascertain Reporting objectives of the Engagement to plan timing of different audit procedures and Nature of Communication.

→ Examples: (A) Time-table for reporting - Interim or final
(B) Meetings with Mngt / TCWG to discuss NTE of audit work.
(C) Discussion with Mngt. as to expected type and timing of reports.
(d) Expected nature and timing of Communications among ET Members.

(iii) Factors that are significant in directing the ET efforts.

For Ex:

(A) Volume of transactions.
(B) Significant Industry developments like changes in Industry Regulation.
(C) Significant changes in FRF like changes in ASs.
(D) Significant relevant developments like changes in legal environment

(iv) Results of Preliminary Engagement Activities.

(v) NTE of resources required to perform the audit Engagement.

For Ex: Results of previous audit Engagements indicates deficiencies in Internal Control and action taken to address them.

- Need to Exercise and maintain Professional skepticism.

For Ex:

(A) Selection of members of ET.

(B) Assignment of work among ET Members