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**VIRTUAL COACHING CLASSES  
ORGANISED BY BOS, ICAI**

**INTERMEDIATE LEVEL  
PAPER 6: AUDITING AND ASSURANCE**

**Faculty: CA Nancy Singla**



# CHAPTER 2: AUDIT STRATEGY, AUDIT PLANNING AND AUDIT PROGRAMME



# AUDIT PLANNING



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# AUDIT

- An Audit is an **independent examination** of **financial information** of **any entity**, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to expressing **an opinion** thereon.

# PLANNING

- Planning is thinking in advance **what** is to be done, **when** it is to be done, **how** it is to be done and **by whom** it is to be done.

# Planning an audit involves:

**Establishing the overall audit strategy**

**Developing an audit plan**

# WHY PLANNING IN AUDIT?????

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# Audit Plan to Conduct an Effective Audit

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- ❖ The auditor should plan his work to enable him to conduct an **effective** audit in an **efficient** and **timely** manner.
- ❖ Plans should be based on **knowledge of the clients business.**
- ❖ Plans should be **further developed and revised** as necessary during the course of the audit.

## Plans should be made to cover, among other things:

- acquiring **knowledge** of the client's *accounting systems, policies and internal control procedures*;
- establishing the expected degree of **reliance** to be placed on internal control;
- determining and programming the **nature, timing, and extent of the audit procedures** to be performed; and
- **coordinating** the work to be performed.





# Benefits of Planning in the Audit of Financial Statements



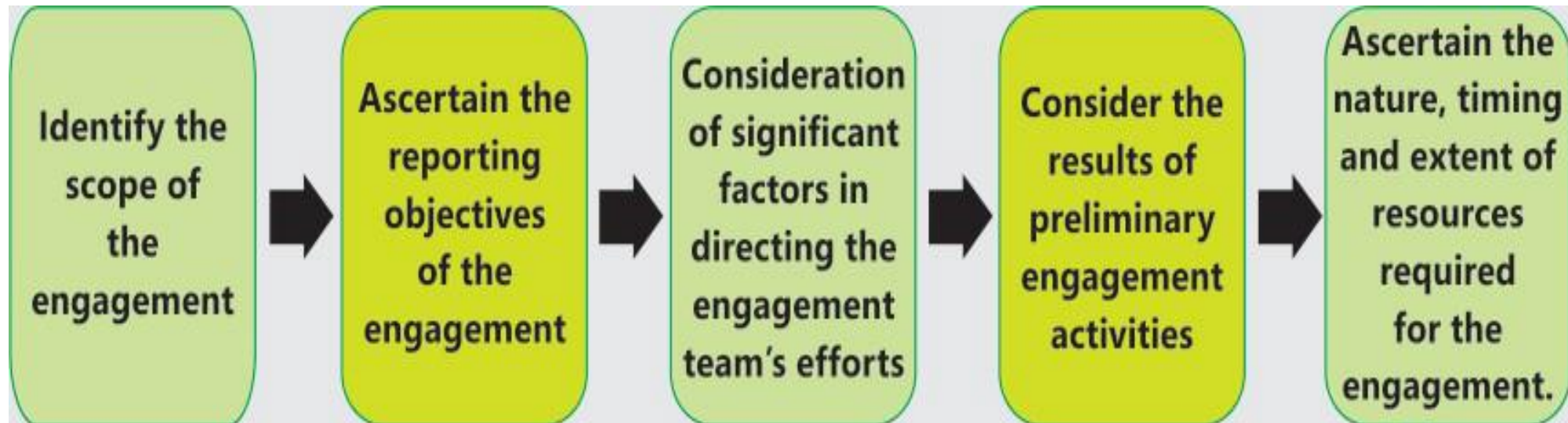
# AUDIT STRATEGY

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- Overall audit strategy sets the scope, timing and direction of the audit, and **guides the development of the more detailed audit plan.**
- The process of establishing the overall audit strategy assist the auditor in ***resource management.***

## In establishing the overall audit strategy, the auditor shall:



# RELATIONSHIP BETWEEN OVERALL AUDIT STRATEGY AND AUDIT PLAN

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- Once the overall audit strategy has been established, an audit plan can be developed to address the various matters identified in the overall audit strategy.
- The establishment of the overall audit strategy and the detailed audit plan **are not necessarily discrete or sequential processes**, but **are closely inter-related** since changes in one may result in consequential changes to the other.
- The audit plan is more detailed than the overall audit strategy.

# DEVELOPMENT OF AUDIT PLAN

The auditor shall develop an audit plan that shall include a description of :

- The nature, timing and extent of planned risk assessment procedures, as determined under **SA 315 “Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment”**.
- The nature, timing and extent of planned further audit procedures at the assertion level, as determined under **SA 330 “The Auditor’s Responses to Assessed Risks”**.
- Other planned audit procedures that are required to be carried out so that the engagement complies with SAs.

# KNOWLEDGE OF THE CLIENT'S BUSINESS

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The Auditor shall obtain an understanding of the following:-

- Relevant **industry regulatory** and other external factors.
- The **nature** of the entity.
- The entity's selection and application of **accounting policies** including the reasons for **changes** thereto.
- The entity's **objective and strategies** and those **related business risk** that may result in risks of material misstatement.
- The measurement and review of the entity's **financial performance**.

# SA 300: Planning an Audit of Financial Statements

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# According to SA 300:

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- Planning is **not a discrete phase** of an audit,
- but **rather a continual and iterative process**
- that often begins shortly after (or in connection with) the completion of the previous audit
- and continues until the completion of the current audit engagement.

- **Audit Planning** is a **Continuous Process**

- Additional Considerations in **Initial Audit Engagements**

The auditor shall undertake the following activities prior to starting an initial audit:

- (a) Performing procedures required by SA 220 regarding the acceptance of the client relationship and specific audit engagement, and
- (b) Communicating with the predecessor auditor, where there has been a change of auditors, in compliance with relevant ethical requirements

# **OVERALL AUDIT STRATEGY AND THE AUDIT PLAN – THE AUDITOR’S RESPONSIBILITY**

## **CHANGES TO PLANNING DECISIONS DURING THE COURSE OF THE AUDIT**

# DIRECTION, SUPERVISION AND REVIEW

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Depends on factors like:

- ❖ The size and complexity of the entity
- ❖ The area of the audit
- ❖ The assessed risks of material misstatements
- ❖ The capabilities and competence of the individual team members performing the audit work

# DOCUMENTATION OF AUDIT PLAN

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The auditor shall document :

- ❖ The overall audit strategy
- ❖ The audit plan
- ❖ Any significant changes in above made during the audit engagement and the reasons for such changes.

# AUDIT PROGRAMME

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## DEFINITION:-

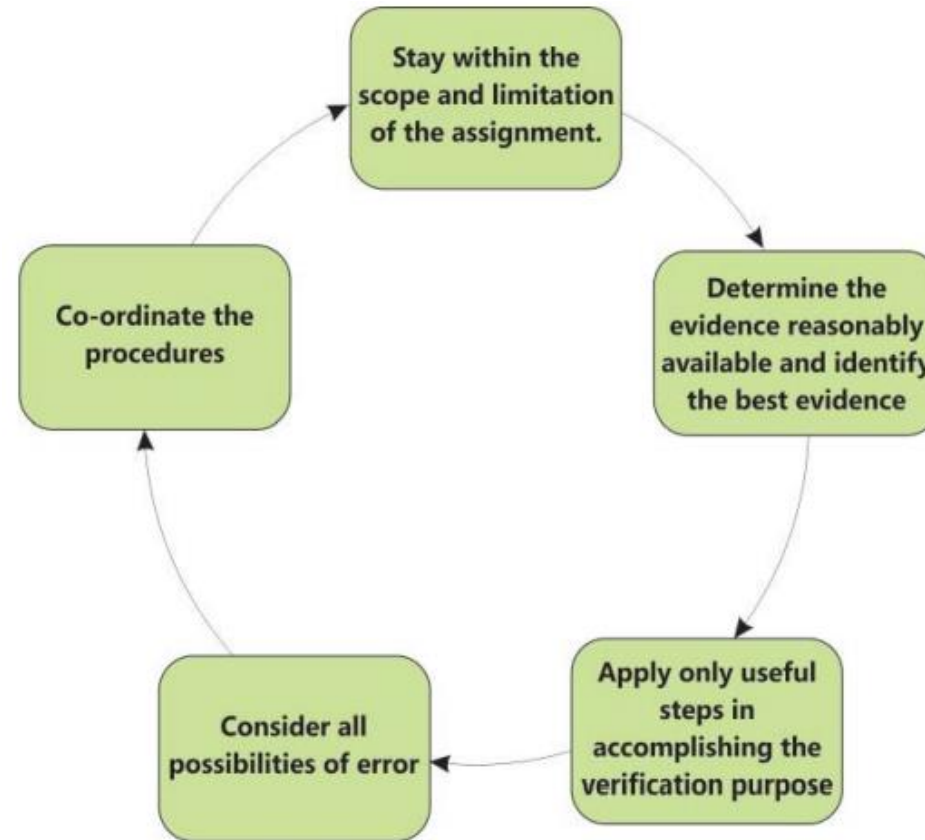
- An audit programme consists of a **series of verification procedures**
- to be **applied to the financial statements** and accounts of a given company
- for the **purpose of obtaining sufficient evidence**
- to enable the **auditor to express an informed opinion** on such statements.

**Evolving One Audit Programme-  
Not Practicable for All Businesses**

**The Assistant Engaged- Be  
encouraged to keep an Open Mind**

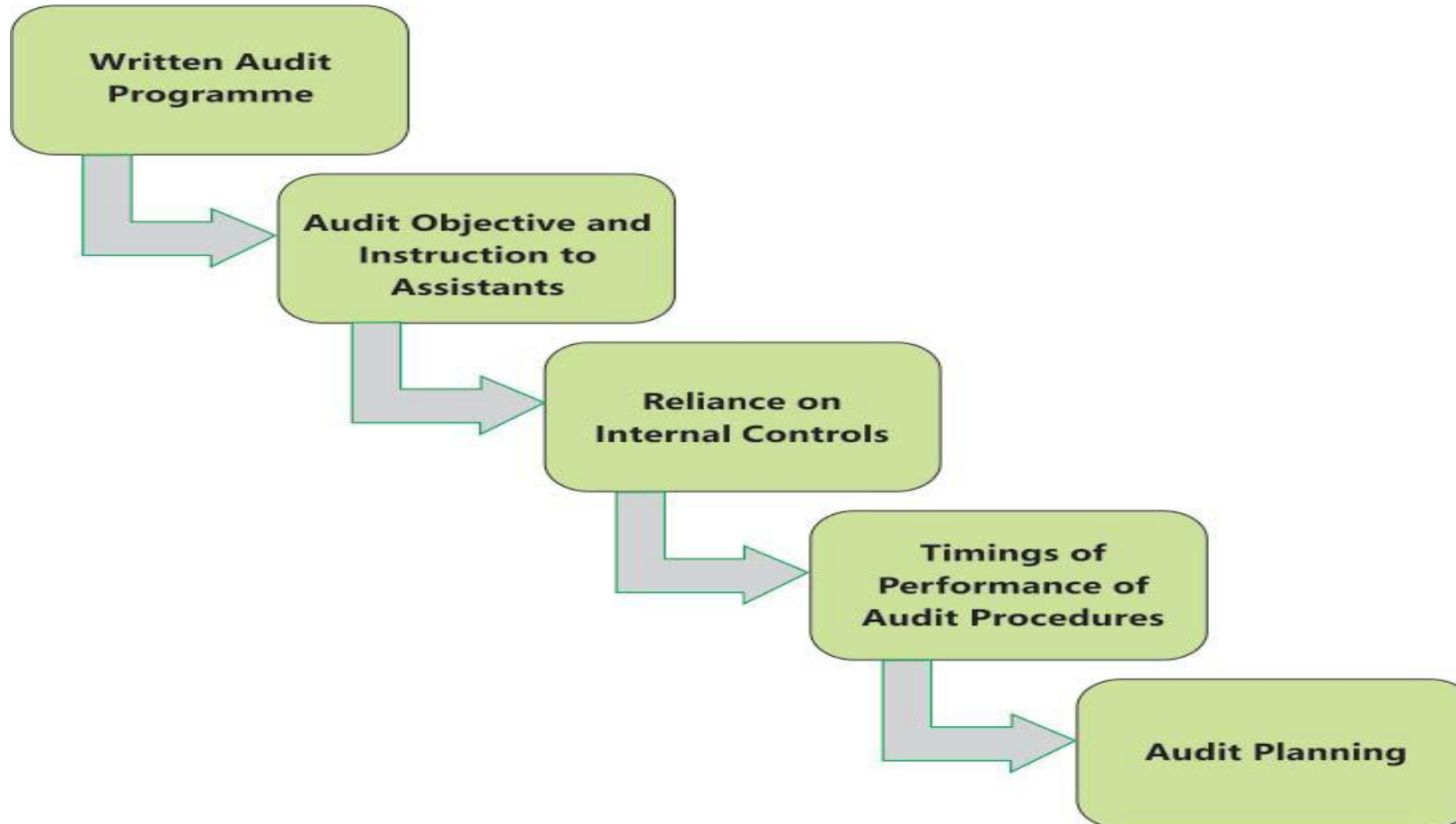
**Periodic Review of the Audit  
Programme**

# CONSTRUCTING AN AUDIT PROGRAMME





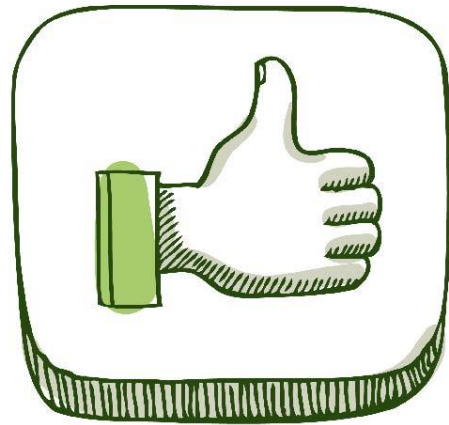
# DEVELOPING THE AUDIT PROGRAMME



# AUDIT PROGRAMME

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Advantage



Disadvantage



# AUDIT PLANNING AND MATERIALITY



# SA 320: MATERIALITY IN PLANNING AND PERFORMING AN AUDIT

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- ❖ The Auditor should **consider materiality** and its relationship with audit risk while conducting an audit.
  
- ❖ The Auditor's preliminary assessment of materiality related to specific account balances and classes of transaction helps the auditor decide such questions as what items to examine and whether to use sampling and analytical procedures.

# PERFORMANCE MATERIALITY

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- Performance materiality means
- the amount or amounts set by the auditor at less than materiality for the financial statements as a whole
- to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.
- If applicable, performance materiality also refers to the amount or amounts set by the auditor at less than the materiality level or levels for particular classes of transactions, account balances or disclosures.

# BENCHMARKS IN DETERMINING MATERIALITY

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Examples of benchmarks that may be appropriate, depending on the circumstances of the entity, include categories of reported income such as:

- ◆ profit before tax,
- ◆ total revenue,
- ◆ gross profit and total expenses,
- ◆ total equity or net asset value.



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**THANK YOU**