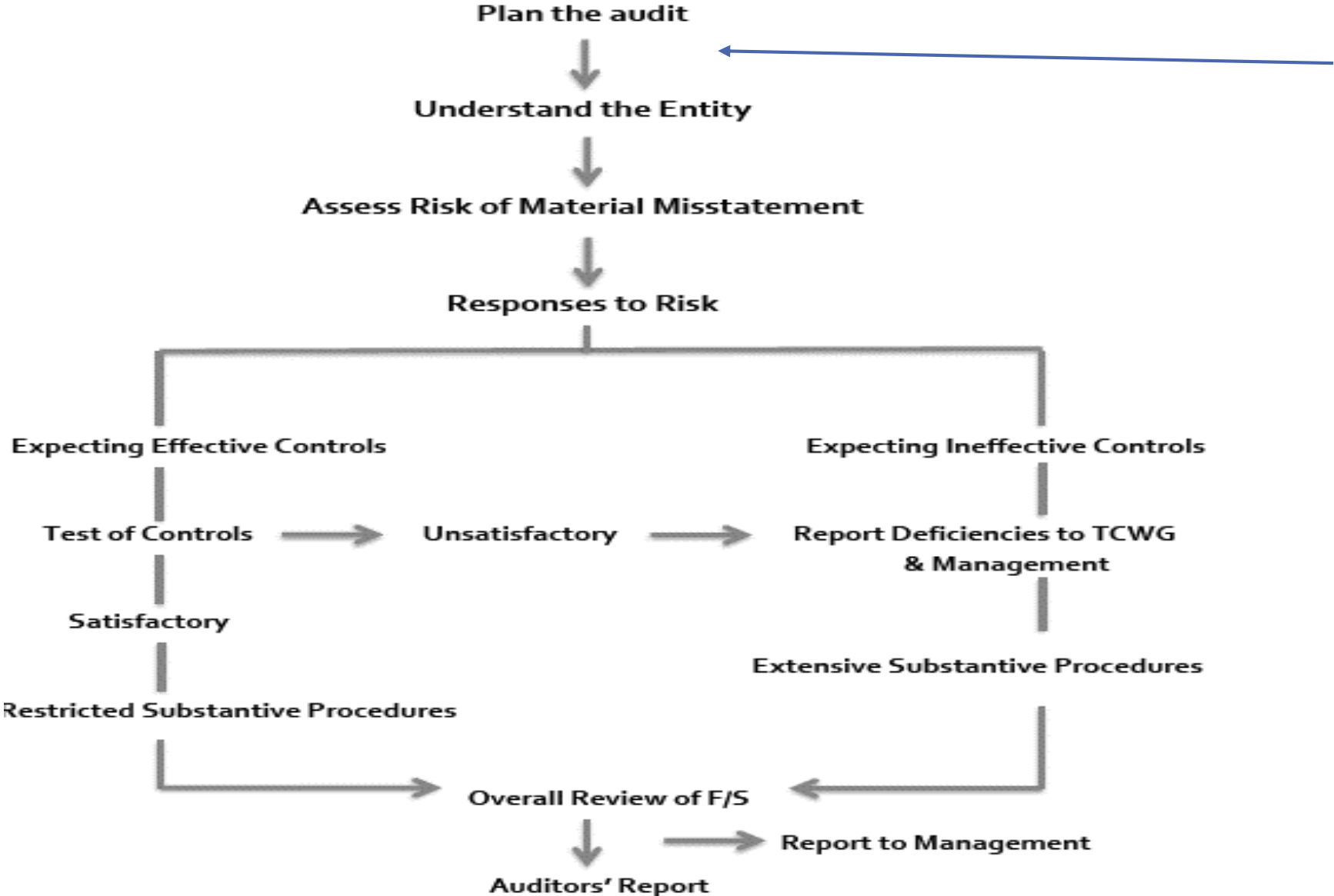


Section 4

Planning

Stage

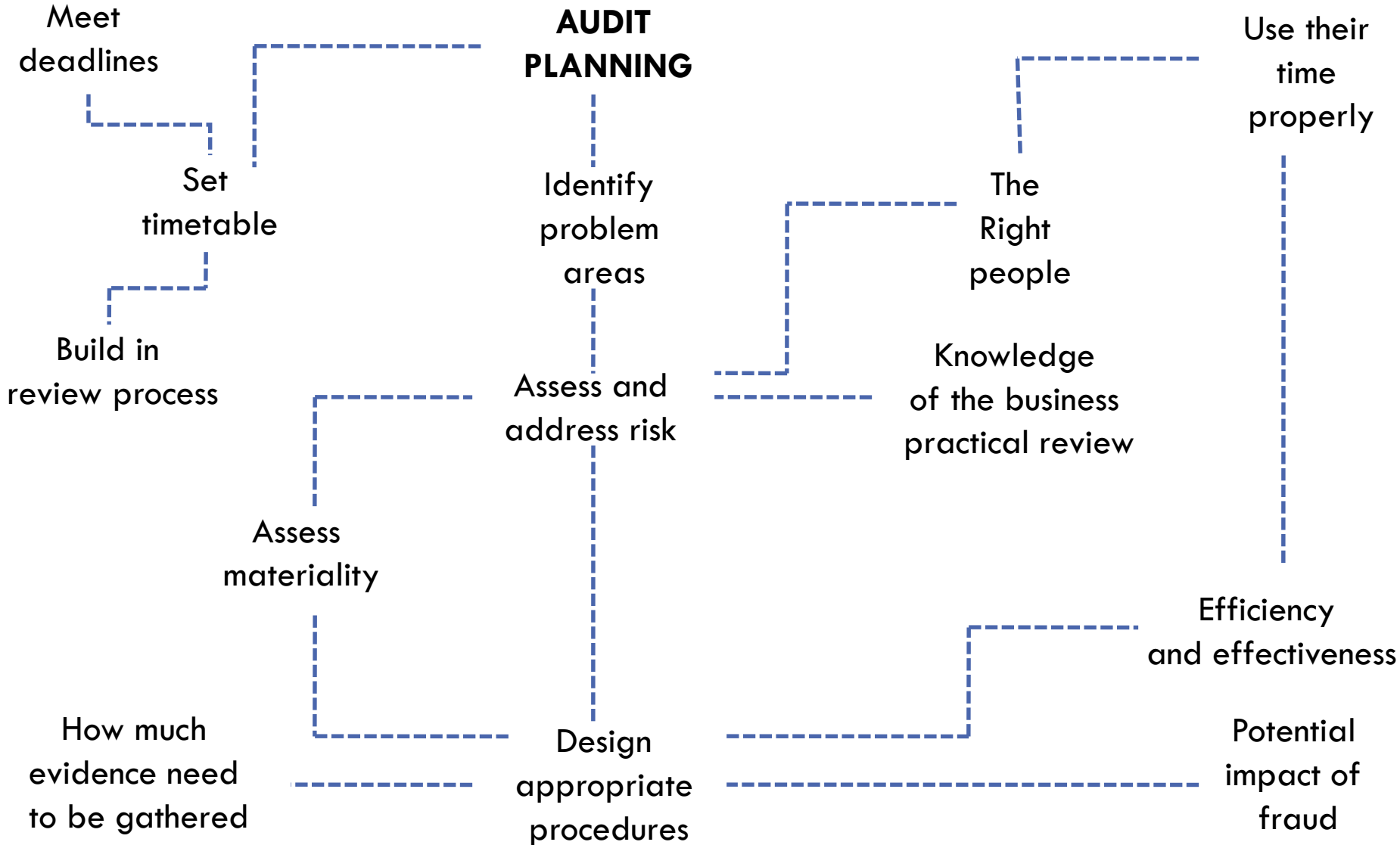


Why planning is important

Planning helps the auditor to:

1. Devote **appropriate attention** to important areas.
2. Identify and **resolve potential problems** on a timely basis.
3. Properly **organize and manage the audit** engagement.
4. **Select the engagement team** members with appropriate levels of capabilities.
5. Facilitate the **direction and supervision** of engagement team and review of their work.

Audit planning



Audit Strategy Vs Audit plan

Audit Strategy

Sets the **scope, timing and direction** of the audit, and guides the development of the more detailed audit plan.

Audit Plan

Audit plan is much more detailed than audit strategy because it includes details of the **nature, timing and extent** of specific audit procedures to be performed.

Audit Strategy

Determining the Characteristics of engagement related to scope

- Reporting framework used
 - Group Structure of the entity
 - Reporting currency used
 - Use of third party service organization
 - Effect of IT on audit procedures
 - Availability of client data and staff
- Locations of the entity
 - Business segment info.
 - Internal audit function is used or not?
 - Expected use of audit evidence from last audit
 - Reviews of interim reporting

Ascertaining the reporting objectives

- Reporting deadline
- Nature of communications

Considering important factors

- Materiality thresholds
 - Audit approach
 - Process used by management for disclosures
- High risk areas
 - Recent development

Deciding nature timing and extent of resources used

- What kind of staff will be needed
- How many of the staff will be needed

Audit Plan

Nature timing and extent of risk assessment procedures – RAPs

- **Inquiry**
- **Observation**
- **Inspection of assets**
- **Inspection of records**
- **Analytical Procedures**

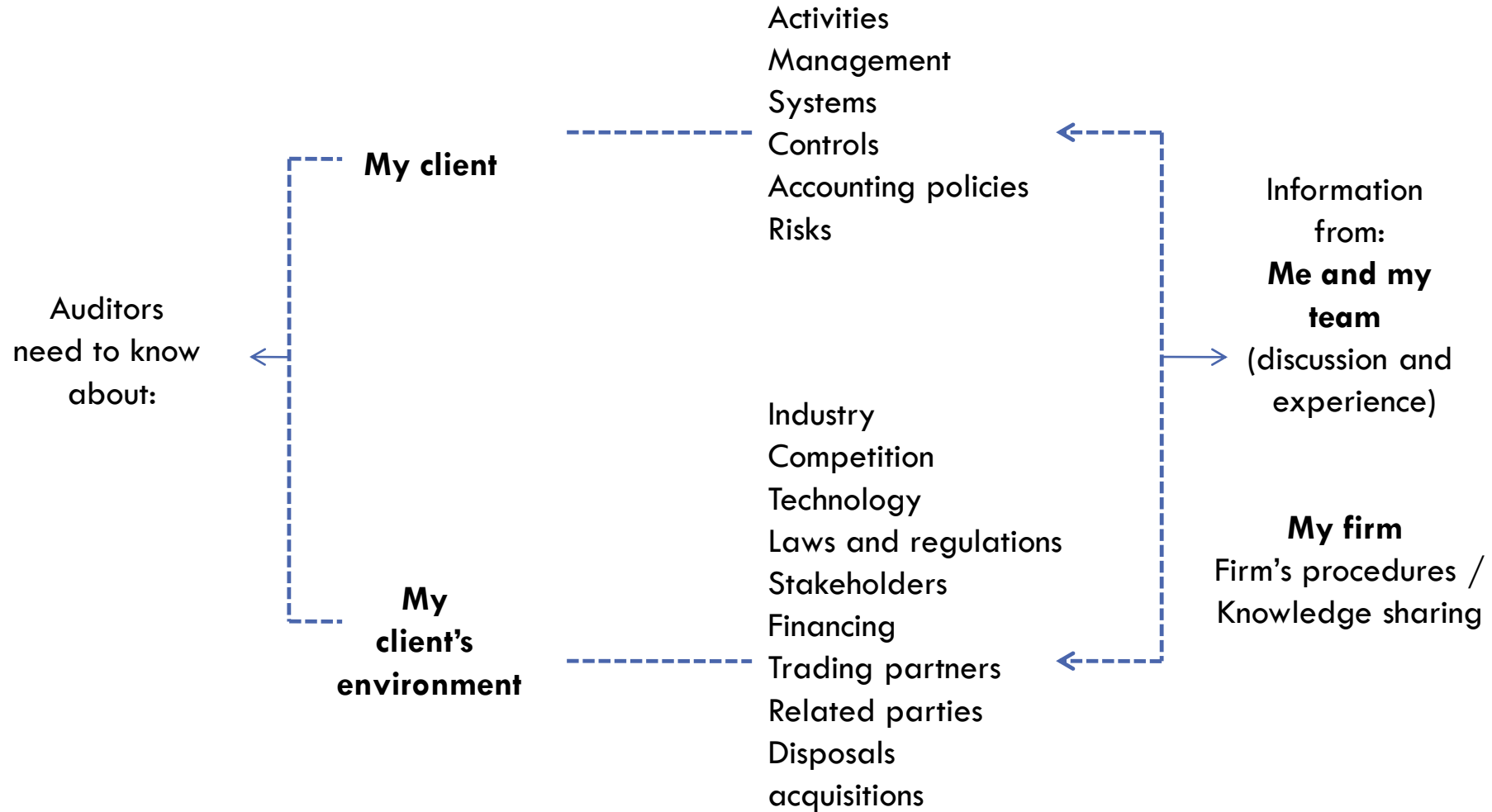
Nature timing and extent of further audit procedures – FAPs

- **Test of Controls**
- **Substantive Procedures**
 - **SP1-Analytical Procedures**
 - **SP2-Test of Details**

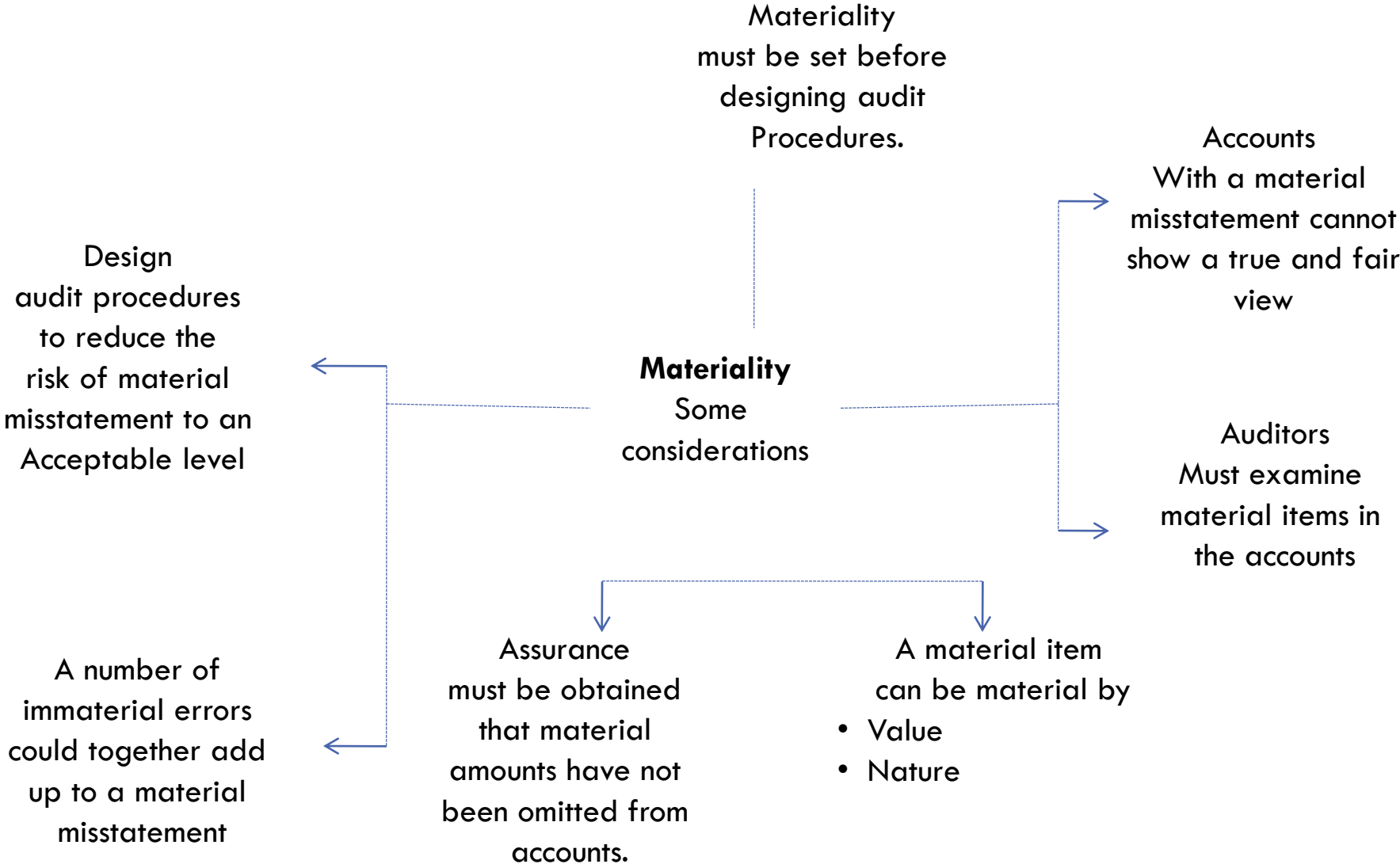
Other procedures carried out to ensure compliance with ISAs

K O B & Its Sources

KOB is the key to assessing risk.



Materiality



What is materiality?

Misstatement,

including omissions,

are considered to be material if

they, individually or in the aggregate, could reasonably be

***expected to influence the economic decisions
of users***

taken on the basis of the financial statements.

What is a Misstatement?

A difference between the

amount, classification, presentation, or disclosure

of a reported financial statement item and the

amount, classification, presentation, or disclosure

that is required for the item to be in accordance with the applicable financial reporting framework.

Misstatements can arise from error or fraud.

Traditional Benchmarks of materiality

0.5 % of Sales,

5 % of Profit before Tax,

1 % of Gross Assets,

Performance Materiality

The amount set by auditor at less than materiality,

for the financial statements as a whole,

to reduce

to an appropriately low level,

*the probability that aggregate of uncorrected &
undetected misstatements exceeds materiality*

for the financial statements as a whole.

Types of Materiality

1. Materiality By Value

The value of item determines it as a material item.
e.g. inventory item of more than Rs. 25,000.

2. Materiality By Nature

The nature of item determines it as a material item.
e.g. director remuneration figure regardless of the amount.

3. Materiality by Impact.

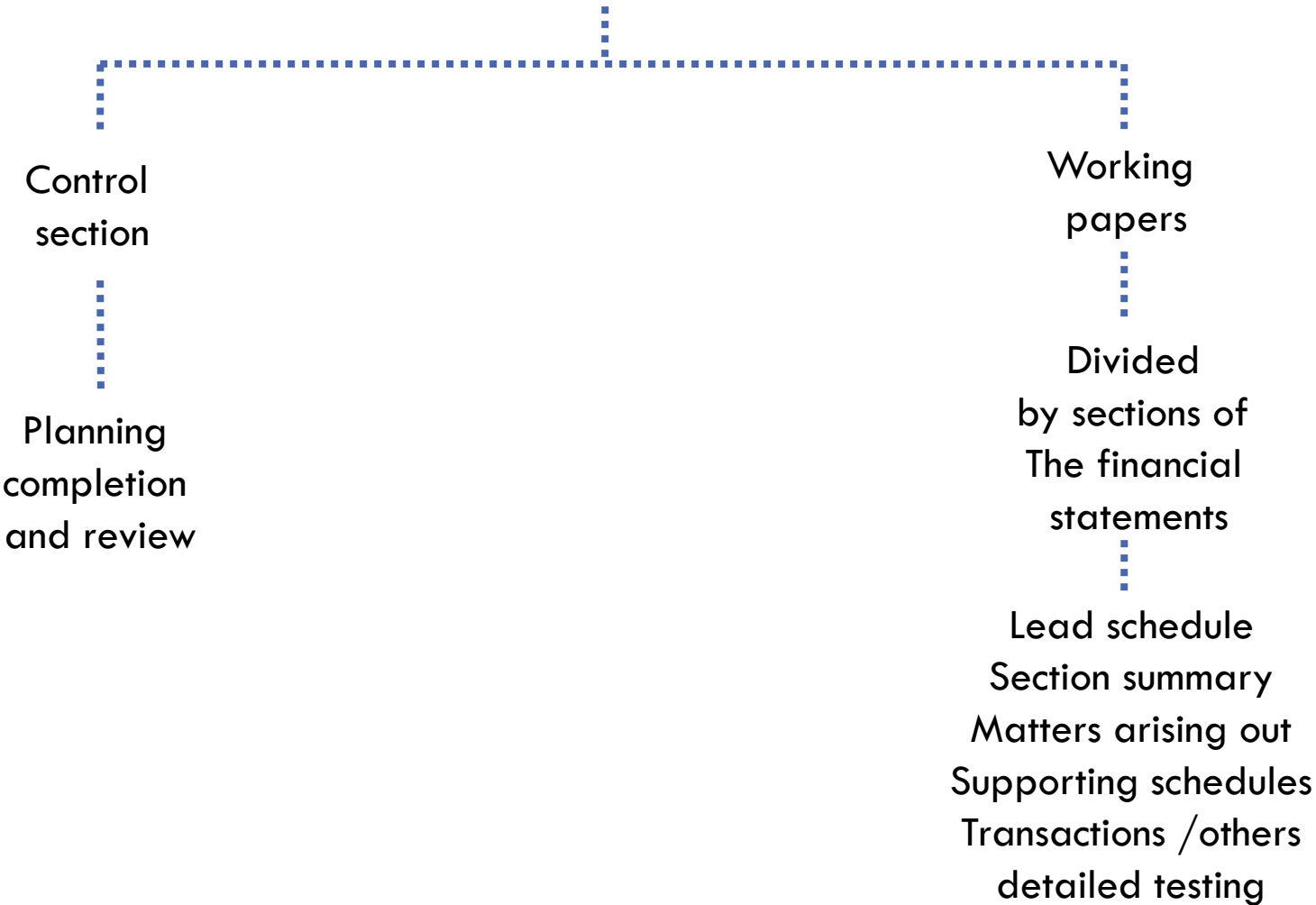
The omission of an item may result in a profit rather than a loss.
e.g. booking a small fictitious credit sale to remove the conspicuous loss.

Types of Audit Documentation

- Planning documentation
 - Overall audit strategy
 - Audit plan
 - Risk analysis
- Audit program
- Summary of significant matters
- Letter of confirmation / representation
- Checklists
- Correspondence
- Abstracts / copies of client records

Audit Documentation

File structure



Quick Revision – Topics Covered

1. Why planning is important
2. Audit Strategy
3. Audit Plan
4. KOB and its sources
5. What is Materiality
6. What is misstatement
7. Benchmark of materiality
8. Performance materiality
9. Types of materiality
10. Audit documentation
11. Practiced 4 TBQ 1 SBQs