

PLANNING -ISA 300

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Venue: Merica Hotel Nakuru

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Audit strategy & Plan-ISA 300

What is the difference between audit strategy and audit planning

Audit strategy

The audit strategy relates to the overall approach you will take to the audit, it decides the **scope** of the audit. It includes **understanding the entity**, the **risk** it faces, **legal** framework it operates in, **financial reporting standards** used, **materiality levels**,

PLANNING

- **Planning**

The audit plan are the detailed procedures you will use in your audit depending on what the strategy is

Why plan for audit?

- To devote appropriate attention to important areas of the audit.
- • Help the auditor identify and resolve potential problems on a timely basis.
- • Help the auditor properly organize and manage the audit engagement so that it is performed in an effective and efficient manner.

Why plan for audit?



- Assisting in the selection of engagement team members
- Facilitates the direction and supervision of engagement team members and the review of their work.
- Assists in coordination of work done by auditors of components and experts

Developing Audit Strategy



In establishing the overall audit strategy, the auditor shall:

- ✓ Identify the characteristics of the engagement that define its scope;
- ✓ Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required;
- ✓ Consider the factors that, in the auditor's professional judgment, are significant in directing the engagement team's efforts;
- ✓ Consider the results of preliminary engagement activities

Developing audit strategy

- ✓ Ascertain the nature, timing and extent of resources necessary to perform the engagement.

Planning activities

- The nature, timing and extent of planned risk assessment procedures ISA 315.4
- The nature, timing and extent of planned audit procedures ISA 330.5
- plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work.

Planning activities

- The analytical procedures to be applied as risk assessment procedures.
- Obtain a general understanding of the legal and regulatory framework applicable to the entity and how the entity is complying with that framework.
- The determine materiality.
- Consider whether there is need to involve an expert(s).
- Performance of risk assessment procedures.

Developing Materiality

Definition of materiality

This is the threshold above which missing or incorrect information in financial statements is considered to have an impact on decision making of users.

Developing materiality

- Study the current financial statement as well as transactions (this will help you decide on the percentage range of various items of Financial statement both the upper and the lower limit).
- Calculate both the higher and lower range of various items based on percentages decided above

Developing Audit materiality

- decide whether to use lower range or upper range(if risk is high use lower range if low use high range) find the average range of the selected range to get the planning materiality.
- Calculate planning materiality of individual areas using the average of either upper range or lower range (x% of total average lower range)
- Opinion materiality should be 100% of individual planning materiality

(always remember to document your thought process)

Using materiality

- Determining sample size
- To determine need for final adjustment
- Determine the major misstatements

Understanding the entity-ISA 315

Key documentations in understanding of the entity

- the industry and other external factors, including the applicable financial reporting framework
- the legal and regulatory framework applicable to the entity and industry in which it operates
- nature of the entity, including business operations, and financing
- the entity's selection and application of accounting policies

Understanding the entity-ISA 315

- the entity's objectives and strategies and the related business risks that may result in a material misstatement of the financial statements
- the measurement and review of the entity's financial performance
- internal control relevant to the audit

Understanding the entity-ISA 315

- applying analytical procedures to enable understanding of the entity (where applicable).
- understanding of controls that are relevant to the audit, evaluate the design of those controls and determine whether they have been implemented by performing procedures in addition to inquiry

end

Questions

