

PLANNING, MATERIALITY AND STRATEGY

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WORKSHOP
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Learning objectives



- To provide participants with a general overview of clarified International Standards on Auditing (ISAs)
- To refresh participants with key elements of ISAs

Planning the Audit

- Overall Audit Strategy
- Determining and Using Materiality
- Preliminary analytics
- Audit-Team Discussions

Consideration for audit planning

Objectives of the audit planning process:

- The auditor should plan the audit so that the engagement will be performed in an effective manner.

The following should be covered in the audit planning process:

- The purpose and contents of the Overall audit strategy;
- Direction, supervision and review; and
- Communications with those charged with governance and management.

Consideration for audit planning

Objectives of the audit planning process:

- The nature, timing and extent of planned risk assessment procedures. This is done during strategic planning phase of the audit (Refer to Overall audit strategy) and
- The nature, timing and extent of planned further audit procedures at the assertion level which is documented during detailed planning
- Any other procedures which may be necessary to ensure compliance with the standards

Why audit Planning ?

Adequate audit planning will assist the auditor to:

- Devote appropriate attention to important areas of the audit.
- Identify and resolve potential problems on a timely basis.
- Properly organize and manage the audit engagement and to stay 'on top of things'.
- Select and assign team members to tasks.
- Facilitating directing, supervision and the review of audit work.
- Co-ordinate work done by auditors of components and experts. (*ISSAI 1300.2, ISA 300*)

What happens during strategic audit Planning ?

The auditor should obtain thorough understanding of the audited entity and make vital decisions affecting the audit such as:

- Identify what is material for the audit and set the level of planning materiality;
- Study the reported financial information (financial statements) and identify transactions and balances to be audited;
- Understand the clients' operations in order to identify risks of material misstatement. This is done through performing analytical review
- Compile and communicate the overall audit strategy to the audited entity
- Refer to the table below for a summary of the working papers to be completed.

M a t e r i a l i t y

- The auditor should consider materiality and its relationship with audit risk when conducting an audit (ISA 320.2).
- Materiality” is used by auditors to decide whether an omission or misstatement could influence the understanding and decisions made by the users of the financial statements.
- There is an inverse relationship between materiality and the level of audit risk, that is, the higher the materiality level, the lower the audit risk and vice versa.

M a t e r i a l i t y - T y p e s

- **Overall Materiality** - our assessment of materiality at the overall Financial Statement Level
- **Planning Materiality** - materiality in relation to classes of transactions, account balances and disclosures
- **SUD (Summary of Unadjusted Differences) posting level**
- **Specific Materiality** – materiality for particular items

Materiality -Computation

Rules of thumb for computing overall materiality

- Profit oriented entity – 5% of PBT or 0.5% of revenues
- Not for profit entity – 0.5% to 2% of gross incomes or total expenses
- Mutual fund entity – 0.5% of net asset value

Judgment is critical!

Planning Materiality

Helps us to determine the scope of our audit work

The recommended planning materiality should be between 50% and 75% of overall materiality.

This means that a percentage reduction between 25% and 50% is applied to overall materiality (the 'haircut').

SAD Posting Level

The SUD de minimis is the amount below which potential audit adjustments need not be accumulated and posted to the summary of unadjusted differences (SUD), i.e., they may determine a de minimis SUD posting level. Optional and determined by the an

Depends on judgement - usually 5% of overall materiality and no higher than 10%

Planning Materiality

Helps us to determine the scope of our audit work

The recommended planning materiality should be between 50% and 75% of overall materiality.

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Exercise

Sam and associates have just been appointed by Go toys limited ,a consulting company quoted in Zimbabwe stock exchange.

Total turnover stood at USD 115 million while total assets stood at 200 million USD.

Profit before tax was USD20.5 Millions.

The CFO has recently been sacked for reasons associated with Financial frauds.

As the audit senior set the planning parameters.

Internal controls

Internal Controls

The auditor should obtain an understanding of internal controls put in place relevant to the audit.

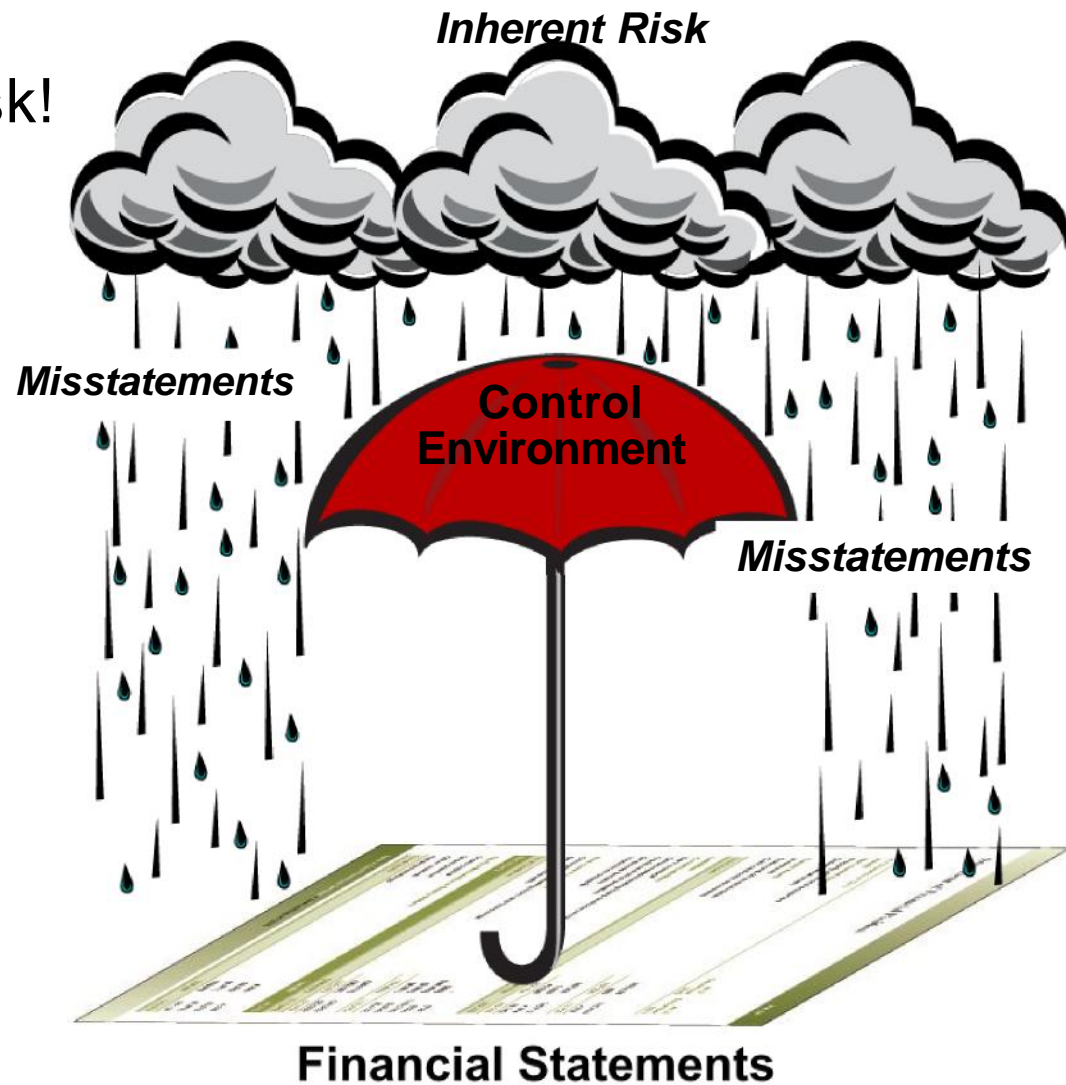
These controls should provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

To gain that understanding the auditor performs tests of controls.

Tests of control

- Controls are the actions taken by management to prevent or detect and correct material misstatements.
- Effective controls may enable us to reduce the amount of substantive procedures that we need to perform.
- Preventative controls prevent misstatements from occurring.
Detective controls detect and correct misstatements that have occurred.

- Imagine a rainy day of risk!



Extent of testing controls

Nature of control and frequency	Full test of controls-minimum number of items to test
Manual control, performed many times per day.	25
Manual control performed daily	25
Manual control performed weekly	5
Manual control performed monthly/quarterly	2
Manual control performed annually	Test annually
Application control	Test one application of each application control for each type of transaction if supported by effective IT general controls that have been tested. Otherwise test 25

Overall Audit Strategy

- The overall audit strategy should set the scope, timing and direction of the audit, and guide the development of the more detailed audit plan. The establishment of the overall audit strategy involves the summary of the detailed work completed so far on the audit. (*ISSAI 1300.7, ISA 300*)

The Overall Audit Strategy takes cognisance and summarises all the strategic aspects that may influence the audit including:

- Scope, timing and direction of the audit including 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;
- Significant factors directing the audit;
- Results of preliminary engagement activities and any relevant previous knowledge gained
- The nature, timing and extent of resources necessary to perform the engagement. (*ISSAI1300.8, ISA 300*)

Contents of an overall strategy document

- Audit scope
- Understanding the business e.g. key changes
- Preliminary analytics
- Significant accounting and audit issues
- Results of test of control
- Materiality and other planning parameters
- Audit strategy-Rely on controls or purely substantive?
- Significant accounts
- Team
- Deliverables
- Audit timing
- etc

Changes to planning decisions

- The overall audit strategy and the detailed audit plan should be documented, updated and changed as necessary during the course of the audit (*ISSAI 1300.10, ISA 300*).
- **All changes made to planning documents should be documented and maintained in the audit file.**

END



THANK YOU