

Audit Planning

The following is the text of the Statement on Standard Auditing Practices (SAP) 8, *"Audit Planning"*, issued by the Council of the Institute of Chartered Accountants of India. The Statement should be read in conjunction with the "Preface to the Statements on Standard Auditing Practices" issued by the Institute.

Introduction

1. Statement on Standard Auditing Practices 1, *"Basic Principles Governing an Audit"*, states (paragraphs 12-14):

"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 a knowledge of the client's business.

Plans should be made to cover, among other things :

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

Plans should be further developed and revised as necessary during the course of the audit."

The purpose of this Statement is to amplify the basic principle outlined above.

2. This Statement applies to the planning process of the audit of both financial statements and other financial information. The Statement is framed in the context of recurring audits. In a first audit the auditor may need to extend his planning process beyond the matters discussed herein.

3. Planning should be continuous throughout the engagement and involves:

- * developing an overall plan for the expected scope and conduct of the audit; and
- * developing an audit programme showing the nature, timing and extent of audit procedures.

Changes in conditions or unexpected results of audit procedures may cause revisions of the overall plan and of the audit programme. The reasons for significant changes may be documented.

4. Adequate audit planning helps to :

- * ensure that appropriate attention is devoted to important areas of the audit;
- * ensure that potential problems are promptly identified;
- * ensure that the work is completed expeditiously;

- * utilise the assistants properly; and
- * co-ordinate the work done by other auditors and experts.

5. In planning his audit, the auditor will consider factors such as complexity of the audit, the environment in which the entity operates, his previous experience with the client and knowledge of the client's business.

6. The auditor may wish to discuss elements of his overall plan and certain audit procedures with the client to improve the efficiency of the audit and to coordinate audit procedures with work of the client's personnel. The overall audit plan and the audit programme, however, remain the auditor's responsibility.

Knowledge of the Client's Business

Normally, however, internal audit operates in one or more of the following areas:

7. The auditor needs to obtain a level of knowledge of the client's business that will enable him to identify the events, transactions and practices that, in his judgement, may have a significant effect on the financial information. Among other things, the auditor can obtain such knowledge from:

- * The client's annual reports to shareholders.
- * Minutes of meetings of shareholders, board of directors and important committees.
- * Internal financial management reports for current and previous periods, including budgets, if any.
- * The previous year's audit working papers, and other relevant files.
- * Firm personnel responsible for non-audit services to the client who may be able to provide information on matters that may affect the audit.
- * Discussions with client.
- * The client's policy and procedures manual.
- * Relevant publications of the Institute of Chartered Accountants of India and other professional bodies, industry publications, trade journals, magazines, newspapers or text books.
- * Consideration of the state of the economy and its effect on the client's business.
- * Visits to the client's premises and plant facilities.

8. With respect to the previous year's audit working papers and other relevant files, the auditor should pay particular attention to matters that required special consideration and decide whether they might affect the work to be done in the current year.

9. Discussions with the client might include such subjects as:

- * Changes in management, organisational structure, and activities of the client.
- * Current Government legislation, rules, regulations and directives affecting the client.

- * Current business developments affecting the client.
- * Current or impending financial difficulties or accounting problems.
- * Existence of parties in whom directors or persons who are substantial owners of the entity are interested and with whom transactions are likely.
- * New or closed premises and plant facilities.
- * Recent or impending changes in technology, type of products or services and production or distribution methods.
- * Significant matters arising from previous year's financial statements, audit report and management letters, if any.
- * Changes in the accounting practices and procedures and in the system of internal control.
- * Scope and timing of the examination.
- * Assistance of client personnel in data preparation.
- * Relevance of any work to be carried out by the client's internal auditors.

10. In addition to the importance of knowledge of the client's business in establishing the overall audit plan, such knowledge helps the auditor to identify areas of special audit consideration, to evaluate the reasonableness both of accounting estimates and management representations, and to make judgements regarding the appropriateness of accounting policies and disclosures.

Development of an Overall Plan

11. The auditor should consider the following matters in developing his overall plan for the expected scope and conduct of the audit:

- * The terms of his engagement and any statutory responsibilities.
- * The nature and timing of reports or other communication.
- * The applicable legal or statutory requirements.
- * The accounting policies adopted by the client and changes in those policies.
- * The effect of new accounting or auditing pronouncements on the audit.
- * The identification of significant audit areas.
- * The setting of materiality levels for audit purposes.
- * Conditions requiring special attention, such as the possibility of material error or fraud or the involvement of parties in whom directors or persons who are substantial owners of the entity are interested and with whom transactions are likely.
- * The degree of reliance he expects to be able to place on accounting system and internal control.

- * Possible rotation of emphasis on specific audit areas.
- * The nature and extent of audit evidence to be obtained.
- * The work of internal auditors and the extent of their involvement, if any, in the audit.
- * The involvement of other auditors in the audit of subsidiaries or branches of the client.
- * The involvement of experts.
- * The allocation of work to be undertaken between joint auditors and the procedures for its control and review.
- * Establishing and coordinating staffing requirements.

12. The auditor should document his overall plan. The form and extent of the documentation will vary depending on the size and complexity of the audit. A time budget, in which hours are budgeted for the various audit areas or procedures, can be an effective planning tool.

Developing the Audit Programme

13. The auditor should prepare a written audit programme setting forth the procedures that are needed to implement the audit plan. The programme may also contain the audit objectives for each area and should have sufficient details to serve as a set of instructions to the assistants involved in the audit and as a means to control the proper execution of the work.

14. In preparing the audit programme, the auditor, having an understanding of the accounting system and related internal controls, may wish to rely on certain internal controls in determining the nature, timing and extent of required auditing procedures. The auditor may conclude that relying on certain internal controls is an effective and efficient way to conduct his audit. However, the auditor may decide not to rely on internal controls when there are other more efficient ways of obtaining sufficient appropriate audit evidence. The auditor should also consider the timing of the procedures, the coordination of any assistance expected from the client, the availability of assistants, and the involvement of other auditors or experts.

15. The auditor normally has flexibility in deciding when to perform audit procedures. However, in some cases, the auditor may have no discretion as to timing, for example, when observing the taking of inventories by client personnel or verifying the securities and cash balances at the year-end.

16. The audit planning ideally commences at the conclusion of the previous year's audit, and along with the related programme, it should be reconsidered for modification as the audit progresses. Such consideration is based on the auditor's review of the internal control, his preliminary evaluation thereof, and the results of his compliance and substantive procedures.

Effective Date

17. This Statement on Standard Auditing Practices becomes operative in respect of all audits relating to accounting periods beginning on or after 1.4.1989.

* Issued in April, 1989.