Audit Strategy, Planning and Programming

Audit Strategy → Audit Planning → Audit Programming

Audit Strategy

Meaning: Designing Audit Approaches to achieve necessary audit assurance at the lowest cost.

Steps involved in Audit Strategy

1. **Obtaining knowledge of business**:
   It provides a frame of reference within which the auditor exercises his professional judgement to assess risk, to plan audit, to evaluate audit evidence and providing quality services.
2. **Performing Analytical Procedures at Initial Stages**:
   To assess the potential for material misstatement in the financial statements as a whole.
3. **Evaluating Inherent Risk**:
   On the basis of prior audit experience, controls exercised by management, significant changes since last assessment.

Factors to be evaluated to assess inherent risk	
At the level of F.S.	**At the level of A/c Balance**
• Management experience • Changes in management • Unusual pressures on Management • Nature of entity business. • Factors affecting industry.	• Quality of Accounting System. • Susceptibility to Misstatement / Misappropriation of assets. • Complexity of transactions. • Degree of judgement involved. • Unusual transactions

4. **Evaluating Internal Control System**:
   By documenting the extent of computerization, preparing/updating flowcharts to record the transactions.
5. **Formulating Audit Strategy**:
   Requires consideration of:
   - Engagement objective
   - Knowledge of clients business
   - Preliminary judgements as to materiality
   - Identified inherent risks
   - Extent of compliance testing
   - NTE of Substantive testing
   - Points relating to planning and controlling the audit.

Audit Planning

Meaning
→ Developing an overall plan for the expected scope and conduct of the audit and
→ Developing an audit programme showing NTE of Audit procedures

Aspects to be covered
- Acquiring knowledge of client accounting system, policies and internal control procedures.
- Establishing the expected degree of reliance on internal control.
- Determining the NTE of audit procedures.
- Coordinating the work to be performed.

Importance of planning
- To devote attention to important areas
- Identify & resolve potential problems.
- Organized and managed audit.
- Selection of suitable engagement team.
- Coordination of work done
- Direction and supervision of engagement team.

Factors to be considered
- Terms of engagement
- Nature & timing of reports / Communications
- Legal or statutory requirements.
- Accounting policies & changes therein.
- Effects of new accounting/auditing pronouncements.
- Identification of significant audit areas.
- Setting of materiality levels.
- Degree of reliance on internal control.

Audit Programming

Meaning
- Detailed plan of work
- comprises of techniques and procedures,
- may also contain objectives for each audit step.

Matters to be considered
- Nature of business.
- Overall Plan
- System of internal control and accounting procedures.
- Size and structure of organization.
- Information regarding the organization.
- Accounting policies followed.

Development of Audit programme

First Time Audit
→ Draw a broad outline
→ Filled up the details on a consideration of deficiencies in internal control.
→ Determine the special procedures needs to be applied.

Subsequent Engagement
Review earlier programme and modified on account of:
- Experience gained during the previous audit.
- Important changes in internal control system, accounting procedures etc.
- Evaluation of internal control for current year.