

ADVANCED AUDIT AND ASSURANCE

CORPORATE LEVEL

TUTE 09

(Planning an Audit of Financial Statements – S.L.Au.S 300)



by

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Planning an Audit of Financial Statements – S.L.Au.S 300

A) Introduction

A proper planning is considered as a vital aspect in an audit of financial statements, which enable the auditor to conduct the audit in an effective and efficient manner. The Engagement Partner and other Key Members of the Engagement team should involve on the Planning the audit.

B) What is Audit Planning

Audit Planning is a process of establishing the Overall Strategy for the Engagement and developing an Audit Plan.

Audit Planning can be segregated into two different activities

- a) Preliminary Engagement Activities
- b) Planning Activities

Preliminary Engagement Activities

These are considered as the initial activities that needed to be performed at the initial stage of the Audit Engagement, which involved following activities

- 1) Performing procedures regarding the Continuance of the Client Relationship and specific audit arrangement to ensure there are no issues with management integrity that may affect the Auditor's willingness to continue the engagement.
- 2) Evaluating the compliance with the Ethical Requirement to make sure that Auditor comply with the applicable Ethical Requirements
- 3) Establish an understanding of the Terms of the Engagement to ensure that there is no misunderstanding with the client as to the terms of the engagement

Planning Activities

The Auditor should establish the **Overall Audit Strategy** to set the Scope, Timing and the Direction to the Audit and guides the development of the **Audit Plan**.

The Overall Audit Strategy and the Audit Plan needed to be updated and changed as necessary during the course of the audit.

a) Overall Audit Strategy

The overall audit strategy set the Scope, Timing and Direction of the Audit and it guide the development towards to a more detail audit plan.

The following factors to be considered, when developing the Overall Audit Strategy.

No	Factors to be considered	Element to be addressed
01	Identification of Characteristics of the Engagement that defines the Scope	Financial Reporting Framework
		Industry specific reporting requirements, such as reports mandated by industry regulators
		Nature of the business segments
		Effect of information technology for the audit procedures
		Expected Audit Coverage, including the number of locations
		Availability of the Internal Audit Function
		Effects of Information Technology on Audit Procedures
02	Reporting objectives, Timing of the audit and the Nature of communication	Audit completion Deadline and the achievement of the deadline
		Communication meetings with management and those charge with governance
03	Significant Factors in directing the Teams Efforts	Determination of the Audit Materiality
		Auditors emphasis of how to maintain the questioning mind and to exercise professional skepticism in gathering and evaluating audit evidence
		Areas identified with higher risk of material misstatements
		Significant changes in the Financial Reporting Framework
04	Consider the results of Preliminary Engagement Activities	Significant business and industry developments, effecting the entity
		Please refer above factors, discussed under Preliminary Engagement Activities
05	Ascertain the Nature, Timing and Extent of Resources to perform the engagement	Section of the Engagement Team
		Assignment of the work to team members

b) Audit Plan

The Audit Plan converts the Overall Audit Strategy into a more detailed plan, which includes the Nature, Timing and the Extent of the Audit Procedures to be performed by the engagement team members in order to obtain sufficient and appropriate audit evidences to reduce the Audit Risk to an acceptable low level.

The Audit Plan should include followings

- A detail description of the Nature, Timing and Extent of the planned Risk Assessment Procedures
- A detail description of the Nature, Timing and Extent of the planned further audit procedures at the assertion level.
- Other planned procedures required to be carried out for the engagement to comply with S.L.Au.S

DOCUMENTATION

The Overall Audit Strategy, the Audit Plan and any changes made during the audit engagement to the Overall Audit Strategy or Audit Plan and the reasons for those changes should be properly documented.

C) The benefits of adequate planning

- ✚ Assisting the auditor to devote the attention to the important areas of the audits
- ✚ Assisting the auditor to identify and resolve the potential problem on timely manner.
- ✚ Helping the Auditor to properly organize and manage the audit engagement in an effective manner.
- ✚ Facilitating the direction and supervision of the Engagement Team members.
- ✚ Assisting in the selection of engagement team members with appropriate levels of capabilities and proper assignment of work to them.
- ✚ Assisting in coordination of work done by other auditors

D) Factors to be considered when Planning the Audit of Financial Statements

- ✚ Knowledge of the Business and the previous years' experience
- ✚ Knowledge with regard to the Accounting and Internal Control Systems of the business organization
- ✚ Audit Risk and Materiality
- ✚ Complexity of the business operations and the magnitude of the operational activities

E) INTERIM AUDITS AND FINAL AUDITS

Auditors usually carry out their audit work for a financial year in one or more sittings. These are referred to as the interim audit(s) and the final audit.

It can be beneficial for auditors to perform their audit work in two stages. These are referred to as the interim audit(s) and the final audit. The interim audit visit is carried out during the period of review and the final audit visit will take place after the year end.

A) The purpose of the interim audit and procedure likely to be adopted

The purpose of the interim audit is to carry out procedures that would difficult to perform at the year-end because of time constraints. Work at this visit tends to focus on risk assessment and on documenting and testing internal controls. Some substantive procedures can also be carried out, but these are limited because statement of financial position figures will not be the ones to be reported upon.

The final audit will focus on the audit of the financial statements. It concludes with the auditor issuing a report which contains the opinion expressed on the financial statements covering the entire year being audited. The final audit opinion will take account of conclusions reached at both (or all) audit visits.

Interim Audit Procedures	Final Audit Procedures
Risk assessment and gaining an understanding of the entity and its environment	Obtaining third party confirmations
Recording of Entities Internal Control Systems	Analytical procedures relating to figures in the financial statements
Evaluating the design and the effectiveness of internal controls	Subsequent events review
Performing limited substantive procedures	Agreeing the FS to the accounting records
Identification of the issues that may have an impact to the work to take place at year end.	Consideration of Going Concern status

1A) Impact of interim audit work relating to internal controls on the final audit

If the auditors are to place reliance on internal controls, they must obtain evidence that controls have operated effectively throughout the period. If the auditor obtains audit evidence about the operating effectiveness of controls at the interim audit, when it comes to the final audit, instead of having to gain evidence over controls covering the whole year, the auditor can focus on:

- A) Obtaining audit evidence about significant changes to those controls subsequent to the interim period
- B) Determining the additional audit evidence to be obtained for the remaining period

Factors to be considered by the Auditor when deciding to gain an additional audit evidence about the controls at the final audit.

- a) Significant changes in the Internal Controls during the period of Interim Audit and Final Audit, which has been already tested at the Interim Audit
- b) The length of the remaining period
- c) Changes in the Control Environment
- d) The extent to which the auditor intends to reduce the further audit procedures based on the reliance of controls

1B) Impact of substantive procedures performed during the interim audit on the final audit

If substantive procedures are performed at an interim date, the auditor must cover the remaining period by performing substantive procedures, or substantive procedures combined with tests of controls for the intervening period.

Conclusions will have been reached on the testing carried out at the interim audit; the auditor essentially has to carry out any procedures necessary to provide a reasonable basis for extending the audit conclusions from the interim date to the period end.

Additional Notes:

