

Implementation Guide to Standard on Auditing (SA) 300, Planning an Audit of Financial Statements



The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

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Foreword

Standards on Auditing issued by the Institute of Chartered Accountants of India are critical in ensuring and enhancing quality in audit engagements. It is therefore essential that the auditors properly understand and implement the requirements of various Standards on Auditing in their audit engagements.

Implementation Guides to Standards on Auditing are an important resource for the auditors to appropriately understand the requirements of these Standards and help them implement these Standards in an appropriate manner to meet the objectives of these Standards. The Implementation Guides also provide solutions to various practical problems faced by the auditors in implementing these Standards in their audit engagements.

I am happy that the Auditing and Assurance Standards Board has been issuing a number of Implementation Guides to Standards on Auditing issued during the last few years for the benefit of the members. This Implementation Guide to Standard on Auditing (SA) 300, 'Planning an Audit of Financial Statements' is one such Guide. I am sure the Implementation Guide would be able to address the concerns and difficulties, if any, being faced by the auditors in implementing this Standard on Auditing.

At this juncture, I wish to place my appreciation for CA. Abhijit Bandyopadhyay, Chairman, CA. J. Venkateswarlu, Vice Chairman and other members of the Auditing and Assurance Standards Board for bringing out guiding literature for the benefit of the members.

New Delhi
February 9, 2016

CA. Manoj Fadnis
President, ICAI

Preface

Standards on Auditing issued by the Institute of Chartered Accountants of India lay down the fundamental principles on the relevant aspects of audit to be followed by the statutory auditors. It is essential that the statutory auditors understand and implement these Standards on Auditing appropriately in their audit engagements.

Implementation Guides to Standards on Auditing are issued by the Auditing and Assurance Standards Board to assist the auditors in practical implementation of these Standards in real life audit situations. These Implementation Guides are written by experts, presenting these principles, in a simpler language and format. These Implementation Guides contain templates, checklists, case studies, etc., as appropriate. Till date the Auditing and Assurance Standards Board has brought out a number of Implementation Guides. This Implementation Guide to SA 300, "Planning an Audit of Financial Statements" is another such Guide in the series.

I am extremely grateful to CA. Subhasis Majumdar, Kolkata for sparing time out of his professional and personal preoccupations to write this extremely useful Implementation Guide.

I am also thankful to CA. Manoj Fadnis, President, ICAI and CA. M. Devaraja Reddy, Vice President, ICAI for their guidance and support to the activities of the Board. I also wish to thank all my colleagues at the Central Council for their cooperation and guidance in formulating and finalizing the various authoritative pronouncements of the Board.

My sincere thanks are also due to my colleagues on the Board, viz., CA. J. Venkateswarlu, Vice Chairman, CA. Prafulla Premsoh Chhajed, CA. Pankaj Inderchand Jain, CA. Nihar Niranjana Jambusaria, CA. Shrinivas Yeshwant Joshi, CA. Dhinal Ashvinbhai Shah, CA. Nilesh S. Vikamsey, CA. Babu Abraham Kallivayalil, CA. K. Raghu, CA. G. Sekar, CA. Sumantra Guha,

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CA. Shyam Lal Agarwal, CA. Sanjiv Kumar Chaudhary, CA. Naveen N.D. Gupta, CA. Charanjot Singh Nanda, Shri P. K. Mishra, Shri Salil Singhal, Shri R.K. Jain, CA. V. Balaji, CA. Radha Krishna Agrawal, CA. Kamlesh Amlani, CA. Aseem Trivedi, CA. Krishna Kumar T., CA. Rajeevan M and CA. Sanjay Vasudeva for their support and guidance to the Board. I also wish to thank the special invitees to the Board, viz., CA. Vijay Sachdeva, Dr. Sanjeev Singhal, Shri Narendra Rawat, CA. Aniruddh Sankaran and Shri R. Kesavan for their support and guidance to the Board.

I am sure that the readers would find this Implementation Guide useful and shall be happy to have their feedback on the same.

February 9, 2016
Kolkata

CA. Abhijit Bandyopadhyay
Chairman,
Auditing and Assurance Standards Board

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Chapter 1

Introduction

1.1 Standard on Auditing (SA) 300 'Planning an Audit of Financial Statements' deals with the auditor's responsibility to plan an audit of financial statements. This SA was issued in December 2007 and is the cornerstone to the other SAs in the series, i.e., SAs 300-499 (Risk Assessment and Responses to Assessed Risks).

1.2 The objective of the auditor is to plan the audit of financial statements to ensure it is performed in an effective manner. In terms of SA 200 'Overall objectives of the Independent Auditor and the Conduct of An Audit in Accordance with Standards on Auditing', an audit of financial statements entails "expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. In the case of most general purpose frameworks, that opinion is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view in accordance with the framework. An audit conducted in accordance with SAs and relevant ethical requirements enables the auditor to form that opinion."

1.3 In order to achieve the aforesaid results, the auditor is expected to develop a strategy for addressing potential audit risks and plan the intended course of nature, timing and extent of procedures required to discharge the responsibilities.

1.4 Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. SA 300 deals with specific attributes around strategy and planning in relation to audit of financial statements. In keeping with the SA, the auditor needs to establish the scope, timing and direction of

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the audit, and design the detailed course of actions around specific procedures to be carried out to implement the strategy and put in place supervisory and review framework.

1.5 Formulating appropriate strategy and planning in accordance with such strategy is fundamental to the success of an audit to be conducted in an effective and efficient manner. Developing the right strategy facilitates achievement of the overall audit objective at a macro level while planning involves enlisting of tasks to methodically achieve results in a productive way.

1.6 Broadly audit strategy and audit plan covers certain key elements which an auditor shall need to consider which have been illustrated below and have been explained in details in this Implementation Guide.

Preliminary Engagement Activities	• Performing acceptance/continuance procedures • Evaluating compliance with ethical requirements including independence • Establishing an understanding of the terms of the engagement
Overall Audit Strategy	• Establishing the scope of the engagement based on its characteristics • Ascertaining the reporting objectives to plan timing of the audit • Consider the factors that are significant in directing the engagement team's efforts • Consider the results of preliminary engagement activities • Deciding the nature, timing and extent of resources to be deployed

Introduction

Audit Plan – detailed tasks to be performed	• Determining nature, extent and timing of planned risk assessment procedures • Designing the nature, extent and timing of planned further audit procedures in relation to the assessed risks • Developing other planned audit procedures to comply with the Standards on Auditing.
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Strategy as Compared with Plan

1.7 Understanding the concepts of 'strategy' and 'plan' is critical to design them appropriately. The terms 'strategy' and 'plan' are at times used in an interchangeable manner to mean a method of accomplishing a goal. Although there is overlap between these tasks, these are not synonymous in terms of timing, purpose and outlay.

1.8 Strategy is generally the foremost action while the plans are shaped considering such defined strategy. If a strategy is not defined, developing a plan may be directionless and incomplete. Creating the appropriate plan to achieve a goal would depend upon how well the strategy is outlined. Trying to shape up a strategy to fit against an existing plan will yield no productive result as the purpose of strategy will be lost. Each part of the strategy has a separate plan to accomplish its goal. For example, a Company may strategise to increase market share by launching a new product and in order to achieve this, the Company may plan to invest in research and development, augment production facilities, start promotional campaigns, etc.

1.9 A Strategy captures the 'what' and 'why' elements of the desired outcome. It is a high level blueprint to achieve the goal but is not specific of 'how' to do so. A strategy may be modified if the underlying objectives get changed.

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1.10 A plan on the other hand enlists all the granular steps to be taken to accomplish a goal and addresses the 'who', 'how', 'when' and 'where' to do aspects of a task. A plan is not as abstract as a strategy. Planning encompasses consideration and identification of all possible alternatives which jointly or severally enable accomplishment of the goal. In the course of planning, all these alternatives are critically analysed with reference to the merits and demerits and the best path is selected.

1.11 Further a plan is truly flexible by nature and subjected to quick changes as situations demand. For example, if it is noted in course of execution that 'Plan A' is not working, 'Plan B' which has been contemplated in advance may be immediately put to action.

1.12 In summary, a strategy is therefore the all-inclusive approach that coordinates all plans in order to effectively meet the desired result effectively.

Chapter 2

Overall Audit Strategy

2.1 The overall audit strategy is a record of the key decisions considered necessary to properly plan the audit and to communicate significant matters to the engagement team. In order to take the right decisions, the auditor shall perform certain preliminary engagement activities at the commencement of the current audit engagement to identify and evaluate events or circumstances that may adversely affect the auditor's ability to plan and perform the audit engagement. Further, certain additional considerations are required for an initial engagement as compared to a continuing engagement.

Preliminary Engagement Activities

2.2 The auditor shall undertake following activities at the beginning of the current audit engagement:

(a) **Performing procedures required by SA 220 in relation to continuance of the client relationship and the specific audit engagement**

In terms of Standard on Quality Control 1 'Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements' read with SA 220 'Quality Control for an Audit of Financial Statements', following information needs to be considered by the auditor regarding the continuance of client relationships and audit engagements:

- *The integrity of the principal owners, key management and Those Charged with Governance of the entity* – In the event the integrity of such persons are questionable, the auditor's reliance on management's intent to prepare the financial statements will be adversely affected due to heightened likelihood of fraud risks.
- *Whether the engagement team is competent to perform the audit engagement and has the necessary capabilities, including time and resources* – for example when the auditor

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requires subject matter expertise (*viz.*, knowledge of the industry) as a prerequisite to perform the duties to understand the client, identify and respond to key risks.

- *Whether the firm and the engagement team can comply with relevant ethical requirements* – please refer to paragraph (b) below
- *Significant matters that have arisen during the current or previous audit engagement, and their implications for continuing the relationship*, for example, when the auditor has issued a modified opinion on the financial statements of the previous year and believes that the circumstances have not improved since then due to lack of intent of the management.

As noted above, these considerations need to be taken into cognizance both at the client level as well as specific engagement level. This implies that though for certain entities the client continuance might be acceptable (as no issues were noted in respect of integrity of the management at a macro level), the auditor may still decline a specific engagement (for example, audit of the financial statements under certain financial reporting framework, *viz.*, US GAAPs reporting) due to lack of availability of competent resources to be able to carry out that specific engagement.

(b) Evaluating compliance with ethical requirements, including independence, as required by SA 220

Compliance with ethical requirements including independence is key requirement which the auditor shall need to conform in relation to the client relationship and the audit engagement.

Ethics

The auditor needs to ensure that the fundamental principles of professional ethics as laid down in the “Code of Ethics” issued by the Institute of Chartered Accountants of India (ICAI) are complied with by the firm as well all the members of the engagement team.

This would include satisfactory observance of:

- **Integrity** - being straightforward and honest in all professional and business relationships thereby maintaining impartial attitude.

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- **Objectivity** – not to compromise in exercising professional judgements under the influence of any bias or conflict of interest.
- **Professional competence and due care** - maintain professional knowledge and skill at the level required to ensure competent professional services can be rendered with diligence.
- **Confidentiality** - respect the confidentiality of information acquired as a result of client relationships and not disclose any such information unless legally mandated.
- **Professional behavior** – act in accordance with relevant laws and regulations.

Adherence to the aforesaid requirements may potentially be affected by:

- **Self-interest threats** – when the financial or other interests of the auditor and/ or of a relative can impair objectivity.
- **Self-review threats** - when the auditor ends up re-evaluating own judgement.
- **Advocacy threats** – when the auditor promotes a position or opinion resulting in compromise of overall objectivity.
- **Familiarity threats**- when the auditor becomes too sympathetic to the interests of the entity's management due to long –standing relationship.
- **Intimidation threats**- when the auditor acts under coercion and is not in a position to act objectively.

At the preliminary assessment stage, if the auditor ascertains that ethical requirements will not be complied with in course of the engagement on account of the real or perceived threats, the auditor needs to address the situation through, for example, change in the team composition, change in engagement partner or withdrawal of engagement if permissible, etc.

Maintenance of ethical standards throughout the engagement is imperative to ensure that objectivity of the auditor is not actually threatened or cannot be reasonably concluded to be compromised due to circumstances stated above.

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Independence

In order to enhance the users' confidence about the auditor's opinion on the financial statements, the auditor is expected to demonstrate 'independence of mind' as well as 'independence of appearance'. The ability to exercise objectivity and display professional skepticism may be compromised or perceived to be compromised unless independence of the audit firm, the engagement partner and the team is assessed and adequate safeguards are put in place to mitigate any potential threats.

Compliance with independence requirements can be ensured in the following manner:

- Obtaining relevant information from the members of the engagement team including engagement partner, the firm as well as network firms to identify all financial relationships that may create threats to independence. This would include identification of all financial relationships held (for example, ownership of shares of the audit client)
- Evaluating information on potential breaches (both real and perceived) of the firm's independence policies and procedures to determine whether they create a threat to independence for the audit engagement; and
- Eliminate such activity or interest that cause threat to independence or reduce them to an acceptable level by applying safeguards (for example, replacing the engagement team member who is not independent in relation to the client), or, if considered appropriate and possible under regulatory framework, withdraw from the audit engagement (in circumstances where the audit firm's has a financial interest with the client which may compromise the overall objectivity).

The auditor's consideration of independence occurs throughout the audit engagement as changes in conditions and circumstances occur. For example, if the client enters into a business amalgamation while the current audit engagement is being performed, the auditor needs to consider the changed scenario and evaluate whether independence is still being maintained.

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(c) Establishing an understanding of the terms of the engagement as required by SA 210

Explicit agreement with management in respect of the scope and terms of the engagement including the applicable financial reporting framework to be used for preparation of financial statements sets the foundation of the planning of an audit of financial statements. This ensures there is no misunderstanding with the client as to the terms of the engagement.

As stated in SA 210 'Agreeing the terms of Audit Engagements', financial reporting standards established by authorised organizations are presumed to be acceptable for general purpose financial statements prepared by such entities – for example, the Accounting Standards issued by the Institute of Chartered Accountants of India.

In some cases, management may prepare special purpose financial statements to meet the financial information needs of specific users which is governed by a different financial reporting framework (say, US GAAPs reporting).

Additional Considerations in Initial Audit Engagements

2.3 The purpose and objective of planning the audit remain the same irrespective of whether the audit is an initial or recurring engagement. However, before accepting the first time audit engagement of an entity, the auditor may need to perform certain additional procedures since the auditor does not ordinarily have the previous insights of and relevant experience with the entity.

2.4 For initial audits, following additional activities may be required while establishing the overall audit strategy and audit plan:

- Performing procedures regarding the acceptance of the client relationship and the specific audit engagement - these are similar to the procedures performed in relation to continuance of the client relationship and the specific audit engagement (as applicable).
- If the prior period's financial statements were audited by a predecessor auditor and there was a modification to the opinion, the auditor shall evaluate the effect of the matter

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giving rise to the modification in assessing the risks of material misstatement in the current period's financial statements in accordance with SA 315.

- Discussion with management –The initial auditor usually discusses all major issues (including the application of accounting principles or of auditing and reporting standards) with management and communicates to Those Charged with Governance.
- Review of Opening balances -The auditor will have to perform procedures necessary to obtain sufficient appropriate audit evidence regarding opening balances. Further details in this respect have been included in the Section “Other planned audit procedures that are required to be carried out so that the engagement complies with SAs” (Chapter 3) of this Guide.
- Procedures required by the firm's system of quality control - For initial audit engagements, the firm's system of quality control may require the involvement of another partner or senior individual to review the overall audit strategy prior to commencing significant audit procedures or to review reports prior to their issuance.

Key considerations in developing overall audit strategy

2.5 In establishing the overall audit strategy, the auditor shall:

- (a) Identify the characteristics of the engagement that define its scope;
- (b) Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required;
- (c) Consider the factors that, in the auditor's professional judgement, are significant in directing the engagement team's efforts;
- (d) Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the

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entity is relevant; and

- (e) Ascertain the nature, timing and extent of resources necessary to perform the engagement.

2.6 Each of the abovementioned considerations have been illustrated below.

Characteristics of the Engagement that define its scope

Considerations	Effect on audit strategy
The financial reporting framework on which the financial information to be audited has been prepared, including any need for reconciliations to another financial reporting framework	This is the preliminary consideration to determine the audit approach. For example, the scope of audit would be different if the financial reporting framework is US GAAPs instead of Indian GAAPs. Similarly, the scope of audit of financial statements under US GAAPs may entail conversion of the financial statements already prepared under Indian GAAPs.
The need for a statutory audit of standalone financial statements in addition to an audit for consolidation purposes	The scope of audit is different between: • Statutory audit as compared to non-statutory audit • Audit of consolidated financial statements as compared to standalone financial statements
The expected audit coverage , including the number and locations of components to be included	Based on the risk assessment and materiality, the auditor shall determine the extent of coverage to be comfortable about reasonable assurance on the coverage of transactions and account balances being audited. Similarly, the auditor's strategy to visit a particular location may be influenced by coverage already made in the previous engagements (where a rotation

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	programme is put in place to gain comprehensive coverage over certain years). In deciding expected coverage, an element of unpredictability may be included in the audit approach.
The coordination of the expected coverage and timing of the audit work with any reviews of interim financial information and the effect on the audit of the information obtained during such reviews	For example, in terms of Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015, a listed Company may submit on quarterly basis an audited financial results or financial results subjected to limited review by the auditors in accordance with the Standard on Review Engagements (SRE) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. The auditor may place reliance on the information already examined in course of such review and / or plan additional audit procedures to supplement audit work performed up to the date of interim financial statements as part of the audit strategy.
Industry-specific reporting requirements such as reports mandated by industry regulators	For example, the Banking regulations require additional reporting and in keeping with that, the auditor needs to design the audit strategy/ audit plan for such supplementary reporting.
The nature of the control relationships between a parent and its components	Where the group structure is highly complex with significant impact on identification of related parties and/or consolidation of group financial statements, the auditor needs to

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	consider the unique characteristics of the engagement.
The nature of the business segments to be audited, including the need for specialized knowledge	The process of identification of business segments and understanding the dynamics of operations of certain segments may at times be complex. Under this circumstance, the auditor may involve an expert with requisite specialized knowledge and apply principles laid down in SA 620 'Using the Work of an Auditor's Expert' while developing the audit strategy.
The reporting currency to be used, including any need for currency translation for the financial information audited	Financial statements of foreign companies may be translated in a different currency to facilitate consolidation at the global group level. The audit strategy needs to capture such elements.
The availability of the work of internal auditors and the extent of the auditor's potential reliance on such work	Details are given in the Section "Other planned audit procedures that are required to be carried out so that the engagement complies with SAs" (Chapter 3) of this Guide.
The entity's use of service organizations and how the auditor may obtain evidence concerning the design or operation of controls performed by them	Details are given in the Section "Other planned audit procedures that are required to be carried out so that the engagement complies with SAs" (Chapter 3) of this Guide.
The effect of information technology on the audit procedures, including the availability of data and the expected use of computer-	Based on the IT expertise and experience of the audit team, availability of suitable computer facilities (including CAATs) / data, impracticability of manual tests,

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assisted audit techniques (CAATs)	significant volume of transactions, etc. the auditor may be required to use such techniques to drive effectiveness and efficiency in an audit engagement.
The availability of client personnel and data	As part of the audit strategy, the auditor shall discuss and co-ordinate with management to ensure availability of client personnel who would provide information and explanation necessary for the purpose of the engagement. For example, if the auditor plans to visit certain branches to gain adequate coverage over discrete units, the relevant client staff needs to be made available at those locations to attend to the queries of the auditor. Simultaneously, it is critical to obtain data in requisite manner and acceptable time to meet deadlines. For example, where an auditor plans to use Audit Command Language (a CAAT) for analyzing huge volumes of data, such data is required in a compatible format for execution of the technique.

Reporting Objectives to plan timing of the audit and nature of communications required

The entity's timetable for reporting , such as at interim and final stages	For certain large engagements, the auditor may conduct an audit of financial statements at an interim stage to facilitate timely completion of the audit at the final stage or in accordance with Regulation 33 of the SEBI (Listing Obligations and
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	Disclosure Requirements), Regulations, 2015 for listed entities.
The organization of meetings with management and Those Charged With Governance (TCWG) to discuss the nature, timing and extent of the audit work	Usually the auditor shall engage with the management and TCWG to provide an overview of the audit strategy and discuss : • the expected type and timing of deliverables • other communications (both written and oral) Scheduling the meetings with management as well as TCWG is fundamental to agree upon nature, manner and timeline of communications from both ends. In addition to the auditor's report on the financial statements, the auditor needs to plan the timing and manner of other communication such as obtaining written representations, etc.
The discussion with management regarding the expected communications on the status of audit work throughout the engagement.	Details included within Chapter 4 of this Guide.
Communication with auditors of components regarding the expected types and timing of reports to be issued and other communications in connection with the audit of components	As mentioned in SA 600 'Using the Work of Another Auditor', the principal auditor shall advise the component auditor about the reporting requirements and appropriately deal a report which is other than unmodified.

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The expected nature and timing of communications among engagement team members, including the nature and timing of team meetings and timing of the review of work performed	The audit strategy should incorporate the estimated schedule of team meetings which the audit team would need in order to provide direction to the team, take stock of progress, review effectively and manage the engagement efficiently.
Whether there are any other expected communications with third parties, including any statutory or contractual reporting responsibilities arising from the audit	The audit strategy needs to consider all such communication needs. For example, as per the Companies Act, 2013, in case the auditor has reason to believe that an offence of fraud involving such amount or amounts as may be prescribed is being or has been committed in the company by its officers or employees, the auditor shall report the matter to the Central Government within such time and in such manner as may be prescribed

Significant Factors in directing the engagement team's efforts

The determination of materiality and, where applicable, materiality for components	Details are given in the Section "Other planned audit procedures that are required to be carried out so that the engagement complies with SAs" (Chapter 3) of this Guide.
The manner in which the auditor emphasizes to engagement team members the need to maintain a questioning mind and to exercise	Professional skepticism assumes greater relevance in relation to determining the overall responses to assessed risks of material misstatements arising due to fraud. While creating the audit plan, the auditor needs to consider such factors

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professional skepticism in gathering and evaluating evidence	and the susceptibility to fraud risk to determine the sufficiency and appropriateness of audit evidences required. Further, the auditor needs to highlight the importance of professional skepticism with the engagement team members which include the risks of inappropriate assumptions in determining the nature, extent and timing of audit procedures, overlooking unusual circumstances, generalizing conclusions from audit observations and evaluating audit results.
Volume / nature of transactions	This may help determine whether it is more efficient to rely on internal control.
Evidence of management's commitment to the design, implementation and maintenance of sound internal control	Extent of management's aptitude and deployment of resources to maintain sound internal control framework to ensure reliability of financial reporting, effectiveness and efficiency of operations, compliance with laws and regulations and safeguarding of assets has a proportionate impact on the auditor's risk assessment as the auditor obtains greater reliance on such commitment. This however needs to be supported by documentation maintained by management.
Significant business developments affecting the entity	Key changes such as industry developments; new products and services; expansion of the business; acquisitions, mergers and divestments; changes in information technology and business processes; changes in key

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	management etc are business risks with financial consequences and as such need to be taken into account in the audit strategy in terms of areas which require emphasis.
Significant changes in the financial reporting framework	Substantial changes to the applicable financial reporting framework entail appropriate consideration in the audit plan. For example, introduction of a new accounting standard or extensive changes to the applicable Schedule to the Companies Act may require expertise within the audit engagement team and may also entail additional efforts in the period such changes are effectuated. While designing the audit strategy, the auditor shall need to conduct a detailed analysis of impact of such changes. This may be onerous at times since the entity's finance team may not have adequate expertise to understand effect of such changes.
Changes in the legal environment affecting the entity such as changes in industry regulations and new reporting requirements – In accordance with SA 315, the auditor shall obtain a general understanding of the legal and regulatory framework applicable to the entity.	Certain legal and regulatory requirements stipulate the provisions under which the entity is allowed to conduct its operations whereas certain laws or regulations have a direct effect on the recognition, valuation and disclosures in the financial statements. These include regulatory framework for a regulated industry (for example NBFCs), legislation that affect the entity's operations (for example the Companies Act), Taxation, Government policies (for example, foreign exchange controls or tariffs or trade restrictions policies),

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	Environmental requirements, etc. Resultantly considerable changes to such legal and regulatory environment may have a significant impact on the audit strategy.
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Preliminary Engagement Activities, and Knowledge Gained on Other Engagements

Results of previous audits that involved evaluating the operating effectiveness of internal control	On continuing engagements, the auditor is benefitted with insights gained in the previous period which include knowledge of deficiencies in internal control or past misstatements and actions taken to address them. These inputs help the auditor in determining key risks.
The discussion of matters that may affect the audit with firm personnel responsible for performing other services to the entity	Pursuant to the Code of Ethics issued by ICAI, the auditor of financial statements of an entity is ordinarily restricted to provide any significant non-assurance service to the entity which would generally create self-review or self-interest threat. However, certain activities such as tax compliance or planning may not threaten independence. When the auditor provides a permissible non-assurance service to an entity, the auditor may plan to communicate with the non-audit team (Team providing non-assurance service to entity) to obtain information that is useful for the purpose of audit. For example, if a network firm of the auditor is assisting the entity in resolution of tax disputes, the auditor may corroborate the information obtained about the status of litigations.

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Nature, Timing and Extent of Resources

The selection of the engagement team	Deployment of appropriate resources with requisite skills and competencies should be in consonance with the assessed risks of material misstatement. If the engagement requires staff with specialized industry knowledge (for example, telecom industry), technical expertise (for example, derivatives), professional skills (for example, report drafting skills) or bigger team (due to number of locations to be visited), such considerations would play a critical role at the planning stage to facilitate determination of team composition on an engagement. Based on the requirements, if engagement quality control reviewer is also required (for example, listed entities), deployment of such a key person together with responsibilities being assigned would have to be taken into consideration.
Engagement budgeting	While determining the engagement budget, the auditor shall plan to allocate proportionately higher budget in audit hours covering high risk areas.

Chapter 3

Overall Audit Plan

3.1 Once the overall audit strategy has been established, an audit plan can be developed to address the various matters identified in the overall audit strategy, taking into account the need to achieve the audit objectives through the efficient use of the auditor's resources.

3.2 The audit plan is more concrete and detailed than the overall audit strategy and includes the nature, extent and timing of audit procedures to be performed by engagement team members. Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops.

Contents of an Audit Plan

3.3 The audit plan shall include a description of:

- (a) **The nature, timing and extent of planned risk assessment procedures, as determined under SA 315 'Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment'**

3.4 The auditor performs risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels, whether due to fraud or error. Such procedures include:

- Inquiries of management, Those Charged with Governance, those responsible for financial reporting, internal auditors, in house legal counsels, functional managers, etc.
- Analytical procedures of both financial and non-financial information to identify existence of unusual transactions or events, and amounts, ratios, and trends that might indicate matters that have audit implications.

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- Observation and inspection of entity's operations, documents/ records, MIS reports, premises and facilities.

3.5 These procedures enable the auditor to gain an understanding of:

- Relevant industry, legal and regulatory framework as well as the applicable financial reporting framework.
- The nature of the entity, including its operations; ownership and governance structures; investment plan, financing mode.
- Internal control relevant to the audit by conducting a design effectiveness review of control environment, risk assessment, information systems, control activities and monitoring of controls.

3.6 In course of risk assessment, the auditor shall also:

- evaluate whether the identified risks relate more pervasively to the financial statements as a whole and potentially affect many assertions;
- relate the identified risks to what can go wrong at the assertion level, taking account of relevant controls that the auditor intends to test;
- consider the likelihood of misstatement, and whether the potential misstatement is of a magnitude that could result in a material misstatement.

3.7 Eventually such risk assessment helps the auditor to determine whether any of the risks identified may potentially be a significant risk arising due to fraud; complexity of transactions; degree of subjectivity; unusual or extraordinary events or due to recent significant economic, accounting, or other developments.

3.8 Assessing the audit risks is elementary to audit planning to determine the nature, extent and timing of audit procedures to obtain appropriate and sufficient audit evidence as well as mobilise the audit engagement team in terms of manpower and technical expertise.

3.9 The planning of the auditor's risk assessment procedures occurs early in the audit process. However, planning the nature, timing and extent of specific further audit procedures (as described in paragraph (b) below) depends on the outcome of

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those risk assessment procedures. In addition, the auditor may begin the execution of further audit procedures for some classes of transactions, account balances and disclosures before planning all remaining further audit procedures.

(b) The nature, timing and extent of planned further audit procedures at the assertion level, as determined under SA 330 'The Auditor's Responses to Assessed Risks'

3.10 SA 330 deals with the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed at the assertion level in accordance with SA 315.

3.11 The auditor shall design further audit procedures whose nature, extent and timing shall be responsive to the assessed risks of material misstatement at the assertion level after due consideration to inherent risk as well as control risk, where applicable.

3.12 Certain guiding principles in relation to the nature, extent and timing of audit procedures responsive to assessed risks are set out below.

Nature

3.13 The nature of the audit procedures is fundamental to responding to audit risks and covers its type (inspection, observation, inquiry, confirmation, recalculation, re-performance, etc.,) and its purpose (tests of controls or substantive procedures).

3.14 **Tests of controls** – The auditor generally plans to evaluate operating effectiveness of controls to obtain sufficient appropriate audit evidence when substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level. While performing tests of controls, the auditor generally obtains audit evidence for how the controls were applied at relevant times during the period and the consistency of application. When the auditor is unable to get expected reliance from such procedure, the auditor shall determine whether additional tests of controls are necessary and assess impact on the potential risk of material misstatement.

3.15 **Substantive procedures (in nature of tests of details or**

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substantive analytical procedures) - The auditor is required to design substantive procedures for each material class of transactions, account balances, and disclosures, irrespective of the assessed risks of material misstatement due to inherent limitation of internal controls.

The nature of procedures may depend on:

- Assertions tested – for example, in relation to audit of inventories, tests of controls / substantive analytical procedures may be suitable to validate completeness assertion; tests of details may be necessary to validate accuracy/ ownership whereas observation may be appropriate for existence.
- Level of risk – Combination of procedures may be required to address certain elevated risks, for example, in relation to audit of debtors, inspection of invoices and bank receipts may be supplemented by external confirmation process.
- Characteristics of a class of transactions – If the assessed risks is lower based on the expectation of inherent internal control, tests of controls is a requisite procedure.

Extent

3.16 This denotes the quantity of testing and is proportionately affected by the materiality levels and the degree of assurance the auditor plans to obtain. For example, the auditor may plan to increase the sample size to have a greater coverage in response to heightened risks. However, the nature of controls may influence the extent of testing, for example, in respect of an automated control, the sample size could be considerably lower since the attribute to be tested remains consistent throughout the population.

Timing

3.17 Timing of audit procedures represents the period or date to which the audit evidence applies and is based on when such procedures are carried out. The auditor may perform tests of controls or substantive procedures subsequent to the period end or at interim stage. Timing depends on:-

- purpose of procedures - for example, financial closing procedures may be performed after the period end

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- coverage- for example, audit at interim date may help in timely identification of issues and provide coverage without creating significant pressure at the period end
- extent of risk of material misstatement – for example, for areas assessed with higher risks, significantly higher procedures are required at or nearer the period end
- nature of risk of material misstatement – for example, when the auditor considers fraud risk, the response may be unannounced visits to certain locations.

(c) Other planned audit procedures required to be carried out so that the engagement complies with SAs

3.18 In terms of SA 200, an audit conducted in accordance with SAs enables the auditor to form the appropriate opinion. The authority of the SAs is included in the “Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services”. Further as per the Companies Act 2013, the auditor is also required to comment on adherence to the SAs.

Resultantly, the auditor shall need to plan how the applicable provisions of each SAs will be complied with in performing the audit.

3.19 The following table contains the list of the relevant SAs which impact development of audit plan:

Standards on Auditing	Scope of the SA	Effect on Audit Plan
SA 200 ‘Overall objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards of Auditing’	This SA sets out responsibilities of the independent auditor including the obligation to comply with the SAs.	The fundamental aspects of planning stage are covered in this SA such as adoption of professional skepticism, exercising professional judgement and consideration of detection risks. Professional

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		skepticism – involves ongoing critical assessment of audit evidence particularly those which contradicts other audit evidence or questions reliability of responses to audit queries. Professional judgement – Based on the application of relevant knowledge and experience, the auditor is required to exercise professional judgement at the planning stage in determination of materiality and deciding the nature, timing and extent of audit procedures based on interpretations of the SAs. Audit risks – implies the risk that the auditor may express an inappropriate opinion when the financial statements are materially misstated. Audit risk is a function of risk of material misstatements and detection risk. The risk of material misstatements arises due to inherent risks for
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		certain classes of transactions, account balances and disclosures; supplemented by control risks which is in relation to effectiveness of controls to address such risks. Detection risk relates to the nature, extent and timing of planned audit procedures to reduce audit risk to an acceptably low level.
SA 210 'Agreeing the Terms of Audit Engagements'	This SA deals with the auditor's responsibilities in agreeing the terms of the audit engagement with management and Those Charged with Governance.	The requirements have been explained in section 'Establishing an understanding of the terms of the engagement' (Chapter 2) of this Guide.
SA 220 'Quality Control for an Audit of Financial Statements'	This SA deals with the specific responsibilities of the auditor regarding quality control systems, policies and procedures for an audit of financial statements in consonance with	The audit plan should capture the framework followed by the auditor to comply with applicable professional standards and legal and regulatory requirements. While planning, the auditor shall consider engagement quality control review mechanisms like

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	SQC 1.	direction and supervision of engagement performance, review framework and consultation needs. These have been explained in Chapter 4 of this Guide.
SA 230 'Audit Documentation'	This SA deals with the auditor's responsibility to prepare audit documentation to evidence the basis for the auditor's opinion on the financial statements.	The existence of an adequately documented audit plan demonstrates that the auditor has planned and performed the audit in accordance with SAs and applicable legal and regulatory requirements. The related requirements are set out in Chapter 5 of this Guide.
SA 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements'	This SA deals with the auditor's responsibilities relating to fraud in an audit of financial statements, in particular identifying the risks of material misstatement arising on account of fraud and responding to such assessed risks.	While developing the audit plan, the auditor needs to consider the susceptibility to fraud risk to determine the sufficiency and appropriateness of audit evidences required. In the audit plan, the auditor shall consider assigning individuals with specialized skills (for example forensic), incorporating elements of unpredictability in selection of audit

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		procedures (for example performing procedures on balances not otherwise tested due to their materiality), focusing on obtaining more corroborative evidence etc. Appendix 2 to SA 240 (appended to this Guide) provides an illustrative list of audit procedures which could be planned to address the heightened risks of material misstatement on account of Fraud.
SA 250 'Consideration of Laws and Regulations in an Audit of financial statements'	The requirements in this SA are designed to assist the auditor in identifying material misstatement in the financial statements due to non-compliance with laws and regulations.	The audit plan should include :- • audit procedures to enable identification of non-compliance with applicable laws and regulations that may have a material effect on the financial statements. • framework to evaluate effect of such non-compliance including reporting thereof. • in respect of specific statutory reporting requirements (for example reporting

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		under CARO), appropriate tests for compliance with applicable provisions. In the context of laws and regulations, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater.
SA 260 'Communications with Those Charged with Governance'	This SA provides an overarching framework for the auditor's communication with Those Charged with Governance and identifies certain specific matters to be communicated with them.	The auditor is expected to share overall audit strategy with Those Charged with Governance. This will include application of materiality, approach to internal control, mechanism to address significant risks of material misstatement due to fraud or error etc. An Illustrative Audit Strategy Memo is included in Appendix 2 to this Guide.
SA 265 'Communicating Deficiencies in Internal Control to Those Charged with Governance and Management'	In course of risk assessment, the auditor is required to obtain an understanding of internal control relevant to the audit. This SA	The audit plan should capture the mechanism to collate all such identified deficiencies noted in respect of internal controls to eventually report to management and Those

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	specifies that deficiencies identified while performing the aforesaid activities are required to be communicated to Those Charged with Governance and management.	Charged with Governance as well as regulators if applicable. The audit plan shall also include the overall communication strategy in terms of contents, timing and form of such reporting.
SA 299 'Responsibility of Joint Auditors'	This SA deals with the professional responsibilities which the auditors undertake in accepting appointments as joint auditors.	The audit plan should capture the division of work amongst the joint auditors and the areas of work to be covered by all of them in order to ensure that jointly and severally held responsibilities are adequately discharged.
SA 315 'Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment'	This SA sets out the framework for the auditor to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels through understanding the entity and its	The provisions laid down in this SA are fundamental to determine the overall audit strategy and plan the nature, extent and timing of the audit procedures to address the risks of material misstatement. The related requirements have been elucidated in details within the Section 'Contents of an Audit Plan' of this

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		environment, including the entity's internal control.	Guide.
SA 320 'Materiality in Planning and Performing an Audit'		This SA deals with the auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements. The auditor is required to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. Therefore determination of materiality is a key activity in development of audit strategy with consequential impact on the audit plan.	At the planning stage, the auditor shall exercise professional judgement about the size of misstatements that will be considered material to assess the risks of material misstatements. Depending on the elements of financial statements, nature of entity, ownership structure, the auditor may select appropriate benchmarks to determine the materiality for financial statements as a whole. Where in the opinion of the auditor, there are particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than the materiality for the financial statements as a whole on account of regulatory requirements etc, the auditor shall also determine such lower materiality levels.

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		The auditor is also required to determine the performance materiality to address the risk that that the aggregate of individually immaterial misstatements may cause the overall financial statements to be materially misstated. Resultantly, in course of planning an audit of financial statements, the auditor identifies the areas where there may be a higher risk of material misstatements as well as significant components and material classes of transactions, account balances and disclosures. Depending upon the circumstances, the principal auditor may determine the materiality for components and communicate the same to the component auditors. For example, the principal auditor of the parent entity may decide a materiality benchmark for a component which is significantly lower than the benchmark of
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		materiality used in the previous engagement on account of certain risk factors identified for the entity as a whole. In view of that, the principal auditor needs to inform such lower benchmark to the component auditors so that they perform sufficient audit procedures. The assessed risk of material misstatements at the overall financial statement level and performance materiality will proportionately influence the nature and extent of supervision and review required for the audit engagement.
SA 330 'The Auditor's Responses to Assessed Risks'	This SA deals with the auditor's responsibility to design and implement audit procedures to address the risks of material misstatement identified and assessed pursuant to SA 315.	Similar to SA 315, this SA is pivotal in designing of the audit plan and the related aspects have been detailed under the section 'Contents of an Audit Plan' of this Guide.
SA 402 'Audit	When a user	The user auditor shall

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Considerations Relating to an Entity Using a Service Organisation'	entity uses the services of one or more service organisations which are relevant to an audit, the user auditor is responsible to obtain sufficient and appropriate audit evidence in relation to the unique risks of misstatements arising from such usage. This SA deals with such responsibilities of the auditor in these circumstances.	plan to understand the services being used as well as evaluate the design and implementation of relevant controls at the user entity that relate to such services. The user auditor shall plan whether to use a Type 1 or Type 2 report to understand the design and implementation of controls at the service organization based on the coverage in terms of scope, timing/period, level of details etc. In case sufficient evidence is not obtained from the reports, the auditor may also have to plan further audit procedures by visiting the service organization or using another auditor to perform procedures necessary for the purpose.
SA 450 'Evaluation of Misstatements Identified During the Audit'	This SA deals with the auditor's responsibility to evaluate the effect of identified misstatements on the audit and	In course of the audit, the auditor may identify misstatements which by aggregate or nature may be material. This may necessitate the auditor to modify the audit plan in

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	ascertain the effect of the uncorrected misstatements on the financial statements.	terms of the nature and extent of further audit procedures.
SA 500 'Audit Evidence'	This SA clarifies what constitutes audit evidence and states the auditor's responsibility to plan and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions for forming the auditor's opinion.	When planning audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence to determine its appropriateness and also measure the quantity of such evidence in relation to the risk assessment to determine its sufficiency. The auditor shall also plan to select items to perform tests of controls or tests of details that are effective in meeting the purpose of the audit procedure.
SA 501 'Audit Evidence – Specific Considerations for Selected Items'	This SA covers specific considerations by the auditor in obtaining sufficient appropriate audit evidence with respect to: • Existence and condition of	Depending on the identified risks of material misstatement in connection with these specific items, the auditor needs to plan specific audit procedures such as : • Evaluating management instructions, attending

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	inventory • Completeness of litigation and claims involving the entity and • Presentation and disclosure of segment information	physical stock verification, observing count procedures, inspecting condition of verified inventory, performing test counts, reconciling information, requesting confirmations, etc. • Inquiring management or legal counsel, reviewing related minutes of meetings or correspondences, reviewing legal expenses • Understanding methods used by management to determine segment information, testing application of such methods, analytical procedures, etc.
SA 505 'External Confirmations'	This SA relates to performing external confirmations procedures to obtain relevant, persuasive and reliable information as well as corroborate information from a	When the auditor plans to perform external confirmations, the auditor will need to determine information to be confirmed, select the appropriate confirming party and also evaluate whether the results of procedures provide sufficient appropriate audit evidence.

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	source independent of the entity.	
SA 510 'Initial audit Engagements – Opening Balances'	The responsibilities of the auditor in connection with opening balances (including matters requiring disclosure that existed at the beginning of the period) when conducting an initial audit engagement are stated in this SA.	For such initial audit engagements, the audit plan would incorporate procedures to identify whether the opening balances contain misstatements that materially affect the current period's financial statements by : • Determining whether the prior period's closing balances have been correctly brought forward to the current period • Determining whether the opening balances reflect the application of appropriate accounting policies • Evaluating whether audit procedures performed in the current period provide evidence relevant to the opening balances.
SA 520 'Analytical Procedures'	This SA pertains to the auditor's use of analytical procedures as substantive	Based on the nature of the assertions and the auditor's assessment of the risks of material misstatement, the auditor

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	procedures as well as procedures near the end of the audit to form an overall conclusion.	may plan to perform substantive analytical procedures in respect of areas with large volumes of transactions that tend to be predictable over time. The auditor is also required to perform analytical procedures near the end of the audit to corroborate conclusions formed during the audit.
SA 530 'Audit Sampling'	This SA deals with the auditor's use of sampling techniques and evaluating the results from the sample	While planning the audit the auditor would need to consider areas where sampling procedures could be used taking into consideration the characteristics of the population, sample size and coverage across sampling units.
SA 540 'Auditing Accounting Estimates including Fair Value Accounting Estimates and Related Disclosures'	This SA stipulates guidance on misstatements of fair value accounting estimates, and indicators of possible management bias.	The auditor shall consider following aspects while drafting the audit plan: • Mechanism how the entity makes the accounting estimates (such as underlying assumptions) • For recurring audits, the indicators of potential

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		management bias identified during the previous audits.
SA 550 'Related Parties'	This SA is in respect of the expectations from the auditor regarding related party relationships and transactions.	The audit plan shall include procedures to ensure that the entity appropriately accounts for or discloses related party relationships, transactions or balances in accordance with the requirements of the applicable financial framework. With regard to such procedures, the auditor shall also plan to maintain significant professional skepticism given the potential for undisclosed related party relationships and transactions due to fraud or error on part of the management.
SA 560 'Subsequent Events'	This SA sets out the auditor's responsibilities relating to subsequent events in an audit of financial statements. Such events are those that provide evidence and	The auditor needs to plan audit procedures to obtain necessary audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have

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	conditions that: • existed at the date of the financial statements; • arose after the date of the financial statements.	been identified and dealt with.
SA 570 'Going Concern'	This SA specifies the auditor's responsibility in the audit of financial statements with respect to management's use of the going concern assumption (ability of the entity to continue its business in foreseeable future) in the preparation and presentation of the financial statements.	The audit plan would need to refer to risk assessment procedures to identify whether there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. In case such events or conditions were identified, the auditor would need to plan additional procedures.
SA 600 'Using the Work of Another Auditor'	The SA establishes standards where a principal auditor uses the work of a	The auditor would need to plan to: • evaluate professional competence of component auditor. • perform appropriate co-

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	component auditor with respect to the financial information of one or more components included in the financial information of the entity.	ordination of efforts at the planning stage around intimation of identified key risks; procedures for the identification of relevant inter-component transactions; significant accounting, auditing and reporting requirements and the timelines for completion of audit. • design mechanism to address significant findings. The nature and timing of communication with the component auditors also needs to be taken into account while drafting the audit plan.
SA 610 'Using the Work of Internal Auditors'	This SA deals with the external auditor's responsibilities regarding the work of internal auditors when the external auditor has determined that the internal audit function is likely to be relevant to the	Depending upon the availability of the work of internal auditors and the extent of the auditor's potential reliance on such work, the external auditor needs to evaluate whether: • The internal auditors have adequate technical training and proficiency;

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	audit.	• The work was properly supervised, reviewed and documented; • Adequate audit evidence has been obtained to enable the internal auditors to draw reasonable conclusions; • Conclusions reached are appropriate in the circumstances and reports prepared by the internal auditors are consistent with the results of the work performed; and • Any exceptions or unusual matters disclosed by the internal auditors are properly resolved. The auditor while determining the audit plan needs to consider the aforesaid attributes to determine the extent of reliance to be placed on the work performed by the internal auditors. This may involve: • review of the internal audit plan and deciding to leverage on the results
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		• determination of complementary and/or supplementary audit procedures to address the assessed risks. Where the auditor plans to use the work of the internal auditors, it may be useful to agree following matters with the internal auditors at the planning stage: • Timing of such work; • Extent of audit coverage; • Materiality for financial statements as a whole and performance materiality; • Proposed methods of item selection – viz., sampling; • Manner and extent of documentation of work performed; • Review mechanism and reporting procedures.
SA 620 'Using the Work of an Auditor's Expert'	The SA sets out guidance in the event the service of an expert (other than for accounting or auditing) is used	In planning the nature, timing and extent of related procedures, the auditor is required to consider the nature of the matter to which that expert's work relates to

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	to obtain sufficient appropriate audit evidence.	and risks associated thereto; significance of expert's work in the context of the audit, the associated risks of material misstatement and the auditor's knowledge of as well as the experience with previous work performed by that expert.
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Impact of the Audit Strategy on Audit Plan

3.20 As noted earlier, the audit strategy sets out the premise which serve as the basis of the audit plan. Certain considerations of audit strategy as cited in the Section “Key considerations in developing overall audit strategy” (Chapter 2) of this Guide have significant bearing on the audit plan.

3.21 The impact of certain relevant considerations (other than those also required to comply with Standards on Auditing which have been dealt with above) is enlisted below:

Considerations on audit strategy	Effect on audit plan
The financial reporting framework on which the financial information to be audited has been prepared, including any need for reconciliations to another financial reporting framework	The auditor should plan the appropriate team with requisite technical expertise to deploy for an audit of financial statements prepared pursuant to the applicable financial reporting framework. For example, the audit engagement team may be conversant only with Indian GAAPs and therefore to conduct an audit of the financial statements prepared under US GAAPs, either additional trainings need to be

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	planned or the audit team should comprise of staff who possess such technical knowledge.
The need for a statutory audit of standalone financial statements in addition to an audit for consolidation purposes	The audit plan shall be prepared in accordance with the scope of the engagement.
The expected audit coverage, including the number and locations of components to be included	Depending on the audit strategy, the auditor needs to plan the nature and extent of audit procedures to provide adequate coverage for the purpose of the engagement. For example, if the auditor has determined to visit more branches in the current engagement as compared to the previous engagement, resources have to be mobilized to meet the additional requirement.
The coordination of the expected coverage and timing of the audit work with any reviews of interim financial information	The auditor may place reliance on the information examined in course of limited reviews or interim audits and plan additional audit procedures to supplement audit work performed up to the date of interim financial statements.
Industry-specific reporting requirements	The industry specific reporting requirements need to be recorded in the audit plan together with nature, extent and timing of related audit procedures.
The nature of the business segments to be audited	Based on the requirements, the auditor may plan to use a specialist with appropriate expertise to provide inputs on the matters in respect of segments.

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The reporting currency to be used, including any need for currency translation for the financial information audited	The audit plan needs to factor in additional testing procedures to gain assurance over such translation.
The effect of information technology on the audit procedures, including the availability of data and the expected use of computer-assisted audit techniques (CAATs)	If the auditor decides to use CAATs on the engagement, following aspects need to be considered as part of the audit plan: • Identifying the specific databases or applications to be examined together with inputs (eg, data used), parameters (eg source codes), technical information (eg reports). • Defining the specific tests to be performed together with output requirements. • Arranging for audit with appropriate skills and coordinating with entity staff. • Reconciling data to be used in CAATs with accounting records. • Methods of evaluating results and audit conclusions. CAATs may be used for performing: • tests of controls (both IT general controls and application controls). • determining the samples. • tests of details (such as re-performance of calculations).
The availability of client personnel and data	The auditor's effective coordination with management during planning will ensure such availability.

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The entity's timetable for reporting, such as at interim and final stages	The nature, extent and timing of audit procedures would be dependent on such timelines. The auditor shall need to deploy resources in accordance with such plan to meet agreed upon deadlines and also plan to supervise the engagement effectively to ensure timely progress. As stipulated in SA 330, the auditor may determine that it is effective to perform substantive procedures at an interim date, and reconcile information concerning the balance at the period end with the comparable information at the interim date to identify/ investigate unusual amounts and perform substantive procedures or tests of details to test the intervening period.
Whether there are any other expected communications with third parties, including any statutory or contractual reporting responsibilities	The audit plan needs to include all such communication needs, specific audit procedures to ensure such responsibilities are discharged. These requirements may also necessitate additional supervision and review to ensure deadlines are met.
Volume / nature of transactions	As stated in SA 330, the auditor performs tests of controls (both design and operating effectiveness review) when substantive analytical procedures and/ or tests of details cannot provide sufficient audit evidence at the assertion level on account of the volume/ nature of transactions.
Evidence of management's	The auditor can leverage on such commitment and can plan to review

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commitment to the design, implementation and maintenance of sound internal control	the documentation that evidences this fact. Based on the effectiveness of control environment, the auditor may plan to place greater reliance on tests of controls.
Significant business developments affecting the entity	For example, in case of an acquisition of a business during the audit period, the auditor shall have to plan and perform audit procedures around legal compliance and review appropriateness of accounting.
Significant changes in the financial reporting framework	While designing the audit plan, the auditor shall need to conduct a detailed analysis of impact of such changes (for example introduction of a new Accounting Standard) and determine audit procedures to address these requirements. This may be onerous at times since the entity's finance team may not have adequate expertise to understand and / or apply effect of such changes in the financial statements.
Changes in the legal environment affecting the entity such as changes in industry regulations and new reporting requirements	For example, changes to the listing agreement may require certain supplemental disclosures or changes to taxation laws may impact valuation of tax provisions. While designing the audit plan, the auditor shall take into cognizance all such key changes and determine procedures to ensure appropriate compliance.
Results of previous audits that involved evaluating the operating effectiveness of internal control	The auditor should peruse the insights gained earlier and reflect in the audit plan any specific procedures where any past misstatements or control deficiencies were noted in the previous audit. This would ensure the risk identified

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	in the previous audit has been adequately mitigated. These may include plan to have an incremental coverage within the audit area, obtaining more persuasive evidences etc.). Such procedures will also be influenced by the manner in which the issues noted in the previous period were dealt with by management which may have been immediately remediation or a deferred plan was agreed upon to address the issue in a phased manner.
The discussion of matters that may affect the audit with firm personnel responsible for performing other services to the entity	When the auditor provides a permissible non-assurance service to an entity, the auditor shall plan to connect with the non-audit team to obtain information that is useful for the purpose of audit. For example, if a network firm of the auditor is assisting the entity in resolution of tax disputes, the auditor may corroborate the information obtained about the status of litigations.
The selection of the engagement team	Selection of the engagement team will impact the nature, extent and timing of direction, supervision and review required. For example, for an engagement team with previous experience on this engagement, level of supervision and review would be proportionately reduced.
Engagement budgeting	Tracking to engagement budget is essential to drive efficiencies and manage economics. The monitoring mechanism for budget to actuals needs to be set up during the planning stage.

Chapter 4

Other Aspects of Strategic Audit Planning

Benefits of Establishing Overall Audit Strategy and Developing Audit Plan

4.1 It is often said “Well planned is half done”. Therefore, strategic planning in an audit engagement brings forth a plethora of advantages. The key benefits of audit planning are listed below.

Perform the engagement effectively while achieving economics

4.2 A well-defined audit strategy supported by a robust audit plan enables the auditor to properly manage and organize the audit engagement and enable the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.

Further, planning enables securing engagement economics through optimum utilization of available resources as well as avoiding wastage of resources. The order and rationality in deployment of resources is a key aspect of planning. Appropriate planning leads to rationalized use of staff time, resources and methods. For example, the auditor plans the team composition and timelines and tracks to it to maintain anticipated efficiencies.

Determine the nature, extent and timing of resources to be deployed for specific audit areas

4.3 A well thought out plan involves thinking how to accomplish the audit objectives and determine ‘which’, ‘how much’ and ‘when’ aspects of the resource utilization viz, engagement team.

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Nature (Which)	Extent (How much)	Timing (When)
Selection of team will depend on the appropriate levels of capabilities and appropriately experienced team members will be deployed to audit areas susceptible to higher risks.	The number of resources to be assigned will depend on the volume of transactions, complexities involved, number of locations targeted etc.	The appropriate timing of audit procedures (such as tests performed at interim audit stage or certain tests to be conducted at the date of financial statements) could be determined by way of planning.

Facilitate direction, supervision and review by more experienced team members

4.4 In terms of SA 220, the elements of direction, supervision and review are as follows:

Direction	Supervision	Review
Informing engagement team of: • The objectives of the engagement, their joint and individual responsibilities, including the need to comply with relevant ethical requirements • Maintain ongoing professional skepticism	Matters such as : • Tracking the progress of the audit engagement. • Considering the competence and capabilities of individual members of the engagement team, including whether they have sufficient	Consideration of whether: • The work has been performed in accordance with professional standards as well as legal and regulatory requirements; • Significant matters have been raised for further consideration;

Other Aspects of Strategic Audit Planning

• The nature of the entity's business. • Outcome of risk assessment procedures including identified risks of material misstatement • Detailed planned approach to perform the engagement effectively and efficiently	time to carry out their work, whether they understand their instructions, and whether the work is being carried out in accordance with the planned approach to the audit engagement. • Addressing significant matters arising during the audit engagement, considering their significance and modifying the planned approach appropriately. • Identifying matters for consultation or consideration by more experienced engagement team members during the audit engagement.	• Appropriate consultations have taken place and the resulting conclusions have been documented and implemented; • There is a need to revise the nature, timing and extent of work performed; • The work performed supports the conclusions reached and is appropriately documented; • The evidence obtained is sufficient and appropriate to support the auditor's report • The objectives of the engagement procedures have been achieved.
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4.5 Planning involves consideration of all these attributes and creates a detailed and structured blue-print to:

- Help staff to be aware of their expectations through the direction provided in the team planning meetings.

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- Maintain timeliness of guidance to be provided by way of supervision.
- Ensure quality of work through critical review framework.

4.6 The nature, timing and extent of the direction and supervision of engagement team members and review of their work vary depending on many factors, including:

- **The size and complexity of the entity** – A very large sized audit engagement with significant complexities may require involvement of several experienced personnel (including involvement of other partners).
- **The area of the audit** – in respect of areas with assessed risk of material misstatement, the extent and timeliness of direction and supervision of engagement team members have to be proportionately increased and would also require a more detailed review.
- **The capabilities and competence of the individual team members performing the audit work** – If majority of engagement team members are new and/ or inexperienced, the extent of direction and supervision would be more with extensive review to be performed on their work to ensure appropriate quality of work.
- **Expected timelines to complete the engagement**– Lack of direction and timely supervision may adversely impact progress of audit activities with corresponding implication on deadlines.

Nature, Extent and Timing of Audit Planning

4.7 To summarise, the nature and extent of planning activities in an audit engagement varies in accordance with the size and complexity of the entity, the key engagement team members' previous experience with the entity, and changes in circumstances that occur during the audit engagement.

4.8 The audit strategy is created at the commencement of the audit to enable designing of effective responses to identified risks of material misstatements. However, the audit strategy and audit

Other Aspects of Strategic Audit Planning

plan is updated and modified during the course of the audit as deemed necessary. So, in effect, though the planning of an audit occurs at the beginning of the current audit engagement, it is a continuous evolving process entailing iterations as needed.

4.9 For recurring audits, the planning process begins immediately after the completion of the previous audit (through reassessment of engagement continuance) and continues until the completion of the current audit engagement.

4.10 The establishment of the overall audit strategy and the detailed audit plan are not always discrete or sequential processes, but are closely inter-related since changes in one may result in consequential changes to the other.

Involvement of Key Engagement Team Members

4.11 The engagement partner and other key members of the engagement team are expected to be involved in planning the audit and actively participate in the discussion among engagement team members.

4.12 It is expected that the engagement partner responsible for issuance of opinion on the financial statements takes responsibility for the appropriateness and sufficiency of the overall audit strategy and plan in respect of nature, extent and timing of auditing procedures.

4.13 SA 315 and SA 240 enlist following benefits arising from the discussion amongst the engagement team:

- **Provides an opportunity for more experienced engagement team members to share their insights based on their knowledge of the entity and susceptibility to fraud**– for example, insights about entity's vision for growth, integrity of management, deficiencies in controls noted in the previous engagements, how management could perpetrate and conceal fraudulent financial reporting, how assets of the entity could be misappropriated etc., could be discussed so that junior team members gain a better perspective about the entity and maintain professional skepticism.

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- **Allows the engagement team members to exchange information about the business risks** - to which the entity is subjected to and about how and where the financial statements might be susceptible to material misstatement due to fraud or error.
- **Assists the engagement team members to gain a better understanding of the potential for material misstatement of the financial statements (including fraud risks) in the specific areas assigned to them** and to understand how the results of the planned audit procedures to address such risks may impact future planning of events.
- **Provides a forum in which engagement team members share new information** obtained throughout the audit that may affect the assessment of risks of material misstatement or the audit procedures.
- **Allows discussion around consideration of the types of circumstances that, if encountered, might indicate the possibility of fraud** such as known external and internal factors affecting the entity that may create an incentive or pressure for management or others to commit fraud, the opportunity for fraud to be perpetrated, and potential environment that enables management or others to rationalize committing fraud. The audit team may also discuss how an element of unpredictability will be incorporated into the nature, timing and extent of the planned audit procedures to address these risks.

Changes to Planning Decisions During the Course of the Audit

4.14 In order for a plan to be effective, it needs to be dynamic, iterative and flexible to address any changed circumstance. As all matters cannot be predicted in advance, rigid adherence to the pre-determined plan without adjusting for necessary amendments will not support accomplishment of audit objectives.

4.15 The amendments to the overall audit strategy and plan (with consequential effect on nature, timing and extent of further audit procedures) may be required on account of:-

Other Aspects of Strategic Audit Planning

- **unanticipated events** – for example, during the audit if several members of the senior management leave the organisation, the auditor would need to understand whether the conclusions around control environment are valid and plan different procedures based on any emerging risks.
- **changed conditions** – for example, if during the audit, the entity is acquired by another entity, the auditor needs to plan appropriate substantive audit procedures relating to such newly identified related party.
- **inconsistent information**- for example if the information obtained through confirmations from a third party do not corroborate with information provided by management, then the auditor shall need to perform additional procedures such as evaluating whether such difference is merely on account of timing or potential misstatements indicative of fraud.
- **divergence noted between the expected audit evidence and the actual evidence** -for example, the auditor based on the understanding of the business may have planned to obtain reasonable assurance around certain assertion through substantive analytical procedures. However during the audit, if the auditor notices a significant unexplained variance, the auditor may have to resort to alternative substantive procedures (such as tests of details).

Discussion with Management

4.16 Usually, the auditor discusses certain elements of planning with the entity's management to facilitate the conduct and management of the audit engagement (for example, to coordinate planned audit procedures with the daily schedule of the auditees' personnel, to visit multiple locations of operations, etc.). Although the auditor may discuss these elements with the senior management, the auditor is responsible for the overall audit strategy and the audit plan. Inputs and considerations from the management are only indicative and it is the auditor's prerogative to form a decision based on such insights.

4.17 It is also critical that due care is taken while discussing the

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elements of audit plan in order to ensure that the effectiveness of the audit is not adversely impacted. For example, if the auditor shares the exact nature, extent and timing of detailed audit procedures with management including the sampling methodology to be followed, the unpredictable attribute of an audit may be compromised.

4.18 The auditor usually keeps the management updated about the progress of the audit and co-ordinate closely with client personnel so that agreed upon timelines can be adhered to and efficiency can be driven. The periodicity, manner and timing of such communication need to be planned and such plan needs to be customized if unexpected difficulties are encountered.

Chapter 5

Documentation

The auditor should document the following aspects.

The overall audit strategy

5.1 The auditor may summarize the overall audit strategy in the form of a memorandum that contains key decisions regarding the overall scope, timing and conduct of the audit. The auditor usually shares the audit strategy memorandum with the management or Those Charged with Governance.

5.2 An illustrative format of audit strategy memorandum has been included in **Appendix 2** to this Guide.

The audit plan

5.3 The documentation of the audit plan is a record of the:

- planned nature, timing and extent of risk assessment procedures
- further audit procedures at the assertion level in response to the assessed risks.

5.4 An illustrative format of documenting risk assessment procedures and planned audit procedures has been included in **Appendix 3** to this Guide.

5.5 It also serves as a record of the proper planning of the audit procedures that can be reviewed and approved prior to their performance. The auditor may use standard audit programs and/or audit completion checklists, tailored as needed to reflect the particular engagement circumstances.

5.6 An illustrative format of audit planning schedule is given in **Appendix 4** to this Guide.

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5.7 A record of the significant changes to the overall audit strategy and the audit plan and the reasons for such changes, and resulting changes to the planned nature, timing and extent of audit procedures, explains why the significant changes were made, and the overall strategy and audit plan finally adopted for the audit. It also reflects the appropriate response to the significant changes occurring during the audit.

Chapter 6

Considerations Specific to Smaller Entities

6.1 In audits of small entities, the entire audit may be conducted by a very small audit team. Many audits of small entities involve the engagement partner (who may be a sole practitioner) working with one engagement team member (or without any engagement team members). In such case, the engagement partner shall personally consider the susceptibility of the financial statements to material misstatements due to fraud or error while planning the audit.

Audit strategy

6.2 Establishing the overall audit strategy for the audit of a small entity need not be a complex or time-consuming exercise; it varies according to the size of the entity, the complexity of the audit, and the size of the engagement team. For example, a brief memorandum prepared at the completion of the previous audit, based on a review of the working papers and highlighting issues identified in the audit just completed, updated in the current period based on discussions with the owner-manager, can serve as the documented audit strategy for the current audit engagement if it covers the key considerations of overall audit strategy (Chapter 2) of the Guide.

Audit Plan

6.3 For the audit plan, standard audit programs and/or checklists drawn up on the assumption of few relevant control activities, as is likely to be the case in a smaller entity, may be used provided that they are tailored to the circumstances of the engagement, including the auditor's risk assessments.

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Direction, Supervision and Review

6.4 When an audit is carried out entirely by the engagement partner, questions of direction and supervision of engagement team members and review of their work do not arise. In such cases, the engagement partner, having personally conducted all aspects of the work, will be aware of all material issues. Forming an objective view on the appropriateness of the judgments made in the course of the audit can present practical problems when the same individual also performs the entire audit. When particularly complex or unusual issues are involved, and the audit is performed by a sole practitioner, it may be desirable to consult with other suitably-experienced auditors or the auditor's professional body.

6.5 If the audit team comprises of a smaller team, co-ordination of, and communication between, team members also become easier.

Appendix 1

Text of Appendix 2 to SA 240

Examples of Possible Audit Procedures to Address the Assessed Risks of Material Misstatement Due to Fraud

The following are examples of possible audit procedures to address the assessed risks of material misstatement due to fraud resulting from both fraudulent financial reporting and misappropriation of assets. Although these procedures cover a broad range of situations, they are only examples and, accordingly they may not be the most appropriate nor necessary in each circumstance. Also the order of the procedures provided is not intended to reflect their relative importance.

Consideration at the Assertion Level

Specific responses to the auditor's assessment of the risks of material misstatement due to fraud will vary depending upon the types or combinations of fraud risk factors or conditions identified, and the classes of transactions, account balances, disclosures and assertions they may affect.

The following are specific examples of responses:

- Visiting locations or performing certain tests on a surprise or unannounced basis. For example, observing inventory at locations where auditor attendance has not been previously announced or counting cash at a particular date on a surprise basis.
- Requesting that inventories be counted at the end of the reporting period or on a date closer to period end to minimize the risk of manipulation of balances in the period between the date of completion of the count and the end of the reporting period.
- Altering the audit approach in the current year. For example, contacting major customers and suppliers orally in addition to

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sending written confirmation, sending confirmation requests to a specific party within an organization, or seeking more or different information.

- Performing a detailed review of the entity's quarter-end or year-end adjusting entries and investigating any that appear unusual as to nature or amount.
- For significant and unusual transactions, particularly those occurring at or near year-end, investigating the possibility of related parties and the sources of financial resources supporting the transactions.
- Performing substantive analytical procedures using disaggregated data. For example, comparing sales and cost of sales by location, line of business or month to expectations developed by the auditor.
- Conducting interviews of personnel involved in areas where a risk of material misstatement due to fraud has been identified, to obtain their insights about the risk and whether, or how, controls address the risk.
- When other independent auditors are auditing the financial statements of one or more subsidiaries, divisions or branches, discussing with them the extent of work necessary to be performed to address the assessed risk of material misstatement due to fraud resulting from transactions and activities among these components.
- If the work of an expert becomes particularly significant with respect to a financial statement item for which the assessed risk of misstatement due to fraud is high, performing additional procedures relating to some or all of the expert's assumptions, methods or findings to determine that the findings are not unreasonable, or engaging another expert for that purpose.
- Performing audit procedures to analyze selected opening balance sheet accounts of previously audited financial statements to assess how certain issues involving accounting estimates and judgments, for example, an allowance for sales returns, were resolved with the benefit of hindsight.

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- Performing procedures on account or other reconciliations prepared by the entity, including considering reconciliations performed at interim periods.
- Performing computer-assisted techniques, such as data mining to test for anomalies in a population.
- Testing the integrity of computer-produced records and transactions.
- Seeking additional audit evidence from sources outside of the entity being audited.

Specific Responses—Misstatement Resulting from Fraudulent Financial Reporting

Examples of responses to the auditor's assessment of the risks of material misstatement due to fraudulent financial reporting are as follows:

Revenue Recognition

- Performing substantive analytical procedures relating to revenue using disaggregated data, for example, comparing revenue reported by month and by product line or business segment during the current reporting period with comparable prior periods. Computer-assisted audit techniques may be useful in identifying unusual or unexpected revenue relationships or transactions.
- Confirming with customers certain relevant contract terms and the absence of side agreements, because the appropriate accounting often is influenced by such terms or agreements and basis for rebates or the period to which they relate are often poorly documented. For example, acceptance criteria, delivery and payment terms, the absence of future or continuing vendor obligations, the right to return the product, guaranteed resale amounts, and cancellation or refund provisions often are relevant in such circumstances.
- Inquiring of the entity's sales and marketing personnel or in-house legal counsel regarding sales or shipments near the end of the period and their knowledge of any unusual terms or conditions associated with these transactions.
- Being physically present at one or more locations at period

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end to observe goods being shipped or being readied for shipment (or returns awaiting processing) and performing other appropriate sales and inventory cut-off procedures.

- For those situations for which revenue transactions are electronically initiated, processed, and recorded, testing controls to determine whether they provide assurance that recorded revenue transactions occurred and are properly recorded.

Inventory Quantities

- Examining the entity's inventory records to identify locations or items that require specific attention during or after the physical inventory count.
- Observing inventory counts at certain locations on an unannounced basis or conducting inventory counts at all locations on the same date.
- Conducting inventory counts at or near the end of the reporting period to minimize the risk of inappropriate manipulation during the period between the count and the end of the reporting period.
- Performing additional procedures during the observation of the count, for example, more rigorously examining the contents of boxed items, the manner in which the goods are stacked (for example, hollow squares) or labeled, and the quality (that is, purity, grade, or concentration) of liquid substances such as perfumes or specialty chemicals. Using the work of an expert may be helpful in this regard.
- Comparing the quantities for the current period with prior periods by class or category of inventory, location or other criteria, or comparison of quantities counted with perpetual records.
- Using computer-assisted audit techniques to further test the compilation of the physical inventory counts—for example, sorting by tag number to test tag controls or by item serial number to test the possibility of item omission or duplication.

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Management Estimates

- Using an expert to develop an independent estimate for comparison to management's estimate.
- Extending inquiries to individuals outside of management and the accounting department to corroborate management's ability and intent to carry out plans that are relevant to developing the estimate.

Specific Responses—Misstatements Due to Misappropriation of Assets

Differing circumstances would necessarily dictate different responses. Ordinarily, the audit response to an assessed risk of material misstatement due to fraud relating to misappropriation of assets will be directed toward certain account balances and classes of transactions. Although some of the audit responses noted in the two categories above may apply in such circumstances, the scope of the work is to be linked to the specific information about the misappropriation risk that has been identified.

Examples of responses to the auditor's assessment of the risk of material misstatements due to misappropriation of assets are as follows:

- Counting cash or securities at or near year-end.
- Confirming directly with customers the account activity (including credit memo and sales return activity as well as dates payments were made) for the period under audit.
- Analyzing recoveries of written-off accounts.
- Analyzing inventory shortages by location or product type.
- Comparing key inventory ratios to industry norm.
- Reviewing supporting documentation for reductions to the perpetual inventory records.
- Performing a computerized match of the vendor list with a list of employees to identify matches of addresses or phone numbers.
- Performing a computerized search of payroll records to identify

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duplicate addresses, employee identification or taxing authority numbers or bank accounts.

- Reviewing personnel files for those that contain little or no evidence of activity, for example, lack of performance evaluations.
- Analyzing sales discounts and returns for unusual patterns or trends.
- Confirming specific terms of contracts with third parties.
- Obtaining evidence that contracts are being carried out in accordance with their terms.
- Reviewing the propriety of large and unusual expenses.
- Reviewing the authorization and carrying value of senior management and related party loans.
- Reviewing the level and propriety of expense reports submitted by senior management.

Appendix 2

Illustrative Format of An Audit Strategy Memo

Objectives

The purpose of this document is to share with the Audit Committee our proposed audit strategy in relation to the audit of ABC Limited (the Company) of the financial statements for the year ending 31st March XXXX comprising of the Balance Sheet as on that date, and the Statement of Profit and Loss and Cash Flow Statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Our Responsibilities

Our responsibility in relation to the audit is to provide an expression of an opinion on whether the financial statements are prepared, in all material respects, in accordance with Indian GAAP (applicable financial reporting framework). Our audit is carried out in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Our Overall Approach

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures for this purpose depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management as well as evaluating the overall presentation of the financial statements.

Our approach to the audit is risk focused based on our understanding of the Company and its environment, including the company's internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material

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misstatement at the financial statement level and assertion levels . We have planned to carry out audit procedures through obtaining sufficient appropriate audit evidence in relation to the assessed risks of material misstatement.

As mentioned, we shall consider internal control relevant to the company's preparation and fair presentation of the financial statements however such consideration is not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. We shall communicate to you at the end of the audit any deficiencies in internal control framework that we notice in course of our audit however such communication shall not include all possible weaknesses in internal control that a more extensive review exercise might identify.

Discussion with Management

We have met with all the functional heads of the Company during our initial meetings at the commencement of the engagement and discussed salient features of our planning process with xxx (CFO/ Finance Head as appropriate). We have not yet verified the information obtained in such meetings while presenting through this document.

While developing the audit strategy, we have taken cognizance of the operations of the Company, its business strategies and risks and customized the audit strategy in accordance with such needs.

In course of the audit and throughout the year, we shall closely interact with management of the Company to ensure timely responses to any emerging issues.

Working with Internal Audit

During our audit we shall seek to leverage on the work performed by XXX (Name of the Internal Auditor) in respect of the areas covered by the Internal audit and shall communicate with them to discuss the work performed by them.

If any internal audit findings indicate deficiencies in internal controls that could have material impact on transactions or account balances in the financial statements, we shall plan and perform additional audit procedures to address such potential risks of material misstatement. We may also review remediation of any

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issues highlighted by the internal auditors which may have material impact on the financial statements.

Use of Specialists

We shall use following specialists on the engagement to gain sufficient appropriate evidence in relation to the respective areas:

Taxation – We shall use our tax team to review the tax provisions and status of pending litigations.

Information Security – We shall use a team of IT experts to review the application and security controls of the new financial system implemented during the year.

Use of Service Organisation

We understand that the payroll services of the Company have been outsourced to XXX (Name of the entity). We plan to peruse the Type 2 report for such organisation provided the description and design of the controls is for the similar financial period. We may perform additional procedures based on the results of this report.

Materiality

We have determined our materiality levels as part of our planning process and shall apply these levels throughout the audit to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.

Key Risks

Pursuant to the Standards on Auditing, following risks are required to be considered in all audits:

- Management override of controls – Generally, management remains in a position to manipulate accounting records and prepare fraudulent financial statements. Accordingly, the risk of management override of control is considered a key risk and we shall carry out controls testing and substantive procedures, including review of journal entries, accounting estimates and significant transactions that are outside the normal course of business.
- Revenue recognition – Due to the nature of business and

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regulatory framework in which the Company operates, we have considered this to be a key risk and we plan to perform any specific fraud testing procedures for revenue recognition such as performing detailed analytical procedures, extensive tests of details and visiting multiple branches of the Company.

As part of our planning we have identified the following additional key risk based on our initial discussions with management:

- New financial system – On account of the new financial systems implemented this year, we shall understand the controls embedded in the systems, re-perform and review reconciliations and also involve an IT expert in this process.

We shall focus our efforts on the aforesaid areas in view of the potential elevated risks. The nature, extent and timing of audit procedures for the remaining areas shall be proportionately adjusted depending on our risk assessment.

However, in course of our audit, if we come across circumstances which may result in a potential risk of material misstatement, we shall change our approach accordingly.

Fraud risk consideration

The primary responsibility for the prevention and detection of fraud rests with both the Board of Directors of the Company and its management. We are required to consider fraud risk factors and respond to such factors in course of the audit. While we believe the fraud risk to be low, we shall monitor the aspect of management override of control on an ongoing basis in course of our audit and update our audit approach if deemed necessary.

Independence

In accordance with the Standards on Auditing, we are required to comply with ethical requirements and communicate to you all relationships between us and the Company that may have bearing on our independence. In our opinion and based on the safeguards we have put in place, we do not envisage any threats to objectivity and independence as on date.

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Audit timelines

The proposed timelines as discussed with management are as follows:

Audit Activity	Date timeline
Developing audit strategy/ plan and meeting management	XXX
Commencement of fieldwork	XXX
Review by Engagement Partner/ Quality Review Partner	XXX
Issue draft report	XXX
Audit Committee/ Board of Directors to approve financial statements , discuss and sign auditor's report	XXX

Audit team

We have selected the audit team with requisite expertise and relevant experience as follows:

Designation	Name
Engagement Partner	XXX
Quality Review Partner	XXX
Engagement Manager	XXX
Engagement Senior	XXX

Audit Fees

Our proposed fee for this audit engagement is INR xxx exclusive of applicable taxes and out-of-pocket expenses (to be charged at actuals).

Terms and conditions of the Engagement

We have agreed the detailed terms of the engagement with the management through our engagement letter dated XXX.

Appendix 3

Illustrative Format of Audit Plan

Identification and Assessment of Key Risks of Material Misstatement

(to be completed for all material classes of transactions,
account balances and disclosures)

Area	
Amount as per Trial Balance	
Components of the amount	
Understanding of the processes based on inquiry with: • Management • Those Charged with Governance • Internal auditor • Business process owners • In-house legal counsel • Any other source	
Results of preliminary analytical procedures – any unusual or unexpected relationships	
Results of design effectiveness of internal controls • Control environment	

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- Risk assessment - Information system and business process - Control activities - Monitoring of controls			
Results of observation and inspection of : - Entity's operations - Documents and records - Reports - Premises			
Other information available - past audits - other engagements of the entity - continuance assessment - results of limited reviews at interim periods - discussions within engagement team - any other source			
Identified risks	Risk description	Inherent / Control	Assertion
Key risks			
Non –key risks			
Impact on any other area			

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Planned procedures – to be completed prior to performance of audit procedures based on aforesaid information

Assessed risks	Planned procedures			
	Nature	Extent	Timing-Interim / Final	Team member
	Tests of operating effectiveness of controls Substantive procedures - Analytical procedures - Tests of details - Any specific procedure in accordance with SAs			
	Tests of operating effectiveness of controls Substantive procedures - Analytical procedures - Tests of details - Any specific procedure in accordance with SAs			

(Approval of Engagement Partner)

Appendix 4

Illustrative Format of Audit Planning Schedule

Tasks/ Timing	Week 1	Week 2	Week 3	Week 4	Week 5	Budgeted hours	Actual hours
Meetings							
Meetings with management to understand entity's operations and significant developments, update progress	√	√	√	√	√	X	
Deployment of engagement team and team meetings	√	√	√	√	√	X	
Meetings with Those Charged with Governance – sharing audit strategy and conclusions	√	√			√	X	
Perform risk assessment							
Perform preliminary analytics and other planning procedures	√					X	
Identify and assess key risk		√				X	

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Determine audit strategy		√				X	
Develop responses to risks through detailed audit plan		√				X	
Perform tests of controls							
Identify key controls		√				X	
Review work of others (Internal audit, Type 1/2 reports)		√				X	
Perform tests as designed			√			X	
Evaluate deficiencies and impact on substantive procedures			√			X	
Perform Substantive Procedures							
Determine procedures responsive to key risks			√			X	
Perform substantive analytical procedures or tests of details as planned and obtain sufficient appropriate audit evidence			√	√		X	
Evaluate appropriateness and sufficiency of				√			

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audit evidence							
Execute changes to audit strategy and plan if circumstances require				√			
Conclusions							
Perform final analytics and other closing procedures					√	X	
Review by Engagement Partner and conclude on evidences obtained					√	X	
Consultations with Quality Review Partner					√	X	
Share draft results and discuss with management					√	X	
Finalise and Issue opinion, discuss with Those Charged with Governance					√	X	

Notes

A series of horizontal dotted lines for writing.