

# Key Elements of Financial Audit Cycle

# Module Objectives

Understanding  
Important  
Elements of  
Assurance  
Based Audit  
Cycle

# Overview of the Financial Audit Process



# Pre Engagement – Decision Making

Whether to take up assignment?

- Capacity of the SAI to conduct engagement
- Capacity of the audited entity to produce reasonably reliable information
- Considerations of independence, ethical requirements, etc.

Whether engagement assignment can be made more resource efficient?

- Can changes be made to FRF that could ease up Financial Statement preparation and its auditing without compromising fair presentation requirements
- Can prior audit work be used

# Pre Engagement – Decision Making

Deciding about  
required  
resources

- What HR, financial and technical resources shall be needed and
- Audit Timing requirements

Nature and  
timing of  
communication  
with the entity.

- How to communicate? Written, verbal, electronic means, etc.
- When to communicate? At what time what communication is required.
- With whom to communicate? At what level to interact for a particular communication

# Pre Engagement - Activities

## Examples of the Preplanning Phase activities

Obtain the prior year's permanent, tax, correspondence, and current files.

Become familiar with the auditor's report, financial statements, and footnotes.

Determine that the reporting framework is appropriate given the nature, size, and complexity of the client.

Review the prior year's risk assessment procedures, levels of assessed risk, audit strategy, and audit plan (program) to determine if there are opportunities for changes that will save audit time charges in the current year.

# Pre Engagement - Activities

## Examples of the Preplanning Phase activities

Review the key forms, practice aids, working papers, and other documentation in last year's audit files to determine if any client documents, unnecessary working papers, or correspondence can be eliminated this year.

Determine if it is possible to use the prior year's control risk assessment in the current year and if doing so can reduce the current year's risk assessment procedures and other substantive tests.

# Pre Engagement - Activities

## Examples of the Preplanning Phase activities

Determine if specialists will be needed (e.g., IT persons, attorneys, valuation experts, actuaries).

Prepare a list of schedules and other assistance to request from client, and deliver at least thirty days before the engagement date.

Prepare engagement letter



# Overall Audit Strategy

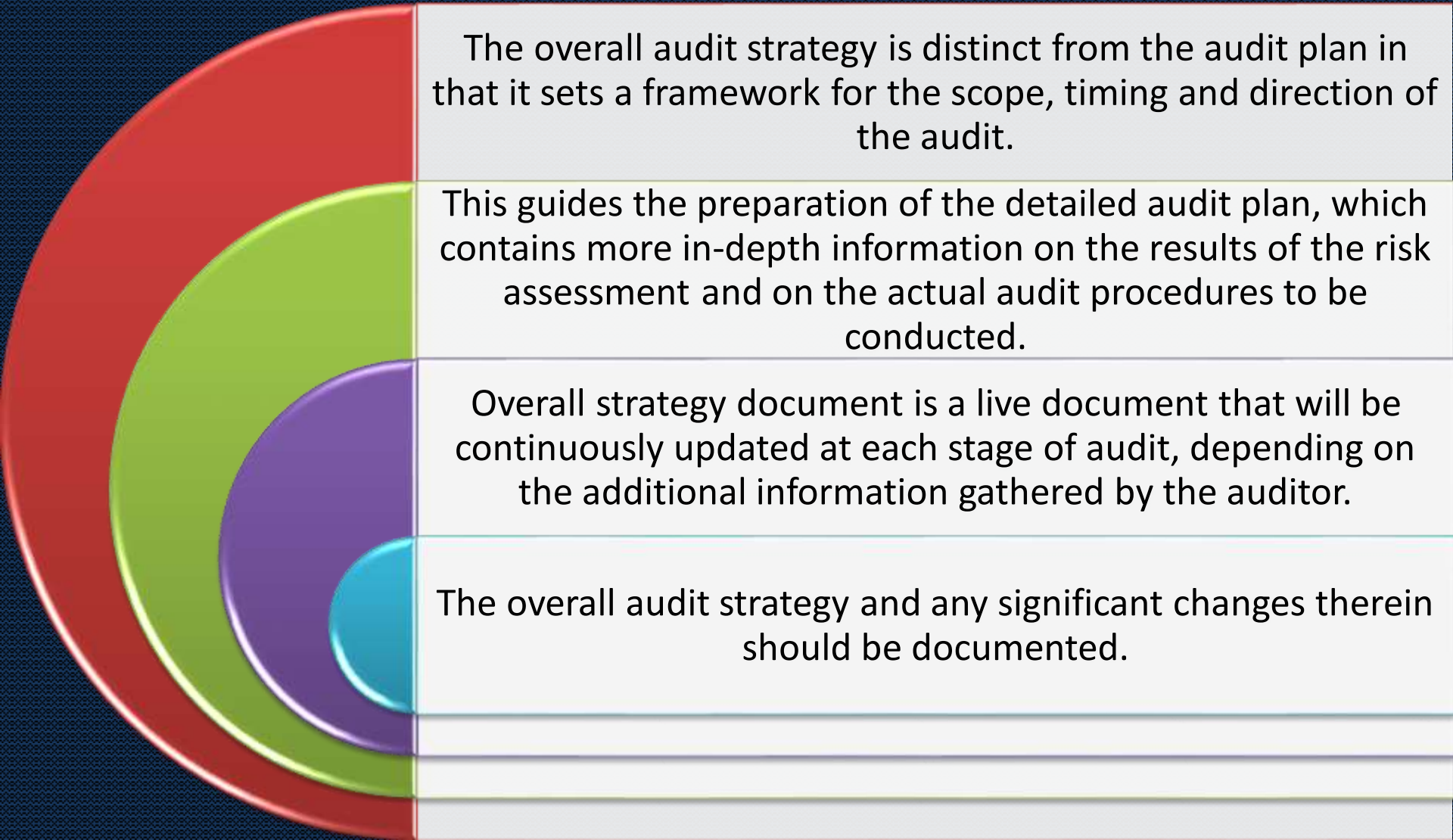
The first step in audit planning involves establishing the overall audit strategy that forms a basis for developing a detailed audit plan.

It involves gaining

- a high level understanding of the audited entity, the risk it faces, legal framework it operates in, FRF, etc., and
- assess factors like materiality, audit risk and its components, etc., as sources of potential material misstatements.

It relates to the overall approach for the audit and its scope.

# Overall Audit Strategy



The overall audit strategy is distinct from the audit plan in that it sets a framework for the scope, timing and direction of the audit.

This guides the preparation of the detailed audit plan, which contains more in-depth information on the results of the risk assessment and on the actual audit procedures to be conducted.

Overall strategy document is a live document that will be continuously updated at each stage of audit, depending on the additional information gathered by the auditor.

The overall audit strategy and any significant changes therein should be documented.

# Overall Audit Strategy

ISSAI 1300.8 requires that in establishing the overall audit strategy, the auditor shall:

- identify the characteristics of the engagement that define its scope, e.g. additional funds from donors may extend the scope;
- ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required;
- consider the factors that are significant in directing the engagement team's efforts, e.g., materiality, risk assessments, control system assessments, etc ;
- consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant; and
- ascertain the nature, timing and extent of resources necessary to perform the engagement.

# Overall Audit Strategy

Examples of characteristics of the engagement that define its scope are:

- FRF: If the entity officials are not familiar with the FRF disclosure and recognition requirements for the financial statements may not be met.
- there may be specific reporting requirements in legislation that the auditor must understand
- number and location of components to be audited,
- whether the financial statements are stand-alone or consolidated

# Overall Audit Strategy

## Timetable for Reporting and Communication

- entity's reporting timetable,
- timing of the audit and audit report
- communication between auditors and management, those charged with governance and third parties, as well as among the audit team.

The overall strategy will have to consider the availability of staff to meet the deadlines.

This will be impacted by the results of the risk assessment procedures and the extent of work to be performed.

# Overall Audit Strategy

Factors  
significant  
in directing  
the  
engagement  
team's  
efforts:

- **Materiality:** materiality for the financial statements as a whole, for specific classes of transactions, balances and events (if applicable)
- **Material misstatements:** likelihood and the impact of the risk of material misstatement at (a) the financial statement level and (b) for those specific components, classes of transactions, balances and events for which a lower materiality has been set.
- **Internal control:** Evidence of management's commitment to the design, implementation and maintenance of sound internal controls

# Overall Audit Strategy

Factors significant in directing the engagement team's efforts:

- **Other significant factors:** Significant changes in the business development such as changes in information technology and business processes and key management:
- changes in the industry such as industry relations and new financial reporting:
- changes in the FRF, such as changes in the accounting standards;
- changes in the legal environment.
- **Considering fraud:** The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.
- An auditor conducting an audit in accordance with ISAs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.

# Overall Audit Strategy

Considerations for nature, timing and extent of resources need for example:

- high risk areas to be assigned to experienced team members or/and experts
- amount of resources to be allocated to specific audit areas,
- the extent of review of other auditor's work
- audit budget in hours to be allocated to high risk areas



# Overall Audit Strategy to Audit Plan

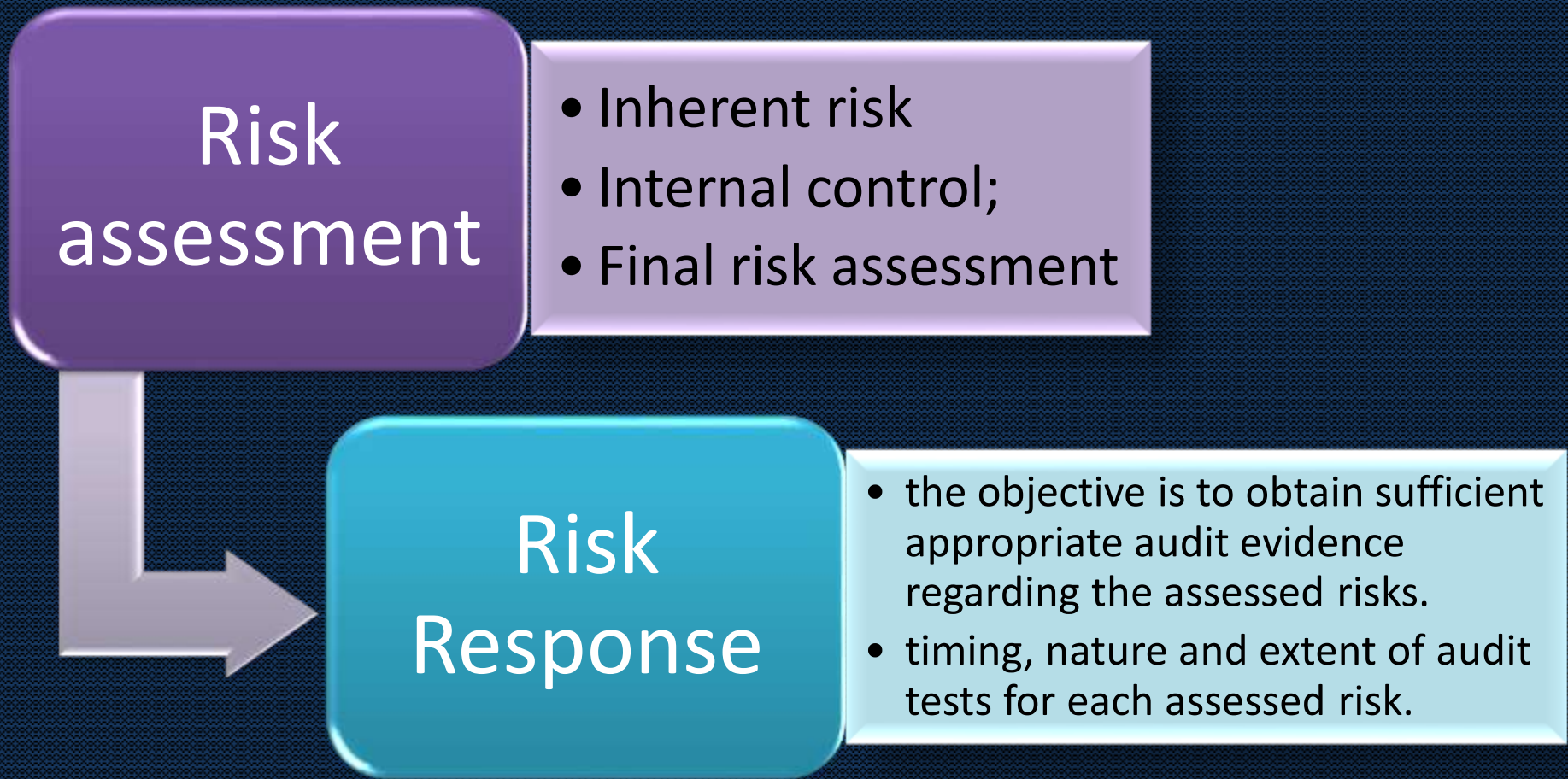
Understanding entity and its environment

Determining overall audit risk

Determining Materiality:

- Overall Materiality
- Performance Materiality

# Overall Audit Strategy and Audit Plan



# Overall Audit Strategy and Audit Plan

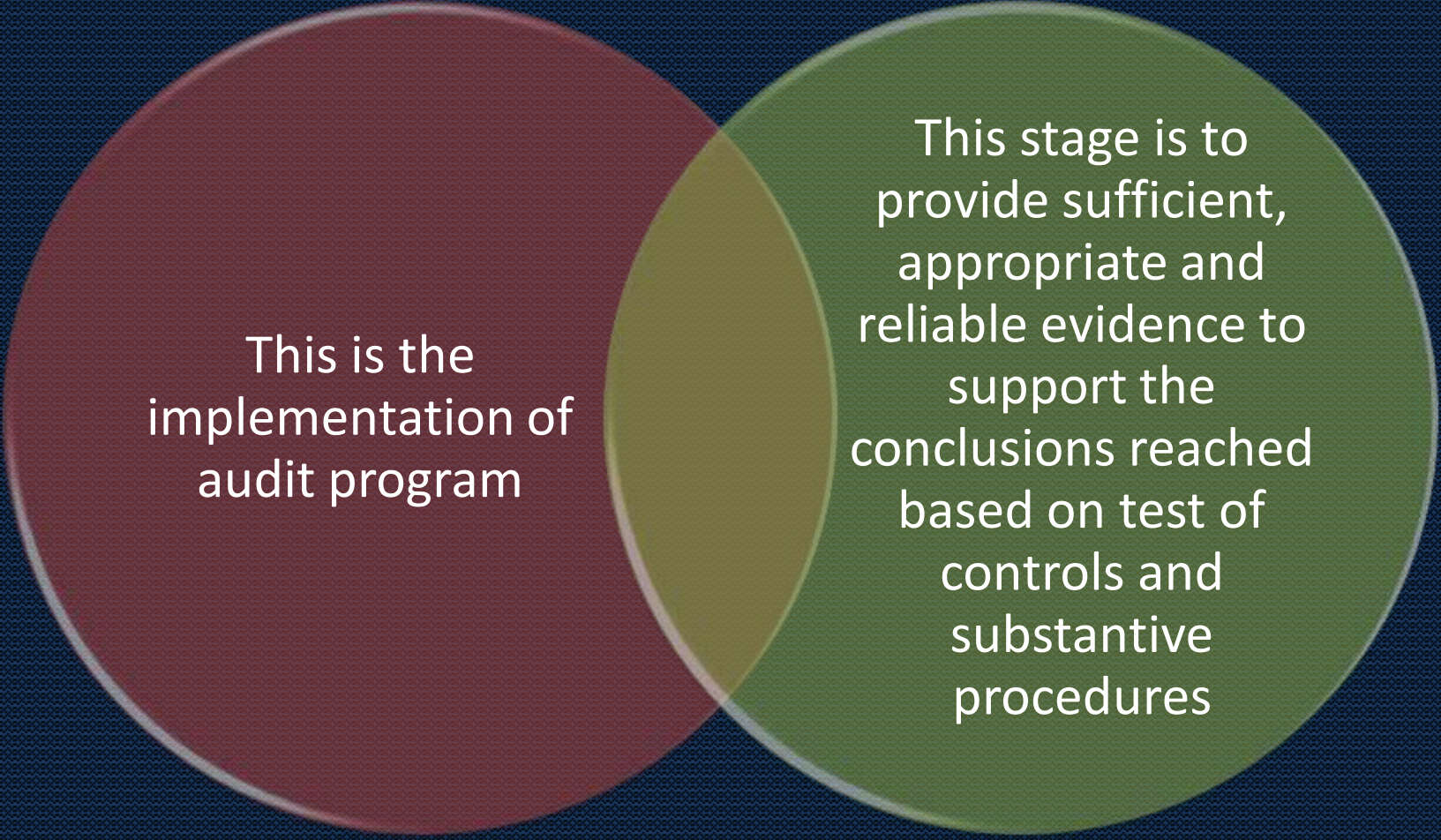
Once the overall audit strategy has been established, an audit plan can be developed to address identified risks through efficient use of resources.

Establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete processes

The audit plan is a detailed program giving instructions as to how evidence shall be collected against identified risks of material misstatement.

The detailed audit plan can be documented in the form of an audit program that outlines the nature and extent of procedures and the assertion(s) being addressed

# Field Work



This is the implementation of audit program

This stage is to provide sufficient, appropriate and reliable evidence to support the conclusions reached based on test of controls and substantive procedures

# Field Work - Main Activities

## Audit Documentation:

- Establishing trail of audit work from assessed risk of material misstatements to audit procedures and to audit conclusions

## Audit Sampling

- Determining population and representative sample thereof

## Audit Procedures for Evidence Collection

- Applying audit procedures on samples to gather evidence against planned risks, control tests, substantive test of details, analytical procedures, etc.

# Field Work - Main Activities

## Communication with the Audit Team

- Communication with the audit team should be throughout the audit and this should be documented.
- Discussion on the: Audit results, Progress, and issues identified, Changes in audit plan, New information, Unusual events/transactions, Suggestions for next period's audit.

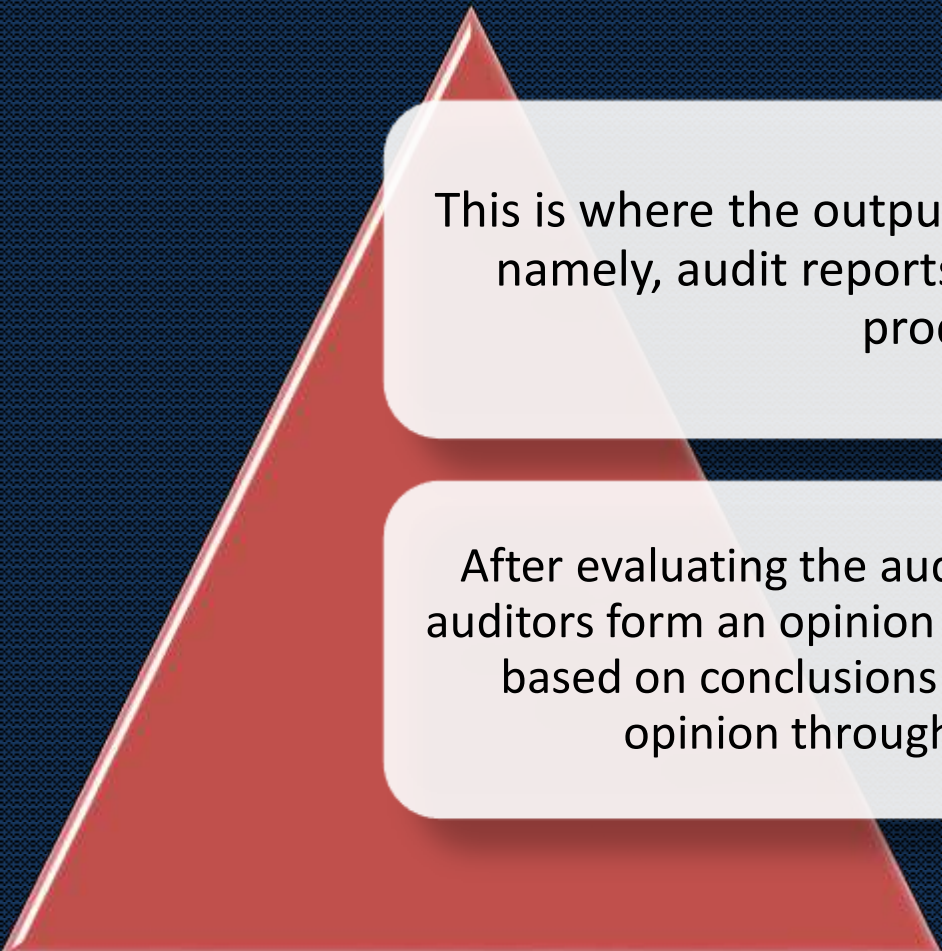
## Quality Control

- Monitoring and supervision during audit
- QCR at the completion of audit

# Evaluating results

after completing the audit, the auditor shall accumulate the misstatements and evaluate the misstatements on basis of the materiality.

# Forming an opinion and report



This is where the outputs from the audit process, namely, audit reports and other reports are produced

After evaluating the audit evidence obtained, the auditors form an opinion on the financial statements based on conclusions drawn and express that opinion through a written report.



# Evaluation and Reporting



# Audit Cycle - Recap

## General Audit Planning

From setting overall objectives through to determining mix of tests

## Activity and Resource Planning

Developing Audit Program

Establishing Resource requirements  
and timings

## Field Work

## Evaluation

## Reporting

## Follow-up

