



Audit Process and Planning

Welcome to Week 3 of our course, where we'll explore the fundamentals of audit processes and planning. This presentation will guide you through the structured approach auditors take to ensure financial statements are free from material misstatements.

Overview of the Audit Process

The audit process is a systematic examination of financial statements to provide reasonable assurance that they are free from material misstatements. It follows a structured methodology designed to gather sufficient appropriate evidence to form an opinion.

Initial Engagement

Establishing the relationship with the client and understanding the scope of work

Planning

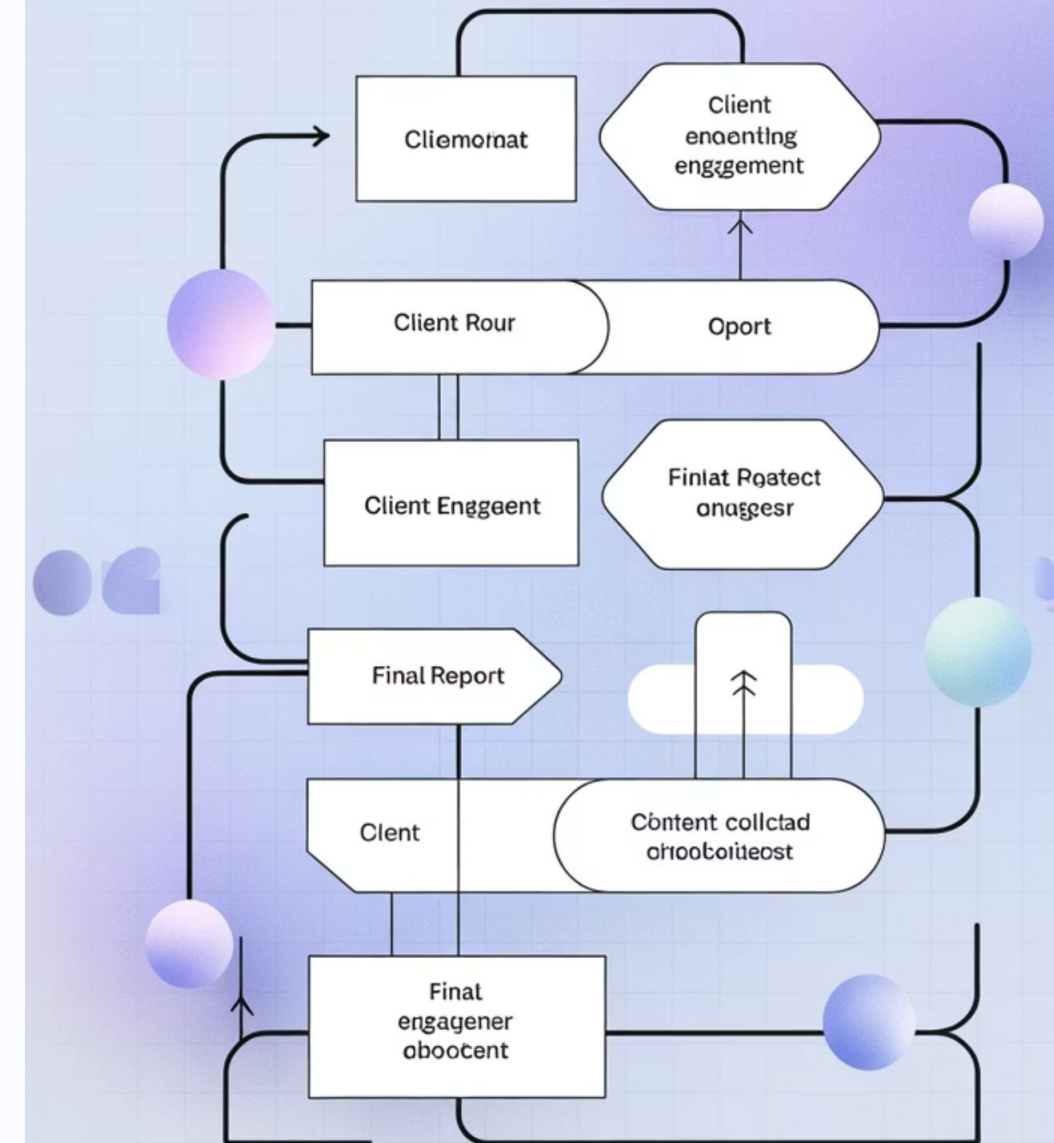
Developing strategies and assessing risks to guide the audit approach

Execution

Performing tests and gathering evidence according to the audit plan

Reporting

Forming an opinion and communicating findings to stakeholders



Key Phases: Planning, Execution, Reporting

Planning Phase

- Understand client's business and industry
- Assess risk of material misstatement
- Determine materiality levels
- Develop audit strategy and plan

Execution Phase

- Perform tests of controls
- Conduct substantive procedures
- Gather sufficient appropriate evidence
- Document findings and observations

Reporting Phase

- Evaluate evidence obtained
- Form audit opinion
- Prepare audit report
- Communicate with those charged with governance

Audit Planning: Objectives & Documentation

1 Establish Overall Audit Strategy

Determine scope, timing, and direction of the audit to guide the development of the audit plan

2 Identify Key Risk Areas

Assess where material misstatements are most likely to occur based on industry knowledge and client specifics

3 Document Planning Decisions

Create comprehensive planning memoranda, risk assessment documentation, and audit programs

4 Allocate Resources Effectively

Assign appropriate team members based on expertise and determine necessary time budgets



Materiality & Audit Strategy

Understanding Materiality

Materiality is the threshold above which missing or incorrect information could influence the economic decisions of users taken on the basis of the financial statements.

- Overall materiality for financial statements as a whole
- Performance materiality set below overall materiality
- Specific materiality for particular transactions or disclosures

Audit Strategy Components

- Scope determination
- Timing of procedures
- Resource allocation
- Direction and supervision

Risk-Based Auditing Approach



Risk Identification

Identify and assess risks of material misstatement at financial statement and assertion levels



Risk Response

Design and implement audit procedures responsive to assessed risks



Risk Evaluation

Evaluate the sufficiency and appropriateness of audit evidence obtained

The risk-based approach focuses audit efforts on areas with higher risk of material misstatement, improving efficiency and effectiveness of the audit process.



Risk Assessment

3.9	11.81.01	0.00.00	0.00.00	1.00.00	1.00.00
2.9	0.00.00	1.00.00	0.00.00	0.00.00	1.00.00
4.0	0.00.00	1.00.00	1.00.00	0.00.00	0.00.00
4.2	1.00.00	1.00.00	1.00.00	0.00.00	1.00.00
2.0	1.00.00	1.00.00	1.00.00	1.00.00	1.00.00
4.5	0.00.00	0.00.00	0.00.00	1.00.00	0.00.00
1.9	0.00.00	1.00.00	0.00.00	1.00.00	0.00.00
7.0	1.00.00	1.00.00	0.00.00	1.00.00	0.00.00
1.0	1.00.00	1.00.00	1.00.00	1.00.00	0.00.00

Client Engagement Letter

Key Components

- Objective and scope of the audit
- Responsibilities of the auditor
- Responsibilities of management
- Identification of financial reporting framework
- Expected form and content of reports
- Fee arrangements and billing

Purpose

The engagement letter serves as a formal contract between the auditor and the client, establishing clear expectations and reducing the risk of misunderstandings.

A well-drafted engagement letter is the foundation of a successful audit relationship.