



Advanced Auditing And Other Assurance Services (Com 3242)

Topic 1: Audit Planning & Risk Assessment

CPA Frank Kabuye

20 February 2026





Phases of an External Audit

- ▶ External auditing is conducted in **clearly defined and interrelated phases** in accordance with the International Standards on Auditing (ISAs), applicable laws, and professional ethical requirements.
- ▶ The key phases are engagement, planning and risk assessment, performance, and review & reporting.



PHASE 1: ENGAGEMENT & ACCEPTANCE

- ▶ The engagement phase establishes the legal, ethical, and professional foundation of the audit.
- ▶ **1.1 Sourcing and Appointment of the Auditor**
- ▶ Audit work may be sourced through tendering, referrals, or reappointment, in compliance with the Institute of Certified Public Accountants of Uganda and the IESBA Code of Ethics.
- ▶ **1.2 Acceptance and Continuance of the Engagement (ISA 210)**
- ▶ Acceptance of an audit engagement is guided by ISA 210 – Agreeing the Terms of Audit Engagements.
- ▶ **1.3 Engagement Letter**



Applicable ISAs to Phase 1

(Pre-engagement procedures and agreeing terms)

- **ISA 200** – Overall Objectives of the Independent Auditor
- **ISA 210** – Agreeing the Terms of Audit Engagements
- **ISA 220 (Revised)** – Quality Management at the Engagement Level
- **ISA 250** – Consideration of Laws and Regulations
- **ISA 260 (Revised)** – Communication with Those Charged with Governance
- **ISA 265** – Communicating Deficiencies in Internal Control

 Focus:

- Independence & ethics
- Client acceptance/continuance
- Engagement letter
- Pre-conditions for audit



PHASE 2: PLANNING & RISK ASSESSMENT

- ❖ Develop the overall Audit Strategy (ISA 300)
- ❖ Conduct Risk Assessment (ISA 315)
- ❖ Prepare the Audit Plan / Engagement Planning Memorandum (ISA 300)
- ❖ Prepare the Audit Programme / Engagement work programme (ISA 300)
- ❖ Hold the Audit Entry Meeting (ISA 300)



Applicable ISAs

- *(Understanding the entity and identifying risks)*
- **ISA 300** – Planning an Audit
- **ISA 315 (Revised 2019)** – Identifying and Assessing Risks of Material Misstatement
- **ISA 320** – Materiality in Planning and Performing an Audit
- **ISA 240** – Auditor’s Responsibilities Relating to Fraud
- **ISA 402** – Service Organizations

 Focus:

- Audit strategy & audit plan
- Understanding internal control
- Fraud risk assessment
- Determining materiality
- Identifying significant risks



PHASE 3: EXECUTION / PERFORMANCE (AUDIT FIELDWORK)

- ▶ **Obtain** and **evaluate** the information about the internal controls (ICS) & financial statements.
- ▶ At this stage you are verifying;
 1. the existence & effectiveness of ICS
 2. the assertions in the financial statements
- ▶ For example; obtain ledgers and accounting records
- ▶ Selecting samples and requesting **supporting documentation**
- Example: Obtain the expenses ledger, select transactions above UGX 100,000, and inspect supporting documents / vouchers.
- ▶ Reviewing documents not subject to sampling (policies, procedures, minutes, budgets, reconciliations, contracts)
- ▶ Applying audit tests (e.g., authorization, completeness, accuracy)
- ▶ All work performed is documented in audit **working papers**.
- ▶ **Issue the Management Letter to get response for each finding from Mgt & those charged with governance (BOD)**



APPLICABLE STANDARDS

(Performing audit procedures and gathering evidence)

A. Responding to Risks

- **ISA 330** – Auditor’s Responses to Assessed Risks

B. Audit Evidence Standards (Core Testing Standards)

- **ISA 500** – Audit Evidence
- **ISA 501** – Specific Considerations for Selected Items
- **ISA 505** – External Confirmations
- **ISA 510** – Opening Balances
- **ISA 520** – Analytical Procedures
- **ISA 530** – Audit Sampling
- **ISA 540 (Revised)** – Auditing Accounting Estimates
- **ISA 550** – Related Parties
- **ISA 560** – Subsequent Events
- **ISA 570 (Revised)** – Going Concern
- **ISA 580** – Written Representations



PHASE 4: REVIEW AND REPORTING

- Evaluate management responses
- Assess whether sufficient and appropriate evidence has been obtained
- Perform final audit procedures on subsequent events (ISA 560) and going concern (ISA 570)
- Prepare the audit report and audit opinion
- Present the audit report to senior management, board audit committee, full board and the shareholders in the AGM



APPLICABLE STANDARDS

C. Using Work of Others

- **ISA 600 (Revised)** – Group Audits
- **ISA 610 (Revised)** – Using the Work of Internal Auditors
- **ISA 620** – Using the Work of an Auditor's Expert

D. Ongoing Documentation

- **ISA 230** – Audit Documentation

Focus:

- Tests of controls
- Substantive procedures
- Estimates & judgments
- Sampling
- Evidence sufficiency & appropriateness



PHASE 4: COMPLETION & REPORTING

- *(Evaluating results and issuing the audit opinion)*
- **ISA 450** – Evaluation of Misstatements
- **ISA 700 (Revised)** – Forming an Opinion and Reporting
- **ISA 701** – Key Audit Matters
- **ISA 705 (Revised)** – Modifications to the Opinion
- **ISA 706 (Revised)** – Emphasis of Matter & Other Matter
- **ISA 710** – Comparative Information
- **ISA 720 (Revised)** – Other Information

 Focus:

- Final analytical review
- Evaluation of errors
- Determining audit opinion
- Drafting auditor's report
- Communicating KAMs



800–899: Specialised Areas

- **ISA 800 (Revised)** – Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks
- **ISA 805 (Revised)** – Special Considerations – Audits of Single Financial Statements and Specific Elements
- **ISA 810 (Revised)** – Engagements to Report on Summary Financial Statements



Related Standards (Not ISAs but Important)

- Issued by IAASB:
- **ISQM 1** – Quality Management for Firms that Perform Audits or Reviews
- **ISQM 2** – Engagement Quality Reviews
- **ISA 220 (Revised)** – Quality Management at the Engagement Level
- **ISREs, ISAEs, ISRSs** – For review and other assurance engagements



Audit risk

- ▶ Audit risk is the risk that the auditor expresses **an inappropriate audit opinion** when financial statements are materially misstated.
- ▶ **Audit risk has two major components:**

$$\text{Audit Risk} = \text{RMM} \times \text{Detection Risk}$$

RMM

[Inherent Risk x Control Risk]

x Detection Risk

1. Risks of material misstatement [RMM] (Inherent risk & control risk)
 2. Detection risk
- In an audit risk model, Audit risk = Inherent risk x Control risk x Detection risk.



Risk of Material Misstatement

- The auditor is hired to detect and report the RMM (IR X CR)
- However, failure of the auditor to detect the RMM leads to detection risk (DR)
- RMM is client / auditee risk (resides in the client business)
- Detection is auditor's risk



INHERENT RISK

- Inherent Risk is the susceptibility of **an assertion** about a class of transaction, account balance, or disclosure to a material misstatement, before considering any related controls.
- IR arise from the operations and the environment and not the weaknesses in the controls. Inherent risk **exists naturally** because of the **nature of the business, transactions, or environment** – even if controls were perfect.
- Assertion is the representation of management in the financial statements e.g., by giving the auditor, the SOPLOCL. Management is asserting that the **incomes and expenses** (class of transactions) meet the following criteria [COCCAP];
 - Completeness
 - Occurrence (transactions & events happened)
 - Classification (right accounts)
 - Cut-off (right period)
 - Accuracy (right amounts)
 - Presentation (**comply with IASs / IFRSs**)



Assertions of account balances

- ▶ Management asserts that; the **assets, liabilities and equity** items have attained (COVER);
 - Completeness
 - Rights and obligations (the client entity has control over assets and liabilities)
 - Valuation, accuracy & allocation
 - Existence
 - Presentation

These assertions might be affected by IR / CR



Assertions of account balances

- ▶ Management asserts that; the **assets, liabilities and equity** items have attained (COVER);
 - Completeness
 - Rights and obligations (the client entity has control over assets and liabilities)
 - Valuation, accuracy & allocation
 - Existence
 - Presentation

These assertions might be affected by IR / CR



Causes of Inherent Risk

➤ Inherent risk arises from:

1. Nature of the Business

- ❖ Complex industries (banking, telecoms, oil & gas)
- ❖ Rapid technological change
- ❖ High competition pressure

2. Nature of Transactions

- ❖ Complex accounting **estimates** e.g., useful life, depreciation method
- ❖ Non-routine transactions
- ❖ Related party transactions
- ❖ Foreign currency transactions

3. Nature of Account Balances

- High judgment accounts (provisions, impairments)
- Valuation of inventory
- Fair value measurements



Cont'd

4. Susceptibility to Fraud

- Cash-intensive businesses
- Revenue recognition manipulation
- Management override



Inherent Risk Assessment Factors (ISA 315 Concepts)

Auditors evaluate inherent risk using:

- ▶ Degree of subjectivity
- ▶ Complexity
- ▶ Uncertainty
- ▶ Change
- ▶ **Susceptibility** to management bias like determining their bonuses
- ▶ Susceptibility to fraud



Practical Illustration (Teaching Example)

- ▶ **Assume:**
- ▶ A manufacturing company uses new **AI-based** inventory valuation software.
- ▶ **What are the likely Inherent risks?**



Practical Illustration (Teaching Example)

- ▶ **Assume:**
- ▶ A manufacturing company uses new **AI-based** inventory valuation software.
- ▶ **What are the likely Inherent risks?**
 - System errors
 - Cyber security risks
 - Incorrect valuation **algorithm**
 - Obsolescence miscalculation
 - Complex cost allocations



CONTROL RISK

- ▶ Control risk is the risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected on a timely basis by the entity's **internal control**.
- ▶ Some control risk will always exist due to the inherent limitations on internal control like collusion.



INTERNAL CONTROLS

- Segregation of duties
- Physical controls
- Reconciliations
- Approvals and authorization by eligible personnel
- Documentation
- Supervision
- IT controls
- etc.



What Creates Control Risk?

Control risk arises when:

- Controls are poorly **designed**
- Controls are not **implemented**
- Controls exist but are not **operating effectively**
- Management **override occurs**
- Segregation of duties is weak



Examples of Control Risk

Area	Example of Control Risk
Revenue	No review of sales invoices
Cash	Same person handles receipt and recording
Payroll	No independent review of payroll changes
Procurement	No approval of purchase orders
IT systems	Weak access controls



Detection risk

Detection risk is the risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level **will not detect a misstatement** that exists and that could be material, either individually or when aggregated with other misstatements.

Detection risk is divided into sampling risk and non-sampling risk.

- **Sampling risk** is 'the risk that the auditor's conclusion based on a sample may be different from the conclusion that would be reached if the entire population were subjected to the same audit procedure'.
- **Non-sampling risk** is 'the risk that the auditor does not detect material misstatement due to factors other than the sample tested e.g. misinterpretation of audit evidence.'



Factors which increase non-sampling risk include:

- a) Auditor's lack of experience
- b) Time pressure
- c) Financial constraints
- d) Poor planning
- e) New client
- f) Lack of industry knowledge



Materiality in planning and performing an audit (ISA 320)

- Importance, calculation, performance materiality, revision, documentation.

Materiality is the significance of the **misstatements** including **omissions** that could reasonably be expected to influence the economic decisions of users taken based on information in the financial statements.

ISA 320 Materiality in planning and performing an audit **requires** an auditor to apply the concept of materiality appropriately throughout the audit in planning and performing an audit.



LEVELS OF MATERIALITY

Overall materiality

is the amount set by the auditor for the financial statements **as a whole.**

It represents the maximum misstatement that could influence the economic decisions of users.

Used whether total misstatements in the financials are material or not material.

It is set the audit planning stage and used to determine the audit opinion at the reporting stage.

Performance materiality

This is a materiality level set below the overall materiality. It is based on the account balance being audited e.g., performance materiality for assets, liabilities, expenses, incomes, and equity. This is because the overall materiality is high and small misstatements in the accounts may not be detected.



Example for overall materiality for a real estate company

- Profit before tax (PBT) = 60 million
- Revenue = 1 billion
- **Total assets= 3 billion**
- Gross profit = 85 million
- Total expenses = 6 million
- Net assets 1.8 billion

The materiality level will be based on the riskiest item.

Materiality based on total assets = 1% * total assets

$$=1\% \times 3 \text{ billion} = 30 \text{ million}$$

- Our overall materiality level for financial statements is Ugx 30 million
- If we add all misstatements and they are above 30 million, then there are material misstatements and we shall give a qualified or adverse audit opinion.
- If misstatements are 31 million. This will be **a material misstatement.**



Performance materiality

- ▶ As per the previous example, Ugx 30 m is a high materiality level to audit the accounts e.g., expenses. Hence, smaller misstatements will not be detected.
- ▶ We determine the performance materiality for expenses.
- ▶ $0.5\% \times 6,000,000 = \mathbf{UGX\ 30,000}$
- ▶ As you are auditing expenses; audit all transactions above Ugx 30,000. Also, misstatements **in total expenses** above Ugx 30,000 will be material.

Specific materiality

- ▶ As you audit a particular expense; you may further lower the materiality. E.g., electricity expense of Ugx 900,000 might be based on a specific materiality of 1% (9,000). Misstatements above 9,000 will be material.
- ▶ NB; The lower the materiality level, the higher the material misstatements detected and vice versa. In risky businesses lower materiality levels are used to detect more misstatements.



Cont'd

- ▶ Misstatements detected at **account level** are aggregated and compared with the performance materiality level at **general ledger level** e.g. assets level or expenses level. Then the misstatements from all the GLs are added to determine the total misstatements in the financials.



The following benchmarks and percentages may be used for financial statements as a whole.

Benchmark	Range %	Where commonly used
Profit before tax (PBT)*	5 – 10	<ul style="list-style-type: none"> Profit-oriented entities with a relatively low total asset base. Focus is on financial performance.
Revenue	0.5 – 1	<ul style="list-style-type: none"> Profit-oriented entities where PBT from operations is volatile. Focus is on financial performance.
Total assets	1 – 2	<ul style="list-style-type: none"> Entities with high total assets but low profits. Focus is on return on investment and ability to repay debt.
Gross profit	0.5 – 1	<ul style="list-style-type: none"> Profit-oriented entities where PBT from operations is volatile.
Total expenses	0.5 – 2	<ul style="list-style-type: none"> Public sector and not-for-profit entities. Focus is to evaluate the entity's spending with its objectives.
Net assets	2 – 5	<ul style="list-style-type: none"> Focus is on return on investment and ability to repay debt.



Applicability of Materiality

- Choosing audit samples – transactions / balances above the materiality level are audited
- Determining the material misstatements – misstatements above the materiality are material.
- Determining the audit opinion

Materiality is the backbone of audit decision-making.

It determines:

- What to audit
- How much to audit
- How to evaluate findings
- What opinion to issue



Qualitative factors determining materiality include

- Non-compliance with laws, regulations, IFRSs and contracts.
- Measurement or disclosure of transactions with related parties
- Personal use of assets by management and those charged with governance.
- The existence of fraud by management.
- Key industry disclosures e.g. research and development costs for a pharmaceutical company).
- Significant events and changes in operations like newly acquired businesses or discontinued operations.
- Significant events like unusual events (e.g. destruction of assets), lawsuits.
- A transaction that affects the going concern assumption of the entity.



Understanding the entity and its environment

(ISA 315: Identifying and Assessing the Risks of Material Misstatement)

Auditors need to understand the following:

- a) Industry, regulatory and other external factors.
- b) Nature of the entity operations
- c) Selection and application of accounting policies
- d) Objectives and strategies related business risks
- e) Financial performance
- f) Internal control



Methods used to obtain understanding of the entity

- **Analytical procedures** – comparisons of financial & non-financial information to establish **significant variances** (these indicate risk).
- Enquiries / inquiries – interview people with the entity
- External confirmations – obtain information from third parties (people outside).
- **Inspection of documents** – review / check information at the entity. Match information in different documents.
- Inspection of assets
- Observation of the normal operations of an entity



Analytical procedures include the following types of comparisons

- ❖ Prior periods
- ❖ Budgets and forecasts
- ❖ Industry information
- ❖ Predictive estimates i.e. expectations
- ❖ Relationships between financial information i.e. ratio analysis
- ❖ Relationships between financial and non-financial information e.g. payroll costs to number of employees.



Risk assessment process

- Identify the likely RMM (IR X CR)
- Estimate the likelihood of occurrence (probability)
- Estimate the likely impact (loss, reaction, feedback)
- Take action by carrying out the audit to confirm the existence / non-existence of the RMM



Assessing the risks of material misstatement

- After understanding the entity and its environment, the auditor assesses the risk of material misstatement in the financial statement and identifies significant risks.
- Significant risk is an identified risk of material misstatement arising from high inherent risk that requires special audit attention.



ISA 315 gives the following examples of inherent factors.

Risk factor	
Complexity	<ul style="list-style-type: none"> • Regulatory – much complex regulation • Business model – complex alliances and joint ventures • Financial reporting framework – complex accounting measurements • Transactions – complex arrangements e.g. off-balance sheet finance
Subjectivity	Financial reporting framework: <ul style="list-style-type: none"> • Wide range of possible accounting estimates e.g. depreciation • Management choice of valuation technique
Change	Changes in: <ul style="list-style-type: none"> • Economic conditions e.g. currency devaluation • Markets – exposure to volatility e.g. futures trading • Customer loss – going concern, liquidation risk • Industry model – changes in the industry in which the entity operates • Business model – changes in supply chain, new lines of business • Geography – expanding into new locations • Entity structure e.g. reorganizations, sale of subsidiaries • IT – IT environmental change, new IT systems for financial reporting
Uncertainty	<ul style="list-style-type: none"> • Financial reporting – estimation uncertainty • Pending litigation and contingent liabilities
Management bias or fraud risk	<ul style="list-style-type: none"> • Opportunities for fraudulent financial reporting • Transactions with related parties • Non-routine or non-systematic transactions • Transactions based on management intentions



Assessment of audit risk

- Inherent risk, control risk and detection risk may be assessed as low, moderate or high.
- Inherent risk is usually assessed as high and may be reduced by the entity's internal control.
- Control risk may be assessed as low if the entity's internal control prevents, detects and corrects misstatements.
- The auditor assesses the risk of material misstatement in order to design and perform audit procedures to reduce detection risk and audit risk to an acceptably low level.



Risk heat map for risk assessment

Potential Impact	High	3	6	9
	Medium	2	4	6
	Low	1	2	3
		Remote	Possible	Probable
		Likelihood		

Impact scale 1 – 10
 Probability / likelihood 0 -1
 Risk score = impact x probability

- Low risk 0-2.4
- Moderate risk = 2.5 – 4.9
- High risk = >5

Example:
 Declining loans (by 60%):

- Impact = 6
- Likelihood for further decline = 0.8

Risk score = $6 * 0.8 = 4.8$

This is a low risk **(Moderate)**



Response to assessed risks (ISA 330)

- The auditor should obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks.
- The auditor responds to assessed RMM by carrying out the audit using audit procedures / tests to confirm the existence and extent of the risk.
- Audit procedures (Analytical procedures, inquiries, external confirmation, inspections of documents and assets, observation, recalculation, and reperformance).
- **See example of responses in the reader**
- **Do the example on audit risks and auditor's response**

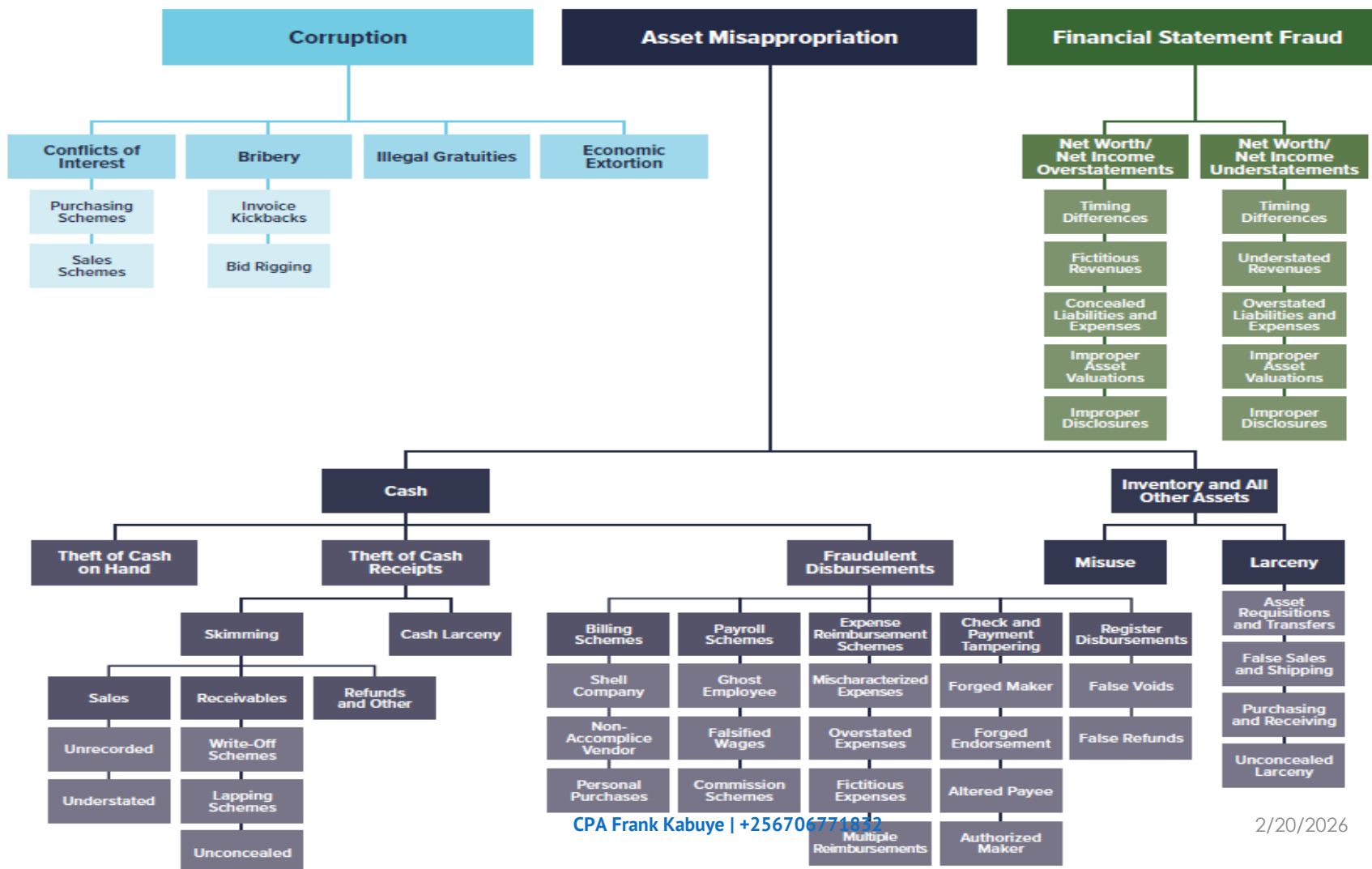


Fraud, laws and regulations

- ▶ ISA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* **defines** fraud is an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.
- ▶ Misstatements due to fraud are intentional whereas those due to error are unintentional.
- ▶ An auditor is mainly concerned with fraud that causes material misstatements in financial statements.
- ▶ There is management fraud (involving management) and employee fraud (involving only employees).

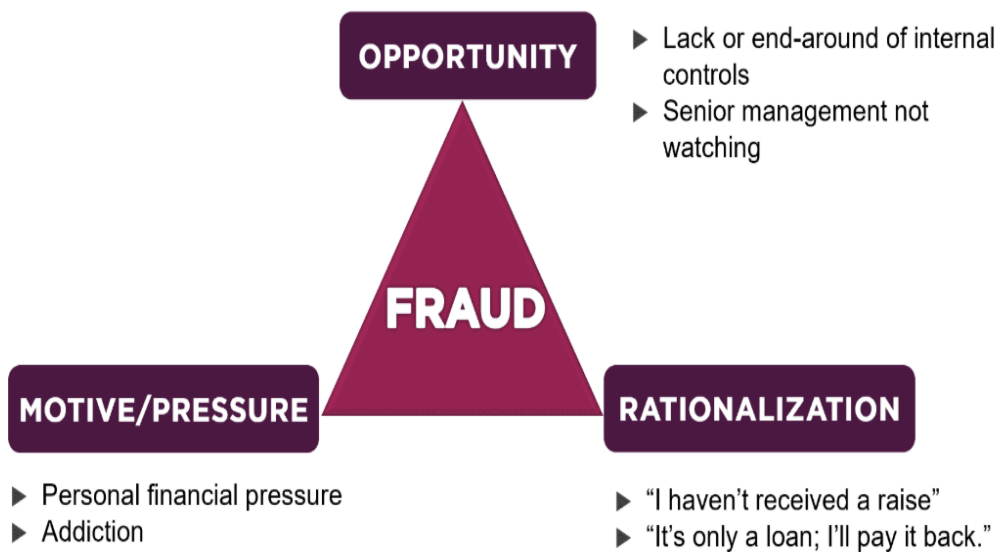


Types of fraud that may cause material misstatement in financial statements





Causes / motivations of fraud: Fraud Triangle



The Fraud Triangle

Pressure

These are the motivating circumstances that drive a person to feel the need to commit fraud.

Examples of things that provide incentives for committing fraud include:

- The need to meet or exceed investor and analyst expectations to ensure stock prices are maintained or increased can create pressure to commit fraud.
- Personal financial pressures

This can be limited by (for example but not limited to):

- Being aware of visible indicators, such as employees living above their means; and
- Financial background checks for key personnel.



Opportunity

Opportunity refers to circumstances that allow fraud to occur. The business/real-world environment in which the organization operates can give rise to opportunities for the perpetration of fraud.

Examples that provide opportunities for committing fraud include:

- ❖ Weak internal controls; and
- ❖ Poor tone at the top.

These opportunities could be limited by (for example but not limited to):

- Segregation of duties; and
- Mandatory vacations – Instances of fraud are often found when the person perpetrating the fraud is unable to continue to cover up evidence.

CPA Frank Kabuye | +256706771832

Rationalization

Rationalization refers to an individual's justification for committing fraud. Examples of common rationalizations that fraud committers use include:

- They treated me wrong; and
- It is only a loan; I will pay it back.

This can be limited by (for example but not limited to):

- Maintaining positive morale and ethical values; and
- Management's setting an example of honesty and integrity (Tone at the Top).



Causes / motivations of fraud: Fraud diamond



Capability

This is the situation of having the necessary traits or skills and abilities for the person to commit fraud. It is where the fraudster recognizes the particular fraud opportunity and the ability to turn it into reality. Position, intelligence, ego, coercion, deceit, and stress are the supporting elements of capability.

The Fraud Diamond



Responsibility for the prevention and detection of fraud

- Management and those charged with governance are responsible for prevention and detection of fraud
- ISA 240 requires an auditor to obtain reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.
- QTN. How does the auditor respond to suspected fraud?



The Three Lines of Defense Model



Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*



Laws and regulations

- According to ISA 250 Consideration of laws and regulations in an audit of financial statements, **the auditor** is not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.
- Describe the auditor's responsibility
- Examples of laws and regulations
- Factors that may indicate non-compliance with laws and regulations
- Audit procedures when non-compliance is identified or suspected
- Reporting identified or suspected non-compliance



Overall audit strategy and audit plan

- **Importance of planning**
- ISA 300 *Planning an audit of financial statements* requires an auditor to plan every audit as it ensures:
 - ❑ That the auditor devotes appropriate attention to **key audit areas** and those with significant risks.
 - ❑ That potential **problems** are identified and resolved on a timely basis.
 - ❑ The audit is **properly** organized and completed expeditiously.
 - ❑ Appropriate **audit staff** are selected and work is properly assigned to them.
 - ❑ Proper **direction, supervision and review** of audit work.
 - ❑ There is proper **coordination** of work done by experts and other auditors.



Overall audit strategy

- ▶ After the engagement activities, the auditor establishes the overall audit strategy that sets the scope, timing and direction of the audit and guides the development of a more detailed audit plan.
- ▶ ISA 300 requires the overall audit strategy to include the following:



Main areas	Matters to consider
Characteristics of the engagement	<ul style="list-style-type: none"> ● Financial reporting framework. ● Industry specific reporting requirements. ● Expected audit coverage. ● Nature of business segments to be audited and the need for specialized knowledge. ● Availability of the work of internal auditors and the extent of reliance on such work. ● Use of service organisations. ● Effect of information technology on audit procedures. ● Availability of client personnel and data.
Reporting objectives, timing of the audit & nature of communications	<ul style="list-style-type: none"> ● Entity's timetable for reporting ● Organisation of meetings with management and those charged with governance ● Discussions with management and those charged with governance ● Expected communications with third parties
Significant factors & developments	<ul style="list-style-type: none"> ● Determination of materiality ● Areas identified with higher risk of material misstatement ● Results of previous audits ● Need to maintain professional skepticism ● Evidence of management's commitment to design, implementation and maintenance sound internal control ● Changes in applicable reporting framework with significant new or revised disclosures ● Volume of transactions ● Process used by management to identify and prepare disclosures ● Significant business developments ● Significant industry developments ● Significant changes in financial reporting framework ● Other significant recent developments
Nature, timing and extent of resources	<ul style="list-style-type: none"> ● Selection of engagement team ● Assignment of work to team members ● Engagement budget



Contents of the audit plan

- a) **Understanding the entity** and its environment including preliminary analytical review
- b) **Preliminary risk assessment** – review of overall risk and key risks in individual audit areas and their impact on the audit taking into account:
 - i) Past experience.
 - ii) Areas large in materiality.
 - iii) Changes in financial reporting standards and accounting policies.
 - iv) Areas where there is a significant risk of material misstatement or fraud.
 - v) Complex accounting areas including those involving accounting estimates.
 - vi) The impact of information technology.
 - vii) Conditions requiring special attention such as the existence of related party transactions, contingencies, market and industry conditions.
 - viii) Any taxation aspects which may affect the audit.
 - ix) Appropriateness of the going concern assumption.
- c) **Materiality** for the financial statements as a whole and performance materiality and reasons for them.
- d) **Auditor's response to assessed risk** – risks identified for each key audit area above and the planned response to such risks including the use of automated tools.
- e) **Sampling techniques** to be adopted.
- f) **Audit timetable** of planned audit work including
- g) **Allocation of work** to audit team members including experts.
- h) **Time and cost budgets** used in estimating an audit fee.
- i) **Audit procedures** for each major audit areas (see example below).



Audit programme

- ▶ Prepare an audit programme



Interim and final audits

- Definitions
- Purpose
- Procedures



Audit documentation

- Importance
- content of working papers
- permanent and current audit files
- safe custody & retention.



Audit evidence

- Factors in determining sufficient and reliable audit evidence
- Financial statement assertions for classes of transactions and account balances
- Procedures for obtaining audit evidence (analytical procedures, enquiry, confirmation, inspection, observation, recalculation & re-performance),
- Types of audit procedures (tests of controls & substantive procedures), directional testing to discover errors or omissions.