

NSA 07

NEPAL STANDARDS ON AUDITING PLANNING

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This NSA is applicable in all material respects to Public Sector also.

Introduction

01. The purpose of this Nepal Standard on Auditing (NSA) is to establish standards and provide guidance on planning an audit of financial statements. This NSA is framed in the context of recurring audits. In a first audit, the auditor may need to extend the planning process beyond the matters discussed herein.
02. This NSA is to be read in conjunction with the Preface to Nepal Standards on Auditing.
03. This NSA contains the basic principles and essential procedures (identified in bold type black lettering) together with related guidance in the form of explanatory and other material.
04. This NSA needs only be applied to material matters.
05. **The auditor should plan the audit work so that the audit will be performed in an effective manner.**
06. "Planning" means developing a general strategy and a detailed approach for the expected nature, timing and extent of the audit. The auditor plans to perform the audit in an efficient and timely manner.

Planning the Work

07. Adequate planning of the audit work helps to ensure that appropriate attention is devoted to important areas of the audit, that potential problems are identified and that the work is completed expeditiously. Planning also assists in proper assignment of work to assistants and in coordination of work done by other auditors and experts.
08. The extent of planning will vary according to the size of the entity, the complexity of the audit and the auditor's experience with the entity and knowledge of the business.
09. Obtaining knowledge of the business is an important part of planning the work. The auditor's knowledge of the business assists in the identification of events, transactions and practices which may have a material effect on the financial statements.
10. The auditor may wish to discuss elements of the overall audit plan and certain audit procedures with the entity's audit committee, management and staff to improve the effectiveness and efficiency of the audit and to coordinate audit procedures with work of the entity's personnel. The overall audit plan and the audit program, however, remain the auditor's responsibility.

The Overall Audit Plan

11. **The auditor should develop and document an overall audit plan describing the expected scope and conduct of the audit.** While the record of the overall audit plan will need to be sufficiently detailed to guide the development of the audit program, its precise form and content will vary depending on the size of the entity, the complexity of the audit and the specific methodology and technology used by the auditor.
12. Matters to be considered by the auditor in developing the overall audit plan include:

Knowledge of the Business

- General economic factors and industry conditions affecting the entity's business.
- Important characteristics of the entity, its business, its financial performance and its reporting requirements including changes since the date of the prior audit.
- The general level of competence of management.

Understanding the Accounting and Internal Control Systems

- The accounting policies adopted by the entity and changes in those policies.
- The effect of new accounting or auditing pronouncements.

- The auditor's cumulative knowledge of the accounting and internal control systems and the relative emphasis expected to be placed on tests of control and substantive procedures.

Risk and Materiality

- The expected assessments of inherent and control risks and the identification of significant audit areas.
- The setting of materiality levels for audit purposes.
- The possibility of material misstatement, including the experience of past periods, or fraud.
- The identification of complex accounting areas including those involving accounting estimates.

Nature, Timing and Extent of Procedures

- Possible change of emphasis on specific audit areas.
- The effect of information technology on the audit.
- The work of internal auditing and its expected effect on external audit procedures.

Coordination, Direction, Supervision and Review

- The involvement of other auditors in the audit of components, for example, subsidiaries, branches and divisions.
- The involvement of experts.
- The number of locations.
- Staffing requirements.

Other Matters

- The possibility that the going concern assumption may be subject to question.
- Conditions requiring special attention, such as the existence of related parties.
- The terms of the engagement and any statutory responsibilities.
- The nature and timing of reports or other communication with the entity that are expected under the engagement.

The Audit Program

13. **The auditor should develop and document an audit program setting out the nature, timing and extent of planned audit procedures required to implement the overall audit plan.** The audit program serves as a set of instructions to assistants involved in the audit and as a means to control and record the proper execution of the work. The audit program may also contain the audit objectives for each area and a time budget in which hours are budgeted for the various audit areas or procedures.
14. In preparing the audit program, the auditor would consider the specific assessments of inherent and control risks and the required level of assurance to be provided by substantive procedures. The auditor would also consider the timing of tests of controls and substantive procedures, the coordination of any assistance expected from the entity, the availability of assistants and the involvement of other auditors or experts. The other matters noted in paragraph 12 may also need to be considered in more detail during the development of the audit program.

Changes to the Overall Audit Plan and Audit Program

15. **The overall audit plan and the audit program should be revised as necessary during the course of the audit.** Planning is continuous throughout the engagement because of changes in conditions or unexpected results of audit procedures. The reasons for significant changes would be recorded.

Compliance with International Standards on Auditing

16. Compliance with this NSA ensures compliance in all material respects with ISA 300 (Planning).

Effective Date

17. This Nepal Standard on Auditing becomes operative for the audit commencing on or after 01 Shrawan 2061 corresponding to 16 July 2004. Earlier application is encouraged.