

The Audit Approach

Manage the Audit Engagement

Perform Pre-Engagement Activities

Assess and Respond to Engagement Risk

Select the Engagement Team

Establish Terms of Engagement and Client Service Requirements

Perform Preliminary Planning

Understand the Client's Business

Understand the Control Environment

Understand the Accounting Process

Perform Preliminary Analytical Procedures

Determine Planning Materiality

Prepare and Communicate Client Service Plan

Develop Audit Plan

Assess Risk at the Account Balance and Potential-Error Level

Specific Identified Risk

No Specific Identified Risk

Rely on Control Activities

Rely on Control Activities

No

Yes

Yes

No

Plan focused level of substantive tests

Identify relevant control activities that mitigate the risk to obtain a maximum level of control assurance and plan a basic level of substantive tests

Identify and include relevant control activities in a rotation plan, but do not test in the current year, to obtain a basic level of control assurance and plan a basic level of substantive tests

Plan tests of relevant control activities to obtain a moderate level of control assurance and plan a low level of substantive tests

Plan an intermediate level of substantive tests

Summarise and Communicate the Audit Plan

Perform Tests of Controls and Evaluate Results

Perform Substantive Tests and Evaluate Results

Perform Financial Statement Review

Conclude and Report

Perform Subsequent Events Review

Obtain Management Representations

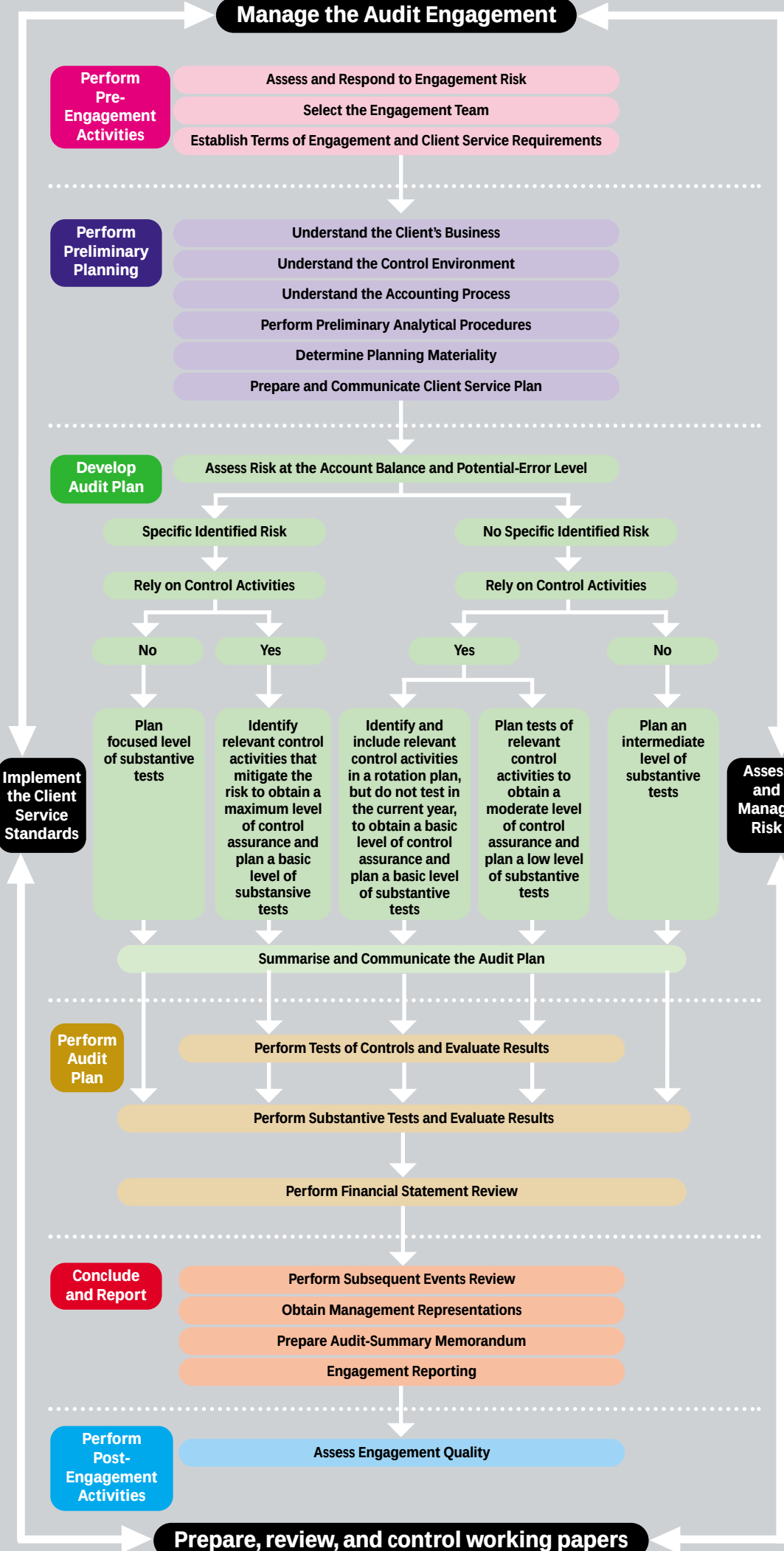
Prepare Audit-Summary Memorandum

Engagement Reporting

Perform Post-Engagement Activities

Assess Engagement Quality

Prepare, review, and control working papers





The Audit Assurance Model

Source of Assurance	SPECIFIC RISK IDENTIFIED		SPECIFIC RISK NOT IDENTIFIED		
	Do not rely on controls	Adopt a Control Reliance Strategy	Adopt a Control Reliance Strategy		Do not Rely on Controls
	Plan and Perform Focused Substantive Tests	Plan and Perform Tests of Control Activities that Mitigate Specific Identified Risk - Plan and Perform a Basic level of Substantive Tests	Plan and Perform Tests of Control Activities that Address Relevant Potential Errors - Plan and Perform a Low level of Substantive Tests	Include Tests of Control Activities in our Rotation Plan, but do not Test them in Current Year - Plan and Perform a Basic Level of Substantive Tests	Plan and Perform an Intermediate Level of Substantive Tests
Inherent Assurance	0.0 none	0.0 none	1.0 maximum	1.0 maximum	1.0 maximum
Control Assurance	0.0 none	2.3 maximum	2.0 moderate	1.3 basic	0.0 none
Substantive Assurance	3.0 focused	0.7 basic	- low	0.7 basic	2.0 intermediate
Overall Assurance	3.0	3.0	3.0	3.0	3.0

The Audit Test Matrix

We Test	Primary Direction of Test	Direct Result is to Test		Indirect Result is to Test	
		Assets & Expenses For	Liabilities & Revenues For	Assets & Expenses For	Liabilities & Revenues For
Debits	o	o	u	u	o
Credits	u	o	u	u	o

Determination of Threshold Levels

Number of Disaggregated Parts	Basic Level of Testing (R = 0.7)		Intermediate Level of Testing (R = 2.0)	
	Use Threshold (as % of MP)	If Recorded Disaggregated Balance is Greater than MP multiplied	Use Threshold (as % of MP)	If Recorded Disaggregated Balance is Greater than MP multiplied
	Up to:	By:*	Up to:	By:*
1	90%	4.50	45%	3.00
2	85%	4.25	40%	2.67
4	75%	3.75	35%	2.33
6	65%	3.25	30%	2.00
12	50%	2.50	25%	1.67
more than 12	40%	2.00	20%	1.33
*Generally, if the account balance being tested is less than MP multiplied by the factors shown, the threshold for any individual disaggregated recorded amount should ordinarily be set so as not to exceed the following percentages:				
Required Level of Assurance R = 0.7 R = 2.0			Suggested threshold limit as a proportion of disaggregated recorded amount 20% 15%	