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CA INTER AUDIT
May'24

QUESTION BANK

Chapter-2

Audit
Strategy,
Audit Planning,
And Audit
Programme



PROF. VISHAL





Preface

Greetings students,

As the author of this question bank, I've taken a thoughtful approach to its construction, prioritizing a competitive spirit in your learning journey.

Correct / Incorrect Questions

The Correct and Incorrect questions/answers are intentionally not kept in sequential order. Why? To encourage analytical thinking without the comfort of knowing the topic heading in advance.

Dedication to Holistic Learning

My dedication to creating content knows no bounds. I've meticulously curated questions from over 20 years of ICAI materials, including Study Material Practice Questions, MTPs, RTPs, and Suggested Answers. The sequencing of chapter topics aligns seamlessly with the ICAI study material. For downloading Complete Question Bank click [here](#)

ADDITIONAL INFORMATION ABOUT COMPLETE QUESTION BANK

Insights from Examiner Comments

Moreover, the inclusion of examiner comments adds a unique dimension. Learning from the mistakes highlighted by ICAI examiners can significantly improve your understanding. This book is not just about questions and answers; it's a tool to help you comprehend common mistakes and guide you on how to avoid and rectify them.

Comprehensive Question Selection Strategy

I've gone a step further. Not only have I kept questions directly related to the current study material, but I've also included additional ones related to previous years with some relevance to the current context. These carry relevance, but I advise focusing on them only after thoroughly covering the main syllabus according to the current study material.

VIDEO LEARNING INITIATIVE



And here's an exciting initiative—I've started creating YouTube videos to help you understand any challenging question or topic. All you need to do is message us on WhatsApp or Telegram using the provided link at the bottom of the page, and I'll promptly create a video to address your request.

Closing Note: Embark on Your Learning Journey

So, dive into this question bank with enthusiasm, and remember, I'm here to support your learning journey every step of the way.

Best regards,
Prof. Vishal

If you require further assistance with your study techniques or any other aspect, don't hesitate to contact us.

You can instantly reach out via WhatsApp by clicking this icon,  or join our Telegram group  to pose questions that could also benefit your peers.





<h1>Chapter 2</h1>	<h1>Audit Strategy, Planning And Audit Programme</h1>
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Part A – Correct Incorrect

Q. 1 State with reasons (in short) whether the following statements are True or False :	
1.	<p>There is no relation between Audit Plans and knowledge of the client's business</p> <p style="text-align: right;">(RTP IPCC Nov 18)</p> <p>Incorrect</p> <p>The auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner. Plans should be based on knowledge of the client's business.</p>
2.	<p>Establishing an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan is prerogative of the management.</p> <p style="text-align: right;">(TYK)</p> <p>Incorrect</p> <p>The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan. It's the responsibility of an Auditor and not the right of management.</p>
3.	<p>The audit plan is more detailed than the overall audit strategy.</p> <p style="text-align: right;">(TYk)(2 Marks) (Audit / Nov. 2020)</p> <p>Correct</p> <p>The audit plan is more detailed than the overall audit strategy that includes the nature, timing and extent of audit procedures to be performed by engagement team members. Once the overall audit strategy has been established, an audit plan can be developed to achieve the audit objectives through the efficient use of the auditor's resources.</p>
	<p>The overall audit strategy is more detailed than the audit plan</p> <p style="text-align: right;">(Inter MTP Nov 2023)</p> <p>Incorrect:</p> <p>The audit plan is more detailed than the overall audit strategy that includes the nature, timing and extent of audit procedures to be performed by engagement team members. Once the overall audit strategy has been established, an audit plan can be developed to achieve the audit objectives through the efficient use of the auditor's resources</p>
4.	<p>Development of an audit plan is important before the establishment of the overall audit strategy to address the various matters.</p> <p style="text-align: right;">(Inter RTP Nov.2022)</p> <p>Incorrect:</p> <p>As per SA-300, "Planning an Audit of Financial Statements", the auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan. Once the overall audit strategy has been established, an audit plan can be developed to address the various matters identified in the overall audit strategy, taking into account the need to achieve the audit objectives through the efficient use of the auditor's resources.</p>
5.	<p>Planning is a discrete phase of an audit.</p> <p style="text-align: right;">(TYK)(MTP May 2023) (2 Marks each, RTP Nov 17) (RTP IPCC Nov 19)</p>





	<p>Incorrect</p> <p>According to SA-300, "Planning an Audit of F.St.'s", planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement. Planning, however, includes consideration of the timing of certain activities and audit procedures that need to be completed prior to the performance of further audit procedures.</p>
6.	<p>Planning is not a discrete phase of an audit, but rather a continual and iterative process.</p> <p style="text-align: right;">(RTP IPCC Nov 18)</p> <p>Correct</p> <p>According to SA-300, "Planning an Audit of F.St.'s", planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement. Planning, however, includes consideration of the timing of certain activities and audit procedures that need to be completed prior to the performance of further audit procedures.</p>
7.	<p>The auditor need not discuss elements of planning with the entity's management in any case.</p> <p style="text-align: right;">(RTP IPCC Nov 19)</p> <p>Incorrect : The auditor may decide to discuss elements of planning with the entity's management to facilitate the conduct and management of the audit engagement.</p>
8.	<p>The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit.</p> <p style="text-align: right;">(MTP Aug-New 2018, 2 Marks)</p> <p>Correct</p> <p>The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit. As a result of unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures, the auditor may need to modify the overall audit strategy and audit plan and thereby the resulting planned nature, timing and extent of further audit procedures, based on the revised consideration of assessed risks.</p>
9.	<p>A well designed and drafted audit plan and audit strategy which takes care of all the uncertainties and conditions, need not be changed during the course of audit.</p> <p style="text-align: right;">(2 Marks, Nov 2018)</p> <p style="text-align: center;">OR</p> <p>Once the audit plan has been drafted and communicated, it is obligatory on the auditor to follow the same.</p> <p style="text-align: right;">(MTP May 2023)</p> <p>Incorrect</p> <p>The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit. As a result of unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures, the auditor may need to modify the overall audit strategy and audit plan and thereby the resulting planned nature, timing and extent of further audit procedures, based on the revised consideration of assessed risks.</p> <p>Examiner Comment - Few examinees did not mention that as a result of unexpected events, changes in condition, or the audit evidence obtained from the results of audit procedures, the auditor may need to modify the overall strategy and audit plan.</p>
10.	<p>A detailed Audit Programme once prepared for a business can be used for all business under all circumstances.</p> <p style="text-align: right;">(TYK)(MTP Oct 2020, 2 Marks) (2 Marks, MTP Oct.,2022)</p> <p style="text-align: center;">OR</p> <p>Evolving one audit programme applicable to all business under all circumstances is not practicable.</p> <p>Correct</p> <p>Businesses vary in nature, size and composition; work which is suitable to one business may not be suitable to others; efficiency and operation of internal controls and the exact nature of the service to be rendered by the auditor are the other factors that vary from assignment to assignment. On account of such variations, evolving one audit programme applicable to all business under all circumstances is not practicable</p>



11.	<p>The "documentation of the overall audit strategy" is a record of the audit evidences considered necessary to properly plan the audit and to assign various audit functions to the engagement team.</p> <p style="text-align: right;">(Inter Sugg. 2023)</p> <p>Incorrect :</p> <p>The documentation of the overall audit strategy is a record of the key decisions considered necessary to properly plan the audit and to communicate significant matters to the engagement team. Example: The auditor may summarize the overall audit strategy in the form of a memorandum that contains key decisions regarding the overall scope, timing and conduct of the audit.</p>
12.	<p>It is not necessary for the auditor to periodically review the audit programmed.</p> <p style="text-align: right;">(2 Marks) (Audit / Nov. 2020)</p> <p>Incorrect</p> <p>There should be periodic review of the audit programmed to assess whether the same continues to be adequate for obtaining requisite knowledge and evidence about the transactions. Unless this is done, any change in the business policy of the client may not be adequately known, and consequently, audit work may be carried on, on the basis of an obsolete programmed and for this negligence, the whole audit may be held as negligently conducted and the auditor may have to face legal consequences.</p>
13.	<p>Under a properly framed audit programme by the auditor, the danger is significantly less and audit can proceed systematically.</p> <p style="text-align: right;">(2 Marks, Nov 2019 – Inter New)</p> <p>Correct : Without a written and pre-determined programme, work is necessarily to be carried out on the basis of some 'mental' plan. In such a situation there is always a danger of ignoring or overlooking certain books and records. Thus, under a properly framed programme, the danger is significantly less and the audit can proceed systematically.</p>
14.	<p>The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential processes, but are closely inter-related since changes in one may result in consequential changes to the other.</p> <p style="text-align: right;">(TYK)</p> <p>Correct: Once the overall audit strategy has been established, an audit plan can be developed to achieve the audit objectives through the efficient use of the auditor's resources. The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential processes, but are closely inter-related since changes in one may result in consequential changes to the other.</p>





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AUDIT ALCHEMY
BY PROF. VISHAL

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AUDIT ALCHEMY PROF. VISHAL

Part B – Descriptive Questions

Benefits of Planning

Q. 1	<p>Surya and Chand Ltd is a manufacturing company engaged in the production of miscellaneous electrical goods. Trilochan and Co. has been appointed as the auditors to carry out its audit. Auditor thinks that planning an audit would involve establishing the overall audit strategy for the engagement and developing an audit plan. Also, Adequate planning benefits the audit of financial statements in several ways. Analyse and advise explaining the benefits of adequate planning.</p> <p style="text-align: right;">(RTP IPCC Nov 19) (RTP New May 2018)</p> <p style="text-align: center;">OR</p> <p>"An adequate planning benefits the audit of financial statements." Discuss.</p> <p style="text-align: right;">(5 Marks, Nov 2018 – Inter New) (4 Marks, MTP Sep.2022)</p> <p style="text-align: center;">OR</p> <p>Explain the benefits of planning in the audit of financial statements.</p> <p style="text-align: right;">(RTP Inter New May 2019)</p> <p style="text-align: center;">OR</p> <p>Engagement partner of Audit Firm MKC AND COMPANY thinks that planning an audit would involve establishing the overall audit strategy for the engagement and developing an audit plan. Also, Adequate planning would benefit the audit of financial statements in several ways. Analyse explaining the benefits of adequate planning.</p> <p style="text-align: right;">(RTP INTER MAY 18) (RTP IPCC MAY18) (RTP Inter New Nov 19)</p> <p style="text-align: center;">OR</p> <p>Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate planning benefits the audit of financial statements in several ways. Explain clearly those ways?</p> <p style="text-align: right;">(RTP IPCC May 18)</p> <p style="text-align: center;">(MTP May 2023)(RTP MAY 2023)((Inter Audit RTP/ New/ Old Nov. 2021) (4 Marks)</p>
	<p>Planning an audit is necessary to carry out it effectively in a timely manner. Besides ensuring compliance with professional standards, it helps in performing audit engagement effectively.</p> <p>Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate planning benefits the audit of financial statements in several ways, including the following:</p> <ol style="list-style-type: none"> 1. Helping the auditor to devote appropriate attention to important areas of the audit. 2. Helping the auditor identify and resolve potential problems on a timely basis. 3. Helping the auditor properly organize and manage the audit engagement so that it is performed in an effective and efficient manner. 4. Assisting in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks, and the proper assignment of work to them. 5. Facilitating the direction and supervision of engagement team members and the review of their work. 6. Assisting, where applicable, in coordination of work done by auditors of components and experts. <p>Therefore, planning an audit ensures that audit risk is reduced to an acceptable low level. When audit work is adequately and properly planned, it reduces the risk of inappropriate opinion by the auditor.</p> <p>Examiner Comment - Few examinees wrote wrongly about the benefits of audit to the auditee organization, like for settlement of tax disputes, achieving organizational goals etc. which was not required.</p>
Q. 2	<p>"Planning is not a discrete phase of an audit, but rather a continual and iterative process." Discuss.</p> <p style="text-align: right;">(5 MARKS, NOV 2018 – INTER NEW)</p> <p style="text-align: center;">OR</p>



Planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after the completion of the previous audit and continues until the completion of the current audit engagement. Analyse and Explain.

(RTP INTER NEW NOV 19)

OR

Plans should be further developed and revised as necessary during the course of the audit. Explain.

(RTP INTER NEW MAY 2020) (RTP IPCC MAY 2020)

Or

Planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after the completion of the previous audit and continues until the completion of the current audit engagement. Planning includes the need to consider certain matters prior to the auditor's identification and assessment of the risks of material misstatement. Explain clearly stating those matters also.

(Inter Audit RTP/ New/ Old, May, 2021) (MTP Oct-New 2018, 5 Marks)

Audit Planning- a Continuous Process

Planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement. Planning, however, includes consideration of the timing of certain activities and audit procedures that need to be completed prior to the performance of further audit procedures. For example, planning includes the need to consider, prior to the auditor's identification and assessment of the risks of material misstatement, such matters as:

1. The analytical procedures to be applied as risk assessment procedures.
2. Obtaining a general understanding of the legal and regulatory framework applicable to the entity and how the entity is complying with that framework.
3. The determination of materiality.
4. The involvement of experts.
5. The performance of other risk assessment procedures.

Therefore, planning includes consideration of matters such as obtaining knowledge about legal framework in which entity is operating.

Planning also includes need to consider determination of material or significant matters. It also involves considering whether experts need to be involved taking into account complexity of business.

Further, it also involves considering need to perform risk assessment procedures for identifying and assessing risks of material misstatement.

Examiner Comment - Examinees could not understand the question and mentioned either the benefits of planning or simply focused as audit planning is a continuous process. They did not explain fields where the audit planning as a continuous process is required.

Elements of Planning - Planning activities

Q. 3	Discuss how performing preliminary engagement activities as part of planning an audit assists auditor. (TYK)
	Performing preliminary engagement activities assists the auditor in identifying and evaluating events or circumstances that may affect auditor's ability to plan and perform audit engagement
Q. 4	Discuss how an engagement partner ensures that firm complies with relevant ethical requirements including independence in relation to client. (TYK)



	<p>A. Evaluating compliance with ethical requirements including independence The auditor shall continuously evaluate compliance with ethical requirements including independence. "Independence" means that the judgement of a person is not subordinate to the wishes or direction of another person who might have engaged him. Throughout the audit engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team. If matters come to the engagement partner's attention that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action.</p> <p>B. The engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, the engagement partner shall: -</p> <ul style="list-style-type: none"> (i) Obtain relevant information from the firm to identify and evaluate circumstances and relationships that create threats to independence (ii) Evaluate information on identified breaches, if any, of the firm's independence policies and procedures to determine whether they create a threat to independence for the audit engagement and (iii) Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the audit engagement, where withdrawal is permitted by law or regulation. The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action. <p>Besides, consideration for client continuance and compliance with ethical requirements, preliminary engagements activities also include establishing an understanding of terms of engagement.</p>
Q. 5	<p>The engagement partner . shall form a conclusion on compliance with independence requirements that apply to an audit engagement State the relevant requirements as per relevant SA 220- Quality control for an audit of Financial Statements.</p> <p style="text-align: right;">(Inter Suggested Nov 2023)</p>
	<p style="text-align: center;">Refer Above Q4 Part B</p>
Q. 6	<p>The establishment of the overall audit strategy and the detailed audit plan are closely inter-related. Explain</p> <p style="text-align: right;">(MTP March 2019, 4 Marks)</p> <p style="text-align: center;">OR</p> <p>"Once the overall audit strategy has been established, an audit plan can be developed to address the various matters identified in the overall audit strategy". Explain</p> <ul style="list-style-type: none"> ▪ Audit strategy sets the broad overall approach to the audit whereas audit plan addresses the various matters identified in the overall audit strategy. Audit strategy determines scope, timing and direction of audit. Audit plan describes how strategy is going to be implemented. The audit plan is more detailed than the overall audit strategy that includes the nature, timing and extent of audit procedures to be performed by engagement team members. Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops. ▪ Once the overall audit strategy has been established, an audit plan can be developed to address the various matters identified in the overall audit strategy, taking into account the need to achieve the audit objectives through the efficient use of the auditor's resources. ▪ The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential processes, but are closely inter-related since changes in one may result in consequential changes to the other.
Q. 7	<p>"Auditor shall establish an overall strategy that sets the scope, timing and directions of the audit, and that guides the development of the audit plan."</p> <p style="text-align: right;">(5 Marks each, May, 2011)</p> <p style="text-align: center;">OR</p> <p>Discuss the factors the auditor will consider while establishing the overall strategy.</p> <p style="text-align: right;">(RTP IPCC May 16)</p> <p style="text-align: center;">OR</p>





RGS & Co. have been appointed as auditors to conduct audit of accounts of PAN Exports Ltd. for the year 2011-12. The auditors wanted to establish an overall strategy that would set the scope, timing and direction of the audit and also guide the development of the audit plan.

Keeping in view the above, discuss the factors an auditor would take into consideration in establishing the overall strategy.

OR

“The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.” How would you as an auditor establish the overall audit strategy?

OR

Explain the factors an auditor would consider in establishing the overall audit strategy.

(RTP IPCC MAY 13) (RTP IPCC MAY 17) (RTP IPCC MAY 14)

OR

You have been appointed as an auditor of MKP Ltd. for the first time. Discuss briefly, the factors to be considered by you while establishing overall audit strategy

(RTP, Nov2023) (Inter Audit MTP/ New/ Old. April 2022) (4 Marks)

Establishment of Overall Strategy for Development of Audit Plan: According to SA 300, “Planning an Audit of Financial Statements” the auditor shall establish an overall audit strategy that sets the scope, timing and directions of the audit, and that guides the development of the audit plan.

The auditor shall take following factors into consideration while establishing audit strategy:

- b. Identify the characteristics of the engagement that define its scope;
- c. Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required;
- d. Consider the factors that, in the auditor’s professional judgment, are significant in directing the engagement team’s efforts;
- e. 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
- f. Ascertain the nature, timing and extent of resources necessary to perform the engagement.

Q. 8 In establishing the overall audit strategy, the auditor shall identify the characteristics of the engagement that define its scope. Explain with an example.

(RTP MAY 2023)

In establishing the overall audit strategy, the auditor shall Identify the characteristics of the engagement that define its scope. It is important for auditor to identify scope of the engagement. Only a well identified scope can lead to establishment of a sound audit strategy. There are many characteristics of engagement defining its scope. Some of characteristics are as under: -

- Applicable financial reporting framework applicable to the entity
- Nature of business segments to be audited including the need for specialized knowledge
- Industry specific reporting requirements required by industry regulators
- Expected use of audit evidence obtained in previous audits

Q. 9 In establishing overall audit strategy, the auditor shall ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required. Elucidate those cases by which auditor can ascertain the reporting objectives of the engagement.

(MTP May 2023) (4 Marks, Nov 2019 – Inter New)

OR

The audit plan includes the nature, timing and extent of audit procedures to be performed by engagement team members. Explain

(Inter RTP Nov 2023)



In establishing the overall audit strategy, auditor shall ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required.

The ascertaining of reporting objectives of engagement helps the auditor to plan timing of different audit procedures and also nature of communications. Some of the instances are given under:

1. The entity's timetable for reporting
2. Organization of meetings to discuss the nature, timing and extent of the audit work with management.
3. Discussion with management regarding the expected type and timing of reports to be issued including the auditor's report,
4. Discussion with management regarding the expected communications on the status of audit work throughout the engagement.
5. Expected nature and timing of communications among engagement team members, including the nature and timing of team meetings and timing of the review of work performed.

Q. 10 **The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan. Discuss stating the process of establishing the overall audit strategy that would assist the auditor to determine key matters.**

(RTP INTER NOV 17) (RTP Inter New Nov 18)

OR

Describe how the process of establishing the overall audit strategy assists the auditor in marshalling his human resources.

(4 Marks, May 2019 – Inter New)

OR

The engagement partner of SKC & Co., firm of Chartered Accountants appointed as auditor of Fabric India Ltd is considering as to management of key resources to be employed to conduct audit. Discuss how overall audit strategy would assist the auditor.

(MTP Oct-New 2018, 5 Marks)

OR

The engagement partner of AST AND ASSOCIATES, firm of Chartered Accountants appointed as auditor of Fabric India Ltd is considering as to management of key resources to be employed to conduct audit. Discuss how overall audit strategy would assist the auditor.

(MTP March 2018, 5 Marks)

OR

Overall audit strategy sets the scope, timing and direction of the audit, and guides the development of the more detailed audit plan. The process of establishing the overall audit strategy assists the auditor to determine such matters as for example - the resources to deploy for specific audit areas, such as the use of appropriately experienced team members for high risk areas or the involvement of experts on complex matters. Explain the other three such matters.

(RTP Inter New May 2020) (RTP IPCC May 2020)

OR

The auditor T of Hand Fab Ltd is worried as to management of key resources to be employed to conduct audit.

(Illustration)

The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.

The process of establishing the overall audit strategy assists the auditor to determine, subject to the completion of the auditor's risk assessment procedures, such matters as:

1. The resources to deploy for specific audit areas, such as the use of appropriately experienced team members for high-risk areas or the involvement of experts on complex matters;





	<ol style="list-style-type: none">2. The amount of resources to allocate to specific audit areas, such as the number of team members assigned to observe the inventory count at material locations, the extent of review of other auditors' work in the case of group audits, or the audit budget in hours to allocate to high risk areas;3. When these resources are to be deployed, such as whether at an interim audit stage or at key cut-off dates; and4. How such resources are managed, directed and supervised, such as when team briefing and debriefing meetings are expected to be held, how engagement partner and manager reviews are expected to take place (for example, on-site or off-site), and whether to complete engagement quality control reviews.
Q. 11	<p>MG & Co, a firm of auditors, having a standing of 30 years is appointed as a statutory auditor of company engaged in manufacturing of defence equipment. Due to opening of defence sector by government to private players in recent times, many new companies have entered the fray to manufacture sophisticated defence equipment. Considering technical and complex nature of operations, the auditors recognize that involvement of experts in the audit is required. Does consideration for involvement of experts by auditors fall in the domain of planning audit?</p> <p style="text-align: right;">(TYU)</p> <p>Consideration for involvement of experts by auditors falls within domain of planning. While planning an audit, auditor would have to consider whether involvement of experts is necessary.</p> <p>In the stated case, company is involved in technical and complex operations. Therefore, while planning an audit, auditors would have to consider whether involvement of expert is necessary</p>
Q. 12	<p>CA Kartik is planning for audit of a company engaged in manufacturing of cosmetics. Considering nature of operations of the company, he had planned to include testing of controls of the company over purchases, sales and inventories. One fine day, he reaches the corporate office and asks for manuals and required documentation to ensure surprise element in testing. He had never shared with management his intention to carry out above procedures. Is approach of CA Kartik proper?</p> <p style="text-align: right;">(TYU)</p> <p>In the case, CA Kartik has reached office of the company without sharing with management his intention to test the controls. The auditor may decide to discuss elements of planning with the entity's management to facilitate the conduct and management of the audit engagement without compromising effectiveness of audit.</p> <p>Sharing details of visit to test controls does not compromise effectiveness of audit. It is for the better facilitation and conduct of audit. Therefore, approach of CA Kartik is not proper.</p>

Developing the Audit Plan

Q. 13	<p>Engagement Partner CA Hitesh Kapur of Kapur and Associates wanted to develop an audit plan of Sampurna Fabrics Ltd. Discuss the matters to be described in such an audit plan.</p> <p style="text-align: right;">(Inter Audit RTP/ New/ Old May. 2022 (4 Marks))</p> <p>Once the overall audit strategy has been established, an audit plan can be developed to address the various matters identified in the overall audit strategy, taking into account the need to achieve the audit objectives through the efficient use of the auditor's resources.</p> <p>Understanding client's business is one of the important principles in developing an audit plan. In fact, without adequate knowledge of client's business, a proper audit is not possible. Gaining knowledge of client's business is, therefore, one of the foremost requirements to develop audit plan.</p> <p>SA-300 states that auditor shall develop an audit plan that shall include a description of.</p> <ol style="list-style-type: none">1) The nature, timing and extent of planned risk assessment procedures,2) The nature, timing and extent of planned further audit procedures at the assertion level,3) Other planned audit procedures that are required to be carried out so that the engagement complies with SAs.
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	<p>The auditor plans what type of audit procedures are to be performed, their timing and how much work should be done taking into account sample size etc</p> <p>The audit plan is more detailed than the overall audit strategy that includes the nature, timing and extent of audit procedures to be performed by engagement team members. Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops.</p> <p>Example: Planning of the auditor's risk assessment procedures occurs early in the audit process.</p> <p>However, planning the nature, timing and extent of specific further audit procedures depends on the outcome of those risk assessment procedures. In addition, the auditor may begin the execution of further audit procedures for some classes of transactions, account balances and disclosures before planning all remaining audit procedures.</p>
Q. 14	<p>CA Mary, while planning audit of a company, feels that she would inquire from inhouse legal counsel of the company status of pending litigation matters against the company to identify and assess risks of material misstatements. Considering above description, are you able to identify said procedures? Where these identified procedures are included in planning in accordance with SA-300?</p> <p>Refer Above Q13 (Point 1, 2, 3)</p> <p>In this case, auditor would like to inquire from inhouse legal counsel of the company as to status of pending litigation matters to identify and assess risk of material misstatement .</p> <p>The objective of planned inquiry of inhouse legal counsel is to identify and assess risk of material misstatement. Such planned risk assessment procedures are included in audit plan in accordance with SA-300.</p>

Overall audit strategy

Q. 15	<p>W, the auditor of SKM Ltd. asks its finance and audit head to prepare audit strategy for conducting audit of SKM Ltd. W also insists him to draw detailed audit procedures. On the request of auditor W completes audit strategy as well as audit procedures as prepared by finance head of the company. Subsequently, auditor realizes that effectiveness of the audit is compromised and it was his responsibility to prepare the overall audit strategy. Comment</p> <p style="text-align: right;">(Illustration)</p> <p>Overall audit strategy and audit plan remain the auditor's responsibility. It is the auditor who is responsible for establishing overall audit strategy and developing audit plan.</p> <ul style="list-style-type: none"> ▪ However, auditor may discuss elements of planning with entity's management without compromising effectiveness of audit. ▪ In the given case, On the request of auditor audit strategy as well as audit procedures are prepared by finance head of the company
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Changes To Planning Decisions During The Course Of Audit

Q. 16	<p>The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit. Explain</p> <p style="text-align: center;">OR</p> <p>As a result of unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures, the auditor may need to modify the overall audit strategy and audit plan. Explain.</p> <p style="text-align: center;">(MTP AUG-NEW 2018, 5 MARKS) (RTP INTER NEW NOV 18) (RTP INTER NOV 17) (RTP INTER NEW NOV 19)</p> <ul style="list-style-type: none"> ▪ The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit. As a result of unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures, the auditor may need to modify the overall audit strategy and audit plan and thereby the resulting planned nature, timing and extent of further audit procedures, based on the revised consideration of assessed risks.
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- This may be the case when information comes to the auditor's attention that differs significantly from the information available when the auditor planned the audit procedures.
- **For example, audit** evidence obtained through the performance of substantive procedures may contradict the audit evidence obtained through tests of controls.

Planning Supervision And Review Of Work Of Engagement Team Members

Q. 17 The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work. Explain the factors due to which above varies.

(MTP MAY 2020, 4 MARKS)

Or

The nature, timing and extent of the direction and supervision of engagement team members and review of their work vary depending on many factors. Explain those factors.

(Inter RTP Nov. 2022)

OR

The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work. The nature, timing and extent of the direction and supervision of engagement team members and review of their work vary depending on many factors. Explain giving eg.

Or

" The nature, timing and extent of the direction and supervision of engagement team members and review of their work vary depending on many factors." Explain.

OR

SA 300 states that auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work. Discuss few factors affecting such supervision and review of work of engagement team members.

(TYK)

The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work.

The nature, timing and extent of the direction and supervision of engagement team members and review of their work vary depending on many factors, including:

1. The size and complexity of the entity.
2. The area of the audit.
3. The assessed risks of material misstatement
4. The capabilities and competence of the individual team members performing the audit work.

Documentation

Q. 18 The auditor shall document the overall audit strategy, the audit plan and any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes. Explain.

(MTP AUG-NEW 2018, 5 MARKS) (RTP INTER NEW NOV 18) (RTP INTER NOV 17)

OR

The auditor shall document the overall audit strategy, the audit plan and any significant changes made to the overall audit strategy or the audit plan. Explain in detail giving examples.

[MTP-Aug. 18, RTP-Nov. 18, Nov. 20]

**OR****Is it necessary to document the audit plan? If so, what all activities in the planning phase needs to be documented? State with Examples?**

(TYK)

OR**An auditor of a company fails to document audit strategy and audit plan. Briefly outline consequences of such failure.**

(TYK)

The auditor shall document:

- a. the overall audit strategy;
- b. the audit plan; and
- c. any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes.

The documentation of the overall audit strategy is a record of the key decisions considered necessary to properly plan the audit and to communicate significant matters to the engagement team.

For example, the auditor may summarize the overall audit strategy in the form of a memorandum that contains key decisions regarding the overall scope, timing and conduct of the audit.

The documentation of the audit plan is a record of the planned nature, timing and extent of risk assessment procedures and further audit procedures at the assertion level in response to the assessed risks. It also serves as a record of the proper planning of the audit procedures that can be reviewed and approved prior to their performance. The auditor may use standard audit programs and/or audit completion checklists, tailored as needed to reflect the particular engagement circumstances.

A record of the significant changes to the overall audit strategy and the audit plan, and resulting changes to the planned nature, timing and extent of audit procedures, explains why the significant changes were made, and the overall strategy and audit plan finally adopted for the audit. It also reflects the appropriate response to the significant changes occurring during the audit.

For instance-**The following things should form part of auditor's documentation:**

- A summary of discussions with the entity's key decision makers
- Documentation of audit committee pre-approval of services, where required
- Audit documentation access letters
- Other communications or agreements with management or those charged with governance regarding the scope, or changes in scope, of our services
- auditor's report on the entity's financial statements.
- Other reports as specified in the engagement agreement (e.g., debt covenant compliance letter)

Q. 19 Explain what do you mean by documentation of audit plan. Discuss the purpose served by it and also elaborate the tools used by the auditor to reflect the particular engagement circumstances.

(Inter RTP Nov 2022)

The documentation of the audit plan is a record of the planned nature, timing and extent of risk assessment procedures and further audit procedures at the assertion level in response to the assessed risks.

It also serves as a record of the proper planning of the audit procedures that can be reviewed and approved prior to their performance.

The auditor may use standard audit programs and/or audit completion checklists, tailored as needed to reflect the particular engagement circumstances.

Q. 20 CA Shubhendu is statutory auditor of a social media company. Due to change in information technology regulations by government, it has become mandatory for such companies to constitute "grievance redressal mechanism" for users of social media platform of the company. Failure to comply with regulations can potentially lead to civil and criminal liabilities against the company. Is above factor to be considered by auditor while framing audit strategy?

(TYU)





Changes in laws and regulations affecting the company is a factor to be considered while establishing overall audit strategy. There has been change in information technology regulations applicable to the company. Non-compliance of the same can have implications in form of civil and criminal liabilities.

Such an important matter concerning changes in laws and regulations is to be considered by auditor while establishing overall audit strategy.

Audit Programme

Q. 21 Write a short note on - Audit Programme.

(4 MARKS, NOVEMBER, 2006)

OR

“An audit programme is a detailed plan of applying the audit procedure in the given circumstance for accomplishing the audit objectives”. Discuss.

(RTP IPCC MAY 16)

A.

- It is desirable that in respect of each audit and more particularly for bigger audits, an audit programme should be drawn up.
- Audit programme is a list of examination and verification steps to be applied and set out in such a way that the interrelationship of one step to another is clearly shown and designed, keeping in view the assertions discernible in the statements of account produced for audit or on the basis of an appraisal of the accounting records of the client.
- **Audit Programme:** An audit programme consists of a series of verification procedures to be applied to the financial statements and accounts of a given company for the purpose of obtaining sufficient evidence to enable the auditor to express an informed opinion on such statements.
- **In other words,** An audit programme is a detailed plan of applying the audit procedure in the given circumstances with instructions for the appropriate techniques to be adopted for accomplishing the audit objectives.

B.

To start with, an auditor having regard to the nature, size and composition of the business and the dependability of the internal control and the given scope of work, should frame a programme which should aim at providing for a minimum essential work which may be termed as a standard programme.

- As experience is gained by actually carrying out the work, the programme may be altered to take care of situations which were left out originally, but are found relevant for the particular concern.
- Similarly, if any work originally provided for proves beyond doubt to be unnecessary or irrelevant, it may be dropped.
- There should be periodic review of the audit programme to assess whether the same continues to be adequate for obtaining requisite knowledge and evidence about the transactions.

Q. 22 Rohit, undergoing practical training, is part of an engagement team conducting audit of a company engaged in manufacturing of paints. He has been provided with audit programme pertaining to sales. It lists out various items to be checked and verified by him including invoices, rate lists, posting in debtors accounts, correlation of invoices with e-way bills on sample basis etc.

During verification, he notices that many e-way bills have been cancelled by the company within 24 hours of their generation in month of March. There is no specific instruction in audit programme in this regard. He keeps mum. Is attitude of Rohit proper?

(TYU)

- Assistants engaged should be encouraged to keep an open mind beyond the programme given to him. They should be instructed to note and report significant matters coming to their notice, to seniors or partners or proprietor of the firm.
- In this case, Rohit notices that many e-way bills have been cancelled by the company within hours of their generation in month of March. There is no specific instruction in audit programme in this regard. He keeps mum.
- Attitude of Rohit is not proper. The assistants should observe matters objectively and bring significant matters to the notice of supervisor/principal.
- Reasons for cancellation of many e-way bills in month of March need to be looked into. Matter should be informed to engagement partner



Evolving One Audit Programme

Q. 23	<p>Evolving one audit programmed applicable to all business under all circumstances is not practicable. Explain clearly stating in detail the meaning of audit programme. (Refer Point A of Q21 for Meaning)</p> <p style="text-align: right;">(RTP Nov 20) OR</p> <p>Evolving one audit programme applicable to all audit engagements under all circumstances is not practicable. Explain.</p> <p style="text-align: right;">(RTP INTER MAY 18) (RTP IPCC MAY 18) (RTP INTER NEW MAY 19)</p>
	<p>a. Businesses vary in nature, size and composition; work which is suitable to one business may not be suitable to others; efficiency and operation of internal controls and the exact nature of the service to be rendered by the auditor are the other factors that vary from assignment to assignment. On account of such variations, evolving one audit programmed applicable to all business under all circumstances is not practicable.</p> <p>However, it becomes a necessity to specify in detail in the audit programmed the nature of work to be done so that no time will be wasted on matters not pertinent to the engagement and any special matter or any specific situation can be taken care of.</p> <p>b. Audit Programme: (Refer Point A of Q21 for Meaning)</p>
Q. 24	<p>M/s TP & Co., a firm of Chartered Accountants, is auditor of KSR Ltd. for many years. KSR Ltd. has diversified their business into newer areas during the last year. The senior member of the audit team handed over the standard audit programme of earlier years to the audit assistants and instructed them to follow the same. The assistants are conducting the audit accordingly. Whether the attitude of the audit assistants is justified or they are required to keep an open mind? Guide them.</p> <p>The Assistant Engaged – Be Encouraged to Keep an Open Mind:</p> <p>To start with, an auditor having regard to the nature, size and composition of the business and the dependability of the internal control and the given scope of work, should frame a programme which should aim at providing for a minimum essential work which may be termed as a standard programme.</p> <p>As experience is gained by actually carrying out the work, the programme may be altered to take care of situations which were left out originally, but are found relevant for the particular concern. Similarly, if any work originally provided for proves beyond doubt to be unnecessary or irrelevant, it may be dropped. The assistant engaged in the job should be encouraged to keep an open mind beyond the programme given to him.</p> <p>He should be instructed to note and report significant matters coming to his notice, to his seniors or to the partners or proprietor of the firm engaged for doing the audit.</p> <p>In the given case, the attitude of assistants of TP & Co. is not justified. They should keep an open mind and go beyond the programme to take care of newer areas of the business of KSR Ltd. into which the Company has diversified.</p>





Periodic Review of The Audit Programme

Q. 25	<p>The utility of the audit programme can be retained and enhanced only by keeping the programme as also the client's operations and internal control under periodic review so that inadequacies or redundancies of the programme may be removed. Explain</p> <p style="text-align: right;">(RTP INTER NEW MAY 19)</p> <p>Periodic Review of The Audit Programme</p> <ul style="list-style-type: none"> ▪ There should be periodic review of the audit programme to assess whether the same continues to be adequate for obtaining requisite knowledge and evidence about the transactions. Unless this is done, any change in the business policy of the client may not be adequately known, and consequently, audit work may be carried on, on the basis of an obsolete programme and, for this negligence, the whole audit may be held as negligently conducted and the auditor may have to face legal consequences. ▪ The utility of the audit programme can be retained and enhanced only by keeping the programme as also the client's operations and internal control under periodic review so that inadequacies or redundancies of the programme may be removed. However, as a basic feature, audit programme not only lists the tasks to be carried out but also contains a few relevant instructions, like the extent of checking, the sampling plan, etc. ▪ So long as the programme is not officially changed by the principal, every assistant deputed on the job should unfailingly carry out the detailed work according to the instructions governing the work. Many persons believe that this brings an element of rigidity in the audit programme. ▪ This is not true provided the periodic review is undertaken to keep the programme as up-to-date as possible and by encouraging the assistants on the job to observe all salient features of the various accounting functions of the client.
Q. 26	<p>'The utility of the audit programme can be retained and enhanced only by keeping the programme and also the client's operations and internal control under periodic review so that inadequacies or redundancies of the programme may be removed'. Discuss stating clearly the advantages of an audit programme.</p> <p>Periodic Review of The Audit Programme: Refer Q 25. Advantages of an audit programme: Refer Q 32.</p>

Constructing an Audit Programme

Q. 27	<p>Write a short note on constructing an audit programme.</p> <p style="text-align: right;">(RTP Inter New May 19)</p> <p>The audit planning ideally commences at the conclusion of the previous year's audit, and along with the related programme, it should be reconsidered for modification as the audit progresses. Such consideration is based on the auditor's review of the internal control, his preliminary evaluation thereof, and the results of his compliance and substantive procedures</p> <p>While developing an audit programme, the auditor may conclude that relying on certain internal controls is an effective and efficient way to conduct his audit. However, the auditor may decide not to rely on internal controls when there are other more efficient ways of obtaining sufficient appropriate audit evidence. The auditor should also consider the timing of the procedures, the coordination of any assistance expected from the client, the availability of assistants, and the involvement of other auditors or experts.</p> <p>The auditor normally has flexibility in deciding when to perform audit procedures. However, in some cases, the auditor may have no discretion as to timing, for example, when observing the taking of inventories by client personnel or verifying the securities and cash balances at the year-end.</p>
Q. 28	<p>What is an audit programme ? Discuss the points you should keep in mind for the purpose of programme construction.</p> <p style="text-align: right;">(RTP IPCC MAY 14)</p>



OR

List out the points that should be kept in mind by the auditor for the purpose of constructing an audit programme.

(3 Marks, May 2019 – Inter New)

OR

Arpana Hospitals Ltd having Gross Professional Charges of ` 50 crores is engaged in providing healthcare services. STP & Co., a firm of auditors is appointed as its auditors.

Advise what special points to be kept in mind for the purpose of construction of an Audit programme. Explain.

OR

State what special points you would keep in mind for the purpose of construction of an Audit programme. Explain.

(RTP INTER MAY 18) (RTP IPCC MAY 18)

OR

Discuss the points to be considered by auditor for the purpose of constructing an audit programme.

(4 Marks, Nov 2019 – Inter New)

OR

XYZ & associates are appointed as the statutory auditors of Fisco Ltd. for the FY 2021-22. While constructing the audit programme, the engagement partner, CA X, should keep in mind various points. List such points.

(4 Marks, MTP Oct.2022)

Constructing an audit programme

An audit programme consists of a series of verification procedures to be applied to the financial statements and accounts of a given company for the purpose of obtaining sufficient evidence to enable the auditor to express an informed opinion on such statements.

For the purpose of programme construction, the following points should be kept in mind:

1. Stay within the scope and limitation of the assignment.
2. Prepare a written audit programme setting forth the procedures that are needed to implement the audit plan.
3. Determine the evidence reasonably available and identify the best evidence for deriving the necessary satisfaction.
4. Apply only those steps and procedures which are useful in accomplishing the verification purpose in the specific situation.
5. Include the audit objectives for each area and sufficient details which serve as a set of instructions for the assistants involved in audit and help in controlling the proper execution of the work.
6. Consider all possibilities of error.
7. Co-ordinate the procedures to be applied to related items.

Q. 29 While developing an audit programme, the auditor may conclude that relying on certain internal controls is an effective and efficient way to conduct his audit. Explain stating clearly the points to be kept in mind while developing an audit programme.

(Inter RTP Nov. 2022)

While developing an audit programme, the auditor may conclude that relying on certain internal controls is an effective and efficient way to conduct his audit. However, the auditor may decide not to rely on internal controls when there are other more efficient ways of obtaining sufficient appropriate audit evidence. The auditor should also consider the timing of the procedures, the coordination of any assistance expected from the client, the availability of assistants, and the involvement of other auditors or experts.

For the purpose of programme construction, the following points should be kept in mind: (Refer Above Q.21)





Designed to provide Audit Evidence

Q. 30 In most of the assertions much of the evidence be drawn and each one should be considered and weighed to ascertain its weight to prove or disprove the assertion. An auditor picks up evidence from a variety of fields. Analyse and explain with the help of examples.

(RTP Nov 20)

A. In most of the assertions much of the evidence be drawn and each one should be considered and weighed to ascertain its weight to prove or disprove the assertion. In this process, an auditor would be in a position to identify the evidence that brings the highest satisfaction to him about the appropriateness or otherwise of the assertion.

An auditor picks up evidence from a variety of fields and it is generally of the following broad types:

1. Documentary examination,
2. Physical examination,
3. Statements and explanation of management, officials and employees,
4. Statements and explanations of third parties,
5. Arithmetical calculations by the auditor,
6. State of internal controls and internal checks,
7. Inter-relationship of the various accounting data,
8. Subsidiary and memorandum records,
9. Minutes,
10. Subsequent action by the client and by others.

B. Example

1. For cash in hand, the best evidence is 'count'
2. For investment pledged with a bank, the banker's certificate.
3. For verifying assertions about book debts, the client's ledger invoices, debit notes, credit notes, monthly accounts statement sent to the customers are all evidence: some of these are corroborative, other being complementary. In addition, balance confirmation procedure is often resorted to, to obtain greater satisfaction about the reliability of the assertion.

C. The **auditor**, however, has to place appropriate weight on each piece of evidence and accordingly should prescribe the priority of verification. It is true that in all cases one procedure may not bring the highest satisfaction and it may be dangerous for the auditor to ignore any evidence that is available. By the word "available" we do not mean that the evidence available with the client is the only available evidence. The auditor should know what normally should be available in the context of the transaction having regard to the circumstances and usage.

Q. 31 Evidence is the very basis for formulation of opinion and an audit programme is designed to provide for that by prescribing procedures and techniques.

Analyse and explain with the help of example

(RTP Inter New May 2020) (RTP IPCC May 2020)

Evidence is the very basis for formulation of opinion and an audit programme is designed to provide for that by prescribing procedures and techniques.

What is best evidence for testing the accuracy of any assertion is a matter of expert knowledge and experience.

This is the primary task before the auditor when he draws up the audit programme. Transactions are varied in nature and impact; procedures to be prescribed depend on prior knowledge of what evidence is reasonably available in respect of each transaction.

Example Refer Q.30 point B



Advantages and Disadvantages of an Audit Programme

Q. 32 "All the disadvantages of audit program may be eliminated by imaginative supervision of the work carried on by the assistants." Explain stating the advantages and disadvantages of an audit program.

(RTP IPCC MAY 17) (RTP IPCC NOV15) (PM IPCC CH4) (4 MARKS, May, 2012)

OR

State the disadvantages of the use of an Audit programme.

(4 Marks, Nov 2018)

OR

"All the disadvantages of audit program may be eliminated by imaginative supervision of the work carried on by the assistants, the auditor must have a receptive attitude as regards the assistants; the assistants should be encouraged to observe matters objectively and bring significant matters to the notice of supervisor/principal." Explain stating the advantages and disadvantages of an audit program.

(RTP IPCC Nov 19)

OR

Disadvantages of the use of an audit programme.

(MTP Aug 2018, 4 Marks) (RTP IPCC Nov 15)

OR

CA Vikas Jain discussed with his audit team about advantages and disadvantages of audit programme. He explained to his team that – "work may become mechanical" as disadvantage of the audit programme. Discuss explaining the disadvantages of an audit programme.

(Inter Audit MTP/ New/ Old. May 2022) (4 Marks)

Advantages and Disadvantages of the use of an Audit Programme

The advantages of an audit programme are:

1. It provides the assistant carrying out the audit with total and clear set of instructions of the work generally to be done.
2. It is essential, particularly for major audits, to provide a total perspective of the work to be performed.
3. Selection of assistants for the jobs on the basis of capability becomes easier when the work is rationally planned, defined and segregated.
4. Without a written and pre-determined programme, work is necessarily to be carried out on the basis of some 'mental' plan. In such a situation there is always a danger of ignoring or overlooking certain books and records. Under a properly framed programme, the danger is significantly less and the audit can proceed systematically.
5. The assistants, by putting their signature on programme, accept the responsibility for the work carried out by them individually and, if necessary, the work done may be traced back to the assistant.
6. The principal can control the progress of the various audits in hand by examination of audit programmes initiated by the assistants deputed to the jobs for completed work.
7. It serves as a guide for audits to be carried out in the succeeding year.
8. A properly drawn up audit programme serves as evidence in the event of any charge of negligence being brought against the auditor. It may be of considerable value in establishing that he exercised reasonable skill and care that was expected of professional auditor.

Some disadvantages are also there in the use of audit programmes, but most of these can be removed by taking some concrete steps. The disadvantages are:

1. The work may become mechanical and particular parts of the programme may be carried out without any understanding of the object of such parts in the whole audit scheme.
2. The programme often tends to become rigid and inflexible following set grooves; the business may change in its operation of conduct, but the old programme may still be carried on. Changes in staff or internal control may render precaution necessary at points different from those originally decided upon.





3. Inefficient assistants may take shelter behind the programme i.e. defend deficiencies in their work on the ground that no instruction in the matter is contained therein.
4. A hard and fast audit programme may kill the initiative of efficient and enterprising assistants.

All these disadvantages may be eliminated by imaginative supervision of the work carried on by the assistants; the auditor must have a receptive attitude as regards the assistants; the assistants should be encouraged to observe matters objectively and bring significant matters to the notice of supervisor/principal.

Q. 33 **“Purported disadvantages of an audit programme can be overcome”. Do you agree?** (TYK)

Purported disadvantages of audit programme may be eliminated by imaginative supervision of the work carried on by the assistants; the auditor must have a receptive attitude as regards the assistants; the assistants should be encouraged to observe matters objectively and bring significant matters to the notice of supervisor/principal.

Miscellaneous

SA 300 state that the auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner. Plans should be based on knowledge of the client’s business. Explain.

(Refer a to d pt. only)

(RTP May 2023)

OR

Plans should be made to cover acquiring knowledge of the client’s accounting systems, policies and internal control procedures. Explain.

OR

The auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner. Discuss and explain what should be covered in audit plans.

(RTP New Nov 18) (RTP Inter New Nov 19) (RTP IPCC May 19)

OR

“The auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner. Plans should be based on knowledge of the client’s business” Discuss stating clearly the broad points you would be covering in framing plan to conduct audit in an efficient and effective manner.

(MTP March 2018, 5 Marks) (MTP March 2019, 4 Marks)

OR

“The auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner.” Explain stating the matters to be covered in plans.

(Inter Audit MTP/ New/ Old. 2021) (4 Marks)

The auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner. Plans should be based on knowledge of the client’s business.

Plans should be made to cover, among other things:

- a. acquiring knowledge of the client’s accounting systems, policies and internal control procedures;
- b. establishing the expected degree of reliance to be placed on internal control;
- c. determining and programming the nature, timing, and extent of the audit procedures to be performed; and
- d. coordinating the work to be performed.



Q. 34	<p>Discuss the following Despite of several disadvantages, audit programme is required to start an audit</p> <p style="text-align: right;">(5 Marks, November, 2013)</p> <p style="text-align: center;">OR</p> <p>How does an audit programme help to plan and perform the audit?</p> <p style="text-align: right;">(5 Marks, May 2016) (RTP IPCC Nov 18, Nov 12)</p> <hr/> <p>The Role of Audit Programme in Audit Plan and Performance / Despite several disadvantages, Audit Programme is required to start an Audit: Despite of several disadvantages, the audit programme is required to start an audit due to the following considerations-</p> <ol style="list-style-type: none">1. The audit programme lists down areas of audit before commencement.2. The audit timing is built therein; thereby it becomes a schedule of audit plan.3. The staff who are entrusted with the audit assignment is also specified. It is a plan of resource allocation of the firm.4. It specifies the procedures to be checked during the audit.5. As the audit work is split into various elements of procedures to be performed, the audit programme acts as a guiding chart or check list during the performance of audit.6. Since the staff in charge of each work is specified and they sign the programme, it extracts the responsibility from the audit assistants.7. The working papers of the audit staff can be reviewed against the audit programme which helps a base of reference for evaluation of the performance before reporting on the financial statements.8. It also helps in preparing a diary of the performance and plan and also base for billing the clients for the time and manpower involved in the audit.
Q. 35	<p>Describe a set of instructions, which an auditor has to give to his client before the start of actual audit.</p> <p style="text-align: right;">(RTP IPCC Nov 14)</p> <p>Following instructions are given by the auditor to the client before the start of audit:</p> <ol style="list-style-type: none">1. The accounts should be total up and trial balance and final accounts to be kept ready.2. Vouchers should be serially arranged.3. Schedule of trade receivables and trade payables should be prepared.4. Schedule of outstanding expenses, prepaid expenses and accrued income to be kept ready.5. A list of bad and doubtful debts should be prepared.6. Schedule of investments should be prepared.7. Certified list of goods returned to be prepared.8. Statement of permanent capital expenditure to be prepared.9. Schedule of deferred revenue expenditures to be prepared.10. Names and addresses of managers and other officers should be kept ready.
Q. 36	<p>An Auditor must take care to ensure that nothing is missed in the process which needs to be followed to achieve the audit objective. Explain the audit process with the help of a specimen.</p> <p style="text-align: right;">(RTP IPCC Nov 12)</p> <p>Audit process to ensure achievement of the Audit Objective</p> <p>The following audit process may be taken as a specimen to ensure that nothing is missed in the process which needs to be followed to achieve the audit objective:</p> <ol style="list-style-type: none">a. Formulating audit plan and laying down broad framework for conducting the work and method to ensure control over the quality of work.b. Examination and evaluation of the nature, extent and efficacy of the system of internal control. The nature, extent and timing of substantive procedures, would depend upon the extent of satisfaction an auditor obtains after evaluating the internal control system. The determination of extent of test checking would also depend upon the same.





- c. Ascertaining the arithmetical accuracy of the books of account by checking posting, casting, cross-casting, carry forwards, opening and closing balances, etc.
- d. Examining the documentary evidence (both internal and external) and the authority in support of the transaction, i.e. vouching.
- e. Checking the validity of transactions with reference to:
 - i. provisions affecting the accounts and audit in any Act or Rules;
 - ii. rules and regulations governing the constitution and management of the organisation i.e., the memorandum and articles of association in the case of a company, partnership deed in the case of a firm, trust deed in the case of a trust and bye-laws in the case of a co-operative society;
 - iii. minute book for appropriate sanction of the transactions by competent authority;
 - iv. other legal documents such as the prospectus, returns submitted to legal authorities, contracts and agreements e.g., vendors' agreement, lease agreement, selling agency agreement, collaboration agreements, etc; and
 - v. well recognised accounting principles and practices e.g., distinction between capital and revenue, accrual system of accounting, valuation principles, etc.,

Ensuring that there is adequate disclosure of information and, in particular, the annual accounts are prepared in such a manner as to convey the real picture about the assets and liabilities and of the operating result (profit or loss) of the organisation. For this purpose, the auditor must conform to the prescribed legal requirement, if any, as to the form of accounts and have due regard to the best current accounting practice. Reference to Revised Schedule VI in case of companies and compliance with accounting standards will have to be seen.

- a. Verification of existence, ownership, title and value of the assets and determination of the extent and nature of liabilities.
- b. Scrutiny of the accounts to establish reasonableness, consistency and compliance with the legal requirements
- c. Application of various overall checks in order to test the overall reliability of the accounting records and the statements and to see whether the results of overall checks corroborate the findings already made.
- d. Determination of the significant accounting ratios and subjecting the accounts to ratio analysis, to locate the areas, showing departure from the expected state of affairs.

Q. 37 Knowledge of the Client's business is one of the important principles in developing an overall audit plan. In fact, without adequate knowledge of client's business, a proper audit is not possible. As per SA-315, "Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and Its Environment", the auditor shall obtain an understanding of the relevant industry, regulatory and other external factors including the applicable financial reporting framework. Substantiate with the help of examples.

(RTP Inter New May 2020) (RTP IPCC May)

OR

As per SA-315, "Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and Its Environment", the auditor shall obtain an understanding of the relevant industry, regulatory and other external factors including the applicable financial reporting framework. Explain giving examples.

(Inter MTP Nov 2023)

As per SA-315, "Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and Its Environment", In the process of obtaining an understanding of the entity, the auditor shall obtain an understanding of the Relevant Industry, Regulatory, and Other External Factors including the applicable FRF :

Important Examples are:

- a. The competitive environment, including demand, capacity, product and price competition as well as cyclical or seasonal activity.
- b. Supplier and customer relationships, such as types of suppliers and customers (e.g., related parties, unified buying groups) and the related contracts with those entities.
- c. Technological developments, such as those related to the entity's products, energy supply and cost.
- d. Energy supply and cost.
- e. The effect of regulation on entity operations.

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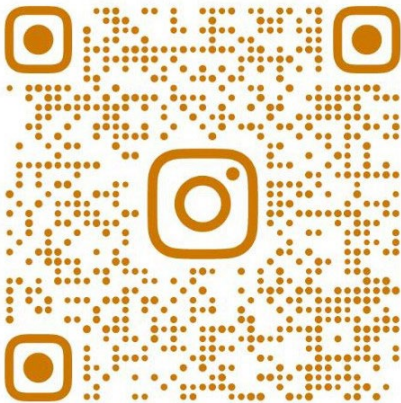


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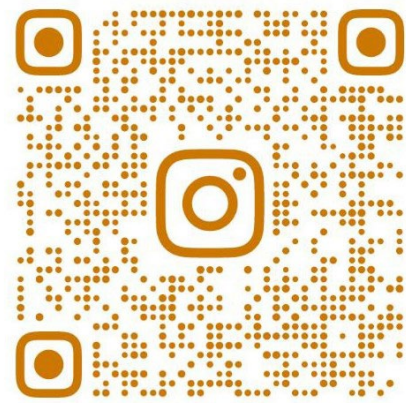


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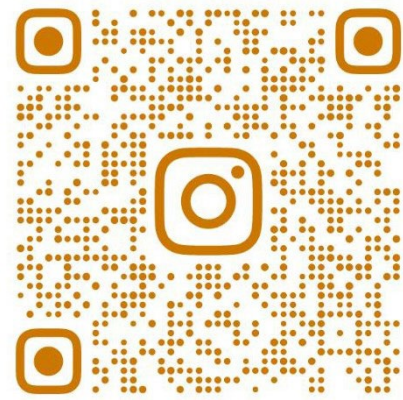
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