

WT 3 (Ch. 2 – Audit Strategy, Planning and Execution)

Marks: 25

Time: 45 Minutes

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

Part – A (Multiple Choice Questions)

- Q.1 RJ Private Limited having its office at Bangalore and operations spread across Southern India, had a discussion with its statutory auditors regarding the audit plan and the timelines. 2
- In the past years, there have been significant delays in completion of audit work and the management wanted that for the current year, audit should get completed on time. For doing this, the audit team suggested that the information for the purpose of audit should be ready on time and only then the timelines as agreed can be achieved.
- On the basis of the discussions with the client & the auditors and internal discussions amongst the audit team members, a detailed audit programme was prepared by the audit team for the current year's audit. But the audit team discussed that they will not document this audit programme till the completion of the audit work because at various stages, the work may require changes. If the audit team documents the audit programme then it would create problems later on at the time of assembling of the audit file wherein the audit team would have to show the changes made by them in the audit programme during the course of the audit.
- You are required to share your views in respect of this understanding and approach of the auditor.
- (a) The decision of audit team regarding not documenting the audit programme is very good as this would avoid unnecessary problems of documentation of changes made in the audit programme at the time of assembly of file.
- (b) Instead of considering the audit programme, the audit team could have prepared a checklist. In case of a checklist, such problem will not arise. Because in case of a checklist if any changes are made then the final checklist can be kept in the file along with old working checklist used during the audit.
- (c) The approach of the audit team not to document audit programme is not correct. The audit team needs to document it properly at the time of planning stage itself and any changes made after that should also be documented with explanations.
- (d) The decision of audit team not to document the audit programme is not correct. Their concern that the changes may arise in the audit programme is valid, however, to take care of that, the audit team can take approval from the ICAI later on when those changes will be made. The audit team will have to document the changes and the approval note of the ICAI.

- Q.2 Gamma Private Ltd. duly appoints CA Palak as the tax auditors of their Company and the appointed tax auditor chalks out a detailed Audit Programme to be assigned to her audit engagement team to carry out the tax audit efficiently & effectively. 2
- Which of the following situations wouldn't warrant an alteration in the Audit Programme during the course of Audit by the Tax Auditor of Gamma Private Limited during the next Financial Year?
- (a) Significant changes in procedures and personnel of the company subsequent to audit Procedures.
 - (b) A Substantial increase in the volume of turnover as against the anticipated results of the Company.
 - (c) An extraordinary increase in the amount of book debts as compared to that in the first year.
 - (d) A new contract received by Gamma Ltd. from a foreign client during the course of the audit.
- Q.3 _____ sets the scope, timing & direction of the audit and guides the development of the more detailed plan. 1
- (a) Audit Programme
 - (b) Overall Audit Strategy
 - (c) Completion Memorandum
 - (d) Audit Plan
- Q.4 Which of the following is not an advantage of an audit programme? 1
- (a) It acts as a guide for audit of coming years.
 - (b) It fixes responsibility of assistants.
 - (c) It serves as a shelter for assistants.
 - (d) It serves as a proof of work done by auditor.
- Q.5 CA Sameer, after developing the audit strategy for Menka Ltd., develops an audit plan but finds a need to revise the materiality levels set earlier and therefore, a deviation from the already set audit strategy is felt necessary. In this case, he should. 1
- (a) Continue with the Audit Plan without considering the Audit Strategy.
 - (b) Drop the audit and withdraw from the engagement.
 - (c) First modify the audit strategy and thereafter, prepare the audit plan according to the modified strategy.
 - (d) Devise a new audit plan and then, change the strategy as per the Revised Plan.

Part B (Descriptive Questions)

Q. No. 1 is Compulsory. Attempt Any two from the rest.

- Q.1 State with reasons (in short) whether the following statements are correct or incorrect: 4
- (a) The audit plan is more detailed than the overall audit strategy.
- (b) Evolving one audit programme applicable to all business under all circumstances is not practicable.
- Q.2 (i) 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. State any two examples. 2
- (ii) In establishing the overall audit strategy, the auditor shall identify the characteristics of the engagement that define its scope. State any two examples. 2
- (iii) 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. 3
- 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?
- Q.3 (a) 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. Briefly discuss the usefulness of careful and adequate audit planning. 4
- (b) 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. 3

- Q.4 (a) 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. 4
- (b) 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. 3



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