

Chapter - 2 "Audit Strategy, Audit Planning and Audit Programme"

- Topics Covered:
- (1) Auditor's responsibility to plan an audit of f.s.
 - (2) Audit Strategy
 - (3) Audit Planning

✓ (4) Audit Programme:

Audit Programme is detailed plan of applying audit procedures in the given circumstances with instructions for appropriate techniques to be adopted
↓
for accomplishing audit objectives.

Examples:

Audit Procedures → Methods and Means
(Techniques)

(i) RAP (Risk Assessment Procedures) → Inspection, Inquiry and A.P.

(ii) Tests of Controls (Compliance Procedures) → Inquiry, Inspection, Re-performance

(iii) Tests of Details (Vouching and Verification) → Inquiry, Inspection
External confirmations
Written Representations
Re-calculation
Re-performance

(iv) Substantive Analytical Procedures → Comparisons - trend Analysis
Ratio Analysis

✓ **RAP** (NTE) - Identify Assess RoMM

↓ Obtain understanding

Entity, Environment

✓ **Internal Control**

↓ Techniques

Inquiry - Mngt / TWG / other person

Inspection - Records, Policy Manuals

A.P. - financial info

✓ **FAP** - ToC (compliance) (Internal control) Substantive Procedures
- ToC - **Trxn** - Vouching - Balance - Verification

↓ - I, I, O, AP, EC, WR, RP

Audit Evidence ← Sufficient Appropriate

Evaluate → Conclusion

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Expressed - opinion

→ Audit Report

Evolving audit programme for different audits:

- Evolving audit programme applicable to all business entities under all circumstances is not practical.
- This is due to (a) varying nature, size, legal form of Business entities
(b) work suitable to one business may not be suitable to another.
(c) Efficiency and operation of Internal Controls and exact nature of services to be rendered by auditor differs from assignment to assignment.
- Hence, it is required to develop an audit programme that specify in detail, nature of work to be perform in a particular engagement.

Assistants - to keep an open mind:

- During Initial stage, auditor should frame a programme, having regard to
 - nature, size and composition of business;
 - dependability of Internal control;
 - scope of work.
- Such programme may be considered as a Standard Programme.
- As experience is gained and information is collected, programme may be suitably altered, for relevant matters.
- If any work originally covered in audit programme, appears to be unnecessary, it may be dropped.
- Hence, assistants engaged in audit should be encouraged to keep an open mind beyond the programme given to them.
Any significant matter, noticed by them, should be informed to senior persons in the firm.

Periodic Review of Audit Programme:

- ✓ Auditor is required to review the audit programme periodically to assess whether the same continues to be adequate for obtaining requisite knowledge and evidences about the transactions.
- Utility of audit programme can be maintained only by keep the programme under periodic review so that inadequacies or redundancies may be identified and audit programme may be updated.
- If periodic review is not done, auditor may not be able to identify the changes in business policies of the client; and audit work performed on the basis of obsolete audit programme, will not be considered effective and efficient and hence auditor may have face consequences of professional negligence.

M. Imp.

Points to be considered in constructing audit programme :

- Stay within the scope and limitation of Engagement.
- Prepare written Audit Programme containing procedures needed to implement audit plan.
- Consider all possibilities of errors and fraud.
- Include audit objectives for each area of audit
- Provide sufficient details which serves as instructions to assistants for proper execution of audit work.
- Identify Evidences to be obtained for deriving necessary satisfaction.
- Identify procedures, useful in accomplishing the verification purpose.
- Coordinate the procedures to applied to related items.

Any 4-5

Obtaining audit Evidences - Very basis for audit programme:

- Audit programme is designed for the purposes of obtaining audit evidences through prescribed procedures and techniques.
- Audit Evidences may be collected through any of the following:
 - (a) Documentary Examination
 - ✓ (b) Physical Examination
 - (c) Arithmetical calculations.
 - (d) Statements and Explanations of Mngs, officials and Employees.
 - (e) " " " " third parties
 - (f) Inter relationship of Accounting data.
 - (g) Inspection of Minute book.
 - (h) " " Subsidiary and Memoranda Book.

Example: - Verification of cash in hand - Physical Examination (count)
- " " Investments - Explanation / Statement from Bank (Ext. confirmation)
Pledged with Bank

Advantages of Audit Programme:

Disadvantages of Audit Programme:

(Noting - H.W.)