

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

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

Part – A (Multiple Choice Questions)

- Q.1 (c) (2 Marks)
Q.2 (d) (2 Marks)
Q.3 (b) (1 Mark)
Q.4 (c) (1 Mark)
Q.5 (c) (1 Mark)

Part B (Descriptive Questions)

Q.1 (a) Statement is Correct.

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.

(2 Marks)

(b) Statement is correct.

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.

(2 Marks)

Q.2 (i) Cases by which auditor can ascertain the reporting objectives of the engagement:

Various cases through which auditor can ascertain the reporting objectives of the engagement are:

- (1) Entity's timetable for reporting, such as at interim and final stages.
- (2) Organization of meetings with management and TCWG to discuss the NTE of the audit work.
- (3) Discussion with management regarding expected type and timing of reports to be issued.
- (4) Expected nature and timing of communications among ET members, including the nature and timing of team meetings and timing of the review of work performed.

One mark for each correct point – Any Two Points

(ii) **Characteristics of the engagement that define its scope:**

There are many characteristics of engagement defining its scope, including:

- (a) FRF applicable to the entity.
- (b) Nature of business segments to be audited including need for specialized knowledge.
- (c) Industry specific reporting requirements required by industry regulators.
- (d) Expected use of audit evidence obtained in previous audits.

One mark for each correct point – Any Two Points

(iii) **Assistants to keep an Open Mind:**

- 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. **(1.5 Marks)**
- In this case, Rohit 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.

Conclusion: Attitude of Rohit is not proper. Reasons for cancellation of many e-way bills in month of March need to be looked into. Matter should be informed to engagement partner. **(1.5 Marks)**

Q.3 (a) **Usefulness of Careful and Adequate Audit Planning:**

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:

- (i) Planning helps the auditor to devote appropriate attention to important areas of the audit.
- (ii) Planning helps the auditor identify and resolve potential problems on a timely basis.
- (iii) Adequate planning helps the auditor in properly organizing and managing the audit engagement so that it is performed in an effective and efficient manner.
- (iv) Planning assists the auditor in the selection of engagement team members with appropriate levels of capabilities and competence.
- (v) Planning facilitates the direction and supervision of engagement team members and the review of their work.
- (vi) Planning helps the auditor in coordination of work done by auditors of components and experts.

(1 Mark for each Correct Point – Any four points)

(b) **Points to be considered in constructing Audit Programme:**

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) Coordinate the procedures to be applied to related items.

(1 Mark for each Correct Point – Any Three points)

Q.4 (a) **Benefits of Audit Strategy:**

- (1) **Employment of Qualitative Resources:** Audit strategy helps in deploying the appropriate resources for specific audit areas, such as the use of experienced team members for high risk areas or the involvement of experts on complex matters.
- (2) **Allocation of Quantity of Resources:** Audit strategy helps in allocating the appropriate number of resources 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) **Timing of Deployment of Resources:** Audit strategy helps in determining the timing of deploying the resources, such as whether at an interim audit stage or at key cut-off dates.
- (4) **Management of Resources:** Audit strategy helps in managing, directing, supervising the resources, 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.

(1 Mark for each Correct Point)

(b) **Documentation of Audit Plan:**

- 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.
- 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. **(1 Mark)**
- Documentation of the audit plan is a record of the planned NTE of RAPs and FAPs 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. **(1 Mark)**
- Record of the significant changes to the overall audit strategy and the audit plan, and resulting changes to the planned NTE of audit procedures, explains why the significant changes were made, and the overall strategy and audit plan finally adopted for the audit. **(1 Mark)**



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