

Chapter-3 " Audit Planning, Strategy and Execution "

Topics Covered: (1) Audit Process

- (2) Using the Work of Other Auditor (SA 600)
- (3) " " " Internal Auditor's (SA 610)
- (4) " " " Auditor's Expert (SA 620)



(i) Meaning of Auditor's Expert:

(ii) Areas in which work of AE can be used:

(iii) Procedures when auditor uses the work of AE:

(iv) Reference of AE work in auditor's report

10 Sep →

Monthly Test

Ch-1, 2, 3, 4, 19

50 Marks

(V) Other Topics:

(a) Matters on which assistance of AE may be required: Reading from book

(i) Understanding (ii) ROMM (iii) Overall Responses (iv) Responses at Assertion

(b) Considerations when deciding whether to use an AE:

(i) Mngt. Expert (ii) Nature & Significance (iii) ROMM (iv) Knowledge / Exp. / other evidence

(c) factors influencing the auditor's decision w.r.t. use of AE when management has used a Mngt. Expert:

(i) N.S.O (ii) Employment / 3rd party (iii) Control / Influence (iv) Competence / Capability.

(v) Compliance of technical stds. (vi) Control over Mgt. work.

(d) factors to be considered to evaluate objectivity of Expert:

(i) Financial Interest (ii) Business or Personal relationship

(iii) Any other engagements rendered to Entity.

Reading from book

(e) Agreement with Expert: Should be in writing and includes :

(i) Nature, scope and objective of Auditor's Expert work.

(ii) Respective Role and Responsibilities of Auditor and Auditor's Expert

(iii) Nature, timing and Extent of Communication, including form of report.

V. Imp:

(iv) Need to observe confidentiality requirements under Ethical requirements or laws and regulations.

Note : Agreement is generally in the form of an Engagement letter.

Factors suggesting need for detailed and written agreement:

- (i) Auditor's Expert will have access to sensitive or confidential client information.
- (ii) Respective Role and Responsibilities of Auditor and Auditor's Expert are different from those normally expected.
- (iii) Multi-jurisdictional legal or regulatory requirements apply.
- (iv) Related matter is generally complex in nature.
- (v) Significance of A.E. work in context of audit.
- (vi) Auditor may not have previously worked with Auditor's Expert.

Ques
(f) Procedures to evaluate adequacy of Auditor's Expert work:

- (i) Inquiries of Auditor's Expert.
- (ii) Review of working papers and reports of auditor's expert.
- (iii) Discussion with another expert having relevant expertise.
- (iv) Discussing AE report with Mngt.
- (v) Corroborative procedures like: - Observing A.E. work;
- Confirmation from 3rd parties;
- Performing Analytical procedures;
- Re-performing Calculations.

(5) Analytical Procedures (SA-520):

(A) Scope of SA 520:

SA 520 deals with use of analytical procedures as substantive analytical procedures (during execution stage and near the end of audit).

Note: Application of AP as RAP - Covered in SA 315.

Note: Use of SAP as sole procedure to examine financial items is not advisable.

Hence SAP should be used in combination with TAD.

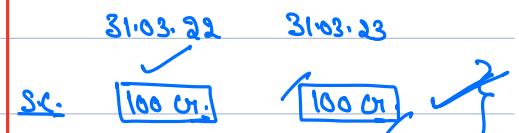
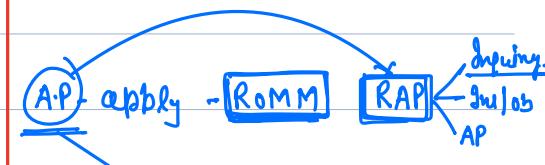
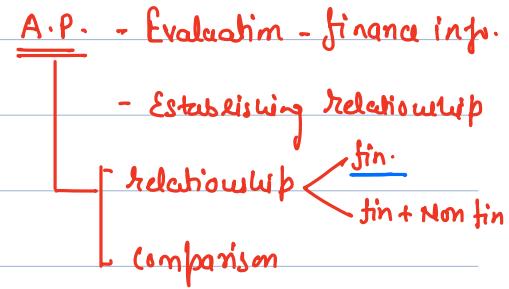
(B) Meaning and Nature of AP: Reading from Basic

(C) Steps to be followed while applying AP:

Step-1: To determine Suitability of particular SAP:

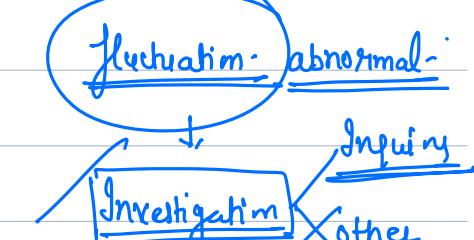
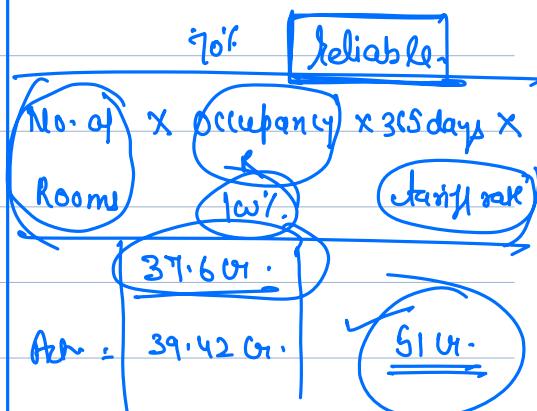
SAPs are generally more suitable for large volume of transactions that can be predicted over a time period.

For Ex: Room rental income in case of Hotel



Prediction → predictable.

Hotel - Room Rent -



$$\left(\text{No. of rooms in a category} \right) \times \left(\text{Occupancy Ratio} \right) \times 365 \text{ days} \times \text{Tariff Rate}$$

For Ex: Employee Salary:

$$\left(\text{No. of employees in a Pay Scale} \right) \times \text{Avg. salary p.m.} \times 12 \text{ months}$$

for that pay scale

Note: Suitability of SAP may be considered on the basis of
Tests of details performed on the same assertion.

Step-2: To Evaluate the reliability of data:

Reliability of data depends upon the following factors:

- (a) Source of Information available.
- (b) Comparability of information
- (c) Nature and relevance of information
- (d) Controls over the preparation of information

Step-3: Develop an expectation of recorded amount:

Expected amount can be determined by applying the selected SAP over the data.

For Ex: Room Rental Income - Hotel

$$\begin{aligned} &= 50 \text{ Rooms} \times 70\% \times 365 \text{ days} \times 10,000 \\ &= \underline{\underline{19,77,50,000}} \end{aligned}$$

Step-4: Determine the tolerable range of Mistatement for which no further investigation is required.

Tolerable range is determined applying concept of Performance Materiality.

For Ex: Tolerable range — 5% of Expected amount (63.87 lakh)

Actual amt = 13,05,10,000 Difference 27.60 lakh

$$\begin{array}{rcl} " & " & = 11,90,00,000 \\ & & \downarrow \\ & & 87.50 \text{ lakh} \end{array}$$

(Investigation required)

(D) Investigation of Identified fluctuations:

- Investigation of identified fluctuations forms part of analytical procedures.
- If differences arises beyond tolerable range of misstatement, auditor shall :
 - (a) Inquire the management and obtain SAAE for their replies.
 - (b) Perform other audit procedures as deemed appropriate.
(for ex. Tests of details)
- Need to perform other audit procedure arises when management is unable to provide an explanation ; or Explanation provided is not considered adequate.

(E) Analytical Procedures that assist auditor when forming an overall conclusion:

- Auditor shall design and perform analytical procedures, near the end of audit, when forming an conclusion as to whether f.s. are consistent with his understanding of the entity.
- Conclusion drawn from results of Analytical procedures are compared with conclusion formed during the audit of Individual Components or Elements of f.s.



If any unrecognised RoMM is identified, auditor is required to

- (a) Revise assessment of RoMM; and
- (b) Modify planned audit procedures.