

Ch. 2 - Audit Strategy, Planning and Programme

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

(4) Audit Programme: It is a detailed plan of applying audit procedures in given circumstances with instructions for appropriate technique to be adopted \longrightarrow for accomplishing audit objectives.

Example: Audit Procedures \longrightarrow Audit Techniques
(Methods and Means)

(A) R.A.P. (Risk Assessment Procedures) — Inquiry, Inspection,
Analytical Procedures

(B) Tests of Controls (Compliance Procedures) — Inquiry, Inspection,
Re-performance

(C) Substantive Procedures — Tests of details — Inquiry, Inspection,
(TOD) External confirmations;
Written Representations
Re-calculation;

(D) Substantive Analytical Procedures : - Comparison (trend analysis)
(SAP) Ratio Analysis

Evolving audit Programme for different audits:

Evolving audit programme applicable to all business entities under all circumstances is not possible, due to: (a) varying nature, size and legal form of business entities.

(b) work suitable to one business may not be suitable to another.

(c) efficiency and operations 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 performed in a particular engagement.

Assistants - to keep an open mind:

- During initial stage, auditor should frame a programme, considering the following:

(a) Nature, size and composition of business;

(b) dependability of internal control;

(c) scope of work

Such Programme may be considered as a Standard Programme.

- As Experience is gained and information is collected, programme so framed during initial stage may be suitably altered, for relevant matters.

- If any work originally covered in audit programme, seems 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:

[X Ltd]

2020-21	-	Audit Programme	-
21-22	-	" "	-
22-23	-	" "	-
✓ 23-24	-	" "	-
24-25			

Change in nature and size of client's business

Requires updation

- 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 keeping the programme under periodic review so that inadequacies or redundancies may be identified and audit programme may be updated.
- If periodic review is not carried out, 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. In such cases, auditor may face consequences of professional negligence.

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Points to be considered in constructing audit Programme: (Learning + Noting - H.W.)

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 (e.g. Cash, inventory)
 - (c) Arithmetical calculation (e.g. Depreciation, Royalty, Managerial Rem.)
 - (d) Statements and Explanations of Mngt, officials, Employees (e.g. written representations)
 - (e) " " " " Third Parties (e.g. External confirmations)
 - (f) Interrelationship of accounting data.
 - (g) Inspection of Minute books
 - (h) " " Subsidiary and Memoranda Books.

- Examples: For Verification of Cash in hand, best Evidence is "Counting"
" " " Accounts Payable/Receivable, External Confirmations
may be obtained.

Advantages of Audit Programme:

(Learning + Noting - H.W.)

Disadvantages of Audit Programme: