

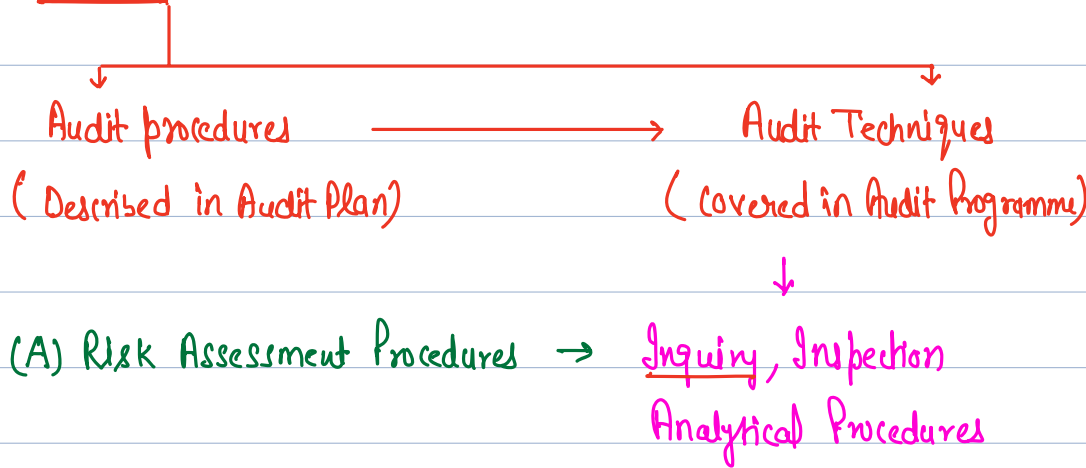
Chapter - 2 "Audit Strategy, Planning and Programme"

- Topics Covered:
- (i) Auditor's responsibility to plan an Audit of f.s.
 - (ii) Audit Strategy
 - (iii) Audit Planning

(iv) Audit Programme:

Audit programme is a detailed plan of applying audit procedures in given circumstances, with instructions for appropriate technique to be adopted, for accomplishing audit objective.

Examples



(B) Tests of controls [compliance] → Inquiry, Inspection, Re-performance.

(C) Substantive Procedures → Inquiry, Inspection, observation (SA-500)
Analytical Procedures (SA 520)
External confirmations (SA 505)
Written representations (SA 580)

Preliminary Eng. Activity

(a) → Client Acceptance/Continuance

(b) → Ethical requirements

(c) → Understanding of terms



Establish Audit strategy

Set out STD of Audit and provide basis for dev. of Plan



Development of Audit Plan

- NTE of RAP; FAP; other
planned audit pro.

Evolving Audit Programmes 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 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 engagement to engagement.

Hence, it is required to develop an audit programme that specify in detail, nature of work to be performed in a Particular Engagement; so that no time wasted on matters not pertinent to that engagement.

Assistants - to Keep an open Mind!

→ During Initial stage, auditor should frame audit programme, based on following:

- (a) Nature, size and composition of business;
- (b) Dependability of internal control; and
- (c) Given scope of work.

Such programme may be termed as Standard Programme.

- As experience is gained and information is collected, Standard programme need to be suitably altered, for relevant matters.
- If any work originally provided for in Standard 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, coming to their notice, should be reported to senior partners 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 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 client business policies; and audit work carried out on basis of obsolete audit programme, will not be considered effective and efficient.
- Under such circumstances, auditor may face consequences of professional negligence.

~~Imp.~~

Points to be considered in Constructing audit Programme: (From Notes)

H.W. - Write down any five points:

Obtaining audit Evidences - very basis for audit programme:

- Audit Programme is designed for the purposes of collection of Audit Evidences by performing prescribed procedures and techniques.
- Audit Evidences may be collected through any of the following:
 - (a) Documentary Examination (For Ex: Examining Rent agreement)
 - (b) Physical Examination (For Ex: Cash, Investments, Inventory)
 - (c) Arithmetical calculations (For Ex: Depreciation, Interest on debentures, etc.)
 - (d) Statements and Explanations of management, officers and employees.
(For Ex: Written Representations from mngt w.r.t. Inventory lying with third parties)
 - (e) Inspection of Minute books (For Ex: To check resolution passed for payment of dividend)

(f) Inspection of Subsidiary and Memorandum Books

(g) Interrelationship of accounting data (for Ex: Ratio Analysis)

Advantages of audit Programme:

H.W. → Note down 3-4 points

Disadvantages of audit Programme:

H.W. → Note down 3-4 points.