



Ch-2 Audit Strategy, Planning & Programme

SA 300, Planning an Audit of FS

Objective is to plan the audit to perform in an effective manner.

Involvement of key ET members in planning audit

- EP & other key members of engg team shall be involved in planning.
- Involvement of EP & other key members in planning draws on their experience & insight, enhancing effectiveness & efficiency of planning process.

Discussion of elements of planning with entity's mgt

Auditor may discuss elements of planning with entity's mgt to facilitate audit engg. When discussing matters included in overall audit strategy or plan, should not compromise effectiveness of audit.

Benefits of Audit Planning [MTP May'24]

- Helping auditor to devote appropriate attention to important areas of audit.
- Helping auditor identify & resolve potential problems on timely basis.
- Helping auditor properly organize & manage audit engg.
- Assisting in selection of ET members with competence & capabilities & proper assignment of work.
- Facilitating direction & supervision of engg. team members & review of their work.
- Assisting in coordination of work done by auditors of components and experts.

Note: When audit work is adequately & properly planned, it reduces risk of inappropriate opinion by auditor. Therefore, planning an audit ensures audit risk is reduced to an acceptable low level.

Audit Planning- A Continuous Process (May'24 + MTP May'24)

- ✓ Planning is not a discrete phase of audit, but rather a continual & iterative process that begins shortly after completion of previous audit & continues until completion of current audit.
- ✓ Planning includes consideration of timing of certain activities & audit procedures that need to be completed prior to performance of FAP.

For eg, planning includes need to consider, prior to auditor's identification & assessment of ROMM, such matters as:

1. Analytical procedures to be applied as risk assessment procedures.
2. Obtaining understanding of legal & regulatory framework applicable to entity & how entity is complying with that framework. For eg: TRAI (Telecom Regulatory Authority of India) & RBI (Reserve Bank of India) are regulators for telecom & banking industry respectively.
3. Determination of materiality.
4. Involvement of experts.
5. Performance of other risk assessment procedures.



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Planning Process- Elements of Planning

Elements of planning can be categorized as: - (I) Preliminary engg activities (II) Planning activities

I. Preliminary engagement activities [PEA] RTP May'24

Auditor considers whether relationship with client should be continued & whether ethical requirements including independence been complied with.

It includes: -

- A. Performing procedures regarding continuance of client relationship
- B. Evaluating compliance with ethical requirements, including independence
- C. Establishing an understanding of terms of engg.

How performing such activities assists an auditor?

Performing PEA assists auditor in identifying & evaluating events or circumstances that may affect auditor's ability to plan & perform audit engg.

II. Planning activities involve: -

- A. Establishing the overall audit strategy
- B. Developing an audit plan

A. Overall Audit Strategy - Assistance to auditor

Overall audit strategy sets Scope, Timing & Direction _____ of audit & guides development of more detailed audit plan.

Factors to be taken into consideration by auditor for establishing Audit Strategy

(a) Identify characteristics of engagement that define its scope MTP May'24

Some of characteristics are as under: -

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

(b) Ascertain reporting objectives of engg to plan timing of audit & nature of communications required

Some instances are given under:- MTP Sep'24

- Entity's timetable for reporting
- Organization of meetings to discuss of NTE of audit work with mgt
- Discussion with mgt regarding expected type & timing of reports to be issued including audit report
- Discussion with mgt regarding expected communications on status of audit work throughout engg.
- Expected nature & timing of communications among engg team members, team meetings & reviews.



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(c) Consider factors that, in auditor's professional judgment, significant in directing engg team's efforts: Preliminary identification of material ABCD help auditor in establishing overall audit strategy. More energies need to be devoted to significant matters to obtain desired outcomes. **May'24**

Few eg. are listed as under: -

- Volume of transactions which may determine whether it is more efficient for auditor to rely on internal control
- Significant industry developments eg. changes in industry regulations & new reporting requirements.
- Significant changes in FRF, such as changes in accounting standards.
- Other significant relevant development, eg. changes in legal environment affecting the entity.

(d) Consider results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by EP for the entity is relevant.

Examples: -

- Results of previous audits that involved evaluating operating effectiveness of internal control, including the nature of identified deficiencies and action taken to address them.
- Manner in which auditor emphasizes to engg team members need to maintain a questioning mind and to exercise professional skepticism in gathering and evaluating audit evidence.

(e) Ascertain the nature, timing and extent of resources necessary to perform the engagement.

- Selection of engg team & assignment of work is a significant factor.
- Experienced team members may be assigned in areas where there is higher RoMM.
- Similarly, engg budgeting & devotion of more time to areas of higher RoMM.

Benefits of Audit Strategy [Sep'24 + RTP May 20]

Process of establishing OAS assists auditor to determine matters such as: -

1. Deployment of Quality of Resources: Resources to deploy for specific audit areas, such as use of experienced team members for high risk areas or involvement of experts on complex matters
2. Allocation of Quantity of Resources: Amount of resources to allocate to specific audit areas.
Eg. no. of team members assigned to observe inventory count at material locations, extent of review of other auditors' work in case of group audits, or audit budget in hours to allocate to high risk areas
3. Timing of Deployment: When these resources are to be deployed, such as whether at an interim audit stage or at key cut-off dates.
4. Management of Resources: How such resources are managed, directed & supervised, such as when team meetings are expected to be held, how EP & manager reviews are expected to take place & whether to complete EQCRs.



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Description/Contents of Audit Plan [MTP May'24]

SA-300 states that Auditor shall develop audit plan that shall include a description of

- a) NTE of planned risk assessment procedures (NTE of RAP)
 - b) NTE of planned further audit procedures at assertion level (NTE of FAP)
 - c) Other planned audit procedures required to be carried out so that the engagement complies with SAs (Other Audit Procedures)
- Audit plan is more detailed than overall audit strategy that includes NTE of audit procedures to be performed by engg. team members.
 - Planning for audit procedures takes place over course of audit as audit plan for engg. develops.

Examples:

- ✓ Planning of auditor's RAP occurs early in audit process.
- ✓ Planning NTE of specific FAP depends on outcome of those RAP.
- ✓ Auditor may begin execution of FAP for some ABCD before planning remaining FAP.

Relationship between Overall Audit Strategy (OAS) & Audit Plan [Sep'24]

- ✓ OAS sets broad overall approach to audit whereas audit plan addresses matters identified in OAS.
- ✓ OAS determines STD of audit. Audit plan describes how strategy is going to be implemented. Audit plan is more detailed than OAS that includes NTE of audit procedures to be performed by ET members. Planning takes place over course of audit as audit plan for engg develops.
- ✓ Once OAS is established, audit plan can be developed to address various matters identified in OAS, to achieve audit objectives through efficient use of auditor's resources.
- ✓ Establishment of OAS & detailed audit plan are not necessarily discrete or sequential processes, but closely inter-related since changes in one may result in consequential changes to the other.

Eg. W, auditor of SKM Ltd. asks its finance & audit head to prepare audit strategy & also insists him to draw detailed audit procedures. Subsequently, auditor realizes that effectiveness of audit is compromised & it was his responsibility to prepare overall audit strategy. Comment.

OAS & audit plan remain auditor's responsibility. Auditor may discuss elements of planning with entity's management without compromising effectiveness of audit. Approach of W was wrong & he should have prepared overall audit strategy & detailed audit procedures.



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Changes to Planning Decisions during Course of Audit (RTP May-20)

Auditor shall update and change overall audit strategy and plan as necessary during course of audit.

As a result of

- unexpected events,
 - changes in conditions, or
 - audit evidence obtained from results of audit procedures,
- ✓ Auditor may need to modify overall audit strategy & audit plan & planned NTE of FAP, based on revised consideration of assessed risks. ROMM → NTE of FAP → Strategy & Plan
- ✓ This happens when info that comes to auditor's attention differs significantly from info available when auditor planned audit procedures. For eg, audit evidence obtained through performance of substantive procedures may contradict audit evidence obtained through TOCs.

Direction, Supervision & Review [RTP Nov-20/22/Jan'25]

NTE of DSR of work of engg team members vary depending on many factors, including:

1. Size and complexity of the entity.
2. The area of the audit.
3. The assessed RoMM
4. The capabilities & competence of individual team members performing audit work.

Planning Documentation (RTP Nov 20 + MTP Sep'24)

Auditor shall document:

- a. the OAS
- b. the audit plan and
- c. any significant changes to OAS or audit plan, & reasons for such changes.

Documentation of OAS is a record of key decisions to properly plan the audit & communicate significant matters to engg team.

Eg: Auditor may summarize it in the form of memorandum that contains key decisions regarding overall scope, timing & conduct of audit.

Documentation of audit plan is record of planned NTE of RAP & FAP at assertion level in response to assessed risks.

- It also serves as record of proper planning of audit procedures that can be reviewed & approved prior to performance.
- Auditor may use standard audit programs &/or audit completion checklists, tailored as per engg. circumstances.

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A record of significant changes to

- OAS & audit plan, and
- resulting changes to planned NTE of audit procedures,
- explains why significant changes were made, and
- OAS & plan finally adopted for audit.

Audit Programme

It consists of

- a series of verification procedures
- to be applied to the F.S. and accounts of a given company
- for the purpose of obtaining sufficient evidence to
- enable the auditor to express an informed opinion on such statements.

Construction of Audit Program (May'24 + Nov-19 + RTP Nov-22)

For purpose of programme construction, following points should be kept in mind:

1. Stay within scope and limitation of assignment.
2. Include audit objectives for each area & sufficient details which serve as a set of instructions for assistants involved in audit & help in controlling proper execution of work.
3. Prepare a written audit programme setting for procedures needed to implement audit plan.
4. Apply only those steps & procedures useful in accomplishing purpose in specific situation.
5. Determine the evidence reasonably available & identify best evidence for deriving necessary satisfaction.
6. Consider all possibilities of error.
7. Co-ordinate the procedures to be applied to related items.

Advantages & Disadvantages of Audit Program

Advantages:

- a) Selection of assistants for jobs on basis of capability becomes easier.
- b) It provides assistant with total & clear set of instructions of work to be done.
- c) It is essential to provide a total perspective of work to be performed.
- d) Without a written & pre-determined prog, work is carried out based on some 'mental' plan. In such situation there is danger of ignoring or overlooking certain books & records. Under a properly framed prog., such danger is significantly less.
- e) Assistants, by putting signature on prog, accept responsibility for work & work done may be traced back to assistant.
- f) Principal can control progress of various audits by examination of audit prog.
- g) It serves as a guide for audits to be carried out in the succeeding year.



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h) It serves as **evidence** in event of any **charge of negligence** brought against auditor. Helpful in establishing that he exercised reasonable skill & care that was expected of professional auditor

Disadvantages:

- Work may become mechanical** & parts of prog. may be carried out without understanding of object of such parts in whole audit scheme.
- Prog. often tends to become rigid & inflexible** following set grooves; **business may change** in its operation of conduct, but **old prog. may still be carried on**.
- Inefficient assistants** may take shelter behind the prog. i.e. defend deficiencies in their work on the ground that no instruction in the matter is contained therein.
- Hard and fast audit programme **may kill initiative of efficient** & enterprising assistants.

These disadvantages may be eliminated by

- ✓ **imaginative supervision of work** carried on by assistants;
- ✓ auditor must have a **receptive attitude** as regards the assistants;
- ✓ **assistants should be encouraged to observe matters & bring significant matters to notice of supervisor/principal.** **MTP Sep'24**

Evolving One Audit Programme - Not Practicable For All Businesses [May'24 + Nov'20]

- **Businesses vary in nature, size and composition**
 - Work which is suitable to one business may not be suitable to others
 - Efficiency & operation of **internal controls &**
 - **exact nature of service to be rendered by auditor**
- are other factors that vary from assignment to assignment.

On account of such variations, evolving one audit prog. applicable to all business is **not practicable**.

Assistant Engaged - Be Encouraged To Keep An Open Mind [MTP Sep'24]

To start with, an auditor having regard to

- nature, size and composition of **business** and
- dependability of **internal control &**
- given **scope of work,**

should frame a prog. providing **minimum essential work** which may be termed as a **standard prog.**

- ✓ **As experience is gained,** prog. may be altered to take care of **situations originally left out,** but later on found relevant.
- ✓ If any work originally provided for proves to be **unnecessary or irrelevant,** it may be dropped.
- ✓ Assistant should be **encouraged to keep open mind** beyond the audit programme.
- ✓ Instructed to **note & report significant matters to seniors/partners/proprietor** of audit firm.



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Periodic review of Audit Programme (Sep'24)

- To **assess** whether it continues to be **adequate** for obtaining knowledge & evidence about the transactions.
- Unless this is done, any **change in business policy** of client may not be known, & audit may be carried on the basis of **obsolete prog.** & for this **negligence**, auditor may face **legal consequences**.
- **Utility** of audit prog. can be **retained & enhanced** only by keeping programme & client's operations & internal control under **periodic review** so that **inadequacies or redundancies** of prog. may be **removed**.
- As a basic feature, audit prog. **not only lists the tasks** but also contains a **few relevant instructions**, like **extent of checking, sampling plan, etc.**
- So long as **prog. is not officially changed** by principal, every assistant should carry out work as per the instructions. Many persons believe that this **brings rigidity** in audit prog.
- This is **not true** provided **periodic review** is done to **keep the prog. up-to-date & encouraging assistants to observe a/c functions** of the client.

Audit Programme- Designed to provide Audit Evidence

- ✓ **Evidence** is the basis for **opinion** & audit prog. is designed to prescribe **procedures & techniques**.
- ✓ What is **best evidence** for testing accuracy of any assertion is a matter of **knowledge & experience**.
- ✓ This is **primary task** before auditor when he draws up audit prog.
- ✓ **Transactions are varied** in nature & impact; **procedures to be prescribed** depend on **prior knowledge** of what evidence is reasonably available in respect of each transaction.
- ✓ For **assertions no. of evidences** be drawn & each one should be **considered & weighed** to ascertain its weight to **prove or disprove** the assertion.
- ✓ In this process, auditor would be in a position to **identify the evidence that brings highest satisfaction** to him about **appropriateness or otherwise** of assertion.

An auditor picks up evidence from a variety of fields and it is generally of the following broad types:

- a) **Documentary examination**
- b) **Physical examination**
- c) **Statements** and explanation of management, officials and employees
- d) **Statements** and explanations of 3rd parties
- e) State of **internal controls** and internal checks
- f) **Inter-relationship** of the various accounting data
- g) **Subsidiary and memorandum records**
- h) **Subsequent action** by the client and by others
- i) **Arithmetical calculations** by auditor
- j) **Minutes**

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Examples

1. For cash in hand, best evidence is 'count'.
2. For investment pledged with a bank, the banker's certificate.
3. For verifying assertions about book debts, client's ledger invoices, debit notes, credit notes, monthly a/c statement sent to customers are all evidence: some of these are corroborative, other being complementary. In addition, balance confirmation procedure is often resorted to, to obtain greater satisfaction about the reliability of assertion.

Extract of Sample audit programme pertaining to sales of an entity [RTP May'24]

Name of concern: **Fine Industries**

Financial year: **2021-22**

Prepared by: **P (with date)**

Reviewed by: **Q (with date)**

Approved by: **R (with date)**

S No.	Nature of procedures	Extent of check	Basis of sample	Done by
a	Vouch few sales invoices from copies available in record of the concern.			
b	Trace invoices into books of concern			
c	Verify few invoices with e-way bills generated on the e- way bill portal.			
d	Trace few sales invoices into the stock records to ensure that sold quantities have been reduced from stocks.			
e	Trace also few sales invoices into accounts of buyers			

Summary: Trace invoices with **Copies/Accounts (Co./Buyers) /E way bills**

*“Always seems Impossible, unless **DONE**”*