

**CA INTER (New Syllabus)**

**CHAPTER: - 2**

**AUDIT STRATEGY,  
AUDIT PLANNING  
AND  
AUDIT PROGRAMME**

**Q&A BOOK**

*By HM sir*

**(Covering all Case Studies, MCQs, Correct/incorrect, TYUs,  
Illustrations and Theoretical Questions of Study Material by ICAI)**

## Case Study- 1

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Kaur & Associates, a sole proprietor firm of Simran Kaur, is offered appointment as auditor of a company engaged in manufacturing of automobile components for the first time. She is fact checking about the integrity of promoters of the company and key managerial persons. Matters such as competence of staff to perform the engagement are also considered by her. The appointment is subsequently accepted by her.

She is also taking into account number and location of branches of the company, requirements of Schedule III of Companies Act, 2013 and expected time by which audit has to be completed keeping in view statutory requirements. Initially, she has thought it proper to inquire key employees of the company in procurement and marketing departments and planned for the same. She has also planned to visit three plants of the company. The purpose of planned inquiry and visit is to identify and assess risk of material misstatements.

A detailed set of instructions has been prepared by her office and it has been handed over to assistants in engagement team. These set of instructions include details of extent of checking and nature of audit procedures to be performed regarding purchases, sales, items of income, items of expenditure etc. During the course of execution of above set of instructions, it has been brought to her notice that company is also producing substantial quantities of scrap generated during manufacturing process. However, no instructions have been given to engagement team in this regard.

## Based on above, answer the following questions: -

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1. Auditor is fact checking about promoters and key managerial persons. She is also considering competence of staff to perform engagement. What is she trying to do?
  - a) She is establishing audit strategy.
  - b) She is conducting preliminary engagement activities.
  - c) She is conducting preliminary engagement activities.
  - d) She is checking her compliance of ethical requirements.

2. Consideration of number and location of branches, requirements of financial reporting framework and expected time of completion are relevant factors primarily for which of the following -
  - a) Developing audit plan
  - b) Establishing overall audit strategy
  - c) Designing audit programme
  - d) Designing risk assessment procedures
  
3. Taking into account description of planned inquiry and visit, which of the following statements is TRUE?
  - a) Planned inquiry and visit falls in area of audit strategy.
  - b) Planned inquiry and visit are planned risk assessment procedures and fall in field of audit plan.
  - c) The said description is not related to audit planning.
  - d) Planned inquiry and visit fall in scope of audit programme.
  
4. What is detailed set of instructions given to assistants in engagement team known as?
  - a) Audit guidelines
  - b) Audit plan
  - c) Audit Programme
  - d) Audit Procedures
  
5. The issue of generation of scrap has been overlooked in detailed set of instructions given to engagement team. What should be proper course of action by CA Simran Kaur?
  - a) She should ignore this information as audit has already begun.
  - b) She should modify earlier set of instructions.
  - c) She should leave the matter to wisdom of engagement team.
  - d) She should put the ball in court of management as she was not provided with complete information earlier.

# Answer to Questions involving Case Studies: -

1. (b), 2. (b), 3. (b), 4. (c), 5. (b)

## MCQs based Questions

1. Which of the following is not considered in planning an audit generally?
  - a) Understanding of legal and regulatory framework of an entity
  - b) Need to consider determination of materiality
  - c) Evaluating audit evidence
  - d) Need to consider involvement of expert
  
2. Which of the following is true about audit plan?
  - a) Once an audit plan has been finalized for an engagement, changes cannot be made to it.
  - b) Audit plan includes scope, timing and direction of planned risk assessment procedures.
  - c) Changes in audit plan cannot lead to change in audit strategy.
  - d) Audit plan has to be documented by auditor.
  
3. Which of the following is not included in an audit programme normally?
  - a) Extent of checking
  - b) Date of checking
  - c) Nature or type of procedure
  - d) Planning of risk assessment procedures
  
4. Which of the following is not an advantage of an audit programme?
  - a) It acts as a guide for audit of coming years.
  - b) It fixes responsibility of assistants.
  - c) It serves as a shelter for assistants.
  - d) It serves a proof of work done by auditor.

5. Which of the following is most important principle for formulating an audit plan?
- Gaining knowledge of client's workforce
  - Gaining knowledge of client's business
  - Gaining knowledge of client's vendors
  - Gaining knowledge of tax laws applicable to client

## Answers to the MCQs based Questions

1. (c) 2. (d) 3. (d) 4. (c) 5. (b)

## Correct/Incorrect

**State with reasons (in short) whether the following statements are correct or incorrect:**

- The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential processes, but are closely inter-related since changes in one may result in consequential changes to the other.
- Establishing an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan is prerogative of the management.
- Planning is a discrete phase of an audit.
- A detailed Audit Programme once prepared for a business can be used for all business under all circumstances.
- The audit plan is more detailed than the overall audit strategy.

## Answers to Correct/Incorrect

- Correct:** Once the overall audit strategy has been established, an audit plan can be developed to achieve the audit objectives through the efficient use of the auditor's resources. The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential processes, but are closely inter-related since changes in one may result in consequential changes to the other.

2. **Incorrect:** The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.
3. **Incorrect:** Planning is not a discrete phase of an audit, but rather a continual and iterative process that often begin shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement. Planning, however, includes consideration of the timing of certain activities and audit procedures that need to be completed prior to the performance of further audit procedures.
4. **Incorrect:** 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.
5. **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.

## Test Your Understanding (1 to 5)

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### Test Your Understanding 1

MG & Co, a firm of auditors, having a standing of 30 years is appointed as a statutory auditor of company engaged in manufacturing of defence equipment. Due to opening of defence sector by government to private players in recent times, many new companies have entered the fray to manufacture sophisticated defence equipment. Considering technical and complex nature of operations, the auditors recognize that involvement of experts in the audit is required. Does consideration for involvement of experts by auditors fall in the domain of planning audit?

**Answer:** Consideration for involvement of experts by auditors falls within domain of planning. While planning an audit, auditor would have to consider whether involvement of experts is necessary.

In the stated case, company is involved in technical and complex operations.

**Conclusion:** Therefore, while planning an audit, auditors would have to consider whether involvement of expert is necessary.

## Test Your Understanding 2

CA Kartik is planning for audit of a company engaged in manufacturing of cosmetics. Considering nature of operations of the company, he had planned to include testing of controls of the company over purchases, sales and inventories. One fine day, he reaches the corporate office and asks for manuals and required documentation to ensure surprise element in testing. He had never shared with management his intention to carry out above procedures. Is approach of CA Kartik proper?

**Answer:** In the case, CA Kartik has reached office of the company without sharing with management his intention to test the controls.

The auditor may decide to discuss elements of planning with the entity's management to facilitate the conduct and management of the audit engagement without compromising effectiveness of audit.

Sharing details of visit to test controls does not compromise effectiveness of audit. It is for the better facilitation and conduct of audit.

**Conclusion:** Therefore, approach of CA Kartik is not proper.

## Test Your Understanding 3

CA Mary, while planning audit of a company, feels that she would inquire from inhouse legal counsel of the company status of pending litigation matters against the company to identify and assess risks of material misstatements. Considering above description, are you able to identify said procedures? Where these identified procedures are included in planning in accordance with SA-300?

**Answer:** These are planned risk assessment procedures to identify and assess risk of material misstatement. The objective of planned inquiry of inhouse legal counsel is to identify and assess risk of material misstatement.

Such planned risk assessment procedures are included in audit plan in accordance with SA-300.

## Test Your Understanding 4

CA Shubhendu is statutory auditor of a social media company. Due to change in information technology regulations by government, it has become mandatory for such companies to constitute “grievance redressal mechanism” for users of social media platform of the company. Failure to comply with regulations can potentially lead to civil and criminal liabilities against the company. Is above factor to be considered by auditor while framing audit strategy?

**Answer:** Changes in laws and regulations affecting the company is a factor to be considered while establishing overall audit strategy.

There has been change in information technology regulations applicable to the company. Noncompliance of the same can have implications in form of civil and criminal liabilities.

Such an important matter concerning changes in laws and regulations is to be considered by auditor while establishing overall audit strategy.

## Test Your Understanding 5

Rohit, undergoing practical training, is part of an engagement team conducting audit of a company engaged in manufacturing of paints. He has been provided with audit programme pertaining to sales. It lists out various items to be checked and verified by him including invoices, rate lists, posting in debtors accounts, correlation of invoices with e-way bills on sample basis etc. During verification, he 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. Is attitude of Rohit proper?

**Answer:** The assistants should observe matters objectively and bring significant matters to the notice of supervisor/principal. Reasons for



cancellation of many e-way bills in month of March need to be looked into. Matter should be informed to engagement partner.

**Conclusion:** Attitude of Rohit is not proper.

## Illustrations (1&2)

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### Illustration 1

The auditor T of Hand Fab Ltd is worried as to management of key resources to be employed to conduct audit.

**Required:**

How the audit strategy would be helpful to the auditor?

**Answer:** The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.

The process of establishing the overall audit strategy assists the auditor to determine, subject to the completion of the auditor's risk assessment procedures, such matters as:

1. The resources to deploy for specific audit areas, such as the use of appropriately experienced team members for high-risk areas or the involvement of experts on complex matters;
2. The number of resources to allocate 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. When these resources are to be deployed, such as whether at an interim audit stage or at key cut-off dates; and
4. How such resources are managed, directed and supervised, 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.

## Illustration 2

W, the auditor of SKM Ltd. asks its finance and audit head to prepare audit strategy for conducting audit of SKM Ltd. W also insists him to draw detailed audit procedures. On the request of auditor W completes audit strategy as well as audit procedures as prepared by finance head of the company. Subsequently, auditor realizes that effectiveness of the audit is compromised and it was his responsibility to prepare the overall audit strategy. Comment.

**Answer:** The auditor may decide to discuss elements of planning with the entity's management to facilitate the conduct and management of the audit engagement. Although these discussions often occur, the overall audit strategy and the audit plan remain the auditor's responsibility. When discussing matters included in the overall audit strategy or audit plan, care is required in order not to compromise the effectiveness of the audit.

The involvement of the engagement partner and other key members of the engagement team in planning the audit draws on their experience and insight, thereby enhancing the effectiveness and efficiency of the planning process.

**Conclusion:** The approach of W was wrong and he should have prepared overall audit strategy and detailed audit procedures.

## Theoretical Questions

1. Discuss how performing preliminary engagement activities as part of planning an audit assists auditor.

**Answer:** - Performing preliminary engagement activities assists the auditor in identifying and evaluating events or circumstances that may affect auditor's ability to plan and perform audit engagement.

2. Discuss how an engagement partner ensures that firm complies with relevant ethical requirements including independence in relation to client.

**Answer:** - The auditor shall continuously evaluate compliance with ethical requirements including independence.

“Independence” means that the judgement of a person is not subordinate to the wishes or direction of another person who might have engaged him. Throughout the audit engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team.

If matters come to the engagement partner’s attention that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action.

The engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, the engagement partner shall: -

- i. Obtain relevant information from the firm to identify and evaluate circumstances and relationships that create threats to independence
- ii. Evaluate information on identified breaches, if any, of the firm’s independence policies and procedures to determine whether they create a threat to independence for the audit engagement and
- iii. Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the audit engagement, where withdrawal is permitted by law or regulation.

The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action. Besides, consideration for client continuance and compliance with ethical requirements, preliminary engagements activities also include establishing an understanding of terms of engagement.

3. “Purported disadvantages of an audit programme can be overcome”. Do you agree?

**Answer:** Purported disadvantages of audit programme may be eliminated by imaginative supervision of the work carried on by the assistants; the auditor must have a receptive attitude as regards the assistants; the assistants should be encouraged to observe matters objectively and bring significant matters to the notice of supervisor/principal.

4. An auditor of a company fails to document audit strategy and audit plan. Briefly outline consequences of such failure.

**Answer: -** 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.

The 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.

The documentation of the audit plan is a record of the planned nature, timing and extent of risk assessment procedures and further audit procedures 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. The auditor may use standard audit programs and/or audit completion checklists, tailored as needed to reflect the particular engagement circumstances.

A record of the significant changes to the overall audit strategy and the audit plan, and resulting changes to the planned nature, timing and extent of audit procedures, explains why the significant changes were made, and the overall strategy and audit plan finally adopted for the audit. It also reflects the appropriate response to the significant changes occurring during the audit.

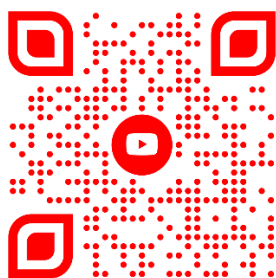
5. SA 300 states that auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work. Discuss few factors affecting such supervision and review of work of engagement team members.

**Answer: -** The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work.

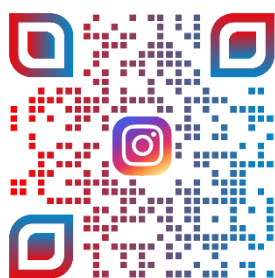
The nature, timing and extent of the direction and supervision of engagement team members and review of their work vary depending on many factors, including: -

1. The size and complexity of the entity.
2. The area of the audit.

- 3. The assessed risks of material misstatement.
- 4. The capabilities and competence of the individual team members performing the audit work.



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