



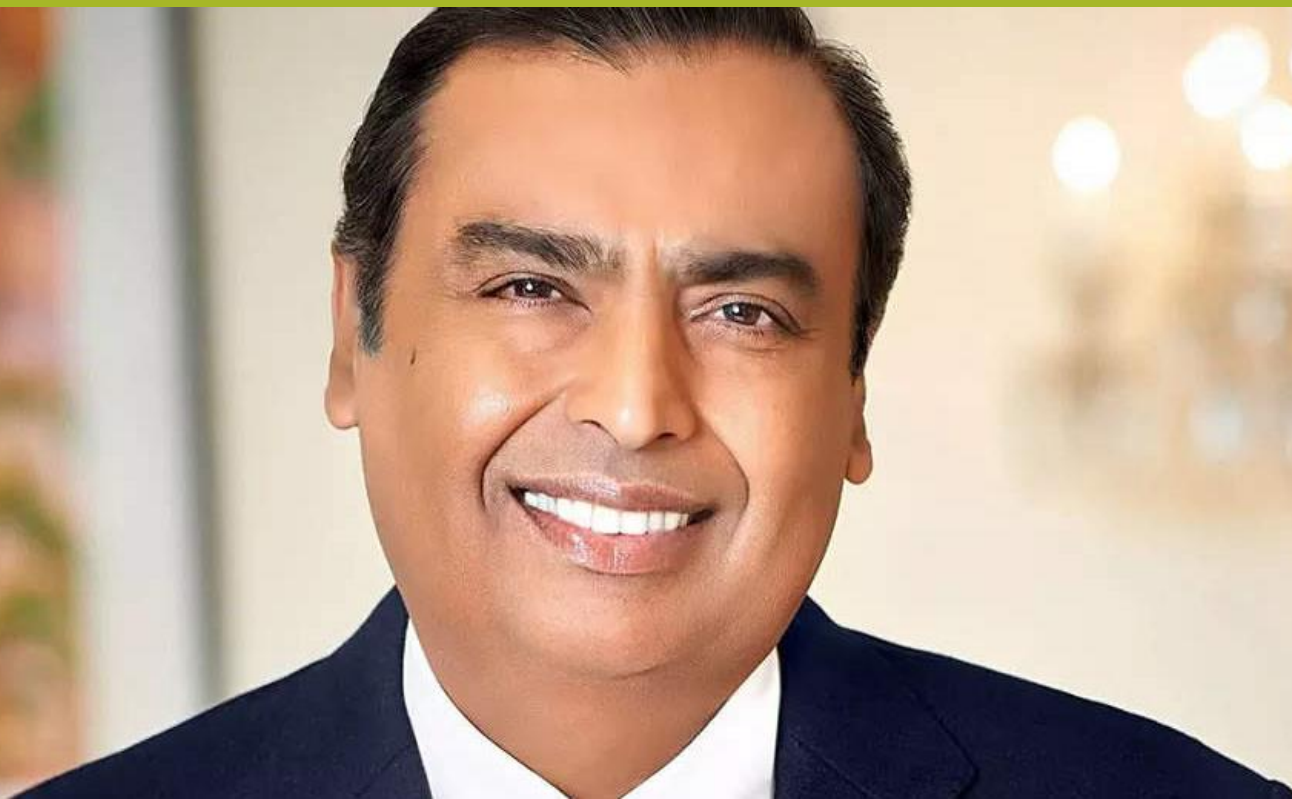
CHAPTER 2 - AUDIT STRATEGY, PLANNING & PROGRAMME

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DISA(ICAI), ADIT (UK), D.Litt.,



YOU'VE
GOT THE
AUDIT OF
RELIANCE
– WHAT
ARE YOU
FIRST
GOING TO
DO?



**DURING LAST YEAR AUDIT SOMEBODY
WAS AN MD, THIS YEAR THERE IS A NEW
MD. WILL YOU CONTINUE THE AUDIT?**

LAST YEAR THE TEAM HAD 10 CAS AND 23 ARTICLES. THE CAS ALL HAVE SIGNIFICANT EXPERIENCE IN OIL & GAS AND COMPLEX INDUSTRIES.

**DUE TO PERSONAL REASONS THEY ARE
NOW NOT AVAILABLE.**



The Audit Team has been decided to undertake the audit. The main article who is leading the engagement is this person. Is it proper?

During previous year audit, audit manager and Board member have a big dispute over an audit entry



SA 220 – Continuance of Client Relationship

Before Starting Audit the following information is important:

- a) Integrity of Key Management Persons (KMP) and Those Charged with Governance
- b) Whether engagement team has the ability and capability to take it up
- c) Whether engagement team can comply with relevant ethics
- d) Any issues in previous audit engagement that may bring to question the continuing relationship



LETTER OF ENGAGEMENT (SA 210)

Date: XX/XX/2020

To,

The Executive Director

(Mention the name & Address of client)

Sub: Engagement Letter for conducting Statutory Audit for the financial year.....

Dear Sir,

You have requested vide your letter no. _____ dated _____, that we audit the Balance Sheet of *(Mention the name of Company)*. (Hereinafter referred as "Company") as at 31st March _____ and the related Profit & Loss Account for the year ended on the date. We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the financial statements.

We will conduct our audit in accordance with the auditing standards generally accepted in India and with the requirements of the relevant statute. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting

However, having regard to the test nature of an audit, persuasive rather than conclusive nature of audit evidence together with inherent limitations of any accounting and internal control system, there is an unavoidable risk that even some material misstatements of financial statements, resulting from fraud, and to lesser extent error, if either exists, may remain undetected.

In addition to our report on the financial statements, we expected to provide you with a separate letter concerning any material weakness in accounting and internal control system, which might come to our notice.

The responsibility for the preparation of financial statements on a going concern basis is that of the management of the company. The management is also responsible for selection and consist application of appropriate accounting policies, including implementation of applicable accounting standards along with proper explanation relating to any material departures from those accounting standards. The management is also responsible for making judgments and estimates that are reasonable and prudent as to give a true and fair view of the state of affairs of the institute at the end of the financial year and of the surplus or deficit of the institute for that period. Further, the management is also responsible for the identifying and ensuring that the institute complies with the laws and regulations applicable to its activities.

The responsibility of the management also includes the maintenance of adequate accounting records and internal controls for safeguarding of the assets of the company and for the preventing and detecting fraud or irregularities. Further, the management is also responsible for adjusting the financial statements to correct material misstatements identified by us. As part of our audit process, we will request from management written confirmation concerning representations made to us in connection with the audit at the conclusion of our audit.

Our fees will be billed as follows”

The total audit fee of Rs..... (Excluding GST) (Rupees.....only) which will be billed on submission of the audit report.

We wish to emphasize that our audit report would be exclusively for income tax and Registrar of company's purposes. We shall not be liable for any way to any third party to whom you may make the audit report available.

We also wish to invite your attention to the fact that our audit process is subject to “peer review” under the Chartered Accountants Act, 1949. The reviewer may examine our working papers during the course of the peer review.

We look forward to full cooperation with your staff and we trust that they will make available to us whatever records; documentation and other information as requested in connection with our audit.

This letter will be effective for future years unless it is terminated, amended or superseded.

of Internal Financial Controls over Financial Reporting under the 2013 Act, in respect of which separate fees have been fixed / will be mutually agreed. We look forward to full cooperation from your staff during our audit.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for my / our audit of the financial statements including our respective responsibilities.

Yours faithfully,

Signature on behalf of <AUDIT FIRM>	
Date: Place:	CA. PARTNER

Acknowledged on behalf of <NAME OF THE ENTITY>

Signature of Director	
Date: Place:	Name of Managing Director/WTD /Director/CFO Designation

TYPE OF SITUATIONS

Continuing Engagement
(already did previous year audit)

SA300 , SA 220

New Engagement
(First time doing the audit)


SA 300 – PLANNING AN AUDIT OF FINANCIAL STATEMENTS



125,058	154,568	95,054	124,500
125,487	56,845	97,511	125,000
124,000	110,000	99,011	154,000
105,450	150,000	99,216	95,000
86,502	35,000	101,090	154,200
	83,000	101,684	110,000
	45,000	101,962	89,000
		102,747	50,000
			68,700
			123,000

Audit Planning - Definition

Audit Planning maybe defined as developing an overall plan for the scope and conduct of the audit, which comprises Nature, Timing & Extent (NTE) of Audit Procedures to be performed.




**IMPORTANT
PRELIMINARY
STEPS IN AN
AUDIT**

All competitors have a
Net Profit of 12%.
Audit Client Alone has
a Net Profit of about
36%. Is this normal?

No - Audit Plan needs to address this issue by testing and/or sampling/
enquiring

A had completed the audit of a IT Company and had prepared an audit plan for the same. While conducting the audit of a chemical manufacturing company, he decides to use the same audit report

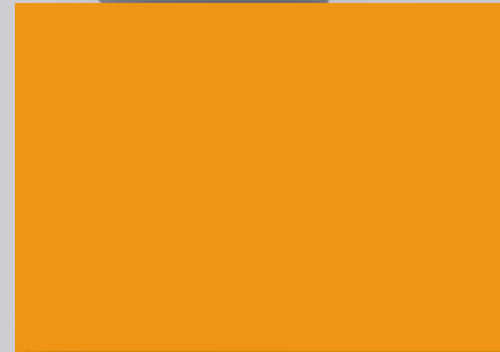
Audit plan has to factor in unique issues of each industry and client. Therefore, copy pasting an audit plan is not the right approach



Understanding the client and industry



**Decided Extent of Reliance
on Internal Controls**



The Audit Team is confident that they will be able to find a fraud so want to spend another 2 months to complete the audit. Should the audit programme and plan be extended to accommodate this?

Finding a Balance between audit procedures and time-lines is critical. One of the most important things in planning an audit is to plan the timeline of the audit also.

ESTABLISHING OVERALL STRATEGY

- Identify the nature of engagement
- Understand the client and industry
- Planning to evaluate the effectiveness internal controls
- Nature and timing and extent of planned audit procedures
- Planning and direction and supervision of team and audit

PLANNING ACTIVITIES



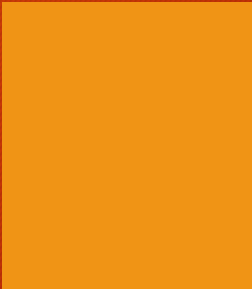
AUDIT TEAM DISCOVERS A FRAUD IN THE AUDIT BUT DECIDES TO NOT INVESTIGATE FURTHER BECAUSE IT WAS NOT PART OF THE AUDIT PLAN. THE AUDIT PROGRAMME ALSO DOES NOT FACTOR THE SAME. IS THE ACTION CORRECT?

Planning is not a discrete phase in an audit. It is continuous which starts from prior to starting the audit and ends after the audit is over.

Change in Audit Plan

Auditor should update and change the audit plan based on the audit course and developments. Some reasons for change in audit plan are as follows:

- Unexpected Events
- Collection of Audit Evidence by performing procedures
- Changes in reporting requirements
- Subsequent events



The agreed terms of the audit engagement shall include:

- (i) The objective and scope of the audit of the financial statements;
- (ii) The responsibilities of the auditor;
- (iii) The responsibilities of management;
- (iv) Identification of the applicable financial reporting framework for FS
- (v) Reference to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content.

Which of the following is correct?

- (a) (i),(ii),(iii)
- (b) (i),(ii),(iii), (iv), (v)
- (c) (iz), (ii), (iv), (v)
- (d) (i),(ii),(iii), (iv)

(b) - (i),(ii),(iii), (iv), (v)

Question

The overall audit strategy and the audit plan remain the responsibility of

- a) auditor's
- b) management's
- c) those charged with governance
- d) both management and those charged with governance

(a) - Auditor

Question

During the course of the Audit Planning the Partners identified a risk in the Stock-in-Trade. However, while preparing the audit programme, steps to address the risk was not included. The Audit Team, thus, did not do the additional checks to address the risk.

Is this a failure in Audit Planning or failure in Audit Execution?

Failure in Audit Planning

Question

M/s TP & Co., a firm of Chartered Accountants, is auditor of KSR Ltd. for many years. KSR Ltd. has diversified their business into newer areas during the last year. The senior member of the audit team handed over the standard audit programme of earlier years to the audit assistants and instructed them to follow the same. The assistants are conducting the audit accordingly. Whether the attitude of the audit assistants is justified or they are required to keep an open mind? Guide them

There is a failure both on the part of the Senior members and the audit team. The Senior members have failed to plan properly by simply copy pasting the programme from the previous year. But the team members also have to modify the audit programme accordingly to the situation. They cannot be rigid but must be flexible depending on the circumstances.

Step 1 – Preliminary Engagement
Activities

Step 2 – Audit Planning

Step 1 – Preliminary Engagement Activities

1. Letter of Engagement
2. Compliance with Ethical Requirements
3. Recheck Independence of entire team

Step 1 – Preliminary Engagement
Activities

Step 2 – Audit Planning

Step 2 – Audit Planning

Identify the nature of engagement

Understand the client and industry

Planning to evaluate the effectiveness internal controls

Nature and timing and extent of planned audit procedures

Planning and direction and supervision of team and audit

Question

State with reason (in short) whether the following statements are true or false:

Once the overall audit has been established, an audit plan can be developed to address the various matters identified in the overall audit strategy. The establishment of the overall audit strategy and the detailed audit plan are closely inter-related.

True - Once the overall audit strategy has been established, an audit plan can be developed to address the various matters identified in the overall audit strategy

Whats the relationship between
Audit Strategy and Audit Planning?

Audit Strategy and Audit Planning

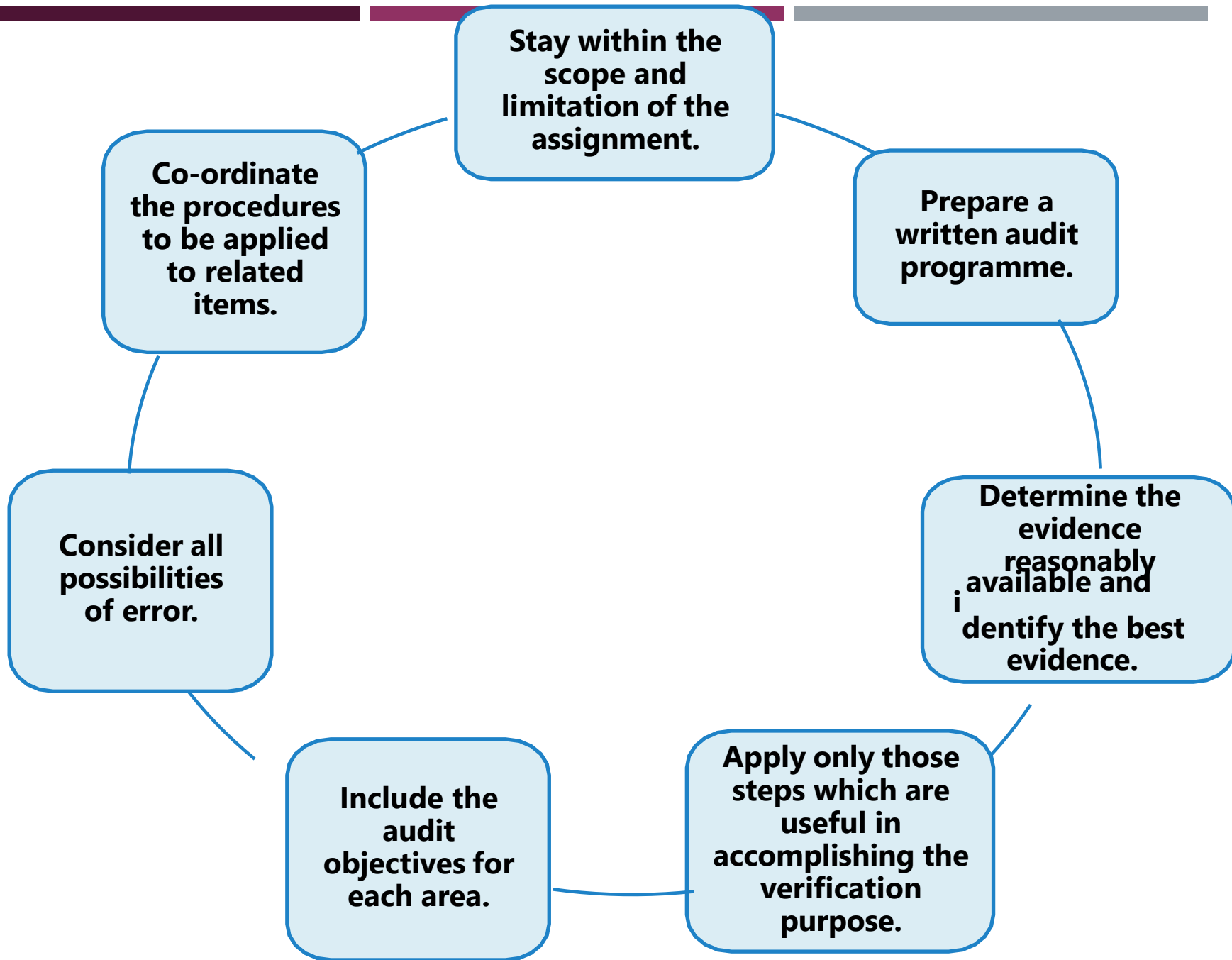
- Strategy sets scope, direction and timing of audit
- Planning involves plan to described the nature, timing and extent of audit procedures
- Both are interrelated as a change in one can affect the other
- Generally strategy is prepared before the audit and plan may evolve even in the course of the audit
- Strategy is at a higher level where as planning is at a lower level



Audit Programme

What is an Audit Programme

- Audit programme is a list of examination and verification steps to be applied
- Step by Step approach for appraisal of accounting records
- Businesses vary in nature, size and composition - requiring specific audit programmes
- Periodic review of audit programmes
- Audit programme is designed to collect audit evidence



ADVANTAGES OF AUDIT PROGRAMME

- (a) It provides the assistant carrying out the audit with total and clear set of instructions of the work generally to be done.
- (b) It is essential, particularly for major audits, to provide a total perspective of the work to be performed.
- (c) Selection of assistants for the jobs on the basis of capability becomes easier when the work is rationally planned, defined and segregated.
- (d) Without a written and pre-determined programme, work is necessarily to be carried out on the basis of some 'mental' plan. In such a situation there is always a danger of ignoring or overlooking certain books and records. Under a properly framed programme, such danger is significantly less and the audit can proceed systematically.
- (e) The principal can control the progress
- (g) It serves as a guide for audits

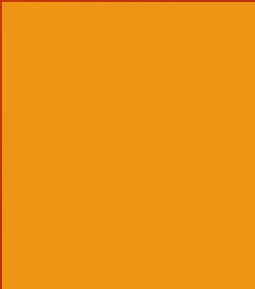
serves as evidence in the event of any charge of negligence being brought against the auditor

DISADVANTAGES OF AUDIT PROGRAMME

- Work becomes mechanical in nature
- Programme often tends to become rigid and inflexible
- Inefficient staff may take shelter behind the programme
- May kill the intuitiveness of the audit

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.

Questions

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 designing audit plan.*
 - (d) *She is checking her compliance of ethical requirements.*

(B)

Questions

1. *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*

(B)

Questions

1. *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*

(c)

Questions

1. *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.*

(B)



TEAM MEETING & BRIEFING

Question

Plans should be further developed and revised as necessary during the course of the audit. Explain.

True - Plans should be further developed and revised as necessary during the course of the audit. SA 300 states planning is not a discrete phase of an audit, but rather a continual and iterative process

Question

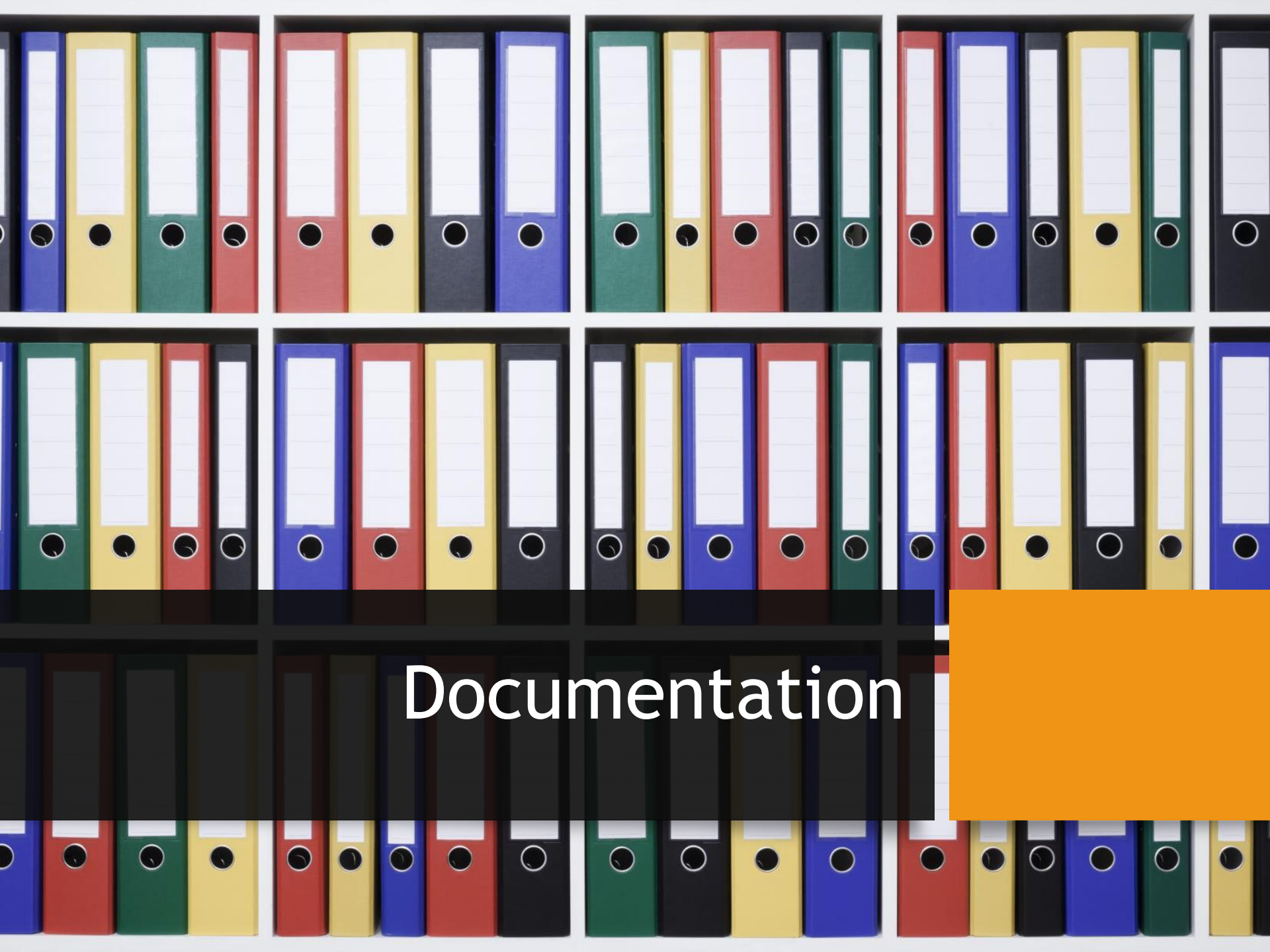
The overall audit strategy is more detailed than the audit plan. True or False?

FALSE - 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

Question

Your firm has been appointed as an auditor to audit the accounts of an auto parts manufacturer, ABC LTD. Elucidate the matters to be considered by an auditor in developing his overall plan for the expected scope and conduct of audit.

- The terms of his engagement and any statutory responsibilities.
- The nature and timing of reports or other communication.
- The applicable legal or statutory requirements.
- The accounting policies adopted by the client and changes in those policies.
- The effect of new accounting or auditing pronouncements on the audit.
- The identification of significant audit areas.
- The setting of materiality levels for audit purposes.
- Conditions requiring special attention, such as the possibility of material error or fraud or the involvement of parties in whom directors or persons who are substantial owners of the entity are interested and with whom transactions are likely.
- The degree of reliance he expects to be able to place on accounting system and internal control.
- Possible rotation of emphasis on specific audit areas.
- The nature and extent of audit evidence to be obtained.
- The work of internal auditors and the extent of their involvement, if any, in the audit.
- The involvement of other auditors in the audit of subsidiaries or branches of the client.
- The involvement of experts.
- The allocation of work to be undertaken between joint auditors and the procedures for its control and review.



Documentation



THANK YOU!



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STILL HAVE ANY DOUBTS?

LETS DISCUSS!

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