

## Chapter 2 - Audit Strategy, Audit Planning and Audit Programme

### Part I : Descriptive Questions

#### Auditor's Responsibility to Plan an audit of Financial Statements

Q1.	<p>MG &amp; 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?</p> <p><b>(ICAI Study Material - Test Your Understanding)</b></p>
	<p><b>Involvement of experts while planning an audit:</b></p> <ul style="list-style-type: none"> <li>● Planning an audit involves establishing the overall audit <b>strategy</b> for the engagement and developing an audit <b>plan</b></li> <li>● While planning an audit, the auditor would have to consider whether involvement of <b>experts</b> is <b>necessary</b>.</li> <li>● In the stated case, the company is involved in technical and complex operations. Therefore, while planning an audit, the auditor would have to consider whether involvement of expert is necessary</li> </ul> <p><b>Conclusion:</b> Consideration for involvement of experts by auditors falls <b>within</b> the <b>domain</b> of <b>planning</b>.</p>
Q2.	<p>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?</p> <p><b>(ICAI Study Material- Test Your Understanding)</b></p>
	<p><b>Discussion of elements of planning with entity's management:</b></p> <ul style="list-style-type: none"> <li>● The auditor <b>may</b> decide to <b>discuss elements</b> of planning with the entity's <b>management</b> to facilitate the conduct and management of the audit engagement. When discussing matters included in the overall audit strategy or audit plan, care is required in order <b>not</b> to <b>compromise</b> the <b>effectiveness</b> of the audit.</li> <li>● In the given case, CA Kartik has reached the office of the company without sharing with management his intention to test the controls. Sharing details of visit to test controls <b>does not compromise effectiveness</b> of audit. It is for the better facilitation and conduct of audit.</li> </ul> <p><b>Conclusion:</b> The approach of CA Kartik is <b>not proper</b>.</p>
Q3.	<p>Discuss how performing preliminary engagement activities as part of planning an audit assists the auditor.</p> <p><b>(ICAI Study Material- Test Your Knowledge)</b></p>
	<p>As per <b>SA 300</b>, "Planning an audit of Financial Statements", the auditor shall undertake the following activities at the beginning of the current audit engagement</p> <ol style="list-style-type: none"> <li>a. Performing procedures required by <b>SA 220</b>, "Quality Control for an Audit of Financial Statements" regarding the continuance of the client relationship and the specific audit engagement;</li> <li>b. Evaluating <b>compliance</b> with <b>ethical</b> requirements, including independence, as required by SA 220 ; and</li> <li>c. Establishing an <b>understanding</b> of the <b>terms</b> of the engagement, as required by <b>SA 210</b>.</li> </ol> <p>Performing preliminary engagement activities assists the auditor in identifying and evaluating <b>events or circumstances that may affect the auditor's ability to plan and perform audit engagement.</b></p>
Q4.	<p>Discuss how an engagement partner ensures that firm complies with relevant ethical requirements including independence in relation to the client. <b>(ICAI Study Material- Test Your Knowledge) (Please cover this question with SA 220)</b></p>
	<p>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: -</p> <ol style="list-style-type: none"> <li>i) Obtain relevant <b>information</b> from the firm to <b>identify</b> and evaluate circumstances and relationships that create <b>threats to independence</b></li> <li>ii) Evaluate information on identified <b>breaches</b>, if any, to determine whether they create a threat to independence for the audit engagement</li> </ol>

	<p>iii) Take appropriate <b>action</b> to <b>eliminate</b> such threats or <b>reduce</b> them to an <b>acceptable</b> level by applying <b>safeguards</b>, or, if considered appropriate, to <b>withdraw</b> from the audit engagement.</p> <p>iv) The engagement partner shall promptly <b>report</b> to the <b>firm</b> any inability to resolve the matter for appropriate action.</p>
Q5.	<p>Surya and Chand Ltd is a manufacturing company engaged in the production of miscellaneous electrical goods. Trilochan and Co. has been appointed as the auditors to carry out its audit. Auditor thinks that Planning an audit would involve establishing the overall audit strategy for the engagement and developing an audit plan. Also, Adequate planning benefits the audit of financial statements in several ways. Analyse and Advise explaining the benefits of adequate planning. <b>(RTP, May 2018, NA)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>"An adequate planning benefits the audit of financial statements." Discuss. <b>(SA, Nov 2018, 5 Marks) (MTP1, Nov 2022, 4 Marks) (RTP, May 2023, NA)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>Explain the benefits of planning in the audit of financial statements. <b>(RTP, May 2019, NA)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>Engagement partner of Audit Firm MKC AND COMPANY thinks that Planning an audit would involve establishing the overall audit strategy for the engagement and developing an audit plan. Also, Adequate planning would benefit the audit of financial statements in several ways. Analyse explaining the benefits of adequate planning. <b>(RTP, Nov 2019, NA)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate planning benefits the audit of financial statements in several ways. Explain clearly those ways. <b>(RTP, Nov 2021, NA) (MTP1, May 2023, 4 marks)</b></p> <p>Planning an audit involves</p> <ul style="list-style-type: none"> <li>● establishing the overall audit <b>strategy</b> for the engagement and</li> <li>● developing an audit <b>plan</b>.</li> </ul> <p>As per <b>SA 300</b>, "Planning an Audit of Financial Statements", adequate planning benefits the audit of financial statements in several ways, including the following:</p> <ul style="list-style-type: none"> <li>● Helping the auditor to devote appropriate <b>attention</b> to <b>important areas</b> of the audit.</li> <li>● Helping the auditor identify and <b>resolve</b> potential <b>problems</b> on a <b>timely</b> basis.</li> <li>● Helping the auditor properly <b>organize</b> and <b>manage</b> the audit <b>engagement</b> so that it is performed in an <b>effective</b> and <b>efficient</b> manner.</li> <li>● <b>Assisting</b> in the <b>selection</b> of engagement <b>team</b> members with appropriate levels of <b>capabilities</b> and <b>competence</b> to respond to anticipated risks, and the proper assignment of work to them.</li> <li>● Facilitating the <b>direction</b> and <b>supervision</b> of engagement team members and the review of their work.</li> <li>● Assisting, where applicable, in <b>coordination</b> of work done by auditors of components and experts.</li> </ul>
Q6.	<p>"Planning is not a discrete phase of an audit, but rather a continual and iterative process." Discuss. <b>(SA, Nov 2018, 5 Marks)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>Planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after the completion of the previous audit and continues until the completion of the current audit engagement. Analyse and Explain. <b>(RTP, Nov 2019, NA)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>Planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after the completion of the previous audit and continues until the completion of the current audit engagement. Planning includes the need to consider certain matters prior to the auditor's identification and assessment of the risks of material misstatement. Explain clearly stating those matters also. <b>(RTP, May 2021, NA)</b></p> <p>As per <b>SA 300</b>, "Planning an Audit of Financial Statements", Planning is <b>not a discrete phase</b> of an audit, but rather a <b>continual</b> and <b>iterative</b> process that often <b>begins shortly after</b> (or in connection with) the <b>completion</b> of the <b>previous audit</b> and <b>continues until the completion</b> of the <b>current audit</b> engagement.</p> <p>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. For example, planning includes the need to consider, prior to the auditor's identification and assessment of the risks of material misstatement, such matters as:</p>

	<ul style="list-style-type: none"> <li>• The <b>analytical procedures</b> to be applied as risk assessment procedures.</li> <li>• Obtaining a general <b>understanding</b> of the <b>legal</b> and <b>regulatory</b> framework applicable to the entity and how the entity is complying with that framework.</li> <li>• The determination of <b>materiality</b>.</li> <li>• The involvement of <b>experts</b>.</li> <li>• The performance of <b>other risk assessment procedures</b>.</li> </ul>
Q7.	<p>Discuss the matters to be considered while establishing overall audit strategy and audit plan for initial audit engagements. (SELF)</p> <ul style="list-style-type: none"> <li>• The purpose and objective of planning the audit are the same whether the audit is an initial or recurring engagement.</li> <li>• However, for an initial audit, the auditor may need to expand the planning activities because the auditor does not ordinarily have the previous experience with the entity that is considered when planning recurring engagements.</li> <li>• For initial audits, additional matters the auditor may consider in establishing the overall audit strategy and audit plan include the following: <ul style="list-style-type: none"> <li>○ Performing procedures required by <b>SA 220</b> regarding the acceptance of the client relationship and specific audit engagement.</li> <li>○ <b>Unless prohibited</b> by law or regulation, <b>arrangements</b> to be made with the <b>predecessor auditor</b>, for example, to review the predecessor auditor's working papers.</li> <li>○ <b>Other procedures</b> required by the <b>firm's system of quality control</b> for initial audit engagements (for example, review of the overall strategy by senior partner before starting the audit)</li> </ul> </li> </ul>

### Audit Strategy

Q8.	<p>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? (ICAI Study Material- Test Your Understanding)</p> <p><b>Consideration of changes in law while establishing audit strategy:</b></p> <ul style="list-style-type: none"> <li>• As per <b>SA 300</b> "Planning an Audit of Financial Statements", the auditor shall establish an overall audit <b>strategy</b> that sets the <b>scope, timing</b> and <b>direction</b> of the audit, and that guides the development of the audit <b>plan</b>.</li> <li>• <b>Changes in laws and regulations</b> affecting the company is a <b>factor</b> to be considered while establishing overall audit strategy.</li> <li>• There has been change in information technology regulations applicable to the company. Non-compliance of the same can have implications in the form of civil and criminal liabilities.</li> </ul> <p><b>Conclusion:</b> Matter concerning changes in laws and regulations is to be <b>considered</b> by the <b>auditor</b> while establishing overall audit strategy.</p>
Q9.	<p>The auditor T of Hand Fab Ltd is worried as to management of key resources to be employed to conduct audit. How the audit strategy would be helpful to the auditor? (ICAI Study Material- Illustration)</p> <p style="text-align: center;"><b>OR</b></p> <p>The engagement partner of AST AND ASSOCIATES, firm of Chartered Accountants appointed as auditor of Fabric India Ltd is considering as to management of key resources to be employed to conduct audit. Discuss how overall audit strategy would assist the auditor. (MTP1, May 2018, 5 Marks) (MTP2, Nov 2018, 5 Marks)</p> <p style="text-align: center;"><b>OR</b></p> <p>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. Discuss stating the process of establishing the overall audit strategy that would assist the auditor to determine key matters. (RTP, Nov 2018, NA)</p> <p style="text-align: center;"><b>OR</b></p> <p>Describe how the process of establishing the overall audit strategy assists the auditor in marshalling his human resources. (SA, May 2019, 4 Marks)</p> <p style="text-align: center;"><b>OR</b></p>

	<p>Overall audit strategy sets the scope, timing and direction of the audit, and guides the development of the more detailed audit plan. The process of establishing the overall audit strategy assists the auditor to determine such matters as for example - 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. Explain the other three such matters. (RTP, May 2020, NA)</p>
	<p>The auditor shall establish an overall audit <b>strategy</b> that sets the <b>scope, timing and direction</b> of the audit, and that guides the development of the audit <b>plan</b>. 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:</p> <ul style="list-style-type: none"> <li>• The <b>resources to deploy</b> for <b>specific audit areas</b>, such as the use of appropriately experienced team members for high risk areas or the involvement of experts on complex matters;</li> <li>• The <b>amount of resources</b> 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;</li> <li>• <b>When</b> these resources are to be <b>deployed</b>, such as whether at an interim audit stage or at key cut-off dates; and</li> <li>• <b>How</b> such resources are <b>managed, directed and supervised</b>, 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.</li> </ul>
Q10.	<p>In establishing overall audit strategy, the auditor shall ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required. Elucidate those cases by which auditor can ascertain the reporting objectives of the engagement. (SA, Nov 2019, 4 Marks) (MTP2, Nov 2021, 4 Marks) (MTP2, May 2023, 4 marks)</p> <p style="text-align: center;"><b>OR</b></p> <p>In establishing the overall audit strategy, the auditor shall ascertain the reporting objectives of the engagement. Explain with examples. (RTP, Nov 2023, NA)</p> <p>In establishing the overall audit strategy, the auditor shall ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required. The cases by which auditor can ascertain the reporting objectives of the engagement are:</p> <ul style="list-style-type: none"> <li>• The entity's <b>timetable for reporting</b></li> <li>• Organization of <b>meetings</b> to discuss of <b>nature, timing and extent</b> of audit work with management</li> <li>• Discussion with management regarding the <b>expected type and timing of reports</b> to be issued including the auditor's report</li> <li>• Discussion with management regarding the <b>expected communications</b> on the status of audit work throughout the engagement.</li> <li>• Expected <b>nature and timing of communications</b> among engagement team members, including the nature and timing of team meetings and timing of the <b>review</b> of work performed</li> </ul>
Q11.	<p>"In establishing the overall audit strategy, the auditor shall, among other considerations, ascertain the nature, timing and extent of resources necessary to perform the engagement" Explain those considerations in detail. (MTP1, Nov 2021, 3 Marks)</p> <p style="text-align: center;"><b>OR</b></p> <p>You have been appointed as an auditor of MKP Ltd. for the first time. Discuss briefly, the factors to be considered by you while establishing overall audit strategy. (MTP2, May 2022, 4 marks) (RTP, Nov 2023, NA)</p> <p>As per <b>SA 300</b>, "Planning an Audit of Financial Statements", the auditor shall establish an overall audit <b>strategy</b> that sets the <b>scope, timing and direction</b> of the audit, and that guides the development of the audit <b>plan</b>. In establishing the overall audit strategy, the auditor shall:</p> <ul style="list-style-type: none"> <li>• <b>Identify</b> the <b>characteristics</b> of the engagement that define its scope;</li> <li>• <b>Ascertain</b> the <b>reporting objectives</b> of the engagement to plan the timing of the audit and the nature of the communications required.</li> <li>• Consider the <b>factors</b> that, in the auditor's professional <b>judgment</b>, are <b>significant in directing</b> the engagement team's efforts;</li> <li>• Consider the <b>results of preliminary engagement activities</b> and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant; and</li> <li>• Ascertain the <b>nature, timing and extent of resources</b> necessary to perform the engagement</li> </ul>

Q12.	<p>In establishing the overall audit strategy, the auditor shall identify the characteristics of the engagement that define its scope. Explain with example. (RTP, May 2023, NA)</p> <p>It is important for an auditor to identify scope of the engagement. Only a well identified scope can lead to establishment of a sound audit strategy. There are many characteristics of engagement defining its scope. Some of characteristics are as under: -</p> <ul style="list-style-type: none"> <li>● <b>Applicable financial reporting framework</b> applicable to the entity</li> <li>● <b>Nature of business segments</b> to be audited including the need for specialized <b>knowledge</b></li> <li>● <b>Industry</b> specific reporting requirements required by industry regulators</li> <li>● Expected <b>use</b> of audit <b>evidence</b> obtained in <b>previous audits</b></li> </ul>
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## Audit Planning

Q13.	<p>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 (ICAI Study Material - Illustration)</p> <ul style="list-style-type: none"> <li>● The overall audit strategy and the audit plan remain the <b>auditor's responsibility</b>. It is the auditor who is responsible for establishing overall audit strategy and developing audit plan</li> <li>● The auditor <b>may</b> decide to <b>discuss elements of planning</b> with the entity's <b>management</b> to facilitate the conduct and management of the audit engagement. When discussing matters included in the overall audit strategy or audit plan, care is required in order <b>not</b> to <b>compromise the effectiveness</b> of the audit.</li> <li>● In the given case, on the request of auditor, audit strategy as well as audit procedures are prepared by finance head of the company.</li> </ul> <p><b>Conclusion:</b> Approach of W was <b>wrong</b> and he should have prepared overall audit strategy and detailed audit procedures</p>
Q14.	<p>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? (ICAI Study Material - Test Your Understanding) (Cover this with Chapter of Audit Evidence)</p> <p>As per <b>SA 300</b> "Planning an Audit of Financial Statement" the audit plan shall be include a description of</p> <ul style="list-style-type: none"> <li>● The <b>nature, timing and extent</b> of planned <b>risk assessment procedures</b>, as determined under SA 315.</li> <li>● The <b>nature, timing and extent</b> of planned <b>further audit procedures</b> at the assertion level, as determined under SA 330.</li> <li>● <b>Other planned audit procedures</b> that are required to be carried out so that the engagement complies with SAs.</li> </ul> <p>In the given case, the auditor would like to inquire from in-house legal counsel of the company as to the status of pending litigation matters against the company to identify and assess the risks of material misstatements. The objective of planned inquiry of inhouse legal counsel is to identify and assess risk of material misstatement.</p> <p><b>Conclusion:</b> <b>Planned risk assessment procedures</b> are included in the audit plan in accordance with SA 300.</p>
Q15.	<p>An auditor of a company fails to document audit strategy and audit plan. Briefly outline consequences of such failure. (ICAI Study Material - Test Your Knowledge)</p> <ul style="list-style-type: none"> <li>● The documentation of the overall audit strategy is a <b>record</b> of the <b>key decisions</b> considered necessary to properly plan the audit and to <b>communicate significant matters</b> to the engagement team.</li> <li>● The documentation of the audit plan is a record of the planned nature, timing and extent of <b>risk assessment procedures</b> and <b>further audit procedures</b> at the assertion level in response to the assessed risks. It also serves as a record of the <b>proper planning</b> of the audit procedures that can be reviewed and approved prior to their performance.</li> <li>● A record of the <b>significant changes</b> 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 <b>response</b> to the</li> </ul>

	<p>significant changes occurring during the audit.</p> <p>An auditor of a company cannot conduct an audit in an effective and efficient manner or demonstrate that the audit was planned and carried out in compliance with SAs if the audit strategy and plan are not documented.</p>
Q16.	<p>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. <b>(ICAI Study Material - Test Your Knowledge)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work. Explain the factors due to which above varies. <b>(MTP1, May 2020, 4 Marks) (RTP, Nov 2020, NA)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>"The nature, timing and extent of the direction and supervision of engagement team members and review of their work vary depending on many factors." Explain. <b>(RTP, Nov 2021, NA) (RTP, Nov 2022, NA)</b></p> <hr/> <p>The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work.</p> <p>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:</p> <ul style="list-style-type: none"> <li>● The <b>size</b> and <b>complexity</b> of the entity.</li> <li>● The <b>area</b> of the audit.</li> <li>● The <b>assessed risks of material misstatement</b></li> <li>● The <b>capabilities</b> and <b>competence</b> of the individual team members performing the audit work.</li> </ul>
Q17.	<p>The auditor shall document the overall audit strategy, the audit plan and any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes. Explain <b>(RTP, Nov 2018, NA) (MTP1, Nov 2018, 5 Marks) (RTP, Nov 2020, NA)</b></p> <hr/> <p><b>Documentation of Audit plan:</b></p> <ul style="list-style-type: none"> <li>● The auditor shall <b>document</b>: <ul style="list-style-type: none"> <li>○ the overall audit <b>strategy</b>;</li> <li>○ the audit <b>plan</b>; and</li> <li>○ any <b>significant changes</b> made during the audit engagement to the overall audit strategy or the audit plan, and the <b>reasons</b> for such changes.</li> </ul> </li> <li>● The documentation of the overall audit strategy is a <b>record</b> of the <b>key decisions</b> considered necessary to properly plan the audit and to <b>communicate significant matters</b> to the engagement team.</li> <li>● The documentation of the audit plan is a record of the planned nature, timing and extent of <b>risk assessment procedures</b> and <b>further audit procedures</b> at the assertion level in response to the assessed risks. It also serves as a record of the <b>proper planning</b> of the audit procedures that can be reviewed and approved prior to their performance.</li> <li>● A record of the <b>significant changes</b> 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 <b>response</b> to the significant changes occurring during the audit.</li> </ul>
Q18.	<p>The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit. Explain <b>(RTP, Nov 2018, NA)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>As a result of unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures, the auditor may need to modify the overall audit strategy and audit plan. Explain. <b>(RTP, Nov 2019, NA)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>Plans should be further developed and revised as necessary during the course of the audit. Explain. <b>(RTP, May 2020, NA)</b></p> <hr/> <ul style="list-style-type: none"> <li>● The auditor shall <b>update</b> and <b>change</b> the overall audit <b>strategy</b> and the audit <b>plan</b> as necessary during the course of the audit as a result of <ul style="list-style-type: none"> <li>○ <b>unexpected events</b>,</li> <li>○ <b>changes in conditions</b>, or</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>○ the audit <b>evidence obtained</b> from the results of audit procedures,</li> <li>● the auditor may need to <b>modify</b> the audit plan &amp; planned nature, timing and extent of <b>further audit procedures</b>, based on the revised consideration of assessed risks.</li> <li>● This may be the case when information comes to the auditor's attention that differs significantly from the information available when the auditor planned the audit procedures.</li> <li>● For example, audit evidence obtained through the performance of substantive procedures may contradict the audit evidence obtained through tests of controls</li> </ul>
Q19.	<p>The establishment of the overall audit strategy and the detailed audit plan are closely interrelated. Explain (MTP1, May 2019, 3 Marks)</p> <ul style="list-style-type: none"> <li>● Audit strategy sets the broad overall approach to the audit whereas audit plan addresses the various matters identified in the overall audit strategy.</li> <li>● Audit <b>strategy</b> determines <b>scope, timing and direction</b> of audit. Audit plan describes how the strategy is going to be implemented.</li> <li>● The audit <b>plan is more detailed</b> 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.</li> <li>● The establishment of the overall audit strategy and the detailed audit plan are <b>not necessarily discrete or sequential processes</b>, but are <b>closely interrelated</b> since changes in one may result in consequential changes to the other</li> </ul>
Q20.	<p>Engagement Partner CA Hitesh Kapur of Kapur and Associates wanted to develop an audit plan of Sampurna Fabrics Ltd. Discuss the matters to be described in such an audit plan. (RTP, May 2022, NA)</p> <p style="text-align: center;"><b>OR</b></p> <p>The audit plan includes the nature, timing and extent of audit procedures to be performed by engagement team members. Explain. (RTP, Nov 2023, NA)</p> <p>As per <b>SA 300</b> "Planning an Audit of Financial Statement", the auditor shall develop an audit plan that shall include a description of :</p> <ul style="list-style-type: none"> <li>● The nature, timing and extent of planned <b>risk assessment procedures</b>, as determined under SA 315</li> <li>● The nature, timing and extent of planned <b>further audit procedures</b> at the assertion level, as determined under SA 330</li> <li>● <b>Other planned audit procedures</b> that are required to be carried out so that the engagement complies with SAs.</li> </ul> <p>The audit <b>plan is more detailed</b> 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.</p> <p>Planning of the auditor's risk assessment procedures occurs early in the audit process. However, planning the nature, timing and extent of specific further audit procedures depends on the outcome of those risk assessment procedures</p>
Q21.	<p>Explain what do you mean by documentation of audit plan. Discuss the purpose served by it and also elaborate the tools used by the auditor to reflect the particular engagement circumstances (RTP, Nov 2022, NA)</p> <ul style="list-style-type: none"> <li>● The documentation of the audit plan is a <b>record</b> of the planned nature, timing and extent of <b>risk assessment procedures</b> and <b>further audit procedures</b> at the assertion level in response to the assessed risks.</li> <li>● It also serves as a record of the <b>proper planning</b> of the audit procedures that can be reviewed and approved prior to their performance.</li> <li>● The auditor may use <b>standard</b> audit programs and/or audit completion checklists, tailored as needed to reflect the particular engagement circumstances.</li> </ul>

## Audit Programme

Q22.	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
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	<p>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? <b>(ICAI Study Material- Test Your Understanding)</b></p> <p><b>Assistant to keep an open mind:</b></p> <ul style="list-style-type: none"> <li>• The <b>assistants</b> engaged should be encouraged to keep an <b>open mind</b> beyond the programme given to him.</li> <li>• They should be instructed to note and <b>report significant matters</b> coming to their notice, to seniors or to the partners or proprietor of the firm.</li> <li>• In the given case, Rohit notices that many e-way bills have been canceled by the company within 24 hours of their generation in the month of March.</li> </ul> <p><b>Conclusion:</b> Attitude of Rohit is <b>not proper</b>. Reasons for cancellation of many e-way bills in the month of March need to be looked into. Matter should be informed to the engagement partner.</p>
Q23.	<p>“Purported disadvantages of an audit programme can be overcome”. Do you agree? <b>(ICAI Study Material- Test Your Knowledge)</b></p> <p>Purported disadvantages of the audit programme may be eliminated by</p> <ul style="list-style-type: none"> <li>• imaginative <b>supervision</b> of the work carried on by the assistants;</li> <li>• the auditor must have a receptive <b>attitude</b> as regards the assistants;</li> <li>• the assistants should be encouraged to <b>observe</b> matters <b>objectively</b> and bring <b>significant matters</b> to the notice of supervisor/principal.</li> </ul>
Q24.	<p>Evolving one audit programme applicable to all audit engagements under all circumstances is not practicable. Explain <b>(RTP, May 2018, NA) (RTP, May 2019, NA) (RTP, Nov 2020, NA)</b></p> <p><b>One Audit Programme – Not Practicable For All Businesses</b></p> <ul style="list-style-type: none"> <li>• All businesses are not same</li> <li>• They vary in <b>nature, size, capital raised</b> and on other parameters also</li> <li>• Some might have a formal and working <b>internal control</b>, while some may not have internal control at all.</li> <li>• Applicability of <b>different laws</b> and <b>regulation</b> also differentiate the scope of services to be given by auditor</li> <li>• Because of the reasons for variations mentioned above it is not possible to develop one audit program applicable to all businesses under all circumstances.</li> <li>• Every audit programme must have <b>details</b> of the <b>nature of work</b> to be <b>done</b> as per the nature, size and other parameters of the business. This will help in saving time and special matters and situations will not be overlooked.</li> </ul>
Q25.	<p>Arpana Hospitals Ltd having Gross Professional Charges of ₹ 50 crores is engaged in providing healthcare services. STP &amp; Co., a firm of auditors is appointed as its auditors. Advise what special points to be kept in mind for the purpose of construction of an Audit programme. Explain. <b>(RTP, May 2018, NA)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>List out the points that should be kept in mind by the auditor for the purpose of constructing an audit programme. <b>(SA, May 2019, 3 Marks)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>Discuss the points to be considered by auditor for the purpose of constructing an audit programme. <b>(SA, Nov 2019, 4 Marks)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>While developing an audit programme, the auditor may conclude that relying on certain internal controls is an effective and efficient way to conduct his audit. Explain stating clearly the points to be kept in mind while developing an audit programme. <b>(RTP, Nov 2022, NA)</b></p> <p style="text-align: center;"><b>OR</b></p> <p>XYZ &amp; associates are appointed as the statutory auditors of Fisco Ltd. for the FY 2022 -23. While constructing the audit programme, the engagement partner, CA X, should keep in mind various points. List such points. <b>(MTP2, Nov 2022, 4 Marks)</b></p>



	<ul style="list-style-type: none"> <li>● While developing an audit programme, the auditor may conclude that relying on certain internal controls is an effective and efficient way to conduct his audit.</li> <li>● However, the auditor may decide not to rely on internal controls when there are other more efficient ways of obtaining sufficient appropriate audit evidence.</li> <li>● The auditor should also consider the <b>timing</b> of the procedures, the <b>coordination</b> of any assistance expected from the client, the <b>availability of assistants</b>, and the involvement of other auditors or experts.</li> <li>● Further, the auditor normally has flexibility in deciding when to perform audit procedures.</li> <li>● However, in some cases, the auditor may have no discretion as to timing, for example, when observing the taking of inventories by client personnel or verifying the securities and cash balances at the year-end.</li> <li>● For the purpose of programme construction, the following points should be kept in mind: <ul style="list-style-type: none"> <li>○ Stay within the <b>scope</b> and <b>limitation</b> of the assignment.</li> <li>○ Prepare a <b>written audit programme</b> setting forth the <b>procedures</b> that are needed to implement the audit plan.</li> <li>○ Determine the <b>evidence reasonably available</b> and <b>identify the best evidence</b> for deriving the necessary satisfaction.</li> <li>○ Apply only those <b>steps</b> and <b>procedures</b> which are <b>useful</b> in accomplishing the verification purpose in the specific situation.</li> <li>○ Include the audit <b>objectives</b> for <b>each area</b> and <b>sufficient details</b> which serve as a set of instructions for the assistants involved in audit and help in controlling the proper execution of the work.</li> <li>○ Consider all <b>possibilities of error</b>.</li> <li>○ <b>Co-ordinate</b> the <b>procedures</b> to be applied to related items</li> </ul> </li> </ul>
Q26.	<p>The utility of the audit programme can be retained and enhanced only by keeping the programme as also the client's operations and internal control under periodic review so that inadequacies or redundancies of the programme may be removed. Explain (RTP, May 2019, NA)</p> <p><b>Periodic Review of The Audit Programme</b></p> <ul style="list-style-type: none"> <li>● <b>Periodic review</b> of the audit programme is required to assess whether the same continues to be <b>adequate</b> for obtaining requisite <b>knowledge</b> and evidence about the transactions. Unless this is done, any change in the business policy of the client may not be adequately known, and consequently, audit work may be carried on, on the basis of an <b>obsolete</b> programme and, for this <b>negligence</b>, the whole audit may be held as <b>negligently</b> conducted and the auditor may have to face <b>legal</b> consequences.</li> <li>● The utility of the audit programme can be retained and enhanced only by keeping the programme as also the client's <b>operations</b> and internal <b>control</b> under periodic review so that <b>inadequacies</b> or redundancies of the programme may be <b>removed</b>. However, as a basic feature, audit programme not only lists the tasks to be carried out but also contains a few relevant instructions, like the extent of checking, the sampling plan, etc.</li> <li>● Every assistant shall always complete the specific task in accordance with the work instructions, unless the principal modifies the programme formally. Many people think that the audit programme becomes more <b>rigid</b> as a result of this. This is untrue provided the periodic review is undertaken to keep the programme as <b>up-to date</b> as possible and by encouraging the assistants on the job to observe all salient features of the various accounting functions of the client.</li> </ul>
Q27.	<p>In most of the assertions much of the evidence be drawn and each one should be considered and weighed to ascertain its weight to prove or disprove the assertion. An auditor picks up evidence from a variety of fields. Analyse and explain with the help of examples. (RTP, Nov 2020, NA) (Study this with Audit Evidence)</p> <p>In most of the assertions much of the evidence be drawn and each one should be considered and weighed to ascertain its weight to prove or disprove the assertion. In this process, an auditor would be in a position to identify the evidence that brings the highest satisfaction to him about the appropriateness or otherwise of the assertion.</p> <p>An auditor picks up evidence from a variety of fields and it is generally of the following broad types:</p> <ul style="list-style-type: none"> <li>● <b>Documentary</b> examination,</li> <li>● <b>Physical</b> examination,</li> <li>● Statements and explanation of <b>management</b>, officials and employees,</li> <li>● Statements and explanations of <b>third parties</b>,</li> <li>● Arithmetical <b>calculations</b> by the <b>auditor</b>,</li> <li>● State of <b>internal controls</b> and internal checks,</li> <li>● <b>Inter-relationship</b> of the various accounting data,</li> </ul>

	<ul style="list-style-type: none"> <li>● <b>Subsidiary</b> and memorandum records,</li> <li>● <b>Minutes</b>,</li> <li>● Subsequent <b>action</b> by the client and by others.</li> </ul> <p>Example</p> <ul style="list-style-type: none"> <li>● For cash in hand, the best evidence is 'count'</li> <li>● For investment pledged with a bank, the banker's certificate.</li> <li>● For verifying assertions about book debts, the client's ledger invoices, debit notes, credit notes, monthly accounts statement sent to the 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 the assertion.</li> </ul> <p>The auditor, however, has to place appropriate weight on each piece of evidence and accordingly should prescribe the priority of verification. It is true that in all cases one procedure may not bring the highest satisfaction and it may be dangerous for the auditor to ignore any evidence that is available. By the word "available" we do not mean that the evidence available with the client is the only available evidence. The auditor should know what normally should be available in the context of the transaction having regard to the circumstances and usage</p>
Q28.	<p>M/s TP &amp; 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. (SA, Dec 2021, 4 marks)</p> <p><b>The Assistant Engaged - Be Encouraged To Keep An Open Mind</b></p> <ul style="list-style-type: none"> <li>● Initially, the audit programme must specify the <b>minimum essential work</b> to be carried out based on the auditor's <b>understanding</b> of <b>nature, size</b> and <b>composition</b> of the business, understanding of the <b>internal control</b> and considering scope of the audit work.</li> <li>● With the progress of the audit, alteration should be made in the programme as and when the situation requires, there may be circumstances which were left out originally, but are found relevant for the particular concern.</li> <li>● Even some areas which were earlier included can be dropped or the extent of checking can be reduced.</li> <li>● The users of the audit program, that is the <b>assistants</b> working on them, must be motivated to keep an <b>open mind</b> and not to stick only to the points mentioned in the audit program, they must be <b>encouraged to report</b> any <b>significant matters</b> to the seniors with appropriate authority on a timely basis.</li> </ul> <p>In the given case, the attitude of assistants of TP &amp; Co. is <b>not justified</b>. They should keep an open mind and go beyond the programme to take care of newer areas of the business of KSR Ltd. into which the Company has diversified</p>
Q29.	<p>CA Vikas Jain discussed with his audit team about advantages and disadvantages of audit programme. He explained to his team that –"work may become mechanical" as disadvantage of the audit programme. Discuss explaining the disadvantages of an audit programme (MTP1, May 2022, 4 marks)</p> <p>The disadvantages are:</p> <ul style="list-style-type: none"> <li>● The work may become <b>mechanical</b> and particular parts of the programme may be <b>carried out without any understanding</b> of the object of such parts in the whole audit scheme.</li> <li>● The programme often tends to become <b>rigid</b> and <b>inflexible</b> following set grooves; the business may change in its operation of conduct, but the old programme may still be carried on. Changes in staff or internal control may render precaution necessary at points different from those originally decided upon.</li> <li>● <b>Inefficient assistants may take shelter</b> behind the programme i.e. defend deficiencies in their work on the ground that no instruction in the matter is contained therein.</li> <li>● A hard and fast audit programme may <b>kill</b> the <b>initiative</b> of <b>efficient</b> and enterprising assistants</li> </ul>
Q30.	<p>List the advantages of an audit programme. (SELF)</p> <p>The advantages of an audit programme are:</p> <ol style="list-style-type: none"> <li>a. It provides the assistant carrying out the audit with a total and <b>clear set of instructions</b> of the work generally to be done.</li> <li>b. It is essential, particularly for major audits, to provide a <b>total perspective</b> of the work to be performed.</li> </ol>

- 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 predetermined 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 assistants, by putting their signature on programme, accept the **responsibility** for the **work** carried out by them individually and, if necessary, the work done may be traced back to the assistant.
- f. The principal can **control** the **progress** of the various audits in hand by examination of audit programmes initiated by the assistants deputed to the jobs for completed work.
- g. It serves as a **guide** for **audits** to be carried out in the succeeding year.
- h. A properly drawn up audit programme **serves** as **evidence** in the event of any charge of negligence being brought against the auditor. It may be of considerable value in establishing that he exercised reasonable skill and care that was expected of a professional auditor.

## Part II: Correct/Incorrect Questions

Q1.	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. <b>(ICAI Study Material- Test Your Knowledge)</b>
	<b>Incorrect.</b> The <b>auditor</b> shall establish an overall audit <b>strategy</b> that sets the <b>scope, timing</b> and <b>direction</b> of the audit, and that guides the development of the audit <b>plan</b> .
Q2.	Planning is a discrete phase of an audit. <b>(ICAI Study Material- Test Your Knowledge) (RTP, Nov 2019, NA) (MTP1, May 2023, 2 marks)</b>
	<b>Incorrect.</b> Planning is <b>not</b> a <b>discrete</b> phase of an audit, but rather a <b>continual</b> and <b>iterative</b> process that often <b>begins shortly after</b> (or in connection with) the <b>completion</b> of the <b>previous audit</b> and <b>continues until</b> the <b>completion</b> of the <b>current audit</b> 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.
Q3.	The audit plan is more detailed than the overall audit strategy. <b>(ICAI Study Material- Test Your Knowledge) (SA, Nov 2020, 2 Marks)</b>
	<b>Correct.</b> The audit <b>plan</b> is <b>more detailed</b> than the overall audit <b>strategy</b> 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.
Q4.	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. <b>(ICAI Study Material- Test Your Knowledge) (MTP2, May 2018, 2 Marks)</b>
	<b>OR</b>
	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. The establishment of the overall audit strategy and the detailed audit plan are closely inter-related. <b>(RTP, May 2023, NA)</b>
	<b>Correct.</b> 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, taking into account the need 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 <b>not necessarily discrete or sequential processes</b> , but are <b>closely inter-related</b> since changes in one may result in consequential changes to the other.
Q5.	A detailed Audit Programme once prepared for a business can be used for all business under all circumstances. <b>(ICAI Study Material- Test Your Knowledge) (MTP1, Nov 2020, 2 Marks) (MTP2, Nov 2022, 2 Marks)</b>
	<b>Incorrect.</b> Businesses vary in <b>nature, size</b> and <b>composition</b> ; work which is suitable to one business may not be suitable to others; efficiency and operation of <b>internal controls</b> 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 <b>not practicable</b> .
Q6.	<p>Planning is not a discrete phase of an audit, but rather a continual and iterative process. (RTP, Nov 2018, NA) (RTP, May 2019, NA)</p> <p><b>Correct.</b> As per SA 300, "Planning an Audit of Financial Statements", planning is <b>not a discrete</b> phase of an audit, but rather a <b>continual</b> and <b>iterative</b> process that often <b>begins shortly after</b> (or in connection with) the <b>completion</b> of the <b>previous</b> audit and <b>continues until the completion</b> of the <b>current</b> audit engagement.</p>
Q7.	<p>There is no relation between Audit Plans and knowledge of the client's business (RTP, Nov 2018, NA) (RTP, May 2019, NA)</p> <p><b>Incorrect.</b> The auditor should plan his work to enable him to conduct an <b>effective</b> audit in an <b>efficient</b> and <b>timely</b> manner. Plans should be based on <b>knowledge</b> of the client's business</p>
Q8.	<p>A well designed and drafted audit plan and audit strategy which takes care of all the uncertainties and conditions, need not be changed during the course of audit. (SA, Nov 2018, 2 marks)</p> <p style="text-align: center;"><b>OR</b></p> <p>The auditor should update and revise the audit plan as and when required, however, the overall audit strategy once established cannot be changed during the course of audit. (MTP1, May 2021, 2 Marks)</p> <p style="text-align: center;"><b>OR</b></p> <p>Once the audit plan has been drafted and communicated, it is obligatory on the auditor to follow the same. (SA, May 2022, 2 Marks) (MTP2, May 2023, 2 marks)</p> <p><b>Incorrect.</b> The auditor shall <b>update</b> and <b>change</b> the overall audit <b>strategy</b> and the audit <b>plan</b> as <b>necessary</b> during the course of the audit. As a result of <b>unexpected events, changes in conditions</b>, or the audit <b>evidence obtained</b> from the results of audit procedures, the auditor may need to <b>modify</b> the overall audit strategy and audit plan and thereby the resulting planned nature, timing and extent of further audit procedures, based on the revised consideration of assessed risks. This may be the case when information comes to the auditor's attention that differs significantly from the information available when the auditor planned the audit procedures.</p>
Q9.	<p>The auditor need not discuss elements of planning with the entity's management in any case. (RTP, Nov 2019, NA)</p> <p><b>Incorrect.</b> The auditor <b>may</b> decide to <b>discuss elements</b> of <b>planning</b> with the entity's <b>management</b> to facilitate the conduct and management of the audit engagement.</p>
Q10.	<p>Under a properly framed audit programme by the auditor, the danger is significantly less and audit can proceed systematically. (SA, Nov 2019, 2 Marks)</p> <p><b>Correct.</b> <b>Without</b> a written and predetermined <b>programme</b>, work is necessarily to be carried out on the basis of some '<b>mental</b>' plan. In such a situation there is always a <b>danger</b> of <b>ignoring</b> or <b>overlooking certain books and records</b>. Thus under a properly framed programme, the danger is significantly <b>less</b> and the audit can proceed systematically.</p>
Q11.	<p>Overall audit plan sets the scope, timing and direction of the audit, and guides the development of the more detailed audit strategy. (RTP, Nov 2020, NA)</p> <p><b>Incorrect.</b> Overall audit <b>strategy</b> sets the <b>scope, timing</b> and direction of the <b>audit</b>, and guides the development of the more detailed audit <b>plan</b>.</p>
Q12.	<p>It is not necessary for the auditor to periodically review the audit programme. (SA, Nov 2020, 2 Marks)</p> <p><b>Incorrect.</b> There should be <b>periodic review</b> of the audit programme to assess whether the same continues to be <b>adequate</b> for obtaining requisite <b>knowledge</b> and evidence about the transactions. Unless this is done, any change in the business policy of the client may not be adequately known, and consequently, audit work may be carried on, on the basis of an <b>obsolete</b> programme and for this <b>negligence</b>, the whole audit may be held as <b>negligently conducted</b> and the auditor may have to face <b>legal</b> consequences.</p>
Q13.	Audit notes can serve as a guide in framing Audit programme (MTP2, May 2021, 2 Marks)

	<b>Correct.</b> Audit <b>notes</b> can serve as a <b>guide in framing</b> audit <b>programmes</b> in the future as they indicate the <b>weaknesses</b> in the system of the client which specially need to be watched.
Q14.	Evolving one audit programme applicable to all business under all circumstances is not practicable <b>(MTP2, Nov 2021, 2 Marks) (MTP1, May 2022, 2 marks)</b>
	<b>Correct.</b> Businesses vary in <b>nature, size</b> and <b>composition</b> ; work which is suitable to one business may not be suitable to others; efficiency and operation of <b>internal controls</b> 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 <b>not practicable</b> .
Q15.	Development of an audit plan is important before the establishment of the overall audit strategy to address the various matters. <b>(RTP, Nov 2022, NA)</b>
	<b>Incorrect.</b> As per <b>SA 300</b> , "Planning an Audit of Financial Statements", the auditor shall establish an overall audit <b>strategy</b> that sets the <b>scope, timing</b> and <b>direction</b> of the audit, and that guides the development of the audit <b>plan</b> . 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, taking into account the need to achieve the audit objectives through the efficient use of the auditor's resources.
Q16.	The auditor can formulate his entire audit programme only after he has had a satisfactory understanding of the internal control systems and their actual operation. <b>(MTP1, Nov 2022, 2 Marks)</b>
	<b>Correct.</b> The auditor can formulate his entire audit programme <b>only</b> after he has had a satisfactory <b>understanding</b> of the <b>internal control</b> systems and their actual operation. If he does not care to study this aspect, it is very likely that his audit programme may become unwieldy and unnecessarily heavy, and the object of the audit may be altogether lost in the mass of entries and vouchers.
Q17.	Understanding the Internal Control of a company will not help the auditor in developing an Audit Programme. <b>(MTP1, May 2023, 2 marks)</b>
	<b>Incorrect.</b> Understanding the <b>Internal Control</b> of a company will <b>help in developing</b> an Audit <b>Programme</b> because it will assist the auditor and his team to understand as to <b>how much they can rely on internal control</b> of the company and what audit <b>procedures</b> would be <b>appropriate</b> to be used during the course of audit
Q18.	The "documentation of the overall audit strategy" is a record of the audit evidences considered necessary to properly plan the audit and to assign various audit functions to the engagement team. <b>(SA, May 2023, 2 marks)</b>
	<b>Incorrect.</b> The documentation of the overall audit strategy is a <b>record of the key decisions</b> considered necessary to properly plan the audit and to <b>communicate significant matters</b> to the engagement team and not a record of audit evidence.
Q19.	The overall audit strategy is more detailed than the audit plan <b>(MTP1, Nov 2023, 2 marks)</b>
	<b>Incorrect:</b> The audit <b>plan</b> is <b>more detailed</b> than the overall audit <b>strategy</b> that includes the nature, timing and extent of audit procedures to be performed by engagement team members. 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.

### Part III: Multiple Choice Questions

Q1.	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 <b>(ICAI Study Material- Test Your Knowledge)</b>
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	<b>Correct answer:</b> (c) Evaluating audit evidence
Q2.	<p>Which of the following is true about audit plan?</p> <p>(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.</p> <p><b>(ICAI Study Material- Test Your Knowledge)</b></p>
	<b>Correct answer:</b> (d) Audit plan has to be documented by auditor.
Q3.	<p>Which of the following is not included in an audit programme normally?</p> <p>(a) Extent of checking  (b) Date of checking  (c) Nature or type of procedure  (d) Planning of risk assessment procedures</p> <p><b>(ICAI Study Material- Test Your Knowledge)</b></p>
	<b>Correct answer:</b> (d) Planning of risk assessment procedures
Q4.	<p>Which of the following is not an advantage of an audit programme?</p> <p>(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</p> <p><b>(ICAI Study Material- Test Your Knowledge)</b></p>
	<b>Correct answer:</b> (c) It serves as a shelter for assistants.
Q5.	<p>Which of the following is most important principle for formulating an audit plan?</p> <p>(a) Gaining knowledge of client's workforce  (b) Gaining knowledge of client's business  (c) Gaining knowledge of client's vendors  (d) Gaining knowledge of tax laws applicable to client</p> <p><b>(ICAI Study Material- Test Your Knowledge)</b></p>
	<b>Correct answer:</b> (b) Gaining knowledge of client's business
Q6.	<p>When planning the audit,</p> <p>(a) the auditor considers what would make the financial information materially misstated.  (b) the auditor need not consider what would make the financial information materially misstated.  (c) the auditor need not consider what would make the financial information materially misstated at planning stage  (d) the auditor needs to consider what would make the financial information materially misstated while conducting audit only</p> <p><b>(Sample MCQs) (ICAI MCQs) (MTP1, May 2019, 1 Mark)</b></p>
	<b>Correct answer:</b> (a) the auditor considers what would make the financial information materially misstated.
Q7.	<p>Planning an audit involves</p> <p>(a) establishing the overall audit strategy for the engagement and developing an audit plan.  (b) establishing the overall audit plan for the engagement and developing an audit strategy.  (c) establishing the overall audit plan for the engagement  (d) developing an audit strategy.</p> <p><b>(ICAI MCQs) (MTP1, Nov 2019, 1 Mark)</b></p>

	<b>Correct answer:</b> (a) establishing the overall audit strategy for the engagement and developing an audit plan.
Q8.	<p>The auditor shall develop an audit plan that shall include a description of:</p> <p>(a) The nature, timing and extent of planned risk assessment procedures</p> <p>(b) The nature, timing and extent of planned further audit procedures at the assertion level.</p> <p>(c) Other planned audit procedures that are required to be carried out so that the engagement complies with SAs.</p> <p>(d) All of the above</p> <p><b>(ICAI MCQs)</b></p>
	<b>Correct answer:</b> (d) All of the above
Q9.	<p>Once the overall audit strategy has been established, _____ can be developed to address the various matters identified in the overall audit strategy, taking into account the need to achieve the audit objectives through the efficient use of the auditor's resources.</p> <p>(a) audit strategy</p> <p>(b) audit plan</p> <p>(c) audit plan and audit strategy</p> <p>(d) audit note book</p> <p><b>(Sample MCQs) (ICAI MCQs)</b></p>
	<b>Correct answer:</b> (b) audit plan
Q10.	<p>Planning an audit involves establishing the overall audit strategy for the engagement and</p> <p>(a) developing an audit plan.</p> <p>(b) developing an audit program</p> <p>(c) developing detailed strategy</p> <p>(d) any of the above</p> <p><b>(Sample MCQs)</b></p>
	<b>Correct answer:</b> (a) developing an audit plan
Q11.	<p>Statement 1: The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential process but are closely inter-related.</p> <p>Statement 2: The auditor shall establish an overall audit strategy that guides the development of audit plan.</p> <p>(a) only Statement 1 is correct</p> <p>(b) Only Statement 2 is correct</p> <p>(c) Both Statements 1 &amp; 2 are correct</p> <p>(d) Both Statements 1 &amp; 2 are incorrect</p> <p><b>(ICAI MCQs)</b></p>
	<b>Correct answer:</b> (c) Both Statements 1 & 2 are correct
Q12.	<p>Which of the following is not addressed by the overall audit strategy :</p> <p>(a) scope of the audit</p> <p>(b) timing of the audit</p> <p>(c) direction of the audit</p> <p>(d) monitoring of the audit</p> <p><b>(ICAI MCQs)</b></p>
	<b>Correct answer:</b> (d) monitoring of the audit
Q13.	<p>The overall audit strategy and the audit plan remain the _____ responsibility</p> <p>(a) auditor's</p> <p>(b) management's</p> <p>(c) those charged with governance.</p>

	(d) both management and those charged with governance. <b>(ICAI MCQs) (MTP1, May 2023, 1 mark)</b>
	<b>Correct answer:</b> (a) auditor's
Q14.	Which of the following is correct: (a) The auditor shall establish an audit plan that sets the scope, timing and direction of the audit, and that guides the development of the overall audit strategy. (b) The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and there is no need to guide the development of the audit plan. (c) 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. (d) The auditor shall establish an audit plan that sets the scope, timing and direction of the audit, and that there is no need to guide the development of the overall audit strategy. <b>(ICAI MCQs)</b>
	<b>Correct answer:</b> (c) 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.
Q15.	_____ sets the scope, timing & direction of the audit and guides the development of the more detailed plan. (a) Audit Programme (b) Overall Audit Strategy (c) Completion Memorandum (d) Audit Plan <b>(ICAI MCQs) (MTP1, May 2022, 1 mark)</b>
	<b>Correct answer:</b> (b) Overall Audit Strategy
Q16.	Planning is _____ process of an audit that often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement: (a) continuous (b) discrete (c) neither continuous nor discrete (d) strategic <b>(ICAI MCQs)</b>
	<b>Correct answer:</b> (a) continuous
Q17.	CA R illustrated to his team that the utility of the Audit Programme can be retained and enhanced only by keeping the programme as also the client's operations and internal control under recurrent assessment. Which attribute of the Audit Programme is highlighted here? (a) Static Review (b) Mechanical Review (c) Periodic Review (d) Obsolete Review <b>(ICAI MCQs) (MTP1, Nov 2021, 2 Marks)</b>
	<b>Correct answer:</b> (c) Periodic Review
Q18.	With reference to SA 300, the auditor shall document: (a) The overall audit strategy (b) The audit plan (c) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes. (d) All of the above



	<b>(MTP2, May 2019, 1 Mark)</b>
	<b>Correct answer:</b> (d) All of the above
Q19.	<p>According to SA 300,</p> <p>(a) planning is not a continual and iterative phase of an audit, but rather a discrete process</p> <p>(b) planning is not a discrete phase of an audit, but rather a continual and iterative process</p> <p>(c) planning is not continual and iterative process</p> <p>(d) planning is not a discrete phase of an audit</p> <p><b>(MTP1, Nov 2019, 1 Mark)</b></p>
	<b>Correct answer:</b> (b) planning is not a discrete phase of an audit, but rather a continual and iterative process
Q20.	<p>The auditor shall update and change _____ as necessary during the course of the audit.</p> <p>(a) overall strategy</p> <p>(b) the overall audit strategy and the audit plan</p> <p>(c) audit plan</p> <p>(d) audit program</p> <p><b>(MTP1, May 2020, 2 Marks)</b></p>
	<b>Correct answer:</b> (b) the overall audit strategy and the audit plan
Q21.	<p>Which of the following statements is MOST APPROPRIATE?</p> <p>(a) Audit programme is a detailed plan of audit strategy</p> <p>(b) Audit programme cannot be reviewed</p> <p>(c) Audit programme is a detailed plan of applying audit procedures</p> <p>(d) Audit programme is relevant for year for which it is prepared, it is useless for subsequent years.</p> <p><b>(RTP, Nov 2022, NA)</b></p>
	<p><b>Correct answer:</b> (c) Audit programme is a detailed plan of applying audit procedures</p> <p><b>Explanation:</b> An audit programme is a detailed plan of applying the audit procedures in the given circumstances with instructions for the appropriate techniques to be adopted for accomplishing the audit objectives.</p>
Q22.	<p>CA Tarini is in process of formulating audit plan for conducting audit of a company engaged in business of dealing in commodity futures. Which of the following is not likely to be an appropriate audit procedure to be included in audit plan for the abovesaid company?</p> <p>(a) Verification of turnover of company</p> <p>(b) Verification of cost of raw material consumed</p> <p>(c) Examination of company's accounting policy for revenue recognition</p> <p>(d) Verification of contract notes with brokers</p> <p><b>(MTP2, Nov 2023, 1 mark)</b></p>
	<p><b>Correct answer:</b> (b) Verification of cost of raw material consumed</p> <p><b>Explanation:</b> Since the company operates in the service industry, verification of the cost of raw materials consumed is not a relevant audit procedure.</p>