

CA INTERMEDIATE

AUDIT

CH- 2

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

Created By
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Hi,

I am Shubham Jain, a dedicated CA student who has successfully cleared the CA Foundation with distinction and CA Intermediate Group 1. With a strong grasp of accountancy and finance, I strive to simplify complex concepts through logically structured notes and practical examples. My approach focuses on conceptual clarity, ensuring that learning becomes easy, effective, and application-oriented.

"There might be typing errors in this book. If you find any, please let me know, and I will try to correct them in the upcoming edition."

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SA 300

Planning an audit of financial statements

OBJECTIVE :

Plan the audit so that it will be performed in **effective manner**.

BENEFITS :

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- To pay **appropriate attention** to important areas of the audit
- Identify and resolve **potential problems** on a timely basis.
- Properly **organize & manage** the audit engagement so that it is performed in an effective and efficient manner.
- Selection of **ETM**
- Facilitating the **DSR** (DS of ETM and R of work)
- **Coordination** of work done by others such as experts .

NATURE OF AUDIT PLANNING

- Planning is not a discrete phase , It is a continuous process .
- Start after completion of Previous audit until completion of current audit.

Planning also includes deciding what work needs to be done before starting detailed audit procedures.

1. The **analytical procedures** to be applied as RAP.
2. Obtaining a understanding of the **legal & regulatory framework** applicable to the entity and how the entity is complying with that framework. (ex- in case of bank - RBI)
3. The determination of **materiality**.
4. The involvement of **experts**.
5. The performance of **other RAP**.

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Involvement of key ETM in planning audit - their **experience & insight** enhancing the **effectiveness** and **efficiency** of the planning process.
Discussion of elements of planning with management - yes but make sure **not to compromise** with **effectiveness** of the audit.

PLANNING PROCESS

ELEMENT OF PLANNING

**PRELIMINARY
ENGAGEMENT
ACTIVITY**

**PLANNING
ACTIVITY**

OAS

AUDIT PLAN

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PRELIMINARY ENGAGEMENT ACTIVITY

- (A) Performing **procedures** regarding **continuance** of the client relationship
- (B) Evaluating **compliance** with **ethical requirements**, (including independence)
- (C) Establishing an **understanding** of **terms of engagement**

A. Performing procedures regarding continuance of the client relationship and audit engagement :

It should be ensured that **appropriate procedures** regarding the acceptance and continuance of client relationships and audit engagements have been performed and that **conclusions are appropriate**.

- Checking the client's integrity (whether owners and managers are honest).
- Seeing if the audit team is capable of handling the work.
- Reviewing any past issues during earlier audits.

Note : In case of initial engagements, if there's a change of auditor, the new auditor should communicate with the previous auditor.

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B. Evaluating compliance with ethical requirements including independence :

- Independence definition
- the engagement **partner** shall remain alert, through observation and making inquiries for obtaining **evidence** of **non-compliance** with relevant **ethical requirements** by ETM.
If they 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 determine whether compliance with independence requirements :
 - (i) Obtain info. to identify and evaluate circumstances and relationships that create **threats to independence**.
 - (ii) Evaluate identified **breaches** of firm's independence policies to determine whether they create a threat to independence .
 - (iii) 1. Take appropriate action to **eliminate** such threats
2. **Reduce** them to an acceptable level by applying safeguards
3. To **withdraw** from the audit engagement.

C. Establishing an understanding of terms of engagement

- The auditor sends an “**audit engagement letter**” to **avoid misunderstandings** with respect to the audit.
- It ensures that there is **no confusion** with the client regarding terms of the engagement. .

A. ESTABLISHING THE OVERALL AUDIT STRATEGY

DEFINATION :

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OAS determine the **STD of audit** and guides the **development** of the **more detailed audit plan**.

The auditor shall consider following **factors** while establishing OAS :

CS
PEA OE

RO
NET of resources

ETE

(A) IDENTIFY THE CHARACTERISTICS OF THE ENGAGEMENT THAT DEFINE ITS SCOPE

identify characteristics - manufacturing business
scope - big hoga

It is important for auditor to identify characteristics of the engagement that define scope of the engagement for establishment of a **sound audit strategy**.

There are many characteristics of engagement defining its scope.

- **AFRF**

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- **Nature of business segment**

- **Industry - specific reporting requirement** required by industry regulators .

- **Audit evidence** obtained in previous audits .

(B) ASCERTAIN THE REPORTING OBJECTIVES TO PLAN THE TIMING OF AUDIT & NATURE OF THE COMMUNICATIONS .

The ascertaining of reporting objectives of engagement helps the auditor to plan timing of different audit procedures and also nature of communications.

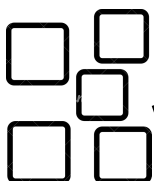
- The entity's timetable for reporting

- Discuss with management of **NET of audit work** .

- Discussion with management regarding the **expected type and timing of reports** to be issued including the auditor's report .

- Discussion with management regarding the **expected communications** on the status of audit work .

(C) CONSIDER THE MATTERS THAT, IN THE AUDITOR'S PROFESSIONAL JUDGMENT, ARE SIGNIFICANT IN DIRECTING THE ENGAGEMENT TEAM'S EFFORTS



matter jo auditor ki judgement me significant hai uspe ETM ka sara effort inpe lagna chaiye.

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The auditor needs to direct efforts of engagement team towards matters that in his professional judgment are significant. More energies need to be devoted to significant matters to obtain desired outcomes.

- **Volume of transactions** which may determine whether it is more efficient for the auditor to rely on internal control *
- Significant industry developments.
Ex: changes in industry regulations & new reporting requirements.
- Significant changes in the financial reporting framework
Ex : changes in AS
- Other significant relevant developments
Ex: changes in the legal environment .

*High volume of transactions = more efficient to rely on internal controls instead of detailed checking each time

(D) CONSIDER THE RESULTS OF PRELIMINARY ENGAGEMENT ACTIVITIES AND KNOWLEDGE GAINED ON OTHER ENGAGEMENT PERFORMED BY THE ENGAGEMENT PARTNER IS RELEVANT .

Considering - results of preliminary engagement activity & **knowledge** gained from other engagements help in establishing sound audit strategy.

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- **Results of previous audits** that related to "evaluating the operating effectiveness of internal control" including the nature of identified **deficiencies** and **action taken** to address them.
- The **manner** in which the auditor **emphasizes** to ETM the need to maintain a **questioning mind** and to exercise **professional skepticism** in obtaining and evaluating audit evidence.

(E) ASCERTAIN THE NET OF RESOURCES NECESSARY TO PERFORM THE ENGAGEMENT.

Selection of engagement team and **assignment** of audit work is a significant factor in establishing overall audit strategy.

Experienced team members may be assigned in areas where there is higher ROMM.

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B. DEVELOPMENT OF AUDIT PLAN

An audit plan can be developed **to address** the various matters identified in the overall audit strategy, to **achieve the audit objectives** through the efficient use of the auditor's resources.

SA-300 states that auditor shall develop an audit plan that shall include description of-

- 1.NET of RAP
- 2.NET of FAP
- 3.other A.P

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FACT :

- 1.Understanding client's business is one of the important principles in developing an audit plan. In fact, without adequate knowledge of client's business, a proper audit is not possible.

RELATIONSHIP BETWEEN AUDIT STRATEGY AND AUDIT PLAN

Audit strategy sets the **broad overall approach** to the audit

Audit strategy determines **STD of audit.**

Audit strategy **guides in development** of more detailed audit plan.

Audit plan **addresses the various matters** identified in the OAS.

Audit plan describes how strategy is going to be **implemented.**

Audit plan is **more detailed** than the overall audit strategy

Audit plan includes the **NET of audit procedures** to be performed .

OAS and audit plan are **not sequential processes**, but are **closely inter-related** , because changes in one may result in changes to the other accordingly.

Ex : If something changes in the audit strategy , then the audit plan may also need to change accordingly – and vice versa.

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The auditor may need to **modify / update** the overall audit strategy and audit plan as necessary during the course of the audit , because of **unexpected events , changes in conditions, A.E obtained** .

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.

Ex : audit evidence obtained through on detailed checking may contradict the audit evidence obtained through testing I.C.

The auditor shall plan the NET of direction and supervision of ETM and the review of their work.

It may vary depending on many factors :

- The **size , nature** and **complexity** of the entity.
- The **area** of the audit.
- The assessed **ROMM**
- The **capabilities** and **competence** of the ETM.

DOCUMENTATION

The auditor shall document: -

- (a) The overall audit strategy
- (b) The audit plan
- (c) Any **significant changes** made during the audit engagement , the **reasons** for such changes and **appropriate response**.

The Documentation of OAS- is a record of the **key decisions** .

So that auditor can properly plan the audit and to communicate significant matters to the engagement team.

The Documentation of the audit plan - is a record of the

- **NET of RAP**
- **NET of FAP**

AUDIT PROGRAMME

An audit programme **consists** of "A series of verification procedures" applied to F.S & A/c for obtaining **SAAE** to express an **informed opinion** .

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Business vary in Nature , size , complexity , operating efficiency of I.C ...
So, One audit programme is Not suitable for all business .
Hence , It is not practicable

THE ASSISTANT TO KEEP AN OPEN MIND

1. An auditor consider nature, size , complexity of business , dependability of I.C and the given scope of work and prepare a programme which should **aim** for providing **MEW** (minimum essential work) which may be termed as a standard programme.
2. Programme may be **altered** for situations which were left out and Drop unnecessary work.
3. The **assistant** should be **encouraged** to keep an open mind beyond the programme.
He should also note and report **significant matters** coming to his notice, to his seniors /partners /proprietor of the firm .

PERIODIC REVIEW OF THE AUDIT PROGRAMME

There should be periodic review of the audit programme to know whether the **same continues to be adequate** for obtaining A.E .

Audit programme stays useful only if it's regularly updated with **changes in client operations & internal controls**.

If, this is NOT done, Then changes in the client's **business policy** might be missed. This will lead to Auditor carry out audit work with an **obsolete programme** .

The whole audit may be considered as **negligently conducted** and the auditor may have to face **legal consequences**.

Note :

Until the audit programme is officially changed by the principal auditor, every audit assistant must strictly follow the current instructions and procedures.

Some people think this makes the audit programme **rigid** .

But this belief is not true if two conditions are met:

- The programme is **periodically reviewed** and updated .
- Assistants are encouraged to observe and report **key features of the client's accounting functions**, so changes can be incorporated into future revisions.

CONSTRUCTING AN AUDIT PROGRAMME

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

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- Stay within the scope and limitation of the **assignment**.
- Prepare a **written** audit programme.
- Choose the **best available evidence**.
- Consider **all possibilities of error**.
- Apply only those steps and procedures which are useful in **verifying** the information in specific situation.
- **Co-ordinate** the procedures to be applied to related items

Ex : Instead of checking sales and receivables separately, you can check the invoice once and verify both sales and receivables (related item) together. This saves time and makes the audit more efficient.

Audit Programme prescribe - "procedures and techniques " To get

↓
Opinion ← Conclusion ← A.E

The auditor collects audit evidence from many different sources , are grouped into main categories ,such as :

- Documentary examination
- Physical examination
- Statements and explanation of Mgt./Employees / third parties
- Arithmetical calculations by the auditor
- Minutes

ADVANTAGES OF AN AUDIT PROGRAMME

- It gives **assistants** clear and complete **instructions** about the audit work to be done.
- Especially in **big audits**, it helps everyone understand the full scope of the work.
- **Selection of capable assistants** for the jobs becomes easier When tasks are clearly planned and divided.
- It acts as a **guide** for future audits of the same client.
- Without a written programme, things may be **missed**. A proper programme ensures nothing is missed.
- If someone blames the auditor for **negligence**, the audit programme proves that proper care was taken.

DISADVANTAGES OF AN AUDIT PROGRAMME

- Assistants may do work **mechanically** without understanding its purpose.
- **Inefficient assistants** might blame the programme for his mistakes, saying it didn't give clear instructions.
- A hard & fast audit programme can **"stop" smart assistants** from using their own ideas or judgment.
- The programme can become **rigid** and **not updated** with changes in client operations & internal controls. This will lead to Auditor carry out audit work with an **obsolete programme**.

ALL THESE DISADVANTAGES MAY BE ELIMINATED :

- **If the auditor carefully supervises the assistants.**
- **The auditor should be open and supportive**
- **Assistants should be encouraged to observe matters carefully and significant matters to their supervisor/principal.**

Common :

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Planning an audit ensures that audit risk is reduced to an acceptable low level. When **audit work** is **adequately** and **properly planned**, it reduces the risk of inappropriate opinion by the auditor.

Thank You