

AUDIT STRATEGY, AUDIT PLANNING AND AUDIT PROGRAMME



LEARNING OUTCOMES

After studying this chapter, you would be able to -

- ◆ Understand the Audit Planning and its benefits.
- ◆ Learn about Planning Process and its Elements.
- ◆ Learn about establishing overall strategy and developing audit plan in detail.
- ◆ Learn about audit programme.
- ◆ Gain the knowledge of control of quality of audit work w.r.t delegation and supervision of audit work.
- ◆ Practicality of above concepts by studying through examples and case studies.

CHAPTER OVERVIEW

**Planning an audit involves:****Establishing the overall audit strategy****Developing an audit plan**

The auditor should plan his work to enable him to conduct an **effective** audit in an **efficient** and **timely** manner.

Plans should be based on **knowledge of the client's business**.

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

By now, Sameer had grasped basic nature of auditing. It was crystal clear to him that objective of an audit of financial statements is to express an opinion on the same. He could easily visualize that a complex process like audit needs to be performed methodically. "Carrying out an audit ought to be a logical and systematic process leading from one step to another. Performing a complex process effectively, would certainly, be involving planning. Planning helps one to achieve desired objectives. Audits should be no different"- He was talking to himself.

Besides, he was pretty sure that there must be timelines in which audits were to be completed for different entities. He remembered his father had held few shares of some blue-chip companies. He was able to recall that notices of annual general meetings of these companies used to be delivered at their ancestral home in Rajkot and those also related to consideration and adoption of audited accounts. Linking that, he had reasonably concluded that audits were required to be performed in a timely manner. The whole audit process, therefore, must be properly planned to ensure its effectiveness.

He was curious to learn about how planning for an audit is undertaken. What are the basic elements of planning? What are likely matters to be included therein?

He was aware about CA students undergoing articled training. Most of the students must be going for audit work of different entities as part of their practical training. A thought came to his mind- "How do students who have freshly joined their articles carry out audit work? There must be some mechanism, some sort of detailed set of instructions for carrying out audit. What is it known as?" His inquisitive mind was constantly engaged in such kind of questions.

He was also anxious to know what would happen to audit plan if some new information comes to light of auditor during course of audit which was hitherto unknown to him at time of planning? Is audit plan flexible? Can it be changed as audit progresses? Another question raging in his mind was whether all such information was necessary to be put in writing by the auditor.



1. AUDITOR'S RESPONSIBILITY TO PLAN AN AUDIT OF FINANCIAL STATEMENTS

SA 300- ***Planning an audit of financial statements*** deals with the auditor's responsibility to plan an audit of financial statements. It states that objective of the auditor is to plan the audit so that it will be performed in an effective manner.

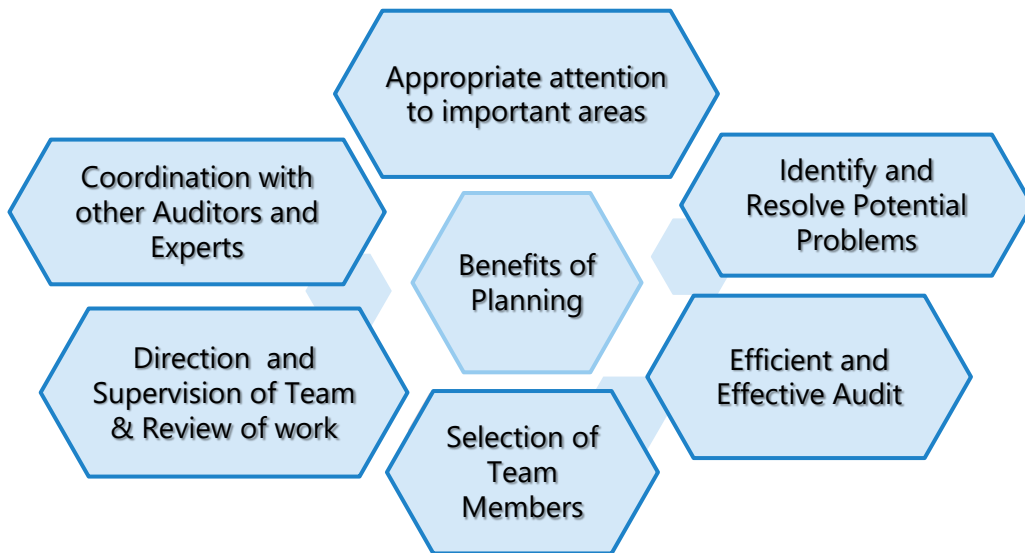
1.1 Why Planning an audit is necessary? - Its Benefits

Planning an audit is necessary to carry out it effectively in a timely manner. Besides ensuring compliance with professional standards, it helps in performing audit engagement effectively.

Adequate planning benefits the audit of financial statements in several ways, including the following: -

1. Helping the auditor to devote appropriate attention to important areas of the audit.
2. Helping the auditor identify and resolve potential problems on a timely basis.
3. Helping the auditor properly organize and manage the audit engagement so that it is performed in an effective and efficient manner.
4. Assisting in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks, and the proper assignment of work to them.
5. Facilitating the direction and supervision of engagement team members and the review of their work.
6. Assisting, where applicable, in coordination of work done by others such as experts

Therefore, 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.



1.2 Nature of Audit Planning- A Continuous and iterative process

Planning is not a discrete phase of an audit, but rather a continual and iterative process 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. 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: -

1. The analytical procedures to be applied as risk assessment procedures.
2. Obtaining a general understanding of the legal and regulatory framework applicable to the entity and how the entity is complying with that framework.
3. The determination of materiality.
4. The involvement of experts.
5. The performance of other risk assessment procedures.

Risk assessment procedures are audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error at the financial statement and assertion levels.

Therefore, planning includes consideration of matters such as obtaining knowledge about legal framework in which entity is operating. Consider for example- Telecom companies and Banks. Such entities operate in different legal and regulatory frameworks. TRAI (Telecom Regulatory Authority of India) and RBI (Reserve Bank of India) are regulators for telecom and banking industry respectively.

Planning also includes need to consider determination of material or significant matters. It also involves considering whether experts need to be involved taking into account complexity of business. Further, it also involves considering need to perform risk assessment procedures for identifying and assessing risks of material misstatement.

Planning is not a separate or distinct phase of an audit. It is to be viewed as a continual and repetitive process. It is a continuous process that begins with completion of previous audit and continues till the completion of current audit engagement.

Involvement of key engagement team members in planning audit

The engagement partner and other key members of the engagement team shall be involved in planning the audit including planning and participating in the discussion among engagement team members. The involvement of the engagement partner and other key members of the engagement team in planning the audit draws on their experience and insight, thereby enhancing the effectiveness and efficiency of the planning process.

Discussion of elements of planning with entity's management

The auditor may decide to discuss elements of planning with the entity's management 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 not to compromise the effectiveness of the audit.



2. Planning Process- Elements of Planning

The elements of planning can be categorized as under: -

- (I) Preliminary engagement activities
- (II) Planning activities

(I) Preliminary engagement activities

The auditor considers whether relationship with client should be continued and whether ethical requirements including independence continue to be complied with. It includes: -

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

Preliminary engagement activities include the following: -

(A) Performing procedures regarding the Continuance of Client Relationships and Audit Engagements

Acceptance and Continuance of Client Relationships and Audit Engagements

It should be ensured that appropriate procedures regarding the acceptance and continuance of client relationships and audit engagements have been followed and that conclusions reached in this regard are appropriate.

The firm should obtain information considered necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client.

Matters such as integrity of principal owners and key management, competence of engagement team to perform the audit engagement and implications of matters that have arisen during current and previous audit engagement may need to be considered.

Besides, in case of initial engagements, communication with predecessor auditor should be made, where there has been a change of auditors.

(B) Evaluating compliance with ethical requirements including independence

The auditor shall continuously evaluate compliance with ethical requirements including independence. "Independence" means that the judgement of a person is not subordinate to the wishes or direction of another person who might have engaged him.

Throughout the audit engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team. If matters come to the engagement partner's attention that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action.

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

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

Besides, consideration for client continuance and compliance with ethical requirements, preliminary engagements activities also include establishing an understanding of terms of engagement.

(C) Establishing an understanding of terms of engagement

It is in the interests of both the entity and the auditor that the auditor sends an audit engagement letter before the commencement of the audit to help avoid misunderstandings with respect to the audit. It ensures that there is no confusion with the client regarding terms of the engagement.

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

An overview of Preliminary engagement activities

Checkbox	What is included in Preliminary engagement activities?
✓	Performing procedures regarding the continuance of client relationship
✓	Evaluating Compliance with ethical requirements including independence
✓	Establishing an understanding of terms of engagement with the client to ensure there are no misunderstandings

(II) Planning activities

Planning activities involve: -

- [A] Establishing the overall audit strategy
- [B] Developing an audit plan

(A) Establishing the overall audit strategy- Assistance for the auditor

Overall audit strategy sets the scope, timing and direction of the audit, and guides the development of the more detailed audit plan.

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

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

- (i) 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
- (ii) The amount of resources to allocate to specific audit areas, such as the number of team members assigned to observe the inventory count at material locations, the extent of review of other auditors' work in the case of group audits, or the audit budget in hours to allocate to high risk areas
- (iii) When these resources are to be deployed, such as whether at an interim audit stage or at key cut-off dates
- (iv) How such resources are managed, directed and supervised, such as when team briefing and debriefing meetings are expected to be held, how engagement partner and manager reviews are expected to take place (for example, on-site or off-site), and whether to complete engagement quality control reviews

Factors to be taken into consideration by auditor for establishing audit strategy

The auditor shall take following factors into consideration while establishing audit strategy: -

(a) *Identify the characteristics of the engagement that define its scope*

It is important for 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: -

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

(b) *Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required.*

The ascertaining of reporting objectives of engagement helps the auditor to plan timing of different audit procedures and also nature of communications. Some of the instances are given under: -

- The entity's timetable for reporting
- Organization of meetings to discuss of nature, timing and extent of audit work with management
- 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 throughout the engagement.
- Expected nature and timing of communications among engagement team members, including the nature and timing of team meetings and timing of the review of work performed.

(c) *Consider the factors that, in the auditor's professional judgment, are significant in directing the engagement team's efforts*

The auditor needs to direct efforts of engagement team towards matters that in his professional judgment are significant. Preliminary identification of material classes of transactions, account balances and disclosures help auditor in establishing overall audit strategy. More energies need to be devoted to significant matters to obtain desired outcomes. Few examples are listed as under: -

- Volume of transactions which may determine whether it is more efficient for the auditor to rely on internal control
- Significant industry developments such as changes in industry regulations and new reporting requirements.

- Significant changes in the financial reporting framework, such as changes in accounting standards.
- Other significant relevant developments, such as changes in the legal environment affecting the entity.

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

Considering results of preliminary engagement activities and knowledge gained from similar engagements goes a long way in establishing sound audit strategy. Examples are listed as under: -

- Results of previous audits that involved 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 engagement team members the need to maintain a questioning mind and to exercise professional skepticism in gathering and evaluating audit evidence.

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

Selection of engagement team and assignment of audit work to team members is a significant factor in establishing overall audit strategy. Experienced team members may be assigned in areas where there is higher risk of material misstatement. Similarly, engagement budgeting and devotion of more time to areas of higher risk of material misstatement are to be kept in mind.

In establishing the overall audit strategy, the auditor shall:

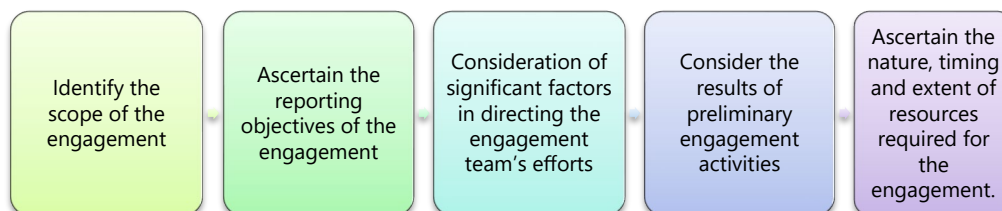


ILLUSTRATION 1

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

Required

How the audit strategy would be helpful to the auditor?

SOLUTION

Refer - **Establishing the overall audit strategy- Assistance for the auditor** for solution.

(B) Development of Audit plan

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.

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. Gaining knowledge of client's business is, therefore, one of the foremost requirements to develop audit plan.

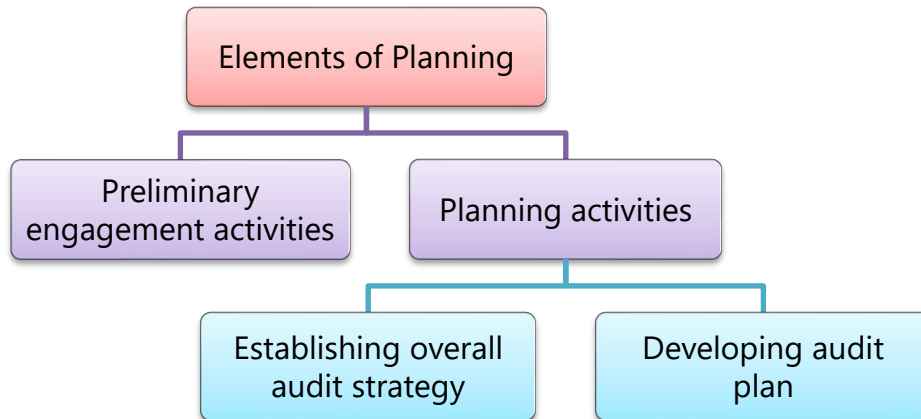
SA 300 states that auditor shall develop an audit plan that shall include description of-

- (i) The **nature, timing and extent** of planned risk assessment procedures
- (ii) The **nature, timing and extent** of planned further audit procedures at assertion level
- (iii) Other planned audit procedures that are required to be carried out so that the engagement complies with SAs.

The auditor plans what type of audit procedures are to be performed, their timing and how much work should be done taking into account sample size etc.

The audit plan is more detailed than the overall audit strategy that includes the nature, timing and extent of audit procedures to be performed by engagement team members. Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops.

For example, 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. In addition, the auditor may begin the execution of further audit procedures for some classes of transactions, account balances and disclosures before planning all remaining further audit procedures.



Test Your Understanding 1

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

Test Your Understanding 2

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

3. RELATIONSHIP BETWEEN AUDIT STRATEGY AND AUDIT PLAN

Audit strategy sets the broad overall approach to the audit whereas audit plan addresses the various matters identified in the overall audit strategy. Audit strategy determines scope, timing and direction of audit. Audit plan describes how strategy is going to be implemented. The audit plan is more detailed than the overall audit strategy that includes the nature, timing and extent of audit procedures to be performed by engagement team members. Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops.

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 not necessarily discrete or sequential processes, but are closely inter-related since changes in one may result in consequential changes to the other.

4. OVERALL AUDIT STRATEGY AND THE AUDIT PLAN- THE AUDITOR'S RESPONSIBILITY

The overall audit strategy and the audit plan remain the auditor's responsibility. It is the auditor who is responsible for establishing overall audit strategy and developing audit plan. However, as discussed earlier, auditor may discuss elements of planning with entity's management without compromising effectiveness of audit.

ILLUSTRATION 2

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

SOLUTION

Refer - Overall audit strategy and the audit plan- The auditor's responsibility - Accordingly, approach of W was wrong and he should have prepared overall audit strategy and detailed audit procedures.

 5. CHANGES TO PLANNING DECISIONS DURING THE COURSE OF AUDIT

The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit. 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 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. For example, audit evidence obtained through on detailed checking may contradict the audit evidence obtained through testing internal controls.

 6. PLANNING SUPERVISION AND REVIEW OF WORK OF ENGAGEMENT TEAM MEMBERS

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

1. The size and complexity of the entity.
2. The area of the audit.
3. The assessed risks of material misstatement
4. The capabilities and competence of the individual team members performing the audit work.

7. DOCUMENTATION

The auditor shall document: -

- (a) the overall audit strategy
- (b) the audit plan and
- (c) any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes.

The documentation of the overall audit strategy is a record of the key decisions considered necessary to properly plan the audit and to communicate significant matters to the engagement team.

The documentation of the audit plan is a record of the planned nature, timing and extent of risk assessment procedures and further audit procedures at the assertion level in response to the assessed risks. It also serves as a record of the proper planning of the audit procedures that can be reviewed and approved prior to their performance. The auditor may use standard audit programs and/or audit completion checklists, tailored as needed to reflect the particular engagement circumstances.

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

Test Your Understanding 3

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

Test Your Understanding 4

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

8. AUDIT PROGRAMME

It is desirable that in respect of each audit and more particularly for bigger audits, an audit programme should be drawn up. Audit programme is a list of examination and verification steps to be applied and set out in such a way that the interrelationship of one step to another is clearly shown and designed, keeping in view the assertions discernible in the statements of account produced for audit or on the basis of an appraisal of the accounting records of the client.

An audit programme consists of a series of verification procedures to be applied to the financial statements and accounts of a given entity for the purpose of obtaining sufficient evidence to enable the auditor to express an informed opinion on financial statements.

In other words, 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.

8.1 Evolving one audit programme- Not Practicable for All businesses

Businesses vary in nature, size and composition; work which is suitable to one business may not be suitable to others; efficiency and operation of internal controls and the exact nature of the service to be rendered by the auditor are the other factors that vary from assignment to assignment. On account of such variations, evolving one audit programme applicable to all business under all circumstances is not practicable. However, it becomes a necessity to specify in detail in the audit programme the nature of work to be done so that no time will be wasted on matters not pertinent to the engagement and any special matter or any specific situation can be taken care of.

8.2 The Assistant to keep an open mind

To start with, an auditor having regard to the nature, size and composition of the business and the dependability of the internal control and the given scope of work, should frame a programme which should aim at providing for a minimum essential work which may be termed as a standard programme. As experience is gained by actually carrying out the work, the programme may be altered to take care of situations which were left out originally, but are found relevant for the particular concern. Similarly, if any work originally provided for proves beyond doubt to be unnecessary or irrelevant, it may be dropped. The assistant engaged in the job should be encouraged to keep an open mind beyond the programme given to him. He should be instructed to note and report significant matters coming to his notice, to his seniors or to the partners or proprietor of the firm engaged for doing the audit.

8.3 Periodic review of the audit programme

There should be periodic review of the audit programme to assess whether the same continues to be adequate for obtaining requisite knowledge 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 obsolete programme and, for this negligence, the whole audit may be held as negligently conducted and the auditor may have to face legal consequences.

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. 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. So long as the programme is not officially changed by the principal, every assistant deputed on the job should unfailingly carry out the detailed work according to the instructions governing the work. Many persons believe that this brings an element of rigidity in the audit programme. This is not true provided the periodic review is undertaken to keep the programme as up-to-date as possible and by encouraging the assistants on the job to observe all salient features of the various accounting functions of the client.

8.4 Constructing an audit programme

The audit planning ideally commences at the conclusion of the previous year's audit, and along with the related programme, it should be reconsidered for modification as the audit progresses. Such consideration is based on the auditor's review of the internal control, his preliminary evaluation thereof, and the results of his compliance and substantive procedures.

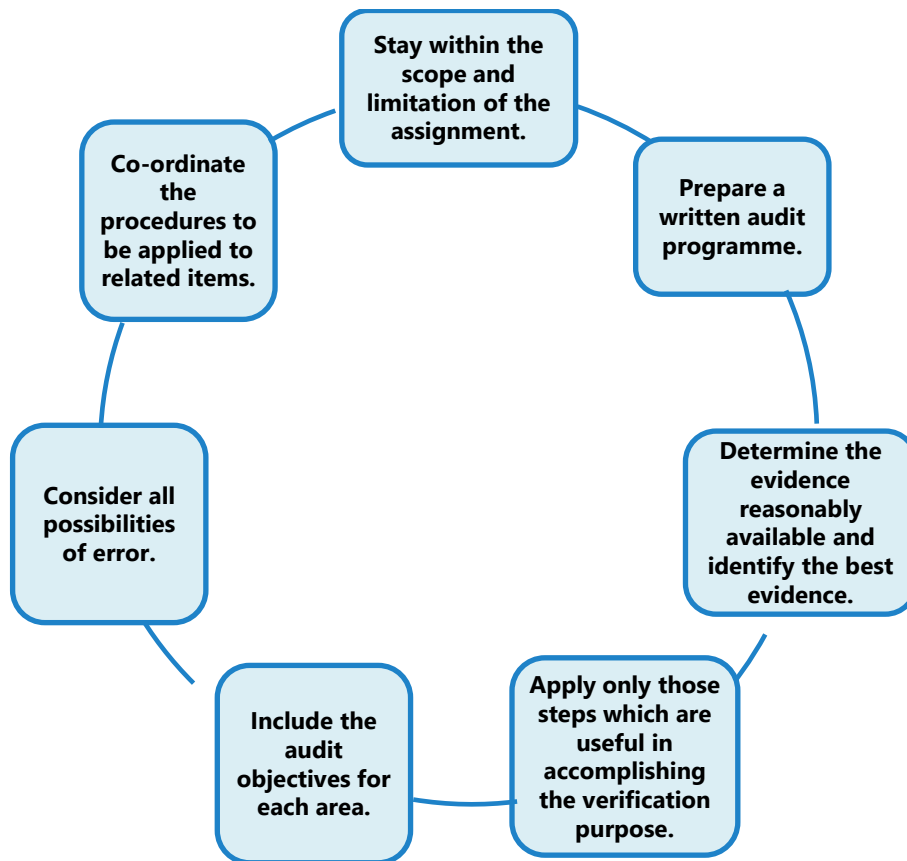
While developing an audit programme, the auditor may conclude that relying on certain internal controls is an effective and efficient way to conduct his audit. However, the auditor may decide not to rely on internal controls when there are other more efficient ways of obtaining sufficient appropriate audit evidence. The auditor should also consider the timing of the procedures, the coordination of any assistance expected from the client, the availability of assistants, and the involvement of other auditors or experts.

Further, the auditor normally has flexibility in deciding when to perform audit procedures. 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.

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

- (1) Stay within the scope and limitation of the assignment.

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



8.5 Audit Programme- Designed to provide audit evidence

Audit evidence may be defined as the information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information.

Evidence is the very basis for formulation of opinion and an audit programme is designed to provide for that by prescribing procedures and techniques. What is best evidence for testing the accuracy of any assertion is a matter of expert knowledge and experience. This is the primary task before the auditor when he draws up the audit programme. Transactions are varied in nature and impact; procedures to be prescribed depend on prior knowledge of what evidence is reasonably available in respect of each transaction.

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.

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

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

Example

1. For cash in hand, the best evidence is 'count'.
2. For investment pledged with a bank, the banker's certificate.
3. 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.

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.

8.6 Advantages and disadvantages of an audit programme

The advantages of an audit programme are: -

- (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 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 professional auditor.

Some disadvantages are also there in the use of audit programmes but most of these can be removed by following some concrete steps.

The disadvantages are: -

- (a) The work may become mechanical and particular parts of the programme may be carried out without any understanding of the object of such parts in the whole audit scheme.
- (b) The programme often tends to become rigid and inflexible 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.
- (c) Inefficient assistants may take shelter behind the programme i.e., defend deficiencies in their work on the ground that no instruction in the matter is contained therein.
- (d) A hard and fast audit programme may kill the initiative of efficient and enterprising assistants.

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

Test Your Understanding 5

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

During verification, he notices that many e-way bills have been cancelled by the company within 24 hours of their generation in month of March. There is no specific instruction in audit programme in this regard. He keeps mum. Is attitude of Rohit proper?

Extract of Sample audit programme pertaining to sales of an entity

Name of concern	Fine Industries
Financial year	2025-26
Prepared by	P (with date)
Reviewed by	Q (with date)
Approved by	R (with date)

Serial number	Nature of Procedure	Extent of Check	Basis of sample	Done by
(a)	Vouch few sales invoices from copies available in record of the concern.			
(b)	Trace these invoices into the account books of the concern.			
(c)	Verify few invoices with e-way bills generated on the e- way bill portal.			
(d)	Trace few sales invoices into the stock records to ensure that sold quantities have been reduced from stocks.			
(e)	Trace also few sales invoices into accounts of buyers			

CASE STUDY

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

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

Based on above, answer following 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.
2. Consideration of number and location of branches, requirements of financial reporting framework and expected time of completion are relevant factors primarily for which of the following -
 - (a) Developing audit plan

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

Answers to Questions involving case study

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

- ◆ SA 300 states that objective of the auditor is to plan the audit so that it will be performed in an effective manner.
- ◆ Planning is not a discrete phase of an audit, but rather a continual and iterative process.
- ◆ Elements of planning include preliminary engagement activities and planning activities.
- ◆ Preliminary engagement activities include performing procedures regarding continuance of client relationship, evaluating compliance with ethical requirements including independence and establishing an understanding of terms of engagement with the client so that there are no misunderstandings.
- ◆ Planning activities include establishing overall audit strategy and developing audit plan.
- ◆ Audit strategy sets scope, timing and direction of audit.
- ◆ Audit plan addresses various matters identified in overall audit strategy.
- ◆ Audit plan includes nature, timing and extent of planned risk assessment procedures, planned further audit procedures and planned other audit procedures in accordance with SAs.
- ◆ 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.
- ◆ Overall audit strategy, audit plan and changes made shall be documented by auditor.
- ◆ An audit programme consists of a series of verification procedures to be applied to the financial statements and accounts of a given entity for the purpose of obtaining sufficient evidence to enable the auditor to express an informed opinion on financial statements.

For a concise revision of the key concepts covered in this chapter, students may refer to the Saransh Booklet for Paper 5: Auditing and Ethics, which serves as a useful last-mile revision resource for examination preparation. Saransh Booklet can be accessed at <https://resource.cdn.icai.org/85998bos-aps751-int-p5.pdf>

TEST YOUR KNOWLEDGE

MCQs based Questions

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

Correct/Incorrect

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

1. *The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential processes, but are closely inter-related since changes in one may result in consequential changes to the other.*
2. *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.*
3. *Planning is a discrete phase of an audit.*
4. *A detailed Audit Programme once prepared for a business can be used for all business under all circumstances.*
5. *The audit plan is more detailed than the overall audit strategy.*

Theoretical Questions

1. *AP & Co., Chartered Accountants, are appointed as statutory auditor of Heavy Industries Limited, a listed company engaged in manufacturing of electric vehicles, for the F.Y 2025-26. As per the recent guideline issued by the regulatory authority, every listed company is required to maintain the digital database of all those personnel who could access the books of the company to avoid Insider Trading. In case of non-compliance, hefty fines may be imposed on the company. CA P is the engagement partner from auditor firm for the audit of Heavy Industries Limited. During planning, CA P planned that he would inquire from in-house IT Head of the company about the maintenance of the digital database to identify and assess the risk of non-compliance with regulatory guidelines. In the light of above facts, explain:*
 - (i) *Whether CA P is required to consider about the maintenance of digital database while framing audit strategy?*
 - (ii) *Whether the procedures planned by CA P are in line with SA 300?*
2. *Discuss how an engagement partner ensures that firm complies with relevant ethical requirements including independence in relation to client.*

3. *"Purported disadvantages of an audit programme can be overcome". Do you agree?*
4. *An auditor of a company fails to document audit strategy and audit plan. Briefly outline consequences of such failure.*
5. *SA 300 states that auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work. Discuss few factors affecting such supervision and review of work of engagement team members.*
6. *CA Krish is planning the audit of financial statements of Black and White Limited for financial year 2025-26 with the objective of conducting it in an effective manner. He also carried out the audit of the previous year and the audit report was issued in month of June 2025. He started planning the audit procedures to ensure an effective and efficient audit for the current year. He is assisted by Mr. Shiv, an articled assistant, in the audit planning process. During the planning discussions, Mr. Shiv raises a few queries regarding the audit planning stage. As a senior, help Mr. Shiv by resolving the following queries:*
 - (i) *When does the planning for an audit actually start and end?*
 - (ii) *Whether auditor can change planning decisions during the audit or not? If yes, what are those possible reasons.*
7. *Kiran Anupam & Associates, Chartered Accountants, are conducting statutory audit of ABC Ltd. for the F.Y 2025-26. During the audit, the engagement team decided to modify certain audit procedures due to introduction of new product range by the company and consequently unexpected changes in the company's internal control system. The audit manager instructed the team to update the documentation accordingly and to record the reasons for the modifications made.*

Explain key elements the auditor is required to document in relation to audit planning. State what is recorded and included in the documentation of the overall audit strategy and audit plan and their main purpose. Why is it important to document significant changes made to the audit strategy or audit plan?

8. *RST & Co., Chartered Accountants, have been the statutory auditors of Bright Vision Ltd., a company engaged in wholesale trading of electronic goods, for the last 6 years.*

During the financial year 2025–26, the company significantly changed its business model by:

- *Introducing online sales through its own e-commerce portal;*
- *Appointing multiple third-party warehouse operators across India;*
- *Implementing a new ERP system from October 2025; and*
- *Revising its credit policy by extending credit from 30 days to 90 days to boost sales.*

However, the audit team continued to follow the same audit programme that had been designed three years ago, which was primarily structured for a traditional wholesale model with centralised warehousing and manual accounting controls.

The engagement partner did not conduct any formal periodic review of the audit programme. The assistants carried out audit procedures strictly as per the existing programme without modifying the extent of checking, sampling plan, or procedures relating to inventory verification and receivables.

Subsequently, material misstatements were detected in revenue recognition and inventory records held with third-party warehouses. The management alleged that the auditor had conducted the audit negligently.

Discuss whether the auditor was justified in continuing with the old audit programme. What are the implications of not conducting periodic review of the audit programme?

9. *Mr. Nikhil is the engagement partner for Amazing Ltd., an e-commerce company, for the financial year 2025-26.*
- (i) *Mr. Nikhil plans to hold a discussion with the senior members of the audit team regarding the current assignment. However, Mr. Hardik, a newly joined article clerk, is surprised at the need for the engagement partner to discuss the audit plan with other team members. He questions why such discussions are necessary?*

- (ii) *Later, Mr. Hardik learns that Ms. Poornima, the audit manager, intends to discuss certain elements of the audit planning with the management of Amazing Ltd. He believes this is unnecessary, as sharing the audit plan with the client would remove the "surprise element" of audit procedures. Guide Mr. Hardik in relation to the above scenarios.*

10. *You are the Engagement Partner for the statutory audit of Strong Engineering Ltd. for FY 2025–26. While planning the audit, you observe the following practical issues:*

- (i) *Two newly recruited audit assistants inform you that they are unsure about the exact audit procedures expected from them for different areas of the audit.*
- (ii) *The audit this year is a major assignment involving multiple units, and your team seems unable to visualise the full scope of procedures to be performed.*
- (iii) *Because the audit work has not been formally planned, defined and segregated, you are unable to allocate tasks to assistants on the basis of their individual capabilities.*
- (iv) *Last year, in the absence of a written programme, the then audit team followed a "mental plan", as a result of which certain subsidiary records were overlooked.*
- (v) *During review, you notice that assistants have not signed off on procedures performed, making it difficult to trace work back to the responsible individual.*
- (vi) *As the principal auditor, you find it difficult to track the progress of different audit areas because no written audit programme has been initiated by assistants.*
- (vii) *Your firm wishes to use this year's audit documentation as a reference for planning next year's audit of Strong Engineering Ltd.*
- (viii) *The firm is also facing a negligence allegation on another audit, and you are concerned about having adequate evidence of exercising reasonable skill and care in this assignment.*

Based on above facts, analyse why preparing a written audit programme is advantageous for the audit of Strong Engineering Ltd.

11. *The assistant of CA K is assigned responsibility of drafting "audit programme" relating to purchases appearing in financial statements of "Broad Industries", a partnership firm. The said firm is a GST registered tax payer and is engaged in manufacturing of packing boxes from a special type of paper taxable under GST. Help him by drafting a sample audit programme for purchases.*
12. *M/s TP & Co., a firm of Chartered Accountants, has been conducting audit of KSR Ltd. since last 4 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? Guide them.*
13. *Subodh has recently joined an audit firm as an articled clerk. He was in process of assembling audit working papers in audit file of Cop Limited, as per the instructions of his senior. While assembling, he noticed following working paper in audit file: -*

Timing of Audit Activities

Activity	Expected Timing
Audit Planning	July 1, 2026 - July 5, 2026
Review by EQCR	July 6, 2026 - July 7, 2026
Audit Field Work	July 10, 2026- August 20, 2026
Review by Manager	August 21, 2026
Review by Engagement Partner	August 22, 2026 - August 25, 2026
Review by EQCR	August 26, 2026 - August 27, 2026
Response on Audit Memo	August 28, 2026
Review by Partners – internally post response on audit memo	August 29, 2026
Review by EQCR	August 30, 2026
Finalization of Audit Report and Financial Statements	September 01, 2026 - September 02, 2026
Issuance of Audit Report and Financial Statements	September 03, 2026

The above working paper lists certain factors which are considered by the auditor while establishing audit strategy. Explain how these considerations highlighted in above working paper could have helped the auditor?

14. *M/s YZW & Co., Chartered Accountants, have been appointed as the statutory auditors of First Health Private Limited for the financial year 2025-26. CA Y is the engagement partner for this assignment. First Health Private Limited operates in the business of hospitals and pharmaceuticals, with 60 hospitals and 200 pharmacy stores across the country. The company has a turnover of ` 680 crores and PAT of ` 32 crores in the current year.*

While verifying the assertions about book debts, CA Y was informed about the availability of the client's ledger invoices, debit notes, and credit notes as audit evidence. CA Y accepts these documents as audit evidence, considering them to be "available."

- (i) Is this decision correct, based on the meaning of the term "available"?*
- (ii) Also, explain how an auditor should select the most appropriate evidence when testing the accuracy of any assertion to form an opinion.*

ANSWERS/SOLUTIONS

Answers to the MCQs based Questions

1.	(c)	2.	(d)	3.	(d)	4.	(c)	5.	(b)
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Answers to Correct/Incorrect

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

3. **Incorrect.** Planning is not a discrete phase of an audit, but rather a continual and iterative process that often begin shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement. Planning, however, includes consideration of the timing of certain activities and audit procedures that need to be completed prior to the performance of further audit procedures.
4. **Incorrect.** Businesses vary in nature, size and composition; work which is suitable to one business may not be suitable to others; efficiency and operation of internal controls and the exact nature of the service to be rendered by the auditor are the other factors that vary from assignment to assignment. On account of such variations, evolving one audit programme applicable to all business under all circumstances is not practicable.
5. **Correct.** The audit plan is more detailed than the overall audit strategy that includes the nature, timing and extent of audit procedures to be performed by engagement team members. Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops.

Answers to the Theoretical Questions

1. As per SA 300, "Planning an Audit of Financial Statements", the auditor should establish an overall audit strategy that sets the scope, timing, and direction of the audit, and that guides the development of the audit plan. The process of establishing the overall audit strategy assists the auditor to determine, subject to the completion of the auditor's risk assessment procedures, key resources to be employed to conduct audit.

The auditor shall take following factors into consideration while establishing or framing audit strategy viz. identify the characteristics of the engagement that define its scope, consider the factors that, in the auditor's professional judgment, are significant in directing the engagement team's efforts, etc.

In the given situation, the regulatory guideline requires Heavy Industries Ltd., a listed company, to maintain a digital database of all those personnel who could access the company's books to prevent insider trading. Further, hefty fines may be imposed in case of non-compliance with this guideline. Therefore, it is very essential that auditor while establishing overall audit

strategy evaluate whether the company maintains such a database and complies with the regulatory requirement.

Thus, in view of above, it can be concluded that CA P should incorporate the assessment of digital database maintenance into the overall audit strategy.

2. Refer to point on evaluating compliance with ethical requirements including independence.
3. Purported disadvantages of audit programme may be eliminated by imaginative supervision of the work carried on by the assistants; the auditor must have a receptive attitude as regards the assistants; the assistants should be encouraged to observe matters objectively and bring significant matters to the notice of supervisor/principal.
4. Refer to point on documentation
5. Refer to point on Planning supervision and review of work of engagement team members
6. (i) Planning is not a discrete phase of an audit, but rather a continual and iterative process that begins shortly after the completion of the previous audit and continues until the completion of the current audit engagement.

In the given situation, planning of the audit of financial statements for the year 2024-25 would have commenced right after completion of audit of preceding year in June 2024. It would have continued till completion of audit of year 2024-25.

- (ii) The auditor shall update and change the overall audit strategy and the audit plan as necessary during the audit. 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 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. For example, audit evidence obtained through on detailed checking may contradict the audit evidence obtained through testing internal controls.

7. The auditor shall document: -

- (i) the overall audit strategy
- (ii) the audit plan and
- (iii) any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes.

The documentation of the overall audit strategy is a record of the key decisions considered necessary to properly plan the audit and to communicate significant matters to the engagement team.

The documentation of the audit plan is a record of the planned nature, timing and extent of risk assessment procedures and further audit procedures at the assertion level in response to the assessed risks. It also serves as a record of the proper planning of the audit procedures that can be reviewed and approved prior to their performance. The auditor may use standard audit programs and/or audit completion checklists, tailored as needed to reflect the particular engagement circumstances.

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

8. There should be periodic review of the audit programme to assess whether the same continues to be adequate for obtaining requisite knowledge 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 obsolete programme and, for this negligence, the whole audit may be held as negligently conducted and the auditor may have to face legal consequences.

In the given case, Bright Vision Ltd. introduced significant changes in its operations, such as online sales, third-party warehouses, implementation of a new ERP system, and extended credit terms. These changes directly

impacted revenue recognition, inventory control, receivables management, and internal controls. However, the audit firm failed to revise or review the existing audit programme and continued to apply procedures designed for a traditional wholesale model.

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. Since no review was undertaken, the audit procedures became outdated and inadequate to address the changed risk environment.

Although assistants are required to strictly follow the audit programme as approved by the principal, the responsibility to update and revise the programme lies with the auditor. The argument that adherence to a fixed programme creates rigidity is not valid, provided periodic review is undertaken and assistants are encouraged to observe and report significant changes in the client's accounting functions.

The auditor was not justified in continuing with the obsolete audit programme without periodic review. Failure to revise the audit programme in light of significant business and control changes amounts to negligence, and the auditor may be held responsible for inadequately conducted audit and consequent legal implications.

- 9. (i)** As per SA 300 "Planning an audit of financial statements", the engagement partner and other key members of the engagement team shall be involved in planning the audit including planning and participating in the discussion among engagement team members. The involvement of the engagement partner and other key members of the engagement team in planning the audit draws on their experience and insight, thereby enhancing the effectiveness and efficiency of the planning process.

Therefore, Mr. Hardik's doubt is not justified, as SA 300 requires discussion of the audit plan with senior engagement team members to utilize their experience and professional judgment, thereby enhancing the effectiveness of audit planning.

- (ii) As per SA 300, the auditor may decide to discuss elements of planning with the entity's management 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 not to compromise the effectiveness of the audit.

Thus, Mr. Hardik's belief is incorrect, since SA 300 permits discussion of relevant elements of audit planning with management to facilitate coordination, provided care is taken not to compromise the effectiveness of audit procedures or the element of unpredictability.

- 10.** In the present case, the absence of a written audit programme has led to confusion among assistants, ineffective supervision, omission of records and lack of documentary evidence. These issues clearly establish the importance and advantages of preparing a written audit programme. The advantages in the present case may be analysed as follows:

- (i) Clear instructions to assistants: The newly recruited assistants are unsure about the audit steps. A written audit programme provides detailed, written instructions regarding the nature, timing and extent of audit procedures regarding the work to be performed.
- (ii) Providing a total perspective for a major audit: The current audit is a major, multi-unit assignment. A properly drafted programme gives the team a complete perspective of all audit procedures required.
- (iii) Easier selection of assistants based on capability: You find it difficult to allocate work because tasks are not defined. Once the work is rationally planned, defined and segregated, assistants can be assigned roles more effectively depending on their capability.
- (iv) Reduces risk of overlooking books/records: Last year some subsidiary records were overlooked due to reliance on a mental plan.

A written and predetermined programme ensures systematic and comprehensive coverage of all books and records and ensures systematic coverage.

- (v) Fixation of responsibility through sign-offs: Absence of signatures prevents linking work to individuals. A written programme allows each assistant to sign off, accepting responsibility for work done.

- (vi) Enables control and monitoring by the principal: You are unable to track progress without a written programme. When assistants initiate and follow the programme, the principal can control and monitor the audit progress effectively.
- (vii) Serves as a guide for next year's audit: The firm wants to use this year's work as reference for next year's planning.

A properly drafted programme acts as a useful guide for future audits.

- (viii) Provides evidence against negligence allegations: Since the firm faces negligence allegations elsewhere, proper documentation is critical.

A well-constructed programme provides evidence that the auditor exercised reasonable skill and care.

Considering all facts, preparing a written, structured audit programme will address each challenge directly, enhance audit efficiency, improve accountability, and provide strong defence evidence in case of negligence allegations. Therefore, adopting a comprehensive audit programme is clearly advantageous for the audit of Strong Engineering Ltd.

11. Sample audit programme pertaining to purchases

Name of Concern : Broad Industries

Financial Year : 20XX-XX

Prepared by : Name of person with date

Reviewed by : Name of person with date

Approved by : Name of person with date

S. No.	Nature of Procedure	Extent of Check	Basis of Sample	Done by
(a)	Vouch few purchase invoices of paper from purchase records of concern.			
(b)	Trace these invoices into account books of concern.			
(c)	Verify few purchase invoices of paper on GST portal.			

(d)	Trace few purchase invoices of paper in stock records to ensure that these have been added to stocks of raw material.			
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12. In the given situation, 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 assistant to keep an open mind as follows:

- To start with, an auditor having regard to the nature, size and composition of the business and the dependability of the internal control and the given scope of work, should frame a programme which should aim at providing for a minimum essential work which may be termed as a standard programme.
- As experience is gained by actually carrying out the work, the programme may be altered to take care of situations which were left out originally but are found relevant for the particular concern.
- Similarly, if any work originally provided for proves beyond doubt to be unnecessary or irrelevant, it may be dropped.
- The assistant engaged in the job should be encouraged to keep an open mind beyond the programme given to him. He should be instructed to note and report significant matters coming to his notice, to his seniors or to the partners or proprietor of the firm engaged for doing the audit.

Thus, the attitude of assistants of TP & Co. is not justified. 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.

13. 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. One of the factors to be taken into consideration while establishing audit strategy relates to ascertaining of reporting objectives of engagement to plan the timing of the audit and the nature of the communications required. Some of the instances are given under:

- The entity's timetable for reporting

- Organization of meetings to discuss of nature, timing and extent of audit work with management
- 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 throughout the engagement.
- Expected nature and timing of communications among engagement team members, including the nature and timing of team meetings and timing of the review of work performed.

In the given case, working paper highlights that auditor has taken into account expected timelines to plan the audit and nature of the communications required. Since the working paper relates to the statutory audit of a company, the ascertaining of reporting objectives of engagement helps the auditor to plan timing of different audit procedures and also nature of communications.

- 14. (i)** In the given situation, M/s YZW & Co., Chartered Accountants, have been appointed as statutory auditor of First Health Private Limited which operates in business of hospitals and pharmaceuticals, with 60 hospitals and 200 pharmacy stores across the country. CA. Y, the engagement partner for this assignment, was informed about the availability of the client's ledger invoices, debit notes, credit notes as audit evidence. He accepted these documents as audit evidence, considering them to be "available". 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 obtain greater satisfaction about the reliability of the assertion.

The word "available", does 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.

In view of the above, it can be concluded that decision of CA. Y to consider clients' ledger invoices, debit notes, credit notes as audit evidence, considering them to be available, is not correct.

- (ii) Evidence is the very basis for formulation of opinion and an audit programme is designed to provide for that by prescribing procedures and techniques. What is best evidence for testing the accuracy of any assertion is a matter of expert knowledge and experience. Transactions are varied in nature and impact; procedures to be prescribed depend on prior knowledge of what evidence is reasonably available in respect of each transaction.

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.

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

- (i) Documentary examination
- (ii) Physical examination
- (iii) Statements and explanation of management, officials and employees
- (iv) Statements and explanations of third parties
- (v) Arithmetical calculations by the auditor
- (vi) State of internal controls and internal checks
- (vii) Inter-relationship of the various accounting data
- (viii) Subsidiary and memorandum records
- (ix) Minutes
- (x) Subsequent action by the client and by others.

Answers to Questions involving Test Your Understanding

- 1.** Consideration for involvement of experts by auditors falls within domain of planning. While planning an audit, auditor would have to consider whether involvement of experts is necessary. In the stated case, company is involved in technical and complex operations. Therefore, while planning an audit, auditors would have to consider whether involvement of expert is necessary.
- 2.** In the case, CA Kartik has reached office of the company without sharing with management his intention to test the controls. The auditor may decide to discuss elements of planning with the entity's management to facilitate the conduct and management of the audit engagement without compromising effectiveness of audit. Sharing details of visit to test controls does not compromise effectiveness of audit. It is for the better facilitation and conduct of audit. Therefore, approach of CA Kartik is not proper.
- 3.** These are planned risk assessment procedures to identify and assess risk of material misstatement. The objective of planned inquiry of inhouse legal counsel is to identify and assess risk of material misstatement. Such planned risk assessment procedures are included in audit plan in accordance with SA 300.
- 4.** Changes in laws and regulations affecting the company is a factor to be considered while establishing overall audit strategy. There has been change in information technology regulations applicable to the company. Non-compliance of the same can have implications in form of civil and criminal liabilities. Such an important matter concerning changes in laws and regulations is to be considered by auditor while establishing overall audit strategy.
- 5.** Attitude of Rohit is not proper. The assistants should observe matters objectively and bring significant matters to the notice of supervisor/principal. Reasons for cancellation of many e-way bills in month of March need to be looked into. Matter should be informed to engagement partner.

