

11. AUDIT STRATEGY, PLANNING AND PROGRAMME

QUESTION WISE ANALYSIS OF PREVIOUS EXAMINATIONS

No.	N-13	M - 14	N-14	M- 15	N- 15	M-16	N-16	M-17	N-17	M-18(N)	M-18(O)	N-18(N)	N-18(O)
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12.	-	-	-	-	4	-	-	-	-	4	-	-	-
15.	-	-	-	-	-	-	-	-	-	-	-	-	4

CHAPTER OVERVIEW

SECTION	TOPIC	STARTING PAGE NO.
1.	THEORY FOR CLASSROOM DISCUSSION	11.1
2.	QUESTIONS FOR ACADEMIC INTEREST FOR STUDENTS SELF STUDY	11.11

SECTION 1: THEORY FOR CLASSROOM DISCUSSION

Q.No.1. Audit Planning is an effective tool for proper conduct of an audit. Discuss various aspects to be considered while developing the audit plan. (B) (NEW SM, RTP M17)

The auditor should plan his work to conduct the audit in an efficient and effective manner and the following aspects shall be kept in mind while developing the audit plan:

- 1) Knowledge of the client's business is necessary before developing such plan.
- 2) Plans should be developed to cover the following aspects:
 - a) Knowledge of the client's accounting systems, policies and internal control procedures;
 - b) Determining extent of reliance of clients internal controls system;
 - c) Determining the nature, timing, and extent of the audit procedures to be performed; and
 - d) Coordinating the work to be performed.
- 3) Plan should be continuously assessed and revised where necessary during the course of the audit to ensure it is up to date.
- 4) As per SA 300 - Planning of an audit of financial statements "planning is not a discrete phase of an audit, but rather a continual and iterative process" that often begins shortly after the completion of the previous audit and continues till the completion of the current audit engagement.

Therefore the auditor shall establish an overall audit strategy and determine scope, timing and direction of the audit for conducting an effective audit.

SIMILAR QUESTIONS:

1. The auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner. Discuss and explain what should be covered in audit plans. RTP M19 (O), N18(N), MTP M18(N)
- A. Refer above answer
2. Points to be kept in mind while developing an effective audit plan.
- A. Refer above answer
3. List out the points that an auditor should kept in mind for the purpose of drafting an audit programme? M19(N)-3M
- A. Write above answer
4. M & Co. was appointed as auditor of IGI Ltd. as an auditor. What are the factors that would be considered in the development of overall audit plan?
- A. Refer above answer

Q.No.2. How overall audit strategy assists the auditor while developing a detailed audit plan? Or Benefits of overall audit strategy? (C) (NEW SM)

AUDIT STRATEGY: The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit that helps in development of the audit plan. The process of establishing the overall audit strategy starts after completion of risk assessment procedure.

ASSISTANCE TO AUDITOR BY OVERALL AUDIT STRATEGY:

- 1) How Allocation of man power to specified audit areas based on evaluation of complexities involved in such areas. Ex: In complex audit areas generally experienced team members will be assigned or sometimes experts help may be taken
- 2) The number of persons and time allotted for such specific audit areas. Ex: The number of persons from audit team to observe the inventory count at various go downs.
- 3) Expected date of starting of such specified audit area and accordingly the team members shall be allocated. Ex: Starting inventory counting after completion of sales verification and
- 4) Coordination, direction and supervision of resources namely team members and time.
- 5) Audit team meetings expected to be held and periodicity of such meetings to discuss and review the status of work performed by engagement team
- 6) Location of these audit meetings to take place. For example, On-site: Client premises and Off-site: Auditors premises

SIMILAR QUESTIONS:

1. How the audit strategy assists the auditor while developing an audit plan or programme?
- A. Refer above answer
2. The engagement partner of SKC & Co., firm of Chartered Accountants appointed as auditor of Fabric India Ltd is considering as to management of key resources to be employed to conduct audit. Discuss how overall audit strategy would assist the auditor. MTP N18 (N)
- A. Refer above answer
3. Discuss how overall audit strategy would assist the auditor in marshalling his human resources? M19(N)-4M
- A. Write above answer.
4. The auditor T of Hand Fab Ltd is worried as to management of key resources to be employed to conduct audit. How the audit strategy would be helpful to the auditor? SM
- A. Refer above answer
5. Overall audit strategy sets the scope, timing and direction of the audit, and guides the development of the more detailed audit plan. The process of establishing the overall audit strategy assists the auditor to determine such matters as for example – the resources to deploy for specific audit areas, such as the use of appropriately experienced team members for high risk areas or the involvement of experts on complex matters. Explain the other three such matters. M20 RTP
- A. Refer above answer

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**Q.No.3. Discuss the factors the auditor will consider while establishing the overall strategy?
(A) (NEW SM, M18 (N)-5M)**

FACTORS TO CONSIDER WHILE DEVELOPING OVERALL AUDIT STRATEGY:

- 1) Identify the characteristics of the engagement that define its scope. Ex: Nature of business, number of locations to be audited and use of previous audit workings, audit evidence required etc.
- 2) Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required. The entity's timetable for reporting, organization of meetings with management, discussion with management and those charged with governance
- 3) Consider the results of preliminary engagement activities.
- 4) Whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant; and
- 5) Ascertain the nature, timing and extent of resources necessary to perform the engagement.

SIMILAR QUESTIONS:

1. The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan. Discuss stating the process of establishing the overall audit strategy that would assist the auditor to determine key matters. RTP N18 (N), MTP M18(N)
 - A. Refer above answer
2. "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" Explain. SM - TYK
 - A. Refer above answer

**Q.No.4. Write about knowledge of clients business and its importance and the sources from which such knowledge can be obtained?
(A) (NEW SM)**

- 1) **MEANING OF KNOWLEDGE OF CLIENTS BUSINESS:** As per SA-315, "Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and Its Environment", the auditor shall obtain an understanding of the following:
 - a) Relevant industry, regulatory and other external factors including the applicable financial reporting framework. Ex: product and price competition, Supplier and customer relationships, Technological developments, The effect of regulation on entity operations
 - b) The nature of the entity, including:
 - i) its operations;
 - ii) its ownership and governance structures; and
 - iii) its capital structure i.e., how the entity is financed;
 - iv) the types of investments that the entity is making

Ex: Understanding the sources of an entity's earnings, Understanding key supplier and customer relationships, components in multiple tax jurisdictions, Transactions outside the entity's normal course of business
 - c) The auditor shall evaluate whether the entity's accounting policies are appropriate for its business and consistent with the applicable financial reporting framework.
Ex: Any recent amendments in Accounting standards, Issuance of new accounting standards and their impact etc...
 - d) The entity's objectives and strategies, and those related business risks that may result in risks of material misstatement.
Examples of potential business risks include:
 - i) Failure to keep up to date with new products, technologies or services.
 - ii) Excessive reliance on a key supplier, product or individual, such as the owner.
 - iii) Loss of financing due to the entity's inability to meet financial commitments.

- iv) Lack of personnel with expertise to react to changes in the industry
- v) Insufficient or excessive production capacity caused by inaccurate estimation of demand.
- e) The measurement and review of the entity's financial performance.

Example: External information such as analysts' reports and credit rating agency reports may be useful information for us to obtain an understanding of an entity's performance measures.

- f) Knowledge about the following:
 - i) List of offices, branches etc...
 - ii) List of Officers and Other key managerial persons.
 - iii) List of related parties and significant transactions with them.

2) SOURCES FOR OBTAINING KNOWLEDGE OF CLIENTS BUSINESS:

- a) Clients annual report to shareholders;
- b) Minute s of shareholders/board of directors;
- c) Internal financial management reports such as MIS, EIS reports.
- d) Previous year audit working papers, if applicable.
- e) Discussion with client such as inquiring the officers and employees of the client.
- f) Publications like trade journals, magazines, newspaper and
- g) Visit to client's premises.

SIMILAR QUESTIONS:

1. 'Knowledge of Client business' is one of the important principles in developing an overall audit plan. Explain. N17 - 6M RTP-N19(N)
A. Refer Point A
2. What are the sources for obtaining knowledge of client's business?
A. Refer Point B
3. In performing an audit of financial statements, the auditor should have or obtain knowledge of the business. Explain in the light of SA 315 "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment".
OLD PM
A. Refer Point A
4. Knowledge of the Client's business is one of the important principles in developing an overall audit plan. In fact without adequate knowledge of client's business, a proper audit is not possible. As per SA-315, "Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and Its Environment", the auditor shall obtain an understanding of the relevant industry, regulatory and other external factors including the applicable financial reporting framework. Substantiate with the help of examples M20 RTP

Q.No.5. Audit planning is a continuous process. Explain?

(A) (NEW SM)

- 1) Planning is not a discrete (specific) phase of an audit, but rather a continual and iterative (repetitive) process.
- 2) Planning begins after the completion of the previous audit and continues until the completion of the current audit engagement.
- 3) Further the audit plan shall be reviewed periodically to ensure that it covers new audit areas identified if any during the course of audit, making it up to date.

PLANNING INCLUDES CONSIDERATION OF FOLLOWING MATTERS:

- 1) Understanding of the legal and regulatory framework applicable to the entity and how the entity is complying with that framework.
- 2) The analytical procedures to be applied.
- 3) The determination of materiality as per SA 320.
- 4) The need of expert's assistance.
- 5) The performance of other risk assessment procedures.

SIMILAR QUESTIONS:

1. "Planning is not a discrete phase of an audit, but rather a continual and iterative process." Discuss. SM - TYK, N18 (N) - 5M
 - A. Refer above answer
2. 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. Discuss stating clearly the broad points you would be covering in framing plan to conduct audit in an efficient and effective manner. MTP N18 (N) RTP N19(N)
 - A. Refer above answer

Q.No.6. Preparation of audit strategy and plan are the responsibilities of the auditor. Comment (B) (NEW SM)

Auditor is ultimately responsible for audit strategy and planning. While developing the audit plan the auditor involves various persons:

1) INVOLVING OF ENTITIES PERSONNEL:

- a) The auditor may discuss the audit plan with the entity's management to facilitate proper conduct of audit.
- b) The auditor may take the help of client's staff in certain audit areas. So while developing the plan it is advisable to discuss the plan with the client's staff.
- c) Recognize the fact that the discussion of detailed audit plan and procedures with the client may make the audit ineffective as what auditor is going to conduct becomes highly predictable.
- d) The matters related to surprise checks shall not be included in the discussion with client.

2) INVOLVING OF ENGAGEMENT TEAM MEMBERS:

- a) Also the auditor shall involve the key engagement team members while developing the overall audit strategy and plan.
- b) This ensures allocation of audit areas based on capabilities and experience of engagement team members thereby increasing the audit effectiveness.

CONCLUSION: Although the auditors involve various persons as stated above, it is the ultimate responsibility of auditor w.r.t. overall audit strategy and audit plan.

SIMILAR QUESTIONS:

1. While developing an audit plan, the auditor shall consult various persons. Explain?
 - A. Refer above answer
2. Involvement of entity personnel and engagement team members is necessary for effective development of an audit plan?
 - A. Refer above answer
3. W, the auditor of SKM Ltd asks its finance and audit head to prepare audit strategy for conducting audit of SKM Ltd. W also insist him to draw detailed audit procedures also. On the request of auditor W, complete audit strategy as well as audit procedures are 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. NEW SM
 - A. Refer above answer. W is ultimately is responsible for preparation of overall audit strategy.

Q.No.7. A Well designed audit plan need not be changed during the course of audit. Comment. (A) (NEW SM, N18 (N)-2M)

- 1) The auditor shall update and change the overall audit strategy and the audit plan as and when necessary.
- 2) **Reasons for change:**
 - a) Unexpected events.
 - b) Changes in conditions.
 - c) Information comes to the auditor's knowledge during the audit which is different from the information available at the time of planning.

- 3) Therefore the auditor may need to change the overall audit strategy and audit plan based on revised circumstances so as to make the audit effective.
- 4) In other words, the audit plan should be dynamic and offer flexibility that enables modifications.

SIMILAR QUESTION:

1. The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit. Explain. RTP N18 (N) RTP N19(N)
- A. Refer above answer

Q.No.8. Explain Direction, Supervision and Review of the audit by the auditor or reviewer?**(C) (NEW SM)****1) INCLUSION IN PLANNING:**

- a) While developing overall audit strategy and audit plan, the auditor shall also include periodical review of audit procedures performed by the engagement team.
- b) This ensures whether the engagement team members are complying with relevant auditing standards and whether the audit is going on in a planned manner.
- c) This review may be carried out by the engagement partner or independent reviewer who also belongs to the auditors firm.

2) FACTORS INFLUENCING EXTENT OF DIRECTION, SUPERVISION AND REVIEW:

- a) The size and complexity of the entity.
- b) The areas of the audit.
- c) The assessed risks of material misstatement.

Ex: An increase in the assessed risk of material misstatement for a given area of the audit ordinarily requires a corresponding increase in the extent and timeliness of direction and supervision of engagement team members, and a more detailed review of their work.

- d) The capabilities and competence of the individual team members performing the audit work.

Ex: If the work is assigned to less experienced assistant then more review is required

MEANING OF REVIEWER: Reviewer is another person from the same audit firm but doesn't belong to engagement team.

SIMILAR QUESTIONS:

1. Audit plan shall also include points regarding direction, review and supervision of audit procedures. Comment.
A. Refer above answer
2. For an effective direction and supervision, the same shall be included as part of audit planning for reducing the chances of ignoring it.
A. Refer above answer
3. "The nature, timing and extent of the direction and supervision of engagement team members and review of their work vary depending on many factors." Explain. SM - TYK
A. Refer above answer
4. 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. Explain giving examples RTP N20
A. Refer above answer

Q.No.9. Write about documentation of overall audit strategy and audit plan? (C)**(NEW SM)****1) NEED FOR DOCUMENTATION:**

- a) It is a record of the key decisions regarding planning of the audit and to communicate to the engagement team.

- b) It also serves as evidence that the audit is properly planned and performed in accordance with the standards on auditing.
- c) The auditor may summarize the overall audit strategy in the form of a memorandum (Also Known As Audit Programme Memorandum) which may be in standard form or customized as per the client business nature.

2) THE AUDITOR SHALL DOCUMENT:

- a) The overall audit strategy.
- b) The audit plan.
- c) Any significant changes to the overall audit strategy or the audit plan along with the reasons for such changes.
- d) A summary of discussions with the entity's key persons.
- e) Other communications or agreements with management or those charged with governance w.r.t any other services.

SIMILAR QUESTIONS:

1. The auditor shall document the overall audit strategy, the audit plan and any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes. Explain. RTP N18 (N) MTP N18 (N)
- A. Write about Audit Strategy and then above answer.

Q.No.10. Write about Audit Programme and the elements of such programme? (A) (NEW SM)

1) MEANING:

- a) An audit programme consists of a series of verification procedures to be applied to the financial statements and accounts for the purpose of obtaining sufficient evidence to enable the auditor to express an opinion. It is nothing but implementation guide for audit plan with clear instructions.
- b) 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 obtaining sufficient appropriate audit evidence.
- c) The audit programme cannot be standardized for all the clients as the requirement for every client may significantly vary. So it is advisable for the auditor to keep in mind the specific requirements of each engagement.

2) POINTS TO BE CONSIDERED WHILE DEVELOPING AUDIT PROGRAMME:

- a) Stay within the scope and limitation of the assignment.
- b) Determine the evidence reasonably available and identify the best evidence for deriving the necessary satisfaction.
- c) Apply only those steps and procedures which are useful in accomplishing the verification purpose in the specific situation.
- d) Consider all possibilities of error
- e) Co-ordinate the procedures to be applied to related items

3) ELEMENTS OF AUDIT PROGRAMME/ DEVELOPING AUDIT PROGRAMME:

The following points should be included in framing an audit programme:

- a) **Written audit programme:** The auditor should prepare a written audit programme setting forth the procedures that are needed to implement the audit plan.
- b) Audit Objective and Instruction to Assistants
- c) Reliance on Internal Controls
- d) Timings of Performance of Audit Procedures
- e) **Audit plan:** The audit programme should be developed in line with audit plan

4) PERIODICAL REVIEW OF AUDIT PROGRAMME:

- a) The auditor shall continuously update the programme as the audit progresses. Further He may add up a new audit area which is originally left out or drop an existing audit area which appears irrelevant in the given circumstances of the engagement.
- b) Audit assistants should be proactive in identification of new areas which were not included in the original programme.
- c) On identification new areas the concerned assistant shall immediately bring it to the notice of seniors or engagement partners for revising the audit programme.

SIMILAR QUESTIONS:

1. Evolving one audit programme applicable to all audit engagements under all circumstances is not practicable. Explain
A. Write Entire - Point A and D RTP M18(N)
2. Aparna Hospitals Ltd having Gross Professional Charges of Rs. 50 crores is engaged in providing healthcare services. STP & Co., a firm of auditors is appointed as its auditors. Advise what special points to be kept in mind for the purpose of construction of an Audit programme. Explain. RTP M18 (N)
A. Write about 1st point of Point A and Entire Point B
3. Explain the significant point's auditor would consider while developing an audit programme. RTP M19 (N), M18 (O)
A. Write about 1st point of Point A and Entire Point B
4. XYZ Ltd is a Listed company manufacturing various items for home use. It is making an annual turnover of 200 crore rupees and having 5 factories in Southern India. Your firm has been appointed to audit its accounts throughout the year and submit monthly reporting. Senior partner asks you to develop the audit programme. State the special points to be kept in mind while developing the audit programme. MTP M18(N)
A. Write about 1st point of Point A and Entire Point B

Q.No.11. what are the advantages of Audit programme / Audit plan?

(A) (NEW SM)

- 1) The audit programme lists down areas of audit before commencement. So it contains entire perspective of audit
- 2) Selection of assistants for the jobs on the basis of capacity becomes easier.
- 3) It provides clear set of instructions of the work to the assistants carrying out the audit.
- 4) Since the assistants sign the programme after completing their work, it holds them responsible for the work performed.
- 5) The working papers of the audit staff can be reviewed in comparison with the audit programme for evaluating the performance of audit staff.
- 6) A properly drawn up audit programme serves as evidence in the court of law to prove that the auditor has exercised reasonable skill and care when the auditor is charged with gross negligence.
- 7) It serves as a guide for audits to be carried out in the succeeding year.

SIMILAR QUESTIONS:

1. How does an audit programme help to plan and perform the audit? RTP N18 (O), M16 - 5M
A. Refer above answer
2. "The utility of the audit programme can be retained and enhanced only by keeping the programme and also the client's operations and internal control under periodic review so that inadequacies or redundancies of the programme may be removed" Discuss stating clearly the advantages of an audit programme. NEW SM, RTP M19 (N)
A. Refer above answer

Q.No.12. What is materiality. Write about materiality fixation using benchmarks? (A)

(NEW SM, RTP N18 (O))

1) MEANING:

- a) Materiality is an important consideration for an auditor to evaluate whether the financial statements are free from material misstatements.

- b) A misstatement is considered to be material if it could influence the decision making process of user of financial statements.
- c) Also materiality levels may change as audit progresses. The materiality fixed at the time of planning may be different from materiality during the performance and conclusion of audit.
- 2) **DETERMINING MATERIALITY:** Materiality is determined at two levels broadly:
- a) **Overall Materiality:** Materiality for financial statements as a whole (Pervasive level).
- b) **Performance materiality:** A specific materiality level for particular class of transactions, account balance or disclosure which is usually less than overall materiality for financial statements as a whole. (Assertion level). Also includes a general materiality level for all classes of transactions, balances and disclosures.

3) **FACTORS IN IDENTIFYING BENCHMARKS:**

(N15 - 4M)

The following are various Factors for determining benchmarks:

- a) The elements of assets, liabilities, incomes and expenses.
- b) Any indication in applicable financial reporting framework. Example: As per Sch III an item which is 0.5% of turnover or 1,00,000/- whichever is higher shall be separately stated.
- c) The entities capital structure and its ownership structure.
- d) Information needs of majority of users in such industry.
- e) Based on Applicable law or regulation. Example: Under income tax Payments in cash more than Rs.10,000/-, 20,000/- and receipts more than Rs. 2,00,000/- are to be reported.

4) **VARIOUS EXAMPLES OF BENCHMARKS:**

- a) Profit Before Tax (Net profit)
- b) Turnover from continuing operations
- c) Gross Profit
- d) Total Expenses
- e) Net worth or Net asset value

5) **SOURCES FOR SELECTING (CHOSEN) APPROPRIATE BENCHMARKS:**

- a) Prior period financial statements
- b) Latest Quarterly results announced by the entity.
- c) Budgets of current year and upcoming years.
- d) Current year financial statements.

6) **MATERIALITY FIXATION - PERCENTAGE ON CHOSEN BENCHMARK:**

The auditor shall apply appropriate percentage on selected benchmark for determining materiality level. Generally the percentage applied on PBT Benchmark is usually higher than Turnover benchmark. (Ex: Materiality = 5% of net profit or 0.5% of turnover)

SIMILAR QUESTIONS:

1. With reference to SA 320 indicate the factors which may affect the identification of an appropriate bench mark in determining materiality for the financial statement as a whole. RTP M19 (O), RTP M18 (N)
- A. Write Point 1 & 2 of Point A and then Entire Point C
2. Determining materiality involves the exercise of professional judgment. A percentage is often applied to a chosen benchmark as a starting point in determining materiality for the financial statements as a whole. Discuss stating the factors that may affect the identification of an appropriate benchmark. RTP M18 (N)
- A. Write Point 1 & 2 of Point A and then Entire Point C & F
3. "Determining materiality involves the exercise of professional judgment". Discuss stating the factors that may affect the identification of an appropriate benchmark. Also give examples. SM - TYK
- A. Write Point 1 & 2 of Point A and then Entire Point C

Q.No.13. Write about Revision and documentation of materiality?

(C) (NEW SM)

- 1) **REVISION IN MATERIALITY LEVEL:** The overall materiality and performance materiality may need to be changed as the audit progresses in the following cases:
 - a) A change in circumstances that occurred during the audit.
 - b) Availability of additional information.
 - c) A change in actual financial results than the anticipated results at the beginning of the audit.
 - d) Increase in estimated risk than the original prediction resulting in revision of materiality level.
 - e) A change in auditor's knowledge of clients business and understanding of the same.
- 2) **DOCUMENTATION OF MATERIALITY:** The auditor shall document the following:
 - a) Materiality for the financial statements as a whole (Overall materiality);
 - b) If applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures;
 - c) General Performance materiality; and
 - d) Any revision of the above.

SIMILAR QUESTIONS:

1. **Materiality need not be revised throughout the audit. Comment.**
- A. **Write meaning of materiality and then Entire Point A**
2. **Write about Documentation of materiality.**
- A. **Write meaning of materiality and then Entire Point B**

Q.No.14. Write about the ways to carry out the audit in a systematic and effective way?

(B) (OLD SM)

- 1) Work must be carried on regularly and shall keep a record of time of arrival/departure of the staff and also of the work done each day;
- 2) Only a definite portion of the work should be completed each day so that loose ends are not left over;
- 3) Entries should be made in the audit note book and the audit programme initialed (signed) as a routine;
- 4) Colored pencils and different type of ticks must be used to indicate the various audit processes which have been applied and their significance must not be disclosed to the client;
- 5) All the vouchers after examination must be immediately checked (acknowledgement/tick) with an audit stamp;
- 6) Engagement Team members should refrain from discussing the client's affairs amongst themselves and with outsiders.

Q.No.15. Are surprise checks desirable in audit, if so, give important recommendations.

(A) (OLD SM, OLD PM, N15 RTP, M 13 - 5M, N15 - 4M)

MEANING: The auditor visiting the premises of client without giving prior intimation.

Surprise checks are a part of normal audit procedures. An element of surprise can significantly improve the audit effectiveness. Wherever practical, an element of surprise should be incorporated in the audit procedures.

THE FOLLOWING ARE THE IMPORTANT RECOMMENDATIONS:

- 1) The element of surprise in an audit may be, both in regard to the time of audit, (i.e. selection of date of surprise check) and selection of areas of check.
- 2) **Areas of surprise check:** The areas over which surprise checks should be employed would depend upon the circumstances of each audit but should normally include:

- a) Cash and investments.
 - b) Stores and inventories.
 - c) Books of prime entry and statutory registers.
 - d) Internal controls and internal checks.
- 3) **Frequency of surprise checks:** The frequency of surprise checks may be determined by the auditor in the circumstances of each audit but should normally be at least once in the course of an audit. It depends on the following factors:
- a) Internal control system as adequate,
 - b) Nature of the client's transaction,
 - c) Locations from which he operates and
 - d) Relevant importance of the item to be surprise checked such as cash, investments etc.
- 4) **Results of Surprise checks:**
- a) The results of the surprise checks should be communicated to the management if they reveal any weakness in the system of internal control or any fraud or error or deficiency in the maintenance of records.
 - b) The auditor should satisfy himself that the adequate action has been taken by the management on the matters communicated by him.
 - c) It is not necessary in all cases for the results of the surprise checks to be included in the auditor's report on the accounts. They should, however, be included if in the opinion of the auditor they are material and affect a true and fair view of the accounts on which he is reporting.

SIMILAR QUESTIONS:

1. Write a short note on the Surprise checks.
2. "An element of surprise can significantly improve audit effectiveness."
3. Mention, any four, areas where surprise checks can significantly improve the effectiveness of an audit. RTP N16(O)

SECTION 2: QUESTIONS FOR ACADEMIC INTEREST FOR STUDENTS SELF STUDY**Q.No.1. "An adequate audit planning benefits the audit of financial statements" Discuss.****(B) (N18 (N)-5M)**

Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate planning benefits the audit of financial statements in several ways, including the following:

- 1) Helping the auditor to Focus and attentive on important audit areas.
- 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.
- 5) Facilitating the direction and supervision of engagement team members and the review of their work.
- 6) Assisting in coordination of work done by auditors of components and experts.

SIMILAR QUESTIONS:

1. Explain the benefits of planning in the audit of financial statements? RTP M19(N) RTP N19(N)
- A. Refer above answer
2. Surya and Chand Ltd is a manufacturing company engaged in the production of miscellaneous electrical goods. Trilochan and Co. has been appointed as the auditors to carry out its audit. Auditor thinks that Planning an audit would involve establishing

the overall audit strategy for the engagement and developing an audit plan. Also, Adequate planning benefits the audit of financial statements in several ways. Analyse and Advise explaining the benefits of adequate planning. RTP M18 (N&O)

A. Refer above answer

Q.No.2. Relationship between overall audit strategy and audit plan

(B) (NEW SM)

- 1) 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.
- 2) The audit plans takes into account the audit objectives through the efficient use of the auditor's resources.
- 3) The establishment of the overall audit strategy and the detailed audit plan are not necessarily separate processes but are closely inter-related.
- 4) In other words if there is a change in audit strategy there will be a corresponding change in audit plan.

SIMILAR QUESTIONS:

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. MTP M18(N)

A. Refer above answer

Q.No.3. What are the disadvantages of the use of an Audit Programme?

(C) (NEW SM, N18 (O)-4M)

Some disadvantages are also there in the use of audit programme but most of them can be removed by taking some concrete steps. The disadvantages are:

- 1) The audit assistants may feel mechanical and may carry out their work without any understanding.
- 2) The programme may become rigid and inflexible with respect to the changes in business, such as changes in internal control at a certain area may require changes in audit programme from those originally drafted.
- 3) Inefficient assistants may escape from their responsibilities on the ground that no instruction is contained therein with respect to a certain matter.
- 4) A fully standardized 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.

Q.No.4. 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.

(B) RTP N20(N)

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:

- 1) Documentary examination,
- 2) Physical examination,
- 3) Statements and explanation of management, officials and employees,
- 4) Statements and explanations of third parties,
- 5) Arithmetical calculations by the auditor,
- 6) State of internal controls and internal checks,
- 7) Inter-relationship of the various accounting data,

- 8) Subsidiary and memorandum records,
- 9) Minutes,
- 10) 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.

Q.No.5. What is meant by final audit? What are its advantages and disadvantages? (C) (OLD SM)

MEANING: A final or completed audit is commonly understood to be an audit which begins after the books have closed at the end of the accounting period and thereafter is carried on continuously until completed.

It is also called Annual or completed audit or periodical audit.

ADVANTAGES:

- 1) It is most economical in terms of time and cost.
- 2) It is suitable for small businesses.
- 3) Such audit does not disturb the work of the client's staff since the books of accounts are already prepared and handed over to the auditor for audit.
- 4) Since it is done at one time, the auditor will not lose the continuity of his work and also there is no need of having to return on separate occasions to complete the work.
- 5) The possibility of figures being altered after work has been done is also avoided since the audit is carried at a time.

DISADVANTAGES:

- 1) *Not suitable for large organizations.*
- 2) Complete checking is not possible since the time available for audit is less.
- 3) *Since the auditor goes for test checking, the chances of non-detection of frauds and errors are high.*
- 4) It is not much effective in improving the moral check over the client's staff.
- 5) Frauds and errors are detected at the year end.
- 6) Accounting periods of several clients may end on the same date, and thus difficulties may be experienced in allocating audit staff.
- 7) Client's staff may not maintain books of account up-to-date since the audit is commenced after the end of the financial year.

Q.No.6. What is meant by Continuous Audit? What are its advantages and disadvantages? (C) (OLD SM, OLD PM)

MEANING: A continuous audit is one in which the auditor's staff is engaged continuously in checking the accounts of the client, during the whole year round at quite frequent intervals say weekly, monthly, quarterly etc.

It is also known as detailed audit.

ADVANTAGES / CONTINUOUS AUDIT IS PREFERRED FOR THE FOLLOWING REASONS:

- 1) It is suitable for large organizations.
- 2) Detailed examination is possible since audit is conducted in a phased manner.
- 3) *Since the auditor goes for detailed checking, the chances of non-detection of frauds and errors are less.*

- 4) The frequent attendance by the audit staff acts as moral check on the employees of the client from committing a fraud.
- 5) Early detection of frauds and errors even before closure of financial year.
- 6) Optimum utilization of audit resources such as efficient allocation of audit assistants is possible.
- 7) The accounting staff of the client is motivated to keep the books of account up-to date.
- 8) *The constant association of the auditor with the accounts and the affairs of the client provide him with an opportunity to obtain a more detailed knowledge of the client's affairs, thereby he can discharge his duties more efficiently.*

DISADVANTAGES / DRAWBACKS:

- 1) It is time consuming and very expensive. Hence not economical for small organizations.
- 2) It causes more inconvenience to the client staff since auditor frequently visits their office.
- 3) Due to the audit being carried out in several installments, the audit staff may fail to keep track of things which they had not checked on their last or an earlier visit as a result the auditor is likely to lose the continuity of work.
- 4) There is a possibility of alteration of audited figures by the client's staff, after completion of audit.

THE END

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