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### Introduction

Planning for an audit of financial statements is the responsibility of the auditor. This SA is basically for recurring audits (repeat audits).

### Why to plan for audit?

Planning is required to perform an audit in **effective, efficient and timely manner**.

Planning changes from one entity to other entity based on the size, complexity of transactions, experience in previous audits and changes in the circumstances in the entity from PY.

The following are the advantages of good planning. Good planning helps / assists the auditor to:

- Devote **appropriate attention** to **important areas** of the audit;
- Identify and **resolve potential problems** on a timely basis;
- Perform audit in an **effective, efficient and timely manner**;
- **Select appropriate/ capable / competent team members** to respond to anticipated risks and the **proper assignment of work** to them;
- **Direct and supervise** of engagement team members and the **review** of their work;
- Have good coordination of work done by auditors of components (subsidiary / branch auditors) and experts.

**Asked in Exam**

"An adequate planning benefits the audit of financial statements." Discuss. (CA Inter Nov 2018)

**Asked in RTP**

Engagement partner of Audit Firm MKC AND COMPANY thinks that planning an audit would involve establishing the overall audit strategy for the engagement and developing an audit plan. Also, adequate planning would benefit the audit of financial statements in several ways. Analyse explaining the benefits of adequate planning

**When to plan?**

Generally, your answer is 'before starting the audit'. *I agree to some extent only but not 100%.*

This generally **starts** immediately **after completion of Previous year audit** and continues till the completion of the current audit. *Think about it, auditor must have not performed perfectly in the PY, then he plans to do it better in the next year. like that it starts.*

It is NOT a one-time activity (discrete activity) **rather** it is **continuous and repetitive** activity.

**What to plan?**

Planning includes

- (a) Acquiring knowledge of the client's accounting systems, policies and internal control procedures;
- (b) Legal and regulatory framework applicable to the entity (*i.e., what laws & regulations are applicable*) and how the entity is complying with the same;
- (c) Establishing the expected degree of **reliance** to be placed **on internal control**;
- (d) Determination of materiality as per SA 320;
- (e) Identification of significant areas;
- (f) Involvement of experts / other auditors like branch auditors / subsidiary auditors;
- (g) The work of internal auditor and extent of relying upon it;
- (h) Determining and programming the **nature, timing and extent of the audit procedures** to be performed and audit evidence to be obtained; and
- (i) Coordination of the work to be performed.

**Concept capsule 1**

(CA Inter Nov 2018)

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 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.

**OR**

Planning is a continuous process and not a discrete activity (one-time activity). Comment

**Suggested answer**

Considering the discussion of "When to plan? & what to plan?" - Approach of W was wrong and he should have prepared overall audit strategy and detailed audit procedures by himself.

**Asked in Exam**

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? (CA Inter May 2018)(CA IPCC May 2019)

The auditor should plan his work to enable him to conduct an effective audit in an efficient & timely manner. Plans should be based on knowledge of the client's business. Explain (RTP-Nov-2018)

**Answer:**

Write points from "what to plan?" topic

**Can the planning be discussed with the management?**

Yes. He can decide on it.

In some cases, auditor has to discuss with management & other personnel of the entity regarding some audit procedures like external confirmation requests sending and co-ordination of internal audit work, experts work, other auditors like subsidiary auditor's work.

Remember – auditor discusses overall strategy of audit but not nature, timing and extent of audit procedures, i.e., without loosing the effectiveness of audit. The management or other personnel of the entity will not be in a position to predict the procedures to be performed.

#### **Who will be involved in planning? i.e., Who plans?**

The following persons should be involved in planning for an audit -

- (a) The engagement **partner**; and
- (b) Other **key members** of the engagement team.

Planning process can be effective and efficient based on their experience and insights;

#### **Preliminary (Important) Engagement Activities**

The auditor shall undertake these activities at the Beginning of the Current Audit Engagement. These activities assist the auditor in identifying and evaluating events or circumstances that may adversely affect the auditor's ability to plan and perform

- (a) Performing procedures required by SA 220, "Quality Control for an Audit of Financial Statements" regarding the **continuance of the client relationship** (accept or reject) and the specific audit engagement; *(you should refer SA 220 for better understanding)*
  - Before a company decides to work with a new client, continues working with an existing client, or takes on a new job from an existing client, they need to gather all the important information that is relevant to the situation. This helps them to make informed decisions about whether it is a good idea to take on the job or keep working with the client.
  - When deciding whether to take on a job or continue working with a client, it is important to think about things like the honesty of the main owners and important managers, whether the team is skilled enough to do the job well, and what effects any issues from past or ongoing projects might have.
  - Additionally, when starting a new job as auditors, it is important to talk to the previous auditor if there has been a change. This communication helps in understanding the situation better and ensures a smooth transition in handling the auditing responsibilities.
- (b) Evaluating compliance with **ethical requirements**, including independence, integrity, as required by SA 220; and
  - The auditor needs to make sure everyone follows the ethical standards, especially being independent and not influenced by others.
  - The engagement partner of the audit team keeps an eye out for any team members not following the ethical standards and takes action if needed.
  - The engagement partner should evaluate independence by gathering information on potential threats, breaches, and circumstances affecting independence and he should try to fix the same if he identifies something.
  - If there are issues, the leader puts in safety measures or, if necessary, withdraw the audit, promptly reporting the company about the issues for resolution.
  - Before starting a job, the team not only thinks about the rules and keeping the client but also makes sure everyone agrees on how the job will be done.
- (c) Establishing an understanding of the terms of the engagement, as required by SA 210, *i.e., ensuring that there is no misunderstanding of terms & conditions of audit engagement.*
  - To prevent misunderstandings, the auditor should send an engagement letter before the audit, clarifying terms and benefiting both parties.

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## **PLANNING ACTIVITIES**

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The auditor shall establish an overall audit strategy.

#### **Audit Strategy**

- Overall audit strategy **sets the scope, timing and direction of the audit**, and guides the development of the more detailed audit plan. *(Detailed audit plan is called Audit Programme)*

- Overall audit strategy takes place only after completion of the auditor's risk assessment procedures as per SA 315. (*Just think - without deciding how much risk exists, it is not possible to plan what to perform*)

The process of establishing the **overall audit strategy assists the auditor to determine such matters** as:

- (1) The resources to deploy for specific audit areas *i.e. whom to give what kind of work. Like using appropriately experienced team members for high risk areas or the involvement of experts on complex matters;*
- (2) How many team members to be allocated to a particular work, *such as the number of team members assigned to observe the inventory count at material locations;*
- (3) How much extent of review of other auditors' work in the case of group audits; or How much time to spare to high risk areas (*time budget*);
- (4) **When** to deploy the resources, *i.e., at what point of time, such as whether at an interim audit stage or at key cut-off dates; and*
- (5) 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.*

#### Asked in Exam

Describe how the process of establishing the overall audit strategy assists the auditor in marshalling his human resources. (CA Inter May 2019)

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?

**Suggested answer:** Write above 5 points.

In establishing the overall audit strategy, the auditor shall:

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

*Examples:*

- The expected **audit coverage**, including the number and locations of components to be included;
  - Industry specific reporting requirement as per regulations *e.g. in banking sector auditor should report in addition to audit report;*
  - Is the audit only for standalone financial statements or consolidated financial statements also;
  - Availability of internal auditor's work and can we depend on it? If yes, to what extent?
  - What accounting software is used by the entity like SAP, ORACLE; the effect of it on audit procedures like availability of data and usage of CAAT techniques, etc.
  - 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;

*Examples:*

- The entity's timetable for reporting, such as at interim and final stages; *when are they planning for BOD meeting for approving financial statements and AGM date; Accordingly, audit should be completed.*
  - Meetings with management and TCWG to **discuss** the nature, timing and extent of the audit work;
  - Type of communication, *i.e., both written and oral, including the auditor's report, management letters and communications to those charged with governance;*
  - The discussion with management regarding the expected communications on the **status of audit work throughout the engagement.**
- (c) Based on the auditor's professional judgement, he should consider the factors that are significant in directing the engagement team's efforts; *like materiality information; high risk areas; Relying on internal controls, etc*
  - (d) Consider the results of preliminary engagement activities and knowledge gained from similar engagements will help you prepare a good audit strategy this includes the results of effectiveness of internal controls, etc.; and
  - (e) Ascertain the nature, timing and extent of resources necessary to perform the engagement.
    - Choosing the audit team and distributing tasks plays a crucial role in forming the audit strategy. Skilled team members handle high-risk areas, and allocating time and budget appropriately, especially in high-risk zones, is essential for effective audit planning.

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.

## AUDIT PLAN

### What is audit plan? How does it happen?

Audit plan is a **detailed plan of action** to be performed by the team members while performing their duties. It can be called as **audit program**.

This detailed audit plan includes the following points:

- The nature, timing and extent of planned **risk assessment procedures**, as determined under SA 315;
- Responses to the above assessed risk as per SA 330, i.e., the nature, timing and extent of **audit procedures** at the **assertion level** to be performed, i.e., 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.
- Other planned audit procedures that are required to be carried out so that the engagement complies with SAs;
- Nature, timing and extent of direction, supervision and review of team member's work; This generally changes due to complexity of work, assessed risk, capability of the team member, etc.
- 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.

### Regarding audit programme we discussed in detail below

#### *Concept Capsule 2*

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?

#### *Suggested answer*

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.

#### *Concept Capsule 3*

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?

#### *Suggested answer*

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.

## RELATIONSHIP BETWEEN AUDIT STRATEGY AND AUDIT PLAN

- **Audit Strategy vs. Audit Plan:**
  - *Audit strategy:* It provides a high-level, comprehensive approach to the audit, offering a framework for the entire process.
  - *Audit plan:* It is a more detailed document that delves into specific aspects identified in the audit strategy, providing a roadmap for the execution of the audit.
- **Role of Audit Strategy:**
  - *Determining Scope:* It outlines the boundaries of the audit, defining what areas and processes will be covered.
  - *Setting Timing:* It establishes the timeline for the audit, indicating when different phases will be conducted.
  - *Providing Direction:* It guides the overall direction of the audit, ensuring a cohesive and purposeful examination.
- **Implementation of Audit Plan:**
  - *Execution Blueprint:* The audit plan details how the overarching audit strategy will be put into action.
  - *Task Assignment:* It allocates specific tasks to the engagement team members, specifying their roles in the audit process.
- **Content of Audit Plan:**
  - *Nature of Procedures:* Describes the types of audit procedures that will be employed.
  - *Timing of Procedures:* Specifies when each audit procedure will be carried out during the audit timeline.
  - *Extent of Procedures:* Defines the depth and thoroughness of the audit processes.
- **Planning Process:**
  - *Continuous Development:* The planning for audit procedures is an ongoing process that evolves as the audit progresses.
  - *Adaptive Planning:* The audit plan for the engagement is refined and adjusted based on emerging needs and findings.
- **Efficient Resource Use:**
  - *Resource Optimization:* Emphasizes the need to achieve audit objectives without unnecessary expenditure of time or resources.
  - *Effective Utilization:* Calls for a strategic allocation of the auditor's resources to maximize efficiency.
- **Inter-relationship:**
  - *Dynamic Connection:* The overall audit strategy and detailed audit plan are not isolated; changes in one influence the other.
  - *Adaptability:* Adjustments to the audit strategy may lead to corresponding modifications in the audit plan for seamless alignment.

### Concept Capsule 4

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.

### Suggested answer

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.

## REVISION OF AUDIT PLAN

The auditor **shall update and change** the overall audit **strategy and the audit plan** as necessary during the course of the audit.

Reason to change?

It may change due to

- ✓ Occurrence of unexpected events;
- ✓ Changes in conditions; or
- ✓ Audit evidence obtained from the results of audit procedures, i.e., if auditor feels it is not sufficient and appropriate, they may change plan to obtain audit evidence in different way;
- ✓ Revision in previously assessed risk;
- ✓ 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 the performance of substantive procedures may contradict the audit evidence obtained through tests of controls.*

Auditor should document the reasons for significant changes.

#### **Asked in RTP**

The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit. Explain. **(RTP-Nov-2018)**

## **DOCUMENTATION**

The auditor shall document:

- (a) the overall audit strategy; *(It is a record of key decisions which are necessary and communicated to the team)*
- (b) the audit plan; and
- (c) any significant changes made to point (a) or (b) during the audit along with reasons.
- (d) Summary of discussion with Management / TCWG;
- (e) Communication with Management / TCWG regarding scope or change in scope of work;
- (f) Auditor's report on financial statements;
- (g) Other reports as required by the engagement agreement; *e.g., debt covenant compliance letter.*

#### **Concept Capsule 5**

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?

#### **Suggested answer**

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.

#### **Concept Capsule 6**

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?

#### **Suggested answer**

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.

**Concept capsule 7****(RTP-Nov-2018)**

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.

**Suggested answer**

The auditor shall document:

- The Overall Audit strategy;
- The audit plan;
- 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.

The following things should form part of auditor's documentation:

- A summary of discussions with the entity's key decision makers
- Documentation of audit committee pre-approval of services, where required
- Audit documentation access letters
- Other communications or agreements with management or those charged with governance regarding the scope, or changes in scope, of our services
- Auditor's report on the entity's financial statements.

**Additional Considerations in INITIAL Audit Engagements****i.e. When auditor is performing the audit for the first time to the entity**

The auditor shall undertake the following activities prior to starting an initial audit:

- (a) Performing procedures required by SA 220 regarding the **acceptance** of the client relationship and the **specific audit** engagement; and
- (b) Communicating with the **predecessor auditor**, where there has been a change of auditors, in compliance with relevant ethical requirements (*As per the code of ethics of ICAI – a member of the institute, must communicate with previous auditor before accepting the work- otherwise he will be guilty of professional misconduct*).

**AUDIT PROGRAMME**

Audit programme is a detailed plan of audit procedures/ techniques to be performed on the items of financial statements to obtain sufficient and appropriate audit evidence to accomplish the audit objective, i.e., Expression of appropriate opinion.

- ✓ Detailed plan means step by step instructions to be followed by the team member;
- ✓ Audit programme suitable to one entity may not be suitable to others;
- ✓ This depends on the operating efficiency of internal controls of the entity, nature, size and composition;
- ✓ Audit programme of one year may not be suitable to another year – due to change in circumstances, increase or decrease in business, etc; Hence, it should be reviewed periodically. If PY programme is adequate for CY, the same may be followed.

**Example:** If the audit programme for the audit of a branch of a financing house, drawn upon number of years ago, fails to take into consideration that the previous policy of financing of a vehicle has been changed to financing