

Audit planning, procedures and documentation.

Audit states/ process/ scope:

AUDIT STATES/ PROCESS/ SCOPE			
1	Pre-audit evidence	Before commencement	Ascertain type of audit Document from client Knowledge of business Preparations by client
2	How to gather evidence	Audit plan	Overall plan Audit programme
3	Evidence about what	Audit evidence	Internal controls Transactions Balance
4	Methods of obtaining evidence	Audit techniques	Inspection Observation Inquiry Confirmation Analytical review
5	Steps in obtaining evidence	Audit procedures	Evaluate controls Vouching Check posting Check casting Ledger scrutiny Verification Valuation Disclosure
6	Record evidence	Audit papers	Audit note book/ working papers
7	Evaluate evidence	Audit report	Give opinion

AUDIT PLANNING [SA 300]

1. **Reason:** The auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner.
2. **Basis:** Plans should be primarily based on knowledge of the client's business.
3. **Coverage:** Plans should be made to cover, among other things:
 - Acquiring knowledge of the client's accounting systems, policies and internal control procedures:
 - Establishing the expected degree of reliance to be placed on internal control:
 - Determining and programming the nature, timing, and extent of the audit procedures to be performed:

- Coordinating the work to be performed.

4. **Revision:**
5. **Overall plan and program**
6. **Benefits**
7. **Responsibility**
8. **Factors**
9. **Knowledge of client's business**
10. **Previous year's matters**
11. **Discussions with clients**
12. **Overall audit plan/ approach**

Pre-commencement consideration:

Step: before commencing an audit, the auditor must take the following steps and procedures.

1. Ascertain the type of audit i.e. statutory, continuous etc.
2. Obtain necessary documents such as list of books, employees etc.
3. Give instructions for preparations to be made by the client.

This will help the auditor to

1. Develop the overall audit plan
2. Prepare the audit program
3. Identify areas of audit requiring special emphasis.

The actual audit should be started only after dealing with above "pre-commencement considerations".

Type of audit:

The first before commencing an audit is to ascertain the type of the audit assignment i.e. statutory, voluntary, continuous or final.

1. **Statutory or voluntary:** The auditor should ascertain whether the audit is statutory or voluntary. If the audit is statutory, e.g. financial audit under the companies Act, the audit must be conducted in accordance with the provisions of the companies Act. If the audit is voluntary, e.g. audit of a sole trader or a partnership firm, the auditor must know why the audit is being conducted e.g. for valuation of business at the time of sale, admission of partner and so on. This helps in defining the scope and procedure of audit.
2. **Continuous or final:** The auditor should ascertain whether the audit is continuous or final. This enables the auditor to decide the extent of checking and the type of audit procedures to be adopted.

DOCUMENTS TO BE OBTAINED FROM CLIENT:

1. Letter of appointment.
2. Memorandum and articles of association in case of a company.
3. Partnership deed in case of a firm.
4. Organization chart showing different departments and sections in the organization and the persons in charge.
5. Organization chart of the accounts and internal audit department.
6. List of directors, partners and officers entitled to sanction payment, sign cheques and offer explanation to auditors.
7. List of places of business, i.e. offices, branches and factories.
8. List of books of accounts and other relevant records.
9. Internal control manual and internal auditor's reports.
10. Draft final accounts, trial balance, groupings and schedules.
11. Past annual accounts and annual reports.
12. Extracts from minute books.
13. List of products manufactured and raw materials purchased.
14. List of relatives of directors, interested persons etc.

INSTRUCTIONS TO CLIENT TO PREPARE DOCUMENT

Before actually commencing the audit, the auditor should issue detailed instructions to the client to prepare and keep ready-

1. All registers such as cash book, bank book, sale register, purchase register, journal etc. along with voucher files.
2. All ledgers duly posted and balanced.
3. Trial balance duly tallied.
4. Draft final accounts with schedules and groupings.
5. Schedule of fixed assets and computation of depreciation.
6. Details of investments.
7. Details of cash-in-hand, cheques in transit at year end.
8. Bank reconciliations and bank balance confirmations.
9. Confirmation of balances from parries lenders etc.
10. Bills-wise statement of debtors and creditors balances.
11. Quantity reconciliations and statement of closing stock.

12. Details of pre-paid and outstanding expenses.
13. Keep ready documents.

AUDIT PROGRAM

Meaning:

Prof. Meigs defines an audit programme as ‘a detailed plan of the audit work to be performed, specifying the procedures to be followed in verification of each item in the financial statements, and giving the estimated time period.’ [Walter B. Meigs, Principles of Auditing, Irwin]. Audit programme is an outline of how the audit is to be conducted by the audit staff, who is to do what work and within what time. It is a time table of what work is to be done by whom, how and when.

Types:

An audit programme may be (a) fixed or (b) flexible. A fixed audit programme is fixed once and for all in the beginning and must be followed strictly throughout the audit. A flexible audit programme, on the other hand, is reviewed constantly as the audit goes on. A flexible audit programme is suitably modified in the light of actual audit work.

Advantages:

1. Guidance to assistants
2. No omission or repetition of work
3. Checklist of procedures
4. Direction to assistants
5. Delegation and supervision of work
6. Distribution of work-routine work, quality work and joint work
7. Allocation and responsibility of work
8. Evidence in court
9. Timely completion of audit
10. Flexible audit programme

Disadvantages:

1. Mechanical work
2. Work to rule
3. Defence against deficiencies
4. Insufficient evidence in court
5. Rigid time table
6. Fixed audit programme

Audit programme:

Audit programme									
Meaning	Plan-procedures and period								
Contents	<table border="1"> <tr><td>1. client and accounting year</td></tr> <tr><td>2. audit procedures</td></tr> <tr><td>3. distribution of audit work</td></tr> <tr><td>4. time table</td></tr> </table>	1. client and accounting year	2. audit procedures	3. distribution of audit work	4. time table				
1. client and accounting year									
2. audit procedures									
3. distribution of audit work									
4. time table									
Types	<table border="1"> <tr><td>Fixed</td></tr> <tr><td>Flexible</td></tr> </table>	Fixed	Flexible						
Fixed									
Flexible									
Advantages	<table border="1"> <tr><td>Guidance to assistants</td></tr> <tr><td>No work omitted/ repeated</td></tr> <tr><td>Instructions for procedures</td></tr> <tr><td>Delegation and supervision</td></tr> <tr><td>Allocation and responsibility</td></tr> <tr><td>Evidence in court</td></tr> <tr><td>Timely completion of audit</td></tr> <tr><td>Flexible audit programme</td></tr> </table>	Guidance to assistants	No work omitted/ repeated	Instructions for procedures	Delegation and supervision	Allocation and responsibility	Evidence in court	Timely completion of audit	Flexible audit programme
Guidance to assistants									
No work omitted/ repeated									
Instructions for procedures									
Delegation and supervision									
Allocation and responsibility									
Evidence in court									
Timely completion of audit									
Flexible audit programme									
Disadvantages	<table border="1"> <tr><td>Mechanical work</td></tr> <tr><td>Work to rule</td></tr> <tr><td>Defence against deficiencies</td></tr> <tr><td>Insufficient evidence in court</td></tr> <tr><td>Rigid time table</td></tr> <tr><td>Fixed audit programme</td></tr> </table>	Mechanical work	Work to rule	Defence against deficiencies	Insufficient evidence in court	Rigid time table	Fixed audit programme		
Mechanical work									
Work to rule									
Defence against deficiencies									
Insufficient evidence in court									
Rigid time table									
Fixed audit programme									
Precautions	<table border="1"> <tr><td>Changes in controls</td></tr> <tr><td>Changes in operations/ practices</td></tr> <tr><td>Assistants' suggestions</td></tr> <tr><td>Revision</td></tr> <tr><td>Additional tests</td></tr> </table>	Changes in controls	Changes in operations/ practices	Assistants' suggestions	Revision	Additional tests			
Changes in controls									
Changes in operations/ practices									
Assistants' suggestions									
Revision									
Additional tests									

AUDIT EVIDENCE:

The basic duty of an auditor is to give an opinion on the final accounts of a concern. This opinion must be based on the evidence obtained during the course of audit. Audit evidence means all of the information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. The auditing standard on audit evidence (SA 500) issued by the institute of chartered accountants of India (ICAI) deals with the nature of audit evidence and the procedures and techniques used to obtain audit evidence. Auditor needs to obtain evidence in respect of the following basic matters-

1. Internal controls
2. Transactions during the year
3. Balances of assets and liabilities at the end of year.

Such evidence must be sufficient, relevant and reliable.

EVIDENCE ABOUT INTERNAL CONTROLS

1. Existence
2. Effective
3. Operative

EVIDENCE ABOUT TRANSACTIONS DURING THE YEAR

1. Occurrence
2. Complete
3. Amount
4. Disclosure

INTERNAL EVIDENCE V/S EXTERNAL EVIDENCE

Feature	Internal evidence	External evidence
Nature	Internal evidence is one which has been created within the client' organization	External evidence, on the other hand, is one which originated from outside the clients organization. A document issued by a person with whom some business transactions had been entered into or who was paid or was advanced an amount constitutes such evidence.
Examples	Example are sales invoices, employees' time reports, inventory reposts, wage sheets, counterfoil of receipts, purchase requisitions, minute books etc.	Example are payees receipt, purchase invoice, lease agreement, bank statement, cancelled cheques, insurance policies, mortgagege deeds etc. these documents are prepared in the normal course of business activities of the organization and form part of its records. Sometimes, in certain transactions, external evidence is obtained directly by the auditor, for example, certificate as regards bank balance, confirmation of balances of debtors and creditors, etc.
Source	Internal evidence is created and retained within the organization	External evidence is obtained from outside parties.
reliability	Internal evidence is considered less reliable than external evidence.	External evidence is considered more reliable than internal evidence.

AUDIT PROCEDURES:

AUDIT PROCEDURES			
(A)	Compliance	Internal controls	Existence Effective Operative
(B)	substantive	Transactions & Balance	vouching Posting Casting Ledger scrutiny Verification Grouping Disclosure

AUDIT PRINCIPLE & AUDIT TECHNIQUES

NO.	AUDIT PRINCIPLE	AUDIT TECHNIQUES
1	Audit principles guide an auditor as to how to conduct an audit and give an audit report	Audit techniques mean the methods used to obtain audit evidence.
2	Following are the basic audit principles: Documentation, planning, audit evidence, evaluation of accounting system & control, conclusion & reporting.	Following are the audit techniques as listed in SA 500: inspection, observation, inquiry, confirmation, computation and analytical review.
3	Principles are of fundamental nature and do not change frequently	Techniques may change depending on circumstances, e.g. techniques of verification of cash is different from that of verification of debtors.
4	Principles do not change from organization to organisation	Technique may change depending on the nature of organization e.g. manufacturing, trading, professional etc.