

AUDIT STRATEGY, PLANNING AND PROGRAMMING

Question 1

You have been appointed as the auditor of a Multiplex Cinema House. Draw an audit programme in respect of its Revenue and Expenditure. (8 Marks)(November 2008)

Answer

Audit Programme of Multiplex

1. Peruse the Memorandum of Association and Articles of Association of the entity.
2. Ensure the object clause permits the entity to engage in this type of business.
3. In the case of income from sale of tickets:
 - (a) Verify the control system as to how it is ensured that the collections on sale of tickets of various shows are properly accounted.
 - (b) Verify the system of relating to on line booking of various shows and the system of realization of money.
 - (c) Check that there is overall system of reconciliation of collections with the number of seats available for different shows on a day.
4. Verify the internal control system and its effectiveness relating to the income from cafes shops, pubs etc., located within the multiplex.
5. Verify the system of control exercised relating to the income receivable from advertisements exhibited within the premises and inside the hall such as hoarding, banners, slides, short films etc.
6. Verify the system of collection from the parking areas in respect of the vehicles parked by the customers.
7. In the case of payment to the distributors verify the system of payment which may be either through out right payment or percentage of collection or a combination of both.

Ensure at the time of settlement any payment of advance made to the distributor is also adjusted against the amount due.

8. Verify the system of payment of salaries and other benefits to the employees and ensure that statutory requirements are complied with.
9. Verify the payments effected in respect of the maintenance of the building and ensure the same is in order.

Question 2

What are the points to be considered while evaluating the "Knowledge of the Business" in the conduct of an audit?
(8 Marks) (June 2009)

Answer

The broad matters to be considered while obtaining knowledge of business for a new audit assignment are set out in SA 315, "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment". These are:

1. Relevant industry, regulatory, economic and other external factors including the applicable financial reporting framework
2. The nature of the entity, including:
 - (a) its operations;
 - (b) its ownership and governance structures;
 - (c) the types of investments that the entity is making and plans to make, including investments in special-purpose entities; and
 - (d) the way that the entity is structured and how it is financed; to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements.
3. The entity's selection and application of accounting policies.
4. The entity's objectives and strategies, and those related business risks that may result in risks of material misstatement.
5. The measurement and review of the entity's financial performance.

In addition to the importance of knowledge of the client's business in establishing the overall audit plan, such knowledge helps the auditor to identify areas of special audit consideration, to evaluate the reasonableness both of accounting estimates and management representations, and to make judgement regarding the appropriateness of accounting policies and disclosures.

Question 3

XYZ Ltd. appoints you as the auditor of the company. You observe that previous auditors A & Co., resigned. Also Balance Sheet as at 31-03-2010 shows an audit fee payable of ₹ 25,000. What precautions you will take before commencing the audit work?

(4 Marks) (November 2010)

Answer

Precautions before Commencing the Audit Work

In the instant case the auditor before accepting the appointment as well as commencing the audit work, the auditor should see the following:

1. When a previous auditor resigned, the auditor should verify that the resolution appointing him as the auditor at the general meeting was duly moved and approved by the shareholders.
2. The auditor should refer to the resignation submitted by the previous auditor.
3. The auditor should communicate with him so as to ascertain.
 - (i) The circumstances which led up to his resignation.
 - (ii) Whether there existed any circumstances on account of which he should not accept the appointment.
 - (iii) Whether the requirements of section 224(6) in respect of such an appointment have been complied with.

Further, Clause (9) of part I of the First Schedule to Chartered Accountants Act, 1949, provides that a member in practice shall be deemed to be guilty of professional misconduct if he 'accepts' an appointment as auditor of a company without first ascertaining from it whether the requirements of Sections 224 and 225 of the Companies Act, 1956, in respect of such appointment have been duly complied with.

Question 4

A & Co. was appointed as auditor of Great Airways Ltd. As the audit partner what factors shall be considered in the development of overall audit plan?

(8 Marks) (May 2011)

Answer

Development of an overall plan - Overall plan is basically intended to provide direction for audit work programming and includes the determination of timing, manpower development and co-ordination of work with the client, other auditors and other experts. The auditor should consider the following matters in developing his overall plan for the expected scope and conduct of the audit.

- (i) Terms of his engagement and any statutory responsibilities.

- (ii) Nature and timing of reports or other communications.
- (iii) Applicable Legal or Statutory requirements.
- (iv) Accounting policies adopted by the clients and changes, if any, in those policies.
- (v) The effects of new accounting and auditing pronouncement on the audit.
- (vi) Identification of significant audit areas.
- (vii) Setting of materiality levels for the audit purpose.
- (viii) Conditions requiring special attention such as the possibility of material error or fraud or involvement of parties in whom directors or persons who are substantial owners of the entity are interested and with whom transactions are likely.
- (ix) Degree of reliance to be placed on the accounting system and internal control.
- (x) Possible rotation of emphasis on specific audit areas.
- (xi) Nature and extent of audit evidence to be obtained.
- (xii) Work of the internal auditors and the extent of reliance on their work, if any in the audit.
- (xiii) Involvement of other auditors in the audit of subsidiaries or branches of the client and involvement of experts.
- (xiv) Allocation of works to be undertaken between joint auditors and the procedures for its control and review.
- (xv) Establishing and coordinating staffing requirements.

(Note : Student may also refer SA 300)