

## Audit programme

### Concept

**3.3-1 SA 300 : Planning an Audit of Financial Statements** suggests that the auditor should prepare a written audit programme setting forth the procedures that are needed to implement the audit plan.

**Megis** has defined audit programme as,

*"A detailed plan of auditing work to be performed, specifying the procedures to be followed in verification of each item in the financial statements and giving the estimated time required."*

**Stettler** defines it as,

*"An outline of all procedures to be followed in order to arrive at an opinion concerning client's financial statements."*

Thus, *audit programme* can be defined as "a logically planned examination specifying the audit procedures to be applied in given circumstances for accomplishing the audit objectives, giving an estimate of time required to finish a particular work and laying down responsibilities of members of audit team."

### Development of audit programme

**3.3-2** The auditor may choose between standard and specific audit programmes. Some auditing firms utilise standard audit programmes classified by type of client (*i.e.* manufacturing, trading, hospitals, clubs, etc.) and make whatever additions, deletions or changes in it, that may be necessary to fit the requirements of the particular engagement. Other audit firms, in order to be closely acquainted with conditions affecting an entity, tailor the programmes specifically to the client. The auditor may adopt any of these programmes depending upon the specific requirements. An audit programme should be modified (if a standard audit programme is being used) or designed (*i.e.* tailored audit programme) by the audit firm keeping in consideration the following factors :

- (i) **Internal control system** - The extent of substantive testing depends on the quality of client's internal control system. An audit programme should reflect this quality. *For example*, the auditor may justifiably limit extent of

test checking of inventory if he is satisfied that internal control in relation to it is strong. That is to say, the system of documentation of purchases of goods and the approval of such purchases is proper, perpetual inventory records are reliable and the system of physical counting of inventory is fool proof.

- (ii) **Nature of client's activities** - Audit programmes must be tailored to fit the unique characteristics of the entity under audit because audit areas may differ in significance for them. Consequently, heavier concentration of audit resources viz. time and audit staff, are needed for the more significant categories of transactions and balances. *For example*, an audit programme for a bank would differ significantly from one developed for a manufacturing concern because audit areas significant to them are not the same. An auditor in case of a bank would concentrate on verification of loans receivable and performing tests for solvency and liquidity and in case of a manufacturing client, more audit resources would be applied to verify purchases and plant and machinery. Similarly, an auditor would have to earmark a greater proportion of audit resources to audit the inventory balances of a client who is a wholesale trader and comparatively less resources would be allocated for the same purpose in case of a manufacturing client.
- (iii) **Cost-benefit** - For selecting an audit procedure for a particular item, while developing the audit programme, the auditor should consider cost (in terms of time and money) of performing the procedure and the benefits likely to accrue. If two or more sets of audit procedures are there and both would attain the specified audit objectives satisfactorily, the auditor should select the procedure costing less. *For example*, for the purposes of verifying existence of inventories stored off the premises, the auditor may correspond directly with the custodian to confirm it rather than visiting each location.

To summarise, audit programme should be drafted after considering system of internal control, nature of client's activities and cost-benefit analysis. An illustrative audit programme (partial) is given in Figure 3.2.

### Advantages of an audit programme

3.3-3 An audit programme brings forth the following advantages:

- (i) **Provides clear-cut instructions** - A written audit programme provides the assistants with a clear set of instructions about the work to be done by them.
- (ii) **Provides a total perspective** - A written audit programme reduces possibility of ignoring or overlooking certain books and records. Without it, assistants cannot get a perspective of the work to be performed and may also end up repeating unnecessarily much of the work carried out at previous audit.
- (iii) **Provides a tool for efficient distribution of work** - An audit programme is prepared keeping in mind the level of competence and experience of individual members of audit team. The junior members are given routine work and senior members handle the more complex assignments.

- (iv) **Assists in fixing responsibility for work done** - An audit programme incorporates the details of allocation of duties among the members of audit team. The work done may be traced back to the individual staff member.
- (v) **Helps in assessing progress of work** - An auditor can assess the progress of all audits by examining the audit programmes and ascertaining what part of audit work has been completed and what remains to be done.

FIGURE 3.2

**ILLUSTRATIVE AUDIT PROGRAMME**

ABC Company

Partial Audit Programme - Investment for the year 2012-2013

Audit Procedures	To be conducted by	Time		To be reviewed by	Date(s)	Working paper reference	Initials of the assistant responsible	Initials of reviewer	Remarks
		Estimated	Actual						
1. Inspection of Investments :									
(a) Obtain a list of investments as on balance sheet date									
(b) Compare list of investments with corresponding ledger									
(c) Check the adjustment made in cost of acquisition or sales value									
(d) Carry out a physical examination of securities acquired near end of the period under audit									
(e) Examine statements/certificates issued by depository or custodian for the scrips held by them									
(f) Obtain certificates from third parties in									



Audit Procedures	To be conducted by	Time		To be reviewed by	Date(s)	Working paper reference	Initials of the assistant responsible	Initials of reviewer	Remarks
		Estimated	Actual						
case they hold investments owned by the client (g) Examine justification for keeping investments with third parties.									

- (vi) **Serves as evidence against charge of negligence** - An audit programme is of immense evidentiary value for defending law suits charging auditor of negligence. A properly drawn and duly initialled audit programme can easily establish the exercise of reasonable skill and care by the auditor.
- (vii) **Serves as a basis for subsequent revision** - The audit procedures may be modified in the light of any changes taking place within an enterprise especially in the system of internal control and accounting procedures and also experience gained during the course of conducting past audit.

### 3.3-4 Disadvantages of an audit programme and safeguards

Disadvantages	Safeguards
<ol style="list-style-type: none"> <li><b>Audit work becomes mechanical</b> - The audit procedures are listed in detail. As a result work becomes mechanical. Particular parts of programme may be executed without proper understanding of their significance to audit process.</li> <li><b>Rigidity</b> - The listed procedures are carried out by audit assistants despite changes in business operations such as changes in internal control system or staff. (<i>Pacific Acceptance Corporation Ltd. v. Forsyth</i>)</li> <li><b>Shields inefficient staff</b> - Inefficient audit assistants may take shelter behind the programme <i>i.e.</i> defend their deficiencies in their own work on the plea that no fixed instructions in the matter were contained therein.</li> </ol>	<ol style="list-style-type: none"> <li><b>Encourage staff to draw attention</b> of the auditor to any defects in the programme.</li> <li><b>Staff should discuss modifications</b> necessary in the audit programme in the light of changes in internal control system, accounting procedures, business policy of the client and unexpected results of audit procedures.</li> <li><b>Caution the staff not to restrict themselves to investigative routines</b> set forth in audit programme and should be encouraged to explore fully unusual transaction or questionable practices that come to their knowledge while carrying out the audit.</li> </ol>

Disadvantages	Safeguards
4. <i>Reduces the initiative of efficient staff</i> - It may put fetters on the initiative of efficient and intelligent staff members. They may be able to decide upon the audit procedures themselves.	

**Conclusion :** If an audit programme is revised constantly on the basis of suggestions and observations of audit staff, it will not only give the staff a sense of involvement but will also serve as a tool of planning and control of audit work better.

**SA 300** also envisages a continuous update and change in audit plan (audit programme) on the basis of audit procedures performed by auditor and his assistants. However, it is left to the professional judgment of the auditor to accept or reject suggestions to revise the audit programme made by assistants. If auditor finds them useful, it may revise the audit programme, otherwise he may ignore them.