

Does your audit plan direct and control the audit to ensure it is carried out effectively and efficiently? Andrew Teague explains what steps you can take to achieve this.

the importance of audit planning

■ **Statement of Auditing Standard (SAS) 200.1** requires the auditor to plan the audit work so as to perform the audit in an effective manner. Inadequate planning can – and does – lead to deficiencies in the audit evidence obtained.

The audit plan should direct and control the audit to ensure it is carried out effectively and efficiently. If planning is not adequate, the auditor may overlook necessary testing of a key area and instead devote too much attention to a less critical item.

ACCA's Monitoring Unit often finds planning to be a weak area on audit files, particularly where firms provide other services to their clients, or where the principals perform the audit work themselves.

the overall plan

A firm's principals and audit staff are sometimes surprised that the monitoring visit has identified weaknesses in planning. This may be because they view completion of their audit pack's standard checklists as an end in itself. They have lost sight of the objective of planning, which is to describe the expected scope and conduct of the audit (**SAS 200.2**).

This can be achieved by preparing an overall audit plan which identifies the critical areas of the audit, together with the audit objectives and the tests necessary to obtain sufficient audit evidence in each critical area.

The overall plan brings together a number of separate tasks, which are specifically covered by other SASs.

knowledge of the business

SAS 210 requires the auditor to obtain knowledge of the entity's business which is sufficient to identify and understand the events, transactions and practices which may have a significant effect on the financial statements and the audit.

Much of the information will already be known to the auditor through previous experience of the entity or the industry in which it operates. However, the auditor needs to identify any significant changes and it may be necessary to visit the client's premises and discuss developments with key personnel.

The auditor should then use this knowledge to ensure that adequate audit procedures are designed to address the critical areas. However, the Monitoring Unit often finds that the firm's record of the client's activities is not adequate for this purpose, because it omits information such as how the business operates, its products, markets and key customers or suppliers.

In addition, the auditor should identify those laws and regulations with which the entity has to comply and then assess whether any are critical to its ability to conduct business; **SAS 120** requires the auditor to

tailor the audit plan to take account of possible or actual instances of non-compliance which may materially affect the financial statements.

accounting systems and risk assessment

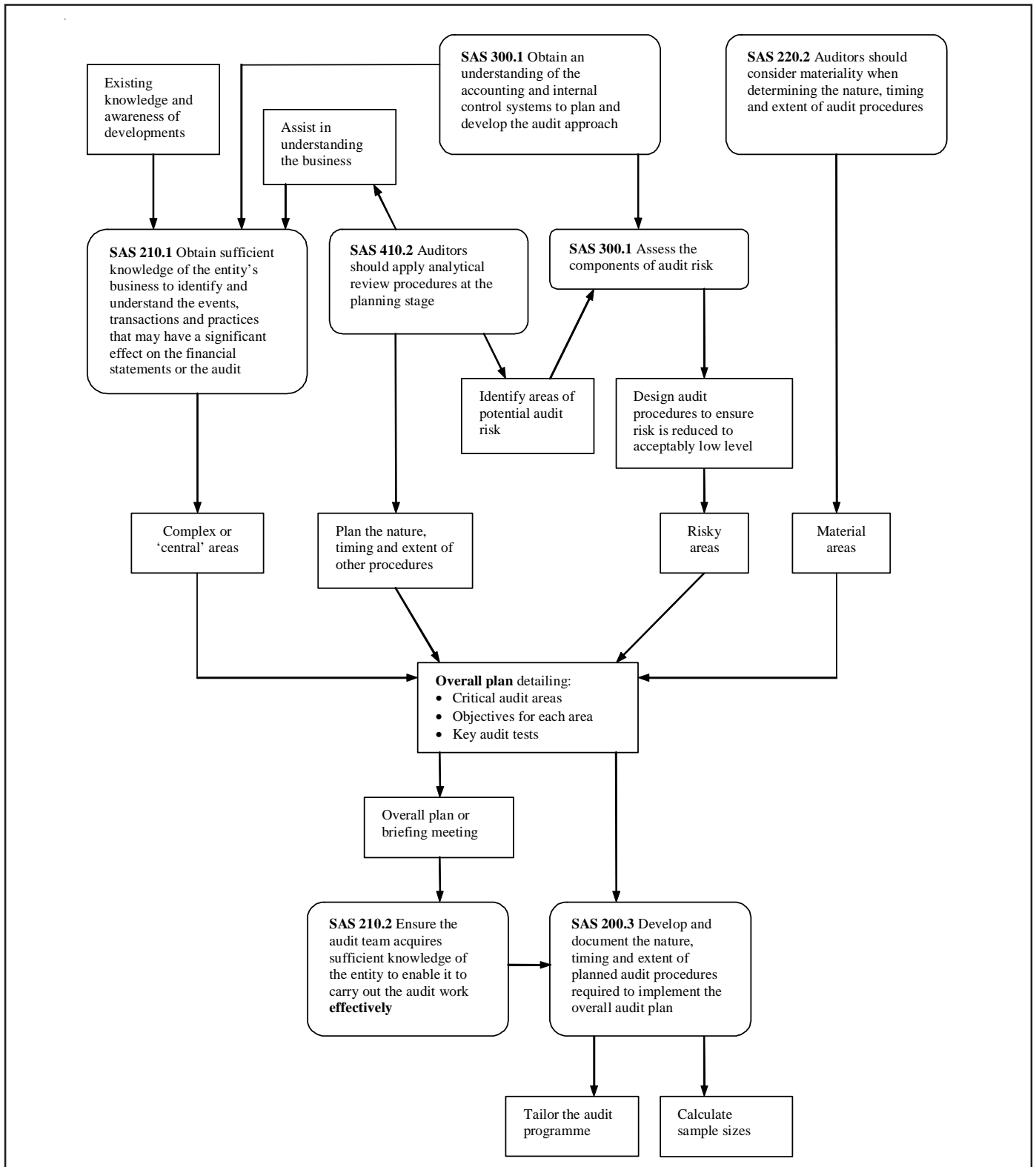
SAS 300 requires the auditor to obtain sufficient understanding of the entity's accounting and control systems to plan the audit and develop the audit approach. A deficiency commonly found is that the firm limits its notes to a description of the basic accounting system.

The auditor must cover the client's systems in the wider sense, including those for raising sales invoices and the method of stock control. Understanding and documenting these systems is vital, as they will need to be tested substantively.

SAS 300 also requires the auditor to assess the components of audit risk and design audit procedures to reduce it to an acceptably low level. A smaller firm rarely, if ever, encounters internal controls that are adequate to enable it to perform compliance tests to ensure the controls are operating effectively and then reduce the level of its substantive testing accordingly. It is therefore usually acceptable for the auditor's notes on the client's operations and accounting systems to include an assessment of the risk of errors occurring, although the firm's standard risk assessment forms can also be used.

continued on p16

constructing an effective audit plan



the importance of audit planning

materiality

SAS 220 requires the auditor to consider materiality when determining the nature, timing and extent of audit procedures. This enables the auditor to decide which items to examine and whether a sampling approach is appropriate.

Whilst there is no prescribed formula for its calculation, it is a misconception that materiality is simply a figure used to decide whether to make adjustments to the accounts.

Sometimes, the firm states on its planning schedules that it does not need to calculate materiality as it intends to correct all errors; the firm then goes on to state elsewhere in the working papers that errors found in its testing are not material. Another common error is the failure to apply materiality properly in deciding the extent of audit work, for example by omitting material balances or transactions from a sample selected for testing.

analytical review

SAS 410 requires that the auditor apply analytical procedures at the planning stage to assist in understanding the business, in identifying areas of audit risk, and in planning the nature, timing and extent of other procedures.

Unfortunately, a common weakness is that auditors do not clearly record their review of the available information to identify significant or unexpected fluctuations that may require specific audit attention. As a result, the auditor may fail to perform sufficient relevant testing.

nature, timing and extent of planned audit procedures

The planning process must start early enough to ensure that a critical audit procedure, such as attending the client's year end stock take or assessing cut off procedures, is not overlooked. **SAS 200.3** requires the auditor to develop and document the nature, timing and extent of planned audit procedures required to implement the overall audit plan.

In most cases, the documentation takes the form of a standard audit programme,

which instructs the audit team on the audit objectives and timing of detailed audit procedures. The firm may either purchase an audit programme or develop one itself; either approach is acceptable, but it is important that the firm tailors the programme to reflect the requirements of the individual audit.

However, the Monitoring Unit sometimes finds that the firm has simply stated the standard programme is to be used throughout, with the result that the audit work is not sufficiently focussed. To avoid this risk, the firm should identify on the audit programme the key tests required to obtain sufficient appropriate audit evidence. It may also be necessary for the auditor to specify on the plan exactly how a particular test should be performed, in order to ensure that it provides appropriate evidence about the specific objective being tested.

sampling

The auditor may conclude that sufficient audit evidence can be obtained and a valid conclusion reached by using audit sampling. In this case, the auditor should also tailor the audit programme at the planning stage to specify the sample sizes and selection methods.

If these decisions are left to the audit team during fieldwork, there are two risks: first, that insufficient evidence may be obtained because the sample size chosen is too small; and second that the items selected are not representative of the population being tested.

conclusion

The diagram on the previous page shows how knowledge of the business, analytical procedures and the assessment of risk and materiality lead to the construction of an overall plan. This is then used to develop the audit programme, calculate samples and brief the audit team.

Without adequate planning, there is a risk that the audit opinion will not be properly supported, because the firm has failed to perform and record necessary procedures to obtain the audit evidence required. ■

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