Audit Planning in Contemporary Organisation: Issues of great Importance

Promise A. ORDU¹ ; Gospel J. CHUKWU² ; Amos NAMAPELE² & Micheal BARIGBON²

¹Department of Accounting, Faculty of Business Studies, Ignatius Ajuru University of Education, Rumuolumeni, Port Harcourt, Nigeria
Phone: +234 803 865 0798
Email: promise_ordu@yahoo.com, macpromise@hotmail.com

²Department of Accounting, Ken Saro Wiwa Polytechnic, Bori, Rivers State, Nigeria

ABSTRACT
Audit plans are essential in order for the auditor to carry out an effective audit exercise that will lead to audit report that presents the true and fair view of organizational activities in the audit year. However in carrying out this exercise, a detail planning is required. This paper succinctly discusses the concepts of audit Plan, and Audit Plan Memorandum. Policeman theory of auditing is the theoretical framework of which the paper is based. The paper highlighted that to effectively carry out audit work; the planning process must start from the researching including obtaining background information as well as having an unbiased mind and open communication amongst others. These factors when ignored could to ineffective audit process.

Keywords: Audit Plan, Audit Planning, Audit Plan Memorandum; Financial Statements

INTRODUCTION
It is often said that where one or organization fails to plan, it has planned to fail. So planning is an aspect of the organization and its survival depends on how effective it can plan. Audit plans are essential in order for the auditor to carry out an effective audit exercise that will lead to audit report that presents the true and fair view of organizational activities in the audit year. However in carrying out this exercise, a detail planning is required. Furthermore, planning requires essentials that enable the audit exercise become successful. In this paper, however, various concepts such as audit plan, audit plan memorandum are examined and explained. Furthermore, the essential required for appropriate audit planning as well as discussing some of the advantages of effective audit planning both to the organization as well as to the auditor is the focus of this paper. First, the theoretical underpinning for the paper is examined as well as literatures in contemporary that gives credence to issues to consider when designing effective audit planning.

LITERATURE REVIEW
Theoretical Framework
In this paper, the Policeman’s theory is adopted as its main theoretical framework due to its relevance in the discussion of the issue of Audit functions including the planning process needed for effective and efficient audit exercise by the auditor for organisations

Policeman Theory of auditing
This theory of auditing is based purely on the arithmetical accuracy and on the prevention and detection of fraud. This theory makes the auditor to detect and prevent errors and fraud in organizations. In other words, as this theory posits, the auditor has to act as a policeman with actions and intentions to watch, safeguard and protect the organizational resources so that stakeholders could benefit overall. It is argued that from the 1940s till present, there has been a shift of audit paradigm as
compounded by recent financial statement frauds, such as those at Societe Generale, Satyam, Ahold, Enron, etc (Egbunike & Egbunike 2017), consequently there is an increasing debate on the responsibility of the auditor both at the internal and external level to detect and disclose fraud, thus the auditor must “Police” the organizations at all times. However, to be able to do the policing as his functions, planning and strategy must be designed and adhered to otherwise, the auditor could puts both himself as well as the organization at risk.

Conceptual review

Definition and explanation of Audit Plan, and Audit Plan Memorandum
Audit plan is the document that details the overall strategy that is to be adopted to carry out the audit work effectively. It contains the following: 1) scope of the work to be carried out, 2) the resources of the staff allocated to specific areas, 3) the timing of the audit engagement; 4) the audit procedures to be performed in other to test for management assertions regarding specific events and transactions (ACCA, 2015). With the plan in place, the auditor must be able to exert full control of the audit activities otherwise it will not be effective. In other words he or she must exert control of the planned activities so as to achieve efficient result from the audit work.

Audit Plan Memorandum (APM): this is used to refer to audit plan documentation (Ohaka & Imo, 2016). It usually contains information such as:

1). Background information: under here, the financial history of the entity is found, nature and trend of the entity business or services; internal control procedures in place, entity’s accounting systems and records as well as terms of reference of the audit assignment. Stressing on the importance of background information, Zakari (2013) suggested that the auditor should seek to understand the accounting policies adopted by the entity and changes in these policies. Furthermore, the auditor’s cumulative knowledge of the accounting and internal control systems and the relative emphasis expected to be placed on tests of control and substantive procedures, whilst reviewing matters raised in the previous year’s audit, which may have continuing relevance in the current year will help to make the guide the timely and effective completion of the audit work. Reviewing involves looking at previous year’s working papers. In doing this, the auditor will be able to identify areas noted as having weak controls or specific accounting problems, thus attention paid to such areas in the audit plan. Assessing the effects of any changes in legislation or accounting practice affecting the financial statements of the company is another issue. The audit plan should include a review of these changes and whether the client has complied. The auditor should consult with management and staff of the organization about current trading circumstances and any significant changes in the business carried on and the management of the enterprise. An example of this could be looking at changes in management which might weaken the internal control system. Identifying any significant changes in the clients accounting procedures such as installation of a new computer information system is also important as changes to a computerized system could result in weak controls (Zakari, 2013).

METHODOLOGY
This paper adopted the theoretical and content analysis approach. Extensive literature review was conducted. These include online Journals and database of standard setting bodies such Auditing standards board, Association of Certified Chartered Accounts (ACCA) amongst others.

FINDINGS AND DISCUSSIONS
Audit Planning:
The purpose of audit planning may be defeated if the audit may not follow the carefully thought out audit plan (Gartland, 2017). Dwight D. Eisenhower’s cited by Gartland (2017) posits that “Plans are worthless, but planning is everything”. As a result it is argued that the value of audit planning is not derived solely from the resulting audit plan. However, the real benefit of audit planning is gained from the process itself. This involves painstakingly documenting endless client details amongst others and in doing this, the auditors achieve more than just compliance with professional standards but also develop more efficient engagements and help reduce professional liability risk (Gartland, 2017).

The whole auditing process can generally be divided into three different phases. The audit planning phase includes procedures such as gaining an understanding of the clients and its business, making risk and materiality assessments, determining an audit strategy, and determining the type of evidence to collect, based on the risk levels (Gartland, 2017).
Performing the audit: this refers to the means of collecting evidence. Finally, the reporting phase deals with making conclusions, reporting any necessary adjustments to management, and issuing the independent auditor’s report. Audit planning is important because auditors should plan and perform the audit to reduce audit risk to an acceptably low level that is consistent with the objective of the process. The auditor should plan the nature, timing, and extent of direction and supervision of the engagement team members and review of the work. The four main reasons for audit planning include:

- To identify areas of risk of material misstatements
- To design audit procedures to address those risks and to obtain sufficient appropriate evidence
- To help keep audit costs reasonable
- To avoid misunderstandings with the client

Gartland (2017) further advised that in addition to the professional liability risk management considerations that can be gleaned from the professional standards, two additional suggestions should be kept in mind. These are:

- **Invest the time**: Proper planning is an investment in time that is intended to pay dividends in later phases of the engagement. Identifying a potential issue or complex audit area at the start of the planning process could save time later in the audit. That additional effort, while it may seem difficult in the moment, could save time as deadlines approach. Errors are more likely to occur when timing is compressed, causing work to be rushed. If planning can alleviate even a portion of the demand for time during the busiest periods of the year, exponential gains in efficiency and reduction of professional liability risk can be realized.

- **Be flexible**: Planning is a guide for work to be performed, not a step-by-step instruction manual. Flexibility creates a positive tone that can be established in planning and carried through to issuance. The audit plan and strategy developed at the start of the engagement should be updated and adjusted based upon information gathered throughout the engagement. Maintain a focus on achieving the correct end result, rather than simply finishing the audit. Flexibility also allows the audit plan to be quickly modified when unexpected risks arise, thus reducing professional liability exposure that would exist if adjustments were not made.

**Audit strategy**: the audit strategy will include issues such as audit objectives, overall audit approach to be adopted; audit risk analysis and approach for testing various management assertions on the financial statements as well as noted areas that requires special audit attention and testing procedures such as a combinations of more than one testing procedure.

**Job or assignment administrations**: In this section, partner in charge of the audit assignment is identified and highlighted; manager in charge of the audit work; date of audit visits as well as date of audit events. As noted by Zakari (2013), in the audit plan memorandum, the auditor should also determine the number of audit staff required, experience and special skills required and the timing of the audit visits. It is when these are documented that the audit work is carried out according to its objectives. Without the proper documentation of these activities as to be carried out during the audit work, the auditor could be off track on its assignment.

**Audit programs and procedures**: apart from audit time budget and audit cost budget which are identified in the audit programs of the APM, the schedules of procedures to be executed during the course of the audit in other to obtain appropriate and sufficient audit evidence of which conclusion can be drawn are also stated here. Importantly, the audit program serves as a guide to staff members during the audit exercise as such must be detailed so as not to mislead that will in turn lead to unreliable audit report.

**Factors to consider before the audit plan documentation**
This involves the preparatory work that the auditor must do in other to enable the auditor drawn out an effective audit plan. Bylow (2018) summarized the process as follows:

- **Research the Audit Area**: He argued that it is essential to understand the business process or function to be audited. If not familiar with it, a thorough research the process or function is needed so that the auditor could fully understand the subject matter. In addition, a review of internal procedures, searching the internet for resources, and eventually seeking for from subject matter experts will reveal vital information that can be included in the plan.
Maintain Open Communications throughout the Planning Process: this is important as there is a certain amount of trepidation (Audit expectation gap) involved in any audit. Working with an auditee prior to the audit helps ease concerns the auditee may have. Communicating in person is always preferable. If this is not possible, telephone calls are the next best thing. Avoid communicating by email if possible (Bylow, 2018).

Conduct Process Walk-Throughs: where the auditor is armed with a working understanding of the process or function, there is need to conduct a face-to-face walk through with the auditee. Furthermore, the auditor would identify key business objectives, methods employed to meet objectives, and applicable rules or regulations. A walkthrough may include a tour or inspection of facilities. By doing this, the auditor may gather background information relative to the nature, purpose, volume, size, or complexity of automated systems, processes, or organizational structure. All these activities provide opportunities to interface with the auditee and build rapport before the formal activity of the audit work.

Map Risks to the Organization, Process, or Function: to effectively do this, it is important to ask the auditee what his concerns are, what "keeps him up at night." Through research and interviews, risks to meeting business objectives and controls employed to mitigate those risks can be identified. Further, rate risks with the auditee based on probability of occurrence and potential impact. In addition, considering control design, gaps, or mitigating factors to determine if the control system effectively mitigates risks is essential to employ.

Obtain Data Prior to Fieldwork: The auditor is expected to perform data analytics before the commencement of the audit work. This will help to identify anomalies to confirm a condition or weakness early which could help the auditor target testing and optimize sample selections.

Significance of Audit Planning
Improved and proper planning no doubt will provide the auditor significant benefits which could result in reduced cost as well as reduced time in completion of the audit work. Specifically, the audit planning will enable the auditor to accomplish the following that will lead to effective audit work that will lead drawing worthwhile conclusions:

- Ascertain the number of staff required to complete the audit assignment,
- Ascertain the expected time for the completion of that audit assignment
- Estimate the cost of resources to complete the audit assignment
- Determine whether the audit will require the use of experts
- Know the extent to which internal controls available will be relied upon or disregarded.
- Also highlight areas of special audit emphasis and ensures that attentions is devoted to those areas during the audit exercise.
- Improved credibility between stakeholders and the auditor
- Increased number of process improvements
- More in-depth and significant issues identified by the audit

Benefits of audit planning to Financial Statements
Audit planning is addressed by ISA 300 Planning an Audit of Financial Statements. It states that adequate planning benefits the audit of financial statements in several ways:

- Helping the auditor to devote appropriate attention to important areas of the audit.
- Helping the auditor to identify and resolve potential problems on a timely basis.
- Helping the auditor to properly organise and manage the audit engagement so that it is performed in an effective and efficient manner.
- Assisting in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks and the proper assignment of work to them.
- Facilitating the direction and supervision of engagement team members and the review of their work.
- Assisting, where applicable, in coordination of work done by experts.
CONCLUSION
As can be seen from the discussion and analysis, audit planning is the audit phase in which the auditor can best influence audit results. This is achieved when preparatory procedures have been adequately done then information which will guide the effective and efficient completion of the audit task could be identified and thus makes the APM as useful as much as possible in the overall execution of the audit task. Audit planning is a key but too easily overlooked component of the audit process. As asserted by Brylow (2018), it is something that needs to be emphasized and institutionalized into a habit, and this habit when cultivated will ultimately lead to audit success.

REFERENCES


