Audit Planning and Risk Assessment

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Audit planning

Objectives of audit planning

- To ensure that the audit is performed in a smooth and effective manner
- Plan the Audit in order to understand the business
- Audit planning enables the auditor to perform preliminary activities such as
  - Engagement acceptance
  - Continuous evaluation of compliance on independence and ethics

Audit planning

- Understanding the terms of engagement
- To enable the auditor to plan the nature of audit, timing, team members and review of the work
- Planning is required to identify the resources needed, e.g. expatriates needed in the assignment, resource management etc
- Establish document requirements

Steps in Audit planning

- Basic Discussion with the client
- Review of audit documentation
- Ask about relevant developments
- Interim financial statements
- Non-audit personnel e.g. tax staff
- Staffing for audit
- Timing
- Outside assistance e.g. specialist
- Pronouncements on accounting principles and audit guides
- Scheduling with the client

Audit planning – Why?

- Planning an Audit of Financial Statements requires that an auditor plan their audit to reduce *audit risk* to an *acceptably low level*. Audit risk is the risk that an auditor issues an unmodified or clean audit opinion when the financial statements are in fact materially misstated. The planning stage involves determining the audit strategy as well as identifying the nature and the timing of the procedures to be performed. This is done to optimize efficiency and effectiveness when conducting an audit.

Risk assessment

Audit risk assessment is part of planning and a process where auditors consider

- Setting materiality and assessing audit risk and inherent risk
- Understanding internal control and assessing control risk
- Gathering information to assess fraud risks

Risk assessment

Definitions

Audit Risk – this is the risk of reaching incorrect conclusion. The components of audit risks are

- Control risk – the risk that a material error exists that could not be prevented, or detected on a timely basis by the system of internal control.

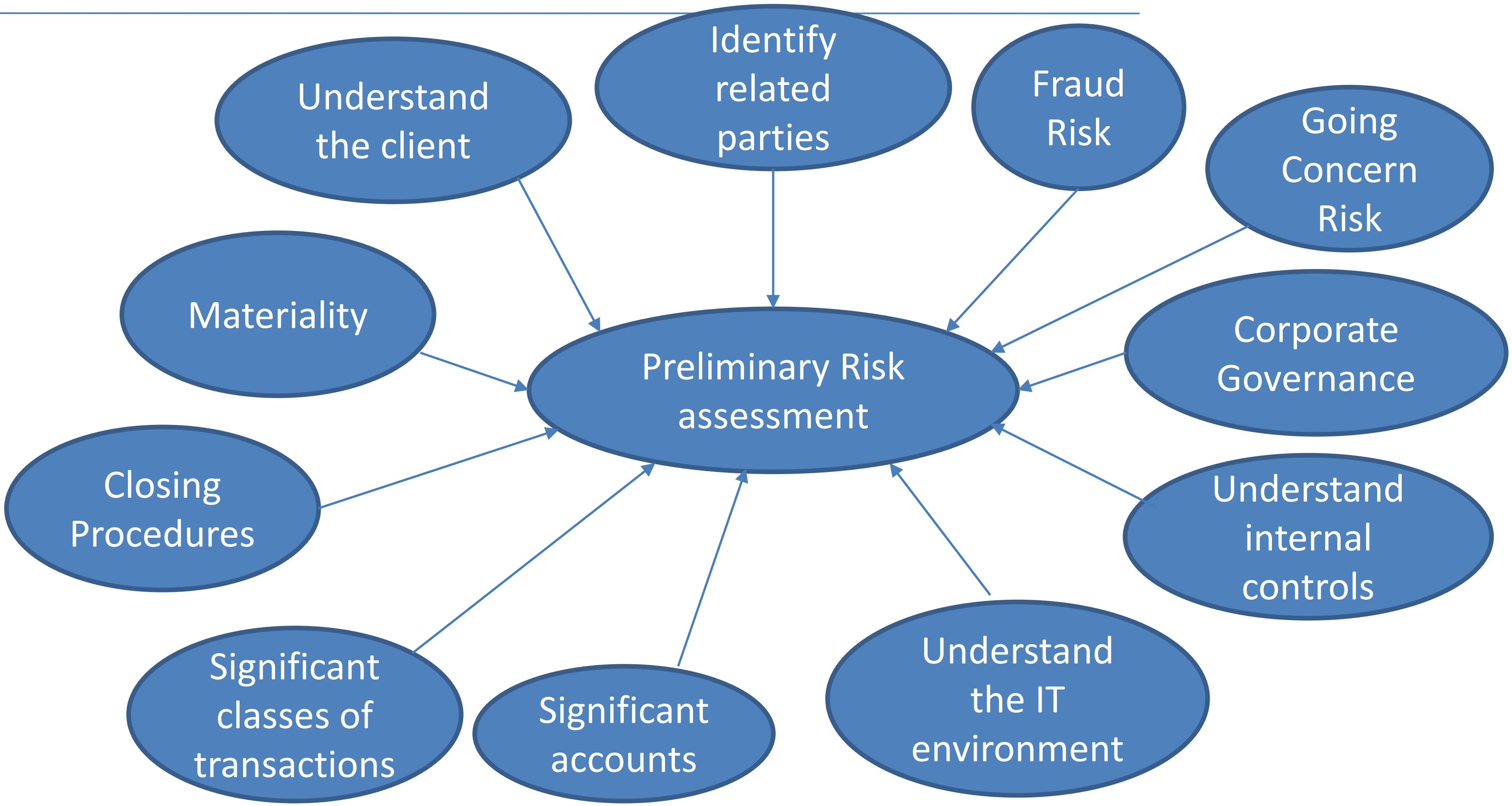
- Inherent risk - This is the susceptibility of an assertion about a class of transaction, account balance, or disclosure to a misstatement that could be material, either individually or when aggregated by other misstatements, before consideration of any related controls

Risk assessment

- Detection risk - This is the risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements
- Other Definitions

  fraud an intentional act through the use of deception to obtain an unjust or illegal advantage

Preliminary Risk Identification



Responsibility of the auditor to risk assessment

ISA 315 – The standards requires the auditor to:-

- ✓ Perform risk assessment procedures in order to provide a basis for the identification and assessment of the risks of material misstatement.
- ✓ Obtain an understanding of the entity and its environment, including the entity's internal control systems

Responsibility of the auditor to risk assessment

- ✓ To identify and assess the risks of material misstatement, and determine whether any of the risks identified are, in the auditor's judgement, significant risks. This is in order to provide a basis for designing and performing further audit procedures

Case study