Posted on May 14, 2022 By John In AUDIT Subscribe to newsletter The auditing process involves assessing a client's financial statements to form an audit conclusion. There are several stages involved in this process. Primarily, auditors perform the most critical tasks during the fieldwork stage of an audit. However, they must also have a plan to execute during this stage. This plan falls under the audit planning process. What is Audit Planning? Audit planning is a stage during the audit process that involves developing an outline for an audit assignment. It allows auditors to lay the foundation for future audits. Usually, it entails figuring out the audit procedures and techniques to use based on several factors. This plan helps auditors manage their audit workflow and reduce audit risks. Audit planning is the first stage during an audit engagement. Auditors conduct this stage to ensure they identify the critical areas in the financial statements. Similarly, it allows them to allocate sufficient resources to those areas. On top of that, it also enables auditors to identify areas that may include material misstatements. Overall, audit planning allows for the coordination of the audit process. How does Audit Planning work? Audit planning is the first step during an audit engagement. It involves various stages which are essential to developing an outline. Usually, the audit planning process requires auditors to create an audit strategy first. This process requires them to set the scope, timing, and direction of the engagement. On top of that, it also helps allocate resources for specific areas and manage those resources. Once auditors develop an audit strategy, they can devise an audit plan. This plan is more specific and detailed than the former. Usually, it involves various processes. For example, it includes the nature, timing, and extent of risk assessment procedures. On top of that, it also consists of the audit procedures that auditors expect to perform. The audit plan also involves other procedures that auditors must perform to conform to the ISAs. Primarily, audit planning requires auditors to develop an audit strategy. Based on that strategy, they must become more specific and include detailed steps to achieve the goals. Audit planning may differ from one client to another based on the nature of the work. However, it involves a similar process. What are the advantages of Audit Planning? Audit planning provides various benefits to auditors and helps them achieve their goals during an audit. However, its advantages are more specific than that. Some of those include the following. Helps identify critical areas and allows auditors to focus there. Identifies areas where manual processes can be automated to increase assurance. Allows audit firms to allocate resources efficiently. Helps keep costs down to a reasonable level. Aids in the smooth execution of the audit work in later stages. Allows auditors to focus on and achieve their objectives for a specific engagement. Ensures the timely completion of work without compromising quality. Allows coordinating audit activities to ensure an efficient process. Apart from these, audit planning can also have other benefits. The above does not constitute an exhaustive list of the benefits of audit planning. Conclusion Audit planning is the first stage in an audit engagement. It allows auditors to form an outline for an audit. Primarily, audit planning involves developing an audit strategy and audit plan. The former sets the layout for the whole process. On the other hand, the audit plan creates a detailed outline based on the strategy. Audit planning can have several benefits, as listed above. Further questions What's your question? Ask it in the discussion forum Have an answer to the questions below? Post it here or in the forum Audit planning versus strategy, scope of audit plans, necessary steps to take when developing a plan, and more. Jump to: What is included in an audit plan? 7 steps to develop an audit plan How long does audit planning take? Audit planning is the bedrock of a successful audit. It is a crucial first step in the audit process that, when done properly, helps auditors conduct efficient audits, ensure compliance with standards, and mitigate risk. This is especially important in today's environment as businesses face ever-growing complexities and evolving risks. Audit planning, however, is not a simple, check-off-the-box process. Several factors must be considered, like the client's business environment, their operations and system of internal controls, and timing of the engagement. To help auditors gain a clearer understanding of audit planning, this article takes a closer look at what is typically included in an audit plan, how it differs from an audit strategy, how to develop an audit plan, and more. What is audit planning? Audit planning is the development of a detailed plan, or blueprint, for conducting an audit. Audit planning, which is based on the overall audit strategy, involves the risk assessment procedures that will be executed, as well as the anticipated responses to the risks of material misstatements for a particular audit. In addition to risk assessment activities, the audit plan should also indicate the audit procedures needed to ensure compliance with the professional audit standards applicable to the engagement. While audit planning is a vital first step in the audit process, the Public Company Accounting Oversight Board (PCAOB) points out at AS 2101.05 that, "Planning is not a discrete phase of an audit but, rather, a continual and iterative process that might begin shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit." Audit strategy versus audit plan Audit planning involves the establishment of the overall audit strategy. The audit strategy sets out, in general terms, the scope of the engagement, how the audit is to be conducted, the direction of the audit, as well as the timing. The audit plan, on the other hand, is much more detailed as it outlines the steps to be followed in conducting the audit and details the responses to the auditor's risk assessment. What is included in an audit plan? As previously noted, the audit plan is designed to ensure that the audit is conducted efficiently, effectively, and in accordance with auditing standards. Therefore, it is important to develop an audit plan that includes a comprehensive framework outlining the scope, reporting objectives, and focus of the audit. More specifically, most firms' audit plans: Detail the nature, timing, and extent of audit procedures to be performed; Identify significant audit areas and risks of material misstatement and describe the allocation of tasks among audit team members. Consider the company's business environment, system of internal controls, and applicable financial reporting framework and the related accounting policies. Set materiality thresholds and establish deadlines for different stages of the audit. 7 steps to develop an audit plan Developing an audit plan typically involves several key steps, which include: It is important to have a clear understanding of the client when developing an effective audit plan. This involves knowing the following: The client's legal structure, ownership, governance, and related parties; The client's industry, regulatory, and other external factors; Their business model; The objectives and strategies and related business risks; and The measurement and assessment of the entity's financial performance. The auditor also needs to understand the reporting objectives, nature of communications with management and those charged with governance, reporting deadlines, and any statutory or contractual reporting responsibilities. For an audit of a continuing client, much of this documentation can be pulled forward from the previous year with more emphasis placed on changes that may have occurred during the current year. It is essential that the audit team understands, evaluates, and documents the components of the entity's system of internal controls relevant to the audit. It is also important to know and indicate the sources of information used and procedures performed in obtaining the understanding. To focus on areas with the greatest potential impact on the financial statements, establish materiality levels. This is part of establishing the overall strategy for the audit. In this step, the auditor also considers whether lower materiality amounts are appropriate for particular classes of transactions, account balances, or disclosures based on the financial statement user's' perceptions of the particular items. When making a risk assessment, audit teams take the following actions: Identify significant audit areas; Document the risks of material misstatement affecting the relevant assertions for each significant audit area (including fraud risks or other significant risks); Assess those risks; Select an audit approach that is appropriately tailored to respond to the assessed level of risk; and Document the linkage of the assessed risks to the audit procedures that respond to those risks. There are several factors that are taken into consideration when making risk assessments. Such factors include the materiality of reported amounts, the results of preliminary analytical procedures, information obtained about the entity and its environment (including its system of internal controls), the consideration of fraud, engagement team discussions, and results of engagement acceptance or continuance procedures. It is important to also consider other engagements performed for the entity, and any other sources that provide information relevant to identifying and assessing risks. As noted earlier, developing an audit plan includes the formulation of an audit strategy. The audit strategy outlines the nature, timing, and extent of the audit procedures. These decisions consider the auditor's plans to obtain evidence regarding the operating effectiveness of internal control. To help deliver an effective audit, it is important to assign audit team members based on their skills and experience. This includes management and supervision of personnel. Prepare a written audit plan that outlines the planned audit procedures and serves as a guide for the audit team. Breakdown of the 7 steps auditors should take when developing an audit plan. How long does audit planning take? Audit planning is not a simple process, and the duration varies from client to client depending on the size and complexity of the company being audited, as well as the auditor's prior experience with the client. Generally, for a small to medium-sized company, audit planning may take a few days to a couple of weeks. For a larger, more complex organization, or when the audit team has no prior experience with the company, planning can take several weeks. Regardless, it is important for the audit team to allocate sufficient time for planning to ensure a thorough understanding of the client and to develop an effective audit approach. Executing the audit plan In today's complex and tech-driven environment, executing the audit plan involves having the right training and tools and resources in place to drive efficiencies and to streamline workflows. For those audit firms that have not yet done so, leveraging the cloud is a critical initial step. In fact, many would argue that the cloud is table stakes for firms looking to maintain their competitive edge in today's market. Having the right cloud-based technology enables auditors to work from anywhere and complete audits faster and with greater confidence through real-time data updates, secure online confirmations, and integration with third-party analytics. Let your firm focus on what it does best and rely on Thomson Reuters AuditWatch to deliver training for audit and accounting staff. Specialized courses include Accounting and Auditing Updates, Optimization for Small Audit Teams, Peer Review Remediation, and more. Audit planning is a major part of audit work for both internal and external audits. Good audit planning will help the auditor to minimize its risks, improve audit efficiency, and meet its objective at the minimum effort.Auditors are required to prepare a proper audit plan to ensure that all audit risks are identified and correct audit strategies are deployed to detect all concerning risk areas.It is essential for the auditor to prepare a good strategic audit plan. If the plan is well prepared, all kind of audit risks is identified and detected.This will help the auditor to minimize the audit risks of issuing an incorrect opinion to financial statements.In this article, we will discuss what should auditors do during their audit planning stages and the significant tips for doing the correct audit plan.We divide the audit plan into two main important parts according to the international standard on auditing: Pre-audit activities and Audit Activities.In case you want to discover more, ISA 300 is the standard for the planning of audit engagement for your reference. Okay, now let's start with audit pre-activities.Pre-audit activities are also the importance of audit plan and in this stage, as required by the standard, the auditor should:Perform client due diligence to make sure that the auditor fully understands the client's nature of the business, sources of funds, and its major activities. This is to avoid engaging with the client that involved illegal activities or money laundering.Perform an understanding of client and firm to ensure that there is a major conflict of interest and independence that could affect audit works. Maintaining audit independence is very important to ensure the quality of audit opinion.Consider client integrity before accepting the audit engagements.Understand the term and conditions of audit engagement before accepting to avoid any conflict.At this stage, the auditor requires to establish an overall audit strategy that sets the scope, timing, and audit direction and guides the development of the audit plan.This is to ensure that the audit plan reflects the scope, and nature of engagement. Here is the list of things that auditors should do during the audit plan.The auditor should identify the characteristics of the engagement that define its scope.For example, Audit the client's financial statements or review the client's financial statements for a specific period. This is very important.Most audit firms document this in the audit engagement letter. If the audit fails to identify this in the audit plan, the audit report that the auditor releases might not the one that the client needs.Also, the different types of audit engagement might have a different levels of assurance.For example, reasonable assurance required the auditor to perform their testing detail and much more detail than the review or compile financial statements.A review engagement is a limited assurance and that means less assurance is provided.The reasonable assurance engagement might be for the purpose of the statutory requirement or shareholder requirement. Yet, the review engagement is probably for the purpose of bank requests.The audit report is very important and the auditor should identify the objective of using audit reports and the time required.For example, what is the report using? And probably who going to receive, and access the audit report. This point should also document in the engagement letter.This is also related to the point above. Let's say, the company is required by law to have financial statements audited by a CPA firm annually. This engagement is called reasonable assurance engagement.The timeline of the report is also an important part of the audit plan. If the time is not sufficient, auditors should assess the impact of audit quality as a result of this.In this planning stage, the auditor should assess if the timeline is sufficient enough for them to perform their work as well as manage their resources.Negotiating with the client to have enough time for auditing is the best option; however, if the client does not agree then the auditor should consider whether the allowable timeline really adversely affects the quality of the report.In case, the quality of the audit is impaired to the level that could not accept, then the auditor should consider withdrawing from the engagement.Consider if there are any factors that could affect the audit team member's professional judgment and subsequently the quality of the audit report.For example, there is a conflict of interest between team members and clients. Team member uses to be staff in Finance Departments or clients is the prospective employer of some of the members.Normally, auditors request team members to sign on the Independence Confirmation Form or Conflict of Interest Form.And if there is a conflict of interest, an assessment should perform to identify how seriously it is and the assessment should document and keep properly.In case, the result of the assessment found the conflict of interest is high, for example, if the team leader of the audit team is the manager of the finance team, then he should not allow leading the team.And all of his works related to this engagement should review again by other independent managers.The success of audit engagement and the good quality of audit reports depend significantly on the audit resources. These include the number of audit team members, qualifications, and experiences.There is a number of questions to be asked when assessing audit resources requirement, for example:How many audit team members are required for the engagement?Does the team member have experience in auditing such an industry?When will the audit work start and when will the report require?Where is the client's office location? And do we need to have a lot of traveling?There are many other questions to be asked depending on the characteristic of audit engagements.The audit should also ensure that team members understand the nature of engagement or audit. This is probably done by having a team meeting.If audit resources are not sufficient to conduct audit engagements, then the auditor should negotiate with the client to extend the timeline so that resources could properly manage, or withdraw from the engagement.Risk assessment is also one of the most important parts of the audit plan and it is also the requirement of the International Standard of Auditing.The auditor should perform risk assessments by reviewing from control environments which is the big picture of the control activities of each key process and procedure.Control over financial reporting is the key area to be reviewed and validated. If the control is not strong enough, the audit approach might be changed.The auditor should not rely on the control and they should consider reviewing the transaction and event in detail. In such a case, auditors should consider using a substantive approach to audit financial statements.Fraud assessment is also an important part of this planning and auditors should assess the risks of material misstatement not only because of error but also fraud.Fraud detection is not the auditor's primary responsibility but assessing the risks of fraud is part of the auditing requirement.A risk assessment procedure could be adopted from the COSO framework or other frameworks as necessary.Audit planning is a critical part of audit work and performing the correct audit plan could be the factor that leads to the success of audit engagement. The key areas to be included in the plan are:Conducts proper risks assessments including risks of error and fraudProperly assess the resources requirementProperly identified the engagement characteristicCorrectly identified report requirement and timelineProperly assess the conflict of interestWritten by Sinra Posted on May 23, 2025 By Harbourfront Technologies Subscribe to newsletter We have discussed the impact of 0DTE options on the market, drawing from both practitioner insights and academic literature. Both sources point to the conclusion that 0DTE options have little or almost no impact on the market; they do not increase market … Posted on May 27, 2025 By Harbourfront Technologies Subscribe to newsletter As crypto currencies gain broader acceptance, some corporations have begun including crypto in their balance sheets, forming new "crypto treasury" models. However, these models entail significant financial risks. Digital asset price volatility can translate into earnings variability and elevated refinancing risk—effects that … Posted on May 19, 2025 By Harbourfront Technologies Subscribe to newsletter Parameter optimization is a technique used in trading strategy design. It is used to identify the best set of parameters for maximizing performance and to study the strategy dynamics in order to gain insights. However, while this technique is frequently applied to … Posted on May 15, 2025 By Harbourfront Technologies Subscribe to newsletter Trend and mean reversion are two prevalent forces in financial markets. Studying their interplay is important, as it provides clues for developing accurate timing models. Reference formally examines the relationship between trend and mean reversion in … To maintain ecological balance, forests play a vital role, which cannot be neglected. When a huge area of land is covered by trees, shrubs, bushes and other plants, and not used for other purposes, it is called a forest. Nowadays, due to the rapid increase in industrialization and urbanization forests are being cleared for urban land use. This practice of cutting down the trees of the forest and transforming them for other purposes is called deforestation. As deforestation has a number of … [Read more...]One can guess a person's belongingness to a particular place before they introduce themselves easily by recognizing their race or ethnicity. Basically, these are two ways which classify people according to their characteristics, into various social groups. The race is understood as the division of human beings, depending on their biological attributes such as skin colour, built, hair, height, eye formation, etc. On the other hand, ethnicity refers to the state of being from a specific social … [Read more...]In the business world, customers are given topmost priority. If the customer is happy and satisfied with your offering, it can do miracles for your business. Customer service is all about the customer's interaction with the company's executive at the time of seeking assistance, concerning the company's product or service. It is often contrasted with the word 'customer experience', which is a broader concept, in comparison to customer service. Customer Experience is about analysing how the … [Read more...]In economics, Human capital refers to the skilled, educated, trained and competent people who are able to produce more human capital, which adds to the strength and wealth of a country or company, and helps in the achievement of goals timely, smoothly and effectively. On the contrary, Human Development is all about increasing the quality of human life, i.e. improvement in the lives of people, opportunities to grow and make better choices. So, human development is nothing but is the overall … [Read more...]A number of approaches to management has been coined so far which seeks to describe the nature and content of the management with different assumptions and views. Of all the approaches developed systems approach has an upper hand over the other approaches, because of its closeness to reality. It suggests definite solutions to the problems. On the other hand, the contingency approach is an extended version of the systems approach. It relies on the assumption that there is no single way of … [Read more...]While industrial relations is clearly associated with trade unions, collective bargaining and industrial actions. Employee relations stress on the management of the employment relationship while developing a positive psychological contract. Industrial relations and employee relations are the two common terms, which highlights a process through which people and their organization connect and communicate, at the workplace, for reason such as smooth functioning of the organization and their … [Read more...]The word 'introduction' needs no introduction, as we all are quite familiar with it, due to its recurrent usage in our day to day life. In general sense, it implies the official presentation of one person to another. However, when it comes to submission of reports, assignments or other documents, it refers to the preliminary piece of information provided at the beginning, to have an idea of what the document contains and why it is prepared. Many of us think that executive summary is similar … [Read more...]Programmed Decisions can be understood as, those decisions which can be taken with the help of customary or routine approach. On the other hand, Non-programmed Decisions are the ones that are taken when there is a rare or unexpected problem faced by organizations. Decision making is a tough task wherein a person has to weigh all the pros and cons of each alternative, in order to logically choose one course of action out of the various alternatives available. While making any decisions, one … [Read more...]In economics, depreciation and devaluation of currency are the two measures of changing the relative price of imports and exports of goods. Depreciation of currency implies the drop in the market value of the domestic currency with respect to foreign currency. On the contrary, the Devaluation of currency can be understood as the government's conscious downward adjustment of the market value of the domestic currency in relation to gold and reserve currency. According to the theory of … [Read more...]The market can be understood as the place, through which the business firm delivers value to its customers. The market can be divided into the business market, which sells goods to those entities that use it for further production or resale, and consumer market, which can be understood as the marketplace for consumers, wherein products are sold by the business entities to the consumers, for final consumption. The crucial difference between consumer market and business market is that in a … [Read more...] The audit plan determines the audit's scope, how the auditor checks the client's accounting system and internal control system, determines the program or type of audit, and sets the audit procedures to carry out the entire audit. An audit plan is a detailed strategy that sets the nature, timing, scope, and boundaries for the auditor to carry out the entire audit procedure. An audit plan contains the nature, timing, and extent of audit procedures (including risk assessment procedures) to be performed by engagement team members to obtain sufficient appropriate audit evidence. Planning the audit includes establishing the overall audit strategy for the engagement and developing an audit plan, which includes, in particular, planned risk assessment procedures and responses to material misstatement risks. Planning is not a discrete phase of an audit but a continual and iterative process that might begin shortly after (or in connection with) the completion of the previous audit. It continues until the completion of the current audit. A good plan and actual control of the work as per the plan will prove to be valuable evidence that the audit has been carried out according to generally accepted auditing practices if the plan and controls exercised are adequately documented. Audit control seeks to ensure that the work is carried out as intended. The auditor exercises control over the quality of the audit by effectively supervising the work of his assistants, coordinating work performed by others, and adequately documenting the audit matters. The auditor should develop and document an audit plan that includes a description of: The planned nature, timing, and extent of the risk assessment procedures; The planned nature, timing, and extent of tests of controls and substantive procedures; and Other planned audit procedures must be performed so that the engagement complies with PCAOB standards. Adequate planning benefits the audit of financial statements in several ways, including the following: Helping the auditor to devote appropriate attention to important areas of the audit. Helping the auditor identify and resolve potential problems on a timely basis. Helping the auditor organize and manage the audit engagement is performed effectively and efficiently. Assisting in selecting 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. Where applicable, assist in coordinating work done by auditors of components and experts. Audit procedures should be discussed with the client's management, staff, and audit committee to coordinate audit work, including internal audits. However, all audit procedures remain the responsibility of the external auditors. Audit planning involves the development of an overall strategy or game plan for the expected conduct and scope of the audit—matters such as the integrity of management, errors and irregularities, and illegal acts. The auditor should plan the audit with professional skepticism about such. The amount of planning required in engagement will vary with the size and complexity of the client and the auditor's knowledge of and experience with the client. As expected, considerably more effort is needed to adequately plan an initial audit than a recurring audit. The auditor should perform the following activities at the beginning of the audit: Perform procedures regarding the continuance of the client relationship and the specific audit engagement, Determine compliance with independence and ethics requirements, and Establish an understanding of the terms of the audit engagement with the audit committee. The nature and extent of planning activities depend on the company's size and complexity, the auditor's previous experience with the company, and changes in circumstances that occur during the audit. When developing the audit strategy and audit plan, the auditor should evaluate whether the following matters are important to the company's financial statements and internal control over financial reporting and, if so, how they will affect the auditor's procedures: Knowledge of the company's internal control over financial reporting obtained during other engagements performed by the auditor; Matters affecting the industry in which the company operates, such as financial reporting practices, economic conditions, laws and regulations, and technological changes; Matters relating to the company's business, including its organization, operating characteristics, and capital structure; The extent of recent changes, if any, in the company, its operations, or its internal control over financial reporting; The auditor's preliminary judgments about materiality, risk, and, in integrated audits, other factors relating to the determination of material weaknesses; Control deficiencies previously communicated to the audit committee or management; Legal or regulatory matters of which the company is aware; The type and extent of available evidence related to the effectiveness of the company's internal control over financial reporting; Preliminary judgments about the effectiveness of internal control over financial reporting; Public information about the company relevant to the evaluation of the likelihood of material financial statement misstatements and the effectiveness of the company's internal control over financial reporting; Knowledge about risks related to the company is evaluated as part of the auditor's client acceptance and retention evaluation; and The relative complexity of the company's operations. The whole process of audit engagement usually follows three stages, including audit plan, evidence gathering, and completion stage. Although audit plan is the first stage in the audit process, the planning can take place at any point of the audit process.This is due to there may be some unexpected events, changes in conditions or audit evidence obtained from the results of audit procedures that require auditors to modify the audit plan and overall audit strategy.Audit plan includes the nature, timing, and extent of audit procedures that the audit team members need to perform in order to obtain sufficient and appropriate audit evidence and reduce the audit risk to an acceptably low level.Objectives of Audit PlanThe main objectives of audit plan include:Help audit team members to focus and pay attention to the key risk areas of the auditHelp team members to identify issues regarding the audit and solve them on a timely basisHelp audit team to perform audit engagement in an effective and efficient mannerHelp in selecting audit team members with sufficient and appropriate skills and experiencesHelp in assigning proper work to the team members based on their skills and experiencesHave proper direction and supervision as well as reviewing the work performed by the team members, including both hot and cold reviewHave effective coordination of the work performed by auditors and others, such as experts and component auditors.3 Phases of Audit PlanThe three phases of audit planning include initial planning activities, risk assessment, and audit strategy.Audit PlanInitial planning activitiesInitial planning activities start after the audit accepting the client. This includes evaluating the compliance with relevant ethical requirements, such as independence matter, and establishing an understanding of the engagement terms before signing the engagement letter.In addition, auditors need to form engagement team members with appropriate levels of capabilities and competence. This is so that team members can properly respond to the anticipated risks, and suitable assignment of audit work can be allocated to them. At the same time, auditors need to obtain an understanding of the business and control environment of the client.A good understanding of the client's business and its environment help auditors to appropriately assess risk, decide on a suitable audit strategy, and be able to design and perform effective audit procedures. After understanding the client's business and control environment, auditors need to determine the nature, timing and extent of audit process.Risk assessmentUsually, auditors identify risks during the process of obtaining an understanding of the client, so this step requires auditors to assess those identified risks. Auditors need to assess the potential impact that those risks can have on financial statements as a whole as well as on specific assertions.In this step of audit plan, auditors need to consider the risks here as risks of material misstatement. In this case, auditors need to assess the significant impact in terms of misstatement that such identified risks could have on the financial statements.Specifically, auditors need to assess the inherent risk and control risk that auditors should have already identified when obtaining an understanding of the client's business and its environment.As these two risks are outside control of auditors, the assessment would be performed to determine whether they are at a high, moderate or low level so that auditors can design audit procedures and decide the amount of audit work based on the level of risk.Auditors need to make sure that audit risk is at an acceptably low level. Hence, if the inherent risk and control risk are high, auditors need to lower the level of detection risk by performing more audit works.Audit strategyThis is also an important step of audit plan where auditors need to form audit strategies by designing an overall audit approach including the scope, timing, and direction of the audit. The appropriate audit strategies help auditors reduce the audit risk and perform audit process in an efficient manner.Some examples of audit strategies include:Allocating audit tasks to audit team members with appropriate level of experiencesDeciding how much time required for the audit work and when will it completeDesigning suitable audit approaches, including both tests controls and substantive testsDesigning a proper structure of direction and supervision during the audit work December 22, 2024 December 22, 2024/ Steven Bragg An audit plan states the overall strategy and detailed steps to be followed in the conduct of an audit. The plan includes risk assessment procedures, as well as additional procedures to be followed based on the outcome of the risk assessment. The contents and timing of the plan will vary from year to year, depending on changes in the circumstances of the client.How to Write an Audit PlanAn audit plan is based on the overriding audit strategy. The plan is then written to ensure that all audit objectives stated in the strategy are successfully addressed. At a more detailed level, the audit plan should cover risk assessment activities, as well as other audit procedures that are needed to comply with the professional audit standards that apply to the engagement.Advantages of an Audit PlanThere are many advantages associated with having an audit plan, including the following:Clear objectives and scope. An audit plan ensures that the audit objectives are well-defined and aligned with organizational needs.Efficient resource allocation. An audit plan helps allocate time, personnel, and tools effectively, ensuring that resources are used where they are needed most.Consistency in execution. An audit plan promotes uniformity in audit procedures, ensuring that audits across different areas are conducted with the same level of thoroughness.Improved risk management. An audit plan prioritizes areas with higher risk exposure, helping to detect and address potential issues proactively.Facilitates communication. An audit plan communicates the audit scope, timing, and responsibilities to stakeholders, reducing misunderstandings.Enhances accountability. An audit plan clearly outlines the roles and responsibilities of team members, fostering accountability.Supports time management. An audit plan breaks an audit into manageable phases with deadlines, ensuring timely completion.Ensures comprehensive coverage. An audit plan reduces the risk of overlooking critical areas by following a systematic plan.Facilitates issue identification and resolution. An audit plan ensures that significant issues are identified and addressed promptly.In summary, an audit plan is an essential tool for ensuring that audits are conducted effectively, efficiently, and in a manner that adds value to the organization. By providing structure and clarity, it enhances the reliability of audit outcomes and contributes to better governance and risk management.Related AccountingTools CourseHow to Conduct an Audit Engagement December 22, 2024/ Steven Bragg/ Audit planning is a major part of audit work for both internal and external audits. Good audit planning will help the auditor to minimize its risks, improve audit efficiency, and meet its objective at the minimum effort.Auditors are required to prepare a proper audit plan to ensure that all audit risks are identified and correct audit strategies are deployed to detect all concerning risk areas.It is essential for the auditor to prepare a good strategic audit plan. If the plan is well prepared, all kind of audit risks is identified and detected.This will help the auditor to minimize the audit risks of issuing an incorrect opinion to financial statements.In this article, we will discuss what should auditors do during their audit planning stages and the significant tips for doing the correct audit plan.We divide the audit plan into two main important parts according to the international standard on auditing: Pre-audit activities and Audit Activities.In case you want to discover more, ISA 300 is the standard for the planning of audit engagement for your reference. Okay, now let's start with audit pre-activities.Pre-audit activities are also the importance of audit plan and in this stage, as required by the standard, the auditor should:Perform client due diligence to make sure that the auditor fully understands the client's nature of the business, sources of funds, and its major activities. This is to avoid engaging with the client that involved illegal activities or money laundering.Perform an understanding of client and firm to ensure that there is a major conflict of interest and independence that could affect audit works. Maintaining audit independence is very important to ensure the quality of audit opinion.Consider client integrity before accepting the audit engagements.Understand the term and conditions of audit engagement before accepting to avoid any conflict.At this stage, the auditor requires to establish an overall audit strategy that sets the scope, timing, and audit direction and guides the development of the audit plan.This is to ensure that the audit plan reflects the scope, and nature of engagement. Here is the list of things that auditors should do during the audit plan.The auditor should identify the characteristics of the engagement that define its scope.For example, Audit the client's financial statements or review the client's financial statements for a specific period. This is very important.Most audit firms document this in the audit engagement letter. If the audit fails to identify this in the audit plan, the audit report that the auditor releases might not the one that the client needs.Also, the different types of audit engagement might have a different levels of assurance.For example, reasonable assurance required the auditor to perform their testing detail and much more detail than the review or compile financial statements.A review engagement is a limited assurance and that means less assurance is provided.The reasonable assurance engagement might be for the purpose of the statutory requirement or shareholder requirement. Yet, the review engagement is probably for the purpose of bank requests.The audit report is very important and the auditor should identify the objective of using audit reports and the time required.For example, what is the report using? And probably who going to receive, and access the audit report. This point should also document in the engagement letter.This is also related to the point above. Let's say, the company is required by law to have financial statements audited by a CPA firm annually. This engagement is called reasonable assurance engagement.The timeline of the report is also an important part of the audit plan. If the time is not sufficient, auditors should assess the impact of audit quality as a result of this.In this planning stage, the auditor should assess if the timeline is sufficient enough for them to perform their work as well as manage their resources.Negotiating with the client to have enough time for auditing is the best option; however, if the client does not agree then the auditor should consider whether the allowable timeline really adversely affects the quality of the report.In case, the quality of the audit is impaired to the level that could not accept, then the auditor should consider withdrawing from the engagement.Consider if there are any factors that could affect the audit team member's professional judgment and subsequently the quality of the audit report.For example, there is a conflict of interest between team members and clients. Team member uses to be staff in Finance Departments or clients is the prospective employer of some of the members.Normally, auditors request team members to sign on the Independence Confirmation Form or Conflict of Interest Form.And if there is a conflict of interest, an assessment should perform to identify how seriously it is and the assessment should document and keep properly.In case, the result of the assessment found the conflict of interest is high, for example, if the team leader of the audit team is the manager of the finance team, then he should not allow leading the team.And all of his works related to this engagement should review again by other independent managers.The success of audit engagement and the good quality of audit reports depend significantly on the audit resources. These include the number of audit team members, qualifications, and experiences.There is a number of questions to be asked when assessing audit resources requirement, for example:How many audit team members are required for the engagement?Does the team member have experience in auditing such an industry?When will the audit work start and when will the report require?Where is the client's office location? And do we need to have a lot of traveling?There are many other questions to be asked depending on the characteristic of audit engagements.The audit should also ensure that team members understand the nature of engagement or audit. This is probably done by having a team meeting.If audit resources are not sufficient to conduct audit engagements, then the auditor should negotiate with the client to extend the timeline so that resources could properly manage, or withdraw from the engagement.Risk assessment is also one of the most important parts of the audit plan and it is also the requirement of the International Standard of Auditing.The auditor should perform risk assessments by reviewing from control environments which is the big picture of the control activities of each key process and procedure.Control over financial reporting is the key area to be reviewed and validated. If the control is not strong enough, the audit approach might be changed.The auditor should not rely on the control and they should consider reviewing the transaction and event in detail. In such a case, auditors should consider using a substantive approach to audit financial statements.Fraud assessment is also an important part of this planning and auditors should assess the risks of material misstatement not only because of error but also fraud.Fraud detection is not the auditor's primary responsibility but assessing the risks of fraud is part of the auditing requirement.A risk assessment procedure could be adopted from the COSO framework or other frameworks as necessary.Audit planning is a critical part of audit work and performing the correct audit plan could be the factor that leads to the success of audit engagement. The key areas to be included in the plan are:Conducts proper risks assessments including risks of error and fraudProperly assess the resources requirementProperly identified the engagement characteristicCorrectly identified report requirement and timelineProperly assess the conflict of interestWritten by Sinra Audit planning and risk assessment are critical steps in the audit process. They provide the foundation for conducting an effective and efficient audit, ensuring that auditors focus their efforts on areas with the greatest risk of material misstatement. Proper planning and thorough risk assessment enable auditors to allocate resources wisely, identify potential issues early, and design audit procedures that are tailored to the organization's specific circumstances. This article explores the importance of audit planning and risk assessment, along with the key steps involved in each stage. 1. The Importance of Audit Planning Audit planning is the initial phase of the audit process, and it is essential for ensuring that the audit is conducted efficiently and effectively. During this phase, auditors establish a clear understanding of the client, its industry, and its financial reporting environment. A well-structured audit plan allows auditors to determine the scope of the audit, allocate resources appropriately, and identify areas that require special attention. It also helps to ensure that the audit is carried out in compliance with relevant auditing standards and regulations. Key Steps in Audit Planning Understanding the Entity and its Environment: The first step in audit planning involves gaining a thorough understanding of the client's business operations, industry, and internal control systems. Auditors must assess how the organization's environment may impact its financial statements, including any industry-specific risks or regulatory requirements. Assessing the Risk of Material Misstatement: Auditors assess the risk that the financial statements may contain material misstatements, whether due to error or fraud. This involves understanding the internal control structure and identifying areas where misstatements are more likely to occur. Setting Audit Objectives: Auditors establish clear audit objectives, which include determining whether the financial statements are presented fairly in accordance with the applicable financial reporting framework (e.g., GAAP, IFRS). Audit objectives guide the entire audit process and help auditors stay focused on the most important aspects of the audit. Developing the Audit Strategy: The audit strategy outlines the overall approach for the audit, including the audit procedures to be performed, the timing of audit work, and the assignment of audit staff. The strategy is designed to ensure that all relevant areas are covered and that the audit is completed in a timely and efficient manner. Resource Allocation: Based on the audit objectives and the audit strategy, auditors allocate resources such as time, personnel, and tools. Effective resource allocation helps ensure that the audit is completed within budget and on schedule. 2. Risk Assessment in Auditing Risk assessment is an integral part of audit planning. It involves identifying and evaluating the risks that could lead to material misstatements in the financial statements. Risk assessment helps auditors prioritize areas of focus, tailor their audit procedures, and allocate resources effectively. Without a proper risk assessment, auditors may overlook critical areas that could lead to inaccurate conclusions or undetected errors. Types of Risks in Auditing There are several types of risks that auditors consider when conducting a risk assessment: Inherent Risk: Inherent risk refers to the susceptibility of an account balance or financial statement item to misstatement, assuming there are no related internal controls. Certain industries or financial statement areas may inherently carry a higher risk of misstatement due to their complexity or volatility. Control Risk: Control risk is the risk that an organization's internal controls will fail to detect or prevent material misstatements in financial statements. Auditors evaluate the effectiveness of the organization's internal controls to determine the level of control risk. Detection Risk: Detection risk refers to the risk that the auditor's procedures will not detect a material misstatement, even if one exists. Auditors reduce detection risk by performing thorough testing and gathering sufficient, appropriate audit evidence. Key Steps in Risk Assessment Understanding Internal Controls: Auditors evaluate the organization's internal control systems to assess how well they are designed and whether they are operating effectively. This helps auditors identify areas where the risk of material misstatement is higher and where additional audit procedures may be necessary. Identifying Risks of Material Misstatement: Auditors identify areas of the financial statements that may be prone to misstatement due to factors such as complexity, volume of transactions, or changes in accounting policies. This includes assessing both inherent and control risks. Assessing the Likelihood and Impact of Risks: Once risks are identified, auditors assess the likelihood of these risks occurring and the potential impact they could have on the financial statements. Risks that are deemed high in both likelihood and impact are given greater attention during the audit. Determining the Nature, Timing, and Extent of Audit Procedures: Based on the assessed risks, auditors determine the most appropriate audit procedures to address identified risks. For high-risk areas, auditors may perform more detailed testing, including additional substantive procedures or more frequent sampling. 3. Developing the Audit Plan Based on Risk Assessment Once the risk assessment is complete, auditors develop the audit plan by integrating the findings from the risk assessment with the overall audit strategy. The audit plan outlines the specific procedures that will be performed to address the identified risks and meet the audit objectives. The plan also includes the timing of procedures, the allocation of resources, and any special considerations that may arise during the audit. Components of the Audit Plan Audit Procedures: The audit plan outlines the procedures to be performed to obtain sufficient, appropriate evidence to support the auditor's opinion. These procedures may include tests of controls, substantive procedures, and analytical procedures. Timing of the Audit: The audit plan specifies the timing of the various audit procedures, ensuring that they are performed at the most appropriate points in the audit process to maximize efficiency and effectiveness. Audit Resources: The audit plan allocates resources, including staff and technology, based on the risk assessment. This helps ensure that the audit is completed within budget and that personnel with the appropriate skills are assigned to high-risk areas. Special Considerations: The plan addresses any unique factors or challenges that may affect the audit, such as changes in the organization's operations, complex transactions, or regulatory changes. 4. Adjusting the Audit Plan During the Audit Audit planning is not a static process. As the audit progresses, auditors may encounter new information or unforeseen risks that require adjustments to the audit plan. The audit plan should be flexible enough to accommodate changes, and auditors must continuously evaluate the risks as they gather evidence. For example, if auditors discover that the organization's internal controls are not operating as expected, they may need to perform additional substantive testing in those areas. 5. Identify Potential Issues Audit planning and risk assessment are fundamental to the success of the audit process. By carefully planning the audit and assessing the risks of material misstatement, auditors can focus their efforts on the most critical areas, improve efficiency, and ensure that the financial statements are presented fairly. Through a well-structured audit plan, auditors help ensure transparency, accountability, and trust in the organization's financial reporting. An effective risk assessment allows auditors to identify potential issues before they become significant problems, ultimately contributing to the credibility of the audit and the integrity of the financial statements. All BlogsAudit ResourcesAudit PlanAudit Procedures and TechniquesAudit Procedures and TechniquesBOOT CAMP - Financial Modeling (6 Hrs)Unlock Unlimited Learning!Table Of ContentsAn audit plan refers to the design of an audit describing the overall audit strategy and guidelines to follow while performing the audit. It helps in the successful completion of the audit process.Planning for auditing is the initial step in an audit. It helps the auditor efficiently manage the audit by analyzing the prime focus areas, proactive problem management, and allocating responsibilities to team members.Table of contentsAudit Plan MeaningAn audit plan represents a blueprint for conducting an audit. It addresses why, when, how, where, and by whom questions associated with audit performance.A good audit design identifies all the risks involved in the operations and employs specific audit procedures to minimize them.Successful planning for audit necessitates the cooperation of the management. Auditor has the authority to question the concerned personnel in case of any discrepancies.Auditors follow more or less the same procedure for auditing most of the companies by adhering to the standard auditing procedures.According to the international standard of auditing (ISA), an audit plan should be based on an overall audit strategy. The audit strategy must explain the scope, timing, and direction of the audit. In addition, strategy formulation depends on the features of audit engagement like its characteristics, reporting objectives, auditor's professional judgment, the outcome of preliminary engagement activities, and the resources necessary to perform the audit engagement.According to ISA, in addition to client information, audit planning steps should contain the description for nature, timing, and extent of:Planned risk assessment proceduresProgrammed further audit procedures at the assertion levelOther programmed audit procedures that are required to accomplish so that the engagement complies with professional standardsThe auditor can update the audit design according to the development during the audit. Moreover, the auditor also includes supervising and reviewing team members' work in the plan. The resulting documentation primarily contains the overall strategy and plan. In addition, it may consist of the changes applied to the overall strategy and audit plan processes during its implementation and the reason for changes. WallStreetMojo Membership: All Courses Access Unlock 50+ premium courses in finance, accounting, Excel, investment banking, and more — all in one membership. Learn at your own pace with expert-led video lessons and real-world case studies. Learn More → Let's look at the sample below to understand better the structure, layout, contents, and overall audit plan template.To comprehend each business element relevant to the audit, the auditors collect and evaluate information about the company, such as financial, legal, and investment facts. In addition, they utilize risk assessment techniques to analyze the risks of anomalies in business governance, notably financial statement misstatements.The audit team utilizes audit techniques to collect audit evidence once the risks have been recognized. This audit evidence assists them in forming a judgment on the company's financial statements. Audit techniques often employed by auditors include analytical procedures, investigation, examination of records and assets, observation, reconciliation, and reperformance. The auditor's assessment of the risks influences the audit method's nature, timing, and scope.Furthermore, the knowledge and experience of the auditors will undoubtedly reflect in the conversations throughout the work plan development. This knowledge transfer method guides audit engagement teams throughout different processes such as information evaluation and risk identification.Having a punctiliously crafted audit design helps auditors achieve efficient engagement, risk mitigation, and compliance with standards set by authorized governing bodies. In addition, the company being audited should be ready and offer coordination to assist in the efficient completion of the audit. Let us look into the significance of a well-informed design with the help of an audit plan example.During one of their client's previous year audits, the auditor of a CPA firm reported the deficiency in internal control when he found out the existence of fictitious vendor invoices related to inventory. The auditor painstakingly considers the issue in the current year by addressing it in the risk assessment or designed audit procedures to ensure that the management rectified the problem. The auditor plans to assess the risk of inventory fraud with the help of observation of physical inventory and analytical procedures and describes its nature, time, and extent. Hence, what is more important is the treatment of planning as a continuous process commencing from the end of the previous year audit and comes to an end with current audit engagement completion.How do I write an audit plan?The vital thing is to develop an overall audit strategy. The plan should be in line with the audit strategy so that the plan entails the successful completion of the audit objectives. Generally, the audit design must encompass the nature, timing, and extent of risk assessment procedures, further audit procedures at the assertion level, and other planned audit procedures to complete the process while ensuring professional standards.What are the stages of audit planning?The two elements of planning are creating an overall audit strategy and the associated plan. Following different activities like collecting client requirements and information and verifying the applicable laws is vital in preparing an audit strategy. It should align with audit objectives and contribute to the act of curating an audit work plan.What is audit plan and program?An audit design contains a list of guidelines for auditors to follow while conducting an audit. In contrast, an audit program is the description of detailed steps to complete the audit procedure. Both deeds give direction to auditors and other team members while auditing.