Audit planning procedures are the first and perhaps the most important step in carrying out a successful audit. Without adequate planning, the likelihood of missing a significant risk area or encountering engagement-related problems increases considerably. As baseball great and noted philosopher, Yogi Berra puts it, “If you don't plan on where you are going, you could end up someplace different!”

All too often the auditor does not give adequate attention to audit planning for a vast array of excuses. This leads the auditor down the path of using the “same as last year” approach to planning, often referred to as “SALY.” Using the SALY approach to planning causes the auditor to end up someplace different, as so eloquently stated by Mr. Berra.

A meaningful audit plan considers 10 basic steps. If these basic steps are routinely followed, the audit goes much better, resulting in a higher quality audit in the minimal possible time.
STEP 1
TALK TO THE CLIENT

The auditor discusses the nature of the engagement and the client’s business and industry trends at the onset of planning. Insights gained from this discussion help the auditor navigate through the remainder of the audit planning procedures. These insights set the stage for an active 2-way communication process that results in a fully engaged auditor AND client throughout the entire process, leading to the completion of a successful audit.

STEP 2
GAIN A CLEAR PICTURE OF WHAT HAPPENED DURING THE YEAR

Clarity includes the risks that may have changed as a result of what happened during the year. The auditor asks about recent developments in the company that may cause the audit to differ from prior years. Developments such as mergers, new locations or new product lines may have a significant impact on the audit plan for the current year.

Ideally, these discussions take place at the client location. Going on site provides the auditor the opportunity to meet with key employees or new employees and to see for him or herself any changes in the overall operations of the client.

STEP 3
PREPARE A COMPLETE LIST OF ITEMS NEEDED FROM THE CLIENT

The all too often used “SALY” approach copies the prior year’s list of client-prepared schedules without regard to any changes at the client. A meaningful audit plan provides an updated list of client-prepared items that considers the following:

- New schedules because of changed risk profiles at the client
- New schedules resulting from a change in audit approach
- Example schedules and templates so the client prepares them in the auditor’s desired format
- Insertion of due dates for each schedule that has been agreed to by the client
- For larger clients, insert the name of a person responsible for the completion of the schedule that has been agreed to by the client

STEP 4
OBTAIN A CLEAR UNDERSTANDING OF WHEN THE CLIENT NEEDS THE AUDIT REPORT

With this understanding, the auditor establishes a plan to meet that delivery date. Knowing the delivery date is essential during planning because it influences the timing for the client-prepared schedules and allows the auditor to plan for audit steps to be completed in ample time.

STEP 5
DEVELOP A PLAN TO COMPLETE ALL OF THE WORK IN THE FIELD

Leaving a client location without having all of the fieldwork complete results in the remaining work needing to be wrapped up in the office. When this occurs, the hours put into the audit can get out of control and can also increase the possibility of delivery delays.

The work remaining after the auditor leaves the field is often the most difficult and risky audit areas. The audit team is forced to sort out these difficult areas without the benefit of being at the client location with client staff readily available to assist with questions and supporting documentation. To make matters worse, these remaining areas generally get sorted out at a point in time when the auditor needs to “retool” with client knowledge. The “retooling” process adds wasted time to the audit and increases audit risk by the simple fact that it is difficult for an auditor to fully retool to effectively complete the difficult area.

STEP 6
DEVELOP A PLAN TO MINIMIZE THE NUMBER OF STARTS AND STOPS

A solid plan to complete all of the work in the field and with a client who is fully engaged in dialogue with the auditor, the number of starts and stops diminish significantly.

Constant starting and stopping adds significant time to the audit AND increases audit risk. Establishing a plan to complete what is started before moving on to another audit area helps to not only save time, but also reduces audit risk. An audit firm that develops a culture in which all staff is expected to get it right the first time and not to
STEP 7
MATCH THE EXTENT OF PLANNING WITH THE LEVEL OF CLIENT COMPLEXITY AND RISK

Most audit firms use a “one size fits all” or standardized audit approach for every audit. All audits are not the same because all clients are not the same, and the degree of complexity and risk changes with each audit. Standardized audit approaches interfere with planning because the auditor spends more time filling out forms at the expense of effective planning.

The audit team customizes and eliminates forms when the audit complexity is low. In these circumstances, the risks can be more effectively and efficiently explained through an audit risk memo. With the standardized audit approach, audits of this nature tend to be over planned, causing the audit team to question the value of planning and resort to the SALY approach.

Larger and more complex audits, on the other hand, tend to be slightly under planned when using standardized audit approaches. Audits of this nature generally have numerous risks that are linked together and most standardized checklist audit approaches do not have an effective process to link the risks together.

STEP 8
PREPARE DRAFTS OF FOOTNOTES FOR NEW ACCOUNTING STANDARDS

The issuance of new accounting standards is a common occurrence in the world today. Preparing drafts of footnotes to comply with the new standards allows the auditor and the client to have sufficient time to discuss and understand the new standard and to draft a meaningful footnote.

STEP 9
GAIN AN UNDERSTANDING AS TO TIMING AND EXPECTATIONS FOR OTHER SERVICES

The client generally expects other deliverables beyond the audit report, such as the management letter and tax returns. Client service is positively or negatively impacted by the efficient delivery of the complete set of services that meets client expectations. Meeting one deadline is not good enough when one or more other items are delivered late. The best time to understand these expectations is during the planning discussions with the client. The auditor considers those items then and develops a plan to meet or exceed client expectations.

STEP 10
PREPARE A TIME SCHEDULE AND STAFFING BUDGET THAT COVERS THE AUDIT FROM BEGINNING TO END

Most audit firms schedule staff for fieldwork only. Planning and wrap up end up occurring in “when there is time mode.” Planning in this mode perpetuates the SALY approach to planning. Wrap up that isn’t scheduled has the tendency to become the “black hole” in audit hours build up. Scheduling the entire job from start to finish may require a culture shift in the CPA firm but the payback is worth the effort. If the entire process is scheduled, the audit team is set up for success to deliver a high quality audit, to exceed client expectations, and to dramatically reduce time on the audit.

IN CONCLUSION

The ultimate success of all audits largely depends on the actions taken and thought given during the planning stages. The 10 basic steps to audit planning are linked by a common theme; namely, client engagement in the planning process. Although the specifics of audit planning vary by client, getting your client actively engaged in planning is a goal with every audit.

The webinar supplementing this article discusses simplified methods for planning risk assessment on lower risk audits and discusses common sense approaches to better engage your client in the planning process.

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CLICK HERE TO REGISTER FOR THIS SELF-STUDY SESSION
“AUDIT PLANNING IS A 2-WAY STREET”

DESCRIPTION: This second in a series of webcasts on auditing takes a look at transforming audit planning.

COURSE TYPE: Self-study

CPE HOURS: 2

DESIGNED FOR: Audit partners, managers and staff who want to provide high quality client service while streamlining and making their audit process more cost effective.

OBJECTIVE: This session will help you and your audit team, design, build, inspect and deliver an efficient audit that has more meaning for your client.

PREREQUISITES: Experience as a member of an audit team.

ADVANCED PREP: None.