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Techniques for Planning Audits More Efficiently

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As a veteran consultant, I've worked with audit managers from different industries and various sized departments and realize that many have a similar complaint: the audits are exceeding budgeted hours, the staff is encountering "unforeseen problems" and, although the auditors have collected a lot of data the audit, concerns are not crisply defined. Now, you may wonder how these issues prompted a column devoted to audit planning. The answer is simple: planning is one of the most important activities auditors need to accomplish. Comprehensive, well-documented planning defines the audit scope clearly. It concentrates attention on the high risks and enables the audit team to stay focused. It also minimizes the chance that the auditors will be surprised and delayed by the unforeseen once they reach the field because all too frequently these unanticipated issues should have surfaced during planning. The approaches outlined below are intended to increase the completeness of your audit planning efforts and help you get results more efficiently.

WHY IS AUDIT PLANNING A CHALLENGE?

If your department is like many others, the annual audit plan is developed 12-18 months before the scheduled audit starts. The data used to populate the entity-level risk assessment that determines the overall annual audit plan is usually gleaned from senior management and is collected at a high level.

At the time the scheduled audit actually begins, the appointed auditor-in-charge allocates time for planning. This time is usually in short supply and the auditor's efforts are not dedicated exclusively to planning activities. Business realities cause the in-charge to perform the upcoming audit planning at the same time s/he is finalizing the report or wrapping up the administrative details for a recently completed audit. And, if the upcoming audit has been performed before, the auditor relies on the prior audit program, focusing energies on determining what is the same versus what has changed. If the in-charge is very familiar with the entity to be audited and this entity is stable, this approach may work. However, the audit risk rises considerably when the auditor is not familiar with the area or the area has undergone major changes since the last review.

Since the risk-based audit process is essentially a top-down, logical methodology, errors or gaps in the planning process have a magnified and negative effect on the actual audit fieldwork and results.

WHAT LEVEL OF DETAIL IS NEEDED IN AUDIT PLANNING?

During audit planning, the auditor needs to capture information that will enable him/her to answer the following core questions:

- What does this area do?
- Who are the key players?
- What are the area's primary sources and uses of funding?
- How has the area performed against plan?
- What is the external environment like and how will it affect the business?

- What are the major processes that comprise the area to be audited?
- What are the critical systems?
- Where are the major risks in the area to be audited?
- How can we use the time allocated for this audit to achieve the best audit coverage?

Audit planning should be sufficient to define the audit scope with precision. Instead of stating simply that the audit will cover the controls over invoicing and billing, which may be a huge scope if there are many products or billing locations involved, the audit scope should clearly define and explain the rationale concerning what will and will not be included.

Since audit software has been such a boon for audit testing, the planning activities should also include sufficient detail concerning record layouts and the availability of data. This information is vital to timely use of audit software.

You may want to use the "Checklist for Audit Planning" below that I have developed to make sure that you consistently cover the core planning issues. Or, you may want to develop your own checklist.

SHOULD YOU USE A PLANNING MEMO?

Depending on your audit methodology, you may or may not be required to submit an audit planning or strategy memo. Some departments do not use planning memos because this documentation is deemed to be too time-consuming to prepare --- a belief that deprives the department of useful information. Documenting the results of planning efforts is important because it provides evidence that the auditor addressed the relevant topics and obtained the information needed to determine how to deploy the audit team during the detailed testing phase. It memorializes the salient data used to make scoping decisions. And it serves as a resource to the auditors who join the audit in progress, enabling them to gain an understanding of the entity or process under review.

The following are the points I suggest you document as part of audit planning:

Category	Tips for Completing the Category
The Objective. The objective section should state the reason for selecting this entity and state the key audit objective. This section should include: ♦ The type of review (e.g., balance sheet, data center review, operational audit, etc.) ♦ Key audit objectives ♦ Why the entity should be audited ♦ Areas of particular audit focus ♦ Areas noted as having high risk	This section should be completed last, after all the planning is finished. Although it appears first, for the convenience of the reader, this section actually represents your conclusions.
The Audit Methodology and Scope. A description of the functions that will be covered during the audit and a description of the audit approach, e.g., process flow audit, financial review, etc.	This section should be written after you have completed the Background section.
Background. The background section should provide the reader with a general understanding of the type of business conducted at the entity's location(s), types of products and services sold, and relative size to the entire company. Some of this information may be obtained from a website, SEC filings, the business' strategic plan, or organization mission statement as well as data collection interviews convened with the entity's senior management. Specific items to include are: ♦ Nature of business activities and key deliverables ♦ The number of sites ♦ The degree of turnover in management and staff ♦ Volume in dollars and transactions ♦ Control Environmental issues ♦ Significant issues or risks to the organization (i.e., significant growth in the past year) ♦ Financial information, sales, revenues, etc. ♦ Degree of reliance on other deparments or entities ♦ Type of information systems (e.g., Oracle, Peoplesoft, SAP, Hyperion, etc.) ♦ Recent significant events (e.g., acquisitions, change in business environment, etc.) ♦ Identify any key metrics, Self-Assessment or World-Class Service initiatives in place	This is the most important section because it reflects the auditor's understanding of the area. If you develop high-level process maps to help you understand how the business works, i.e., what the key inputs and outputs are as well as any key interdependencies with other areas or systems, this section becomes much easier to complete.

◆ The results of any recent internal or external audits ◆ Critical or relevant regulatory or compliance issues ◆ The nature of management oversight and self-assessment ◆ The nature of any local or corporate concerns	
Audit Strategy, Events and Deliverables. The audit strategy lists the key audit objectives to be accomplished. The listing of events and deliverables is a summary of the major audit outputs and the deadlines for completing them.	This section should be completed immediately after you finish the Background section. The Audit Strategy is actually the initial project plan for completing your audit. The more detailed the audit strategy is, the easier it is to determine audit resource requirements. When you develop the strategy, consider the audit scope and the nature of other recently completed or planned audits.
Key Contacts. This is a listing of the people you contacted to obtain the information to prepare the Planning Memo.	This section functions as an audit trail of the people who supplied you with information. It enables the reviewer to make sure that you contacted all the right people.
Audit Team. This is a list of the team members and their respective roles and responsibilities.	This makes it easier to ensure that the auditors you need are available.

CONCLUSION

Planning is one – if not the most -- critical step in the audit process. Make it a point to use a consistent approach and document your results. By doing this, you will minimize the audit risk as well as the likelihood of surprises during the rest of your review. And, you will be more likely to deliver results within budgeted timeframes.

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CHECKLIST FOR PLANNING AUDITS

DO I HAVE ENOUGH INFORMATION TO:	YES	NO
Describe the business objective and determine if it is consistent with the corporate objective?		
Understand how the business or process works and its purpose? What function starts the process? What function ends the process?		
Describe in a balanced way the key business drivers and challenges?		
Describe the interdependencies that exist in the business or process?		
Develop an audit strategy?		
Know the departments involved in achieving the business objectives? Who is accountable for the process? Who has responsibility for its results and each of its functions? In how many geographic sites is the work performed?		
State the percentage of revenue (or: expense, specific transaction type, profit, etc.) the business unit (and auditable entity, if applicable) generates? Is this an increasing or decreasing percentage compared to prior years and future plans?		
Describe the standards used to evaluate the auditable entity's performance? Are they measurable? How has the auditable entity fared against these standards?		
Identify the major systems used in the auditable entity or process?		
State the amount of transactions affected by the key activity and its functions? What is the dollar value of these transactions?		
Describe the interdependencies that exist in the business or process?		
Explain the trends occurring in the business or process during the past couple of years?		
Identify the major, high level risks and points of vulnerability?		
Explain how the compensation and incentives align with and support the business objectives?		
Draw conclusions concerning the business or process' performance?		