

Audit plan



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In order to prepare an audit plan in a timely and efficient way, it is essential that a proper strategy is put in together. There are many areas that need to be addressed thoroughly to ensure that the correct outcomes are established. The following are the key areas discussed in the report: Initially the auditor must first understand the entity and its environment.

Auditor can find this information by analysing the entities internal and external information. In the following procedure the auditor will assess any risks which might influence his/ her reporting issues and application of substantive procedures. Further, the auditor must make preliminary judgements about the materiality levels the auditor must analyse the entities financial controls and the class of transactions. The auditor must also consider the audit risks involved, usually which are detection, inherent and control risk underlying an audit. Moreover, it is important to take into consideration the internal control structure of entity.

Finally it is essential for the auditor to develop preliminary audit strategies for significant assertions; the two main audit strategies are the preliminary substantive approach and the lower assessed level of control risk approach. These approaches are the main components of audit strategies which the auditor has to understand before making the audit plan. Audit plan Audit planning is a crucial process to develop an overall plan for the conduct and scope of the audit (Leung, 2007).

As per ASA 300, adequate planning helps to ensure that appropriate attention is given to material areas of the audit, that problems are identified properly, and that work is completed expeditiously. Also, audit planning is

like a map for the effective application of audit procedures. The following outlines how the audit will be done within Wesfarmers. Obtain an understanding of the entity and its environment Before actually implement auditing, the auditor shall understand the entity and what environment it is in.

According to para. 5 of ASA 315 Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, the auditor should understand the entity and its environment, including the internal control so as to identify and assess the risks of material misstatement of its financial reports. What's more, this understanding gives a framework for the overall audit approach which will be unique to the particular entity. Consequently, the auditor can tailor audit according to Wesfarmers' environment.

ASA 315 provides the key steps in how to understand the entity and its environment: Industry, regulatory and other external factors Applying to Wesfarmers case, it engages more than one industries, from retail to resource. Hence, Wesfarmers face diverse group of customers, ranging from individual consumers to business entities. If focusing on the retail industry it involved, such as Coles supermarket, the main competition comes from its counterpart, Woolworth. Coles and Safeway are the two main retailers in Australia as analysed by Inside Retailing organisation in Australia.

Australia's retail industry has developed to become a leading industry in the national market as well as in the world market. As this article indicates, all entities in the retail industry confront fierce competition. Also cited in the

article, a 1966 issue of trade magazine Inside the Food Industry observed that: Woolworths and Coles are now nearing 10% of total Australian retail sales. They are opening more stores than anyone else. Up until now, this figure can be much bigger than 10 percent; and the competition between retailers is increasingly intense.

Therefore, the auditor should reasonably expect some financial difficulties for Wesfarmers' retail industry. Also, by checking Wesfarmers' trade journals, and some industry statistics prepared by government and/or some private agencies, or previous data accumulated by the auditor's firm, the auditor can all get access to understand Wesfarmers industry conditions. Another important point is the regulatory environment Wesfarmers involved, which can have direct economic consequences and affect its accounting and disclosure requirements (Leung, 2007). The relevant auditing standards can refer to ASA 250.

In this case, Wesfarmers has just take over the Coles Limited; hence the auditor shall identify whether there is accounting requirements changing (Wesfarmers 2008 annual report). The auditor need to be aware of these changes of regulatory requirements because non-compliance with these changes will probably affect the financial statements of Wesfarmers. For example, if previously, Coles recognise its inventory under FIFO model; while now it records inventory at the lowest cost; the auditor should be aware of it. Besides all the above issues, economic overall factors will as well affect Wesfarmers' business audit.

For example, in the current economic downturn, it may require write off of receivables, write down the value of its inventory. Also, the economic conditions will increase or decrease the inherent risk of the entity. Therefore, now, possibly the assessed inherent risk level will be higher than boom ages. The nature of the entity. As per Leung, knowledge of the entity's business operations includes understanding such matters: How Wesfarmers obtain revenues The entity's products and/or services and its markets Its conduct of operations Wesfarmers location of production facilities, warehouses and offices Its employment programs

All these matters can be found in the annual report of Wesfarmers. For instance, Wesfarmers obtain revenues mainly sorted into two categories, sales of products and provides services. (Wesfarmers annual report, 2008) As per income statement of Wesfarmers 2008, sales of goods revenue was 31, 650 million and render of services revenue was 1. 651 million as a whole consolidated entity. What's more, Wesfarmers had generally three kinds of business, which were retail, insurance and industrial(resource). Likewise, all other relevant information is provided by the annual report of Wesfarmers and its website.

The entity's objectives, strategies and related business risks According to Wesfarmers, the general objective is providing a satisfactory return to shareholders. For specific objectives, the auditor need to investigate the entity or departments actually. As for different subsidiaries, it has different strategies which are all stated in the annual report. For instance, Coles' objective is to provide Australians with value, quality, choice and

convenience for their everyday food, liquor and fuel needs. Similarly, all other related businesses strategies can be found in the annual report.