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PLANNING THE AUDIT AND ASSESSING AUDIT RISK. REFERENCES DRAWN FROM AUDIT SERVICE OF GHANA

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ABSTRACT

The study investigates planning the audit and assessing Audit risk decisions. The study offers the auditors with a set of preliminary audit procedures. The study found out that auditors' knowledge of the client's working environment improves their audit risk assessments and in a straight-forward manner have a profound impact on the sort and viewed-point of the standard of their audit planning decisions. The study had the objectives such use of analytical procedures, planning materiality, and interrelationship between desired level of audit risk, detection risk and extent of substantive procedures was assessed The study took into account data sources such as secondary and data collection was mainly qualitative. Findings from the research were highlighted to improved auditing practices. Conclusively, across the academic as well as professional communities, there has been increasingly concern regarding how analyzing the various planning of audit and resultant risk performance within organization in Audit Service of Ghana.

KEYWORDS: Audit Planning, Audit Risk, Assurance, Strategy, Materiality

INTRODUCTION

The Audit Service is the Sovereign Audit Institution (SAI) of the Republic of Ghana and its a member of the International Organization In terms Auditing Institutions, a standard and guidance issuing body on governmental auditing recognized by government as well as international organizations such as the International Monetary Fund, the World Bank and the United Nations.

The external audit of government and public sector entities, carried out in the contemporary world of democratic governance by supreme audit institutions, has in respect of original or traditional role of auditing, witnessed significant institutional s well as operational change over the past few decades. The transformation has mainly been driven by the need for the function to remain relevant in current's global by initiating, on an going basis, suitable structures, strategies and methodologies to satisfy the increasingly demands of public for more accountability as well as transparency in the utilization of public funds and resources beyond what the traditional audit role can provide.

The external audit function sector confronted with persistence challenges and these involve the continued and complexity of the programmes and operations of government and the public sector in an terrain that keeps on changing in response to technological developments. The Audit Service of Ghana headed by the Auditor-General is the Supreme Auditing Institution (SAI) of the Republic of Ghana.

The Service has a long history of existence dating back to colonial times (set up in 1910) with a structure and status which is now significantly different from what is used to be. In the past, the Service existed under the Executive arm of Government but owing to constitutional reforms, it is currently independent of the Executive, demonstrating one of the main universally recognized standards in governmental auditing which is yet to fully recognize in the country.

Under the established principles, SAIs are required, among other things, to plan, execute and report on their audit mandates in accordance with their own programmes, priorities, appropriate auditing standards, ethics and to be provided with appropriate human, financial, material and logistical resources which are determined and allocated to SAI without the engagement of the Executive branch. The audit functions also include supervising and carrying out excellent and cost-effective audits of the accounts of the various ministries, departments and agencies. Prepare the draft of the Auditor General's annual report to Parliament. Furthermore, carry out assurance audit of donor support programmes for Metropolitan, Municipal, and District at the various level of governmental administration.

The study emphasizes on developing the audit strategy. More particularly, it examines three concepts which are primarily to, and form an integral part of, developing the audit strategy, such as the desired level of assurance, materiality and audit risk. The study discusses factors that influenced the auditor's desired level of assurance, the distinction between planning materiality and tolerable error, and the components of audit risk. The research also assesses the relationship between materiality, audit planning, examine the meaning and importance of analytical review and considers the assessment of audit risk through the entire analytical revision.

Significance of the Study

The relevance of the study is to assess or investigate the audit planning and risk on effective management in improving Audit practice in the public sector. The study can be of immense contribution in terms of internal quality to positively impact on the understanding of the role of audit planning and risk in the audit service and to put forward ways of addressing on the practice in respect of audit plan and risk to enhance effective and efficient audit practice within the public service organization in Ghana.

Scope of the Study

The study covers audit planning and risk as pertain to the Audit service of Ghana. The researcher is constrained with obtaining raw data. This is because of organization ethical policy not providing data to outsiders. As a result, will depend on secondary data such as published and unpublished materials and the internet as sources of information.

Limitation of the Study

The study is limited to accessibility in obtaining data. Thus, conditions in which the author is unable to obtain adequate competent evidence. This is as a result of management not preparing to reveal institution information as it is strictly confidential.

OBJECTIVES

The main objectives of the study are to:

- to discuss the desire level of assurance and key factors which affect Ghana Audit Service.
- an analysis of the relevance of the concept of materiality and audit risk to planning in Ghana Audit Service.
- to assess procedures commonly used for overall analytical procedure review of Ghana Audit Service.

LITERATURE REVIEW

What is an Audit

Littleton (1993:260), early auditing '' was designed to verify the honesty of persons charged with fiscal, rather than managerial responsibilities'' he concluded two types of early audits; firstly public hearings of the results of governmental officials, and secondly, the scrutiny of the charge- and-discharge and discharge accounts.

The objects of an audit are twofold one, the detections of fraud where it has been committed and its prevention by imposing such safeguards, and devising such means as it will make it extremely difficult of accomplishment, even if the inclination is in that direction (Bourne, 1987, 330).

Anderson (1977) conveys the relevance of auditing and puts the audit function in perspective when he states:

The practice of auditing commenced on the day that one individual assumed stewardship over another's property. In reporting on his stewardship, the accuracy and reliability of that information would have been subjected to some sort of critical review.

Auditing is a process conducted by an appointed qualified person or body, whereby the records and financial statements of an entity are subjected to independent examination in such detail as will enable the auditor form an opinion as to their truth and fairness.

Audit is a Latin word meaning 'he hears'. Auditing originated over 2,000 years ago when firstly, in Egypt and subsequently in Greece, Rome and elsewhere, citizens entrusted with public funds were required to present themselves publicly, before a responsible officials (an auditor), to offer an oral account of their handling of those funds**.**

An audit is an investigation or a search for evidence to enable an opinion to be formed on the truth and fairness of financial and other information by a person or persons independent of the preparer and persons likely to gain directly from the use of the information, and the issue of a report on that information with the intention of increasing its credibility and therefore its usefulness' 'Gray and Manson (2005:23).

The definition conveys that:

Auditing proceeds by means of a logical structured and organized series of steps; auditing primarily involves gathering and evaluating evidence. In pursuing this activity the auditor maintains an objective unbiased attitude of mind; the auditor critically examines assertions made by an individual or organization about economic activities in which they have been engaged; the auditor assess how closely these assertions conform to the set of rules which govern how the individual or organizations is to act and/or report to others about the economic events which have occurred. Finally, the auditor communicates the results of this evaluation in a written report. The report is available to all users of the documents in which the assertions are made.

Generally Accepted Auditing Standards (GAAS): The existence of generally accepted auditing standards is evidence that the accounting profession is very concerned with maintaining a uniformly high quality of audit work by all independence public accountants.

The general standards are personal in nature in that they deal with auditor training and proficiency, auditor independence and the need for due professional care. These standards apply to all parts of the audit, including field work and reporting.

The phases of planning an audit within the Statement of Auditing Standards (SAS) 200: Planning states: Auditors should plan the audit work in order to discharge the audit in an effective way. The audit work planned should be reviewed and, if relevant, revised in period of the course of the audit.

The standard interprets that planning is relevant to ensure that suitable emphasis is devoted to the varying areas of the audit, potential problems are taking note of, and the work is accomplished expeditiously. It also states that getting knowledge of the entity's business is useful section of planning the audit and that the scale of audit planning will differ in conformity to the scale of the auditee and the difficulty of the audit.

SAS 200, para 3, observes that planning an audit involves two distinct phases:

Developing a comprehensive approach for the projected kind, timing and extent of audit procedures. It explains that auditors design the overall audit strategy in a general audit plan that sets the trend for the audit and offers steps for the development of the audit programme. The audit programme sets out the comprehensive procedures needed to implement the strategy. Risks are considered by both managers and auditors and are similarly defined.

Risk management is (or should be) an integral part of internal control system and is the responsibility of management. It is a structured process where managers (a) examine likely future events and the risks and opportunities these represent to the achievement of organization's objectives; and (b) determine and implement risk management actions (e.g. control activities). Audit risk assessment is part of planning and a process where auditors consider both (i) individual events and the risks and opportunities these represent to the achievement of the objectives of elements of the audit universe and (ii) generic risk factors that help prioritize work to areas of highest risk. The purpose of audit risk assessment is to ensure that scare audit resources are addressed to the audit of areas of highest risk to the organization..

Once the auditor has gained a thorough understanding of the client and its business, the strategy can be developed. That is, the scope and conduct of the audit can be determined or, more particularly, plans can be done regarding how much and what evidence to collect and how and when this should be carried out.

Importantly, developing the audit strategy relies on factors as the following;

The overall economic factors and industry conditions influencing the entity's business and significant features of the entity, its business, its financial performance and its reporting requirements.

The stage of assurance or level of confidence. Thus, the auditor expects to achieve concerning the appropriateness of the opinion expressed in the audit report

The limits exceeding the mistakes within the financial statements generally, and in individual financial statement amounts, are to be regarded as material, such errors ought to be remedied prior to unqualified audit report can be issued.

The tendency of material errors being present within the financial statements generally, and in certain parts thereof.

The appropriate segments into which the audit should be apportioned to ensure the proper conduct of audit risk.

The availability of suitable audit staff and, where applicable, other auditors as well as experts.

It should be pointed out that when other factors have discussed above, the entire audit plan can be developed.

Firstly, the kind of audit procedures to be performed. That is, specifically, the expected focus to be placed on, respectively, compliance testing of internal controls as well as substantive testing of transactions as well as account balances. The timing of audit procedures. Thus, the proportion of procedures expected to be discharged in times of the interim audit and the final audit. Finally, the extent of audit procedures. That is, the amount of audit evidence expected to be gathered in relation to each segment of the audit process.

The audit programme, in effect, operationalized the audit strategy. It sets out in comprehensive the audit procedures to be performed in each segment within the audit, demonstrating those to be discharged in time of the interim audit. It constantly also involves details of such methodologies such as sample size to be testes and how the samples are to be chosen. The audit programme frequently selects audit procedures in the sort of instructions audit staff should adhere to.

Spaces are made available for audit staff members to initial and date when each procedure has been accomplished and for cross-referencing to important audit working papers.

The companies Act 1985 requires auditors to state in their audit reports, amongst other things:

As to whether in their view, the financial statements offer a true and fair view of the state of affairs of the company and its profit or loss

Secondly, in their perception, the financial statements have been properly designed in conformity to the Companies Act.

In a similar note, public sector legislation needs auditors to express an audit judgment concerning the financial statement of the business organization concerned.

The degree or level of confidence is defined by Aren and Loebbecke (1980:42), ‘’ the desire level of assurance is the subjectivity determined level of confidence that the auditor wants to have about the fair presentation of the financial statements after the audit is completed.’’

Elliot Commission (1992:p.2),’’It contended: better Assurance Services help people make better decisions making and by improving information available to them’’.

An auditor’s desired level of assurance will constantly be high. It is always expressed in quantitative terms (95%), however, it is transparently cumbersome to state that when a specific numeric level of assurance has been arrived. It should be pointed out from the research that auditors quite frequent stick to a qualitative approach and think of a high or medium level of assurance instead of in concise percentage terms.

In certain conditions, auditors expect to secure a specific high level of assurance. This means in situation of a huge numbers f user are certainly to depend on the financial statements by one or more users. For, example, in mergers and acquisition and divestiture, or when there has lack of credibility concerning the client’s capacity to continue being a going concern.

The study observed that in each of the scenario, in case the auditor symbolizes that the financial statements provide a true and fair view of the company’s state of affairs as well as profit or loss when they embody material error or insufficient disclosure, serious repercussions is likely to bring about for both the financial statement users and for the auditor in question.

Overall, the bigger the entity aggregate revenues or total assets, and the higher broadly disbursed its ownership and its debts, the higher the number of users of its audited financial statements. A growing proportion listed public companies such as AngloGold Ashanti, Unilever, Standard Chartered Bank Ghana, Vodafone Ghana, Melcom has broader economic resources and large body of shareholders, debtors, and creditors may have to its audited financial statement used for greater and broader dimension than smaller unit of with small size of shareholders and few debtors as well as creditors.

Furthermore, private entities, wholly owned subsidiaries and companies whose directors hold an enormous number of the firm’s equity as well as debt may be in the position to have relatively narrow financial statements users who are distance from the company.

As Arens and Loebbecke (1999, pp.258) point out, ‘’ when the financial statements are heavily relied on, a great social harm could result if a significant error were to remain undetected’’.

Also, in situation of the audited financial statements have a huge proportion of users, each of whom may be victimized as a result of loss in case the auditor is not in the position to detect material error or insufficient disclosure in question, the auditor may have a bigger exposure to potential liability for instance negligence. That is, in situation of huge proportion of users depend on financial statements when deciding on a key investment decision for example on corporate restructuring such as acquisition or divestiture sell –off. In case, the potential investors makes their mind about investment and the audited financial statements on which they depend and as a result, prove to be materially misstated, they may suffer very serious financial damage and therefore seek some damages from the sustainability of loss from the auditors.

The literature review identifies that the auditor may desire a specific greater level of assurance in situation where there is doubt concerning the entity’s status as a going concern. This attest to the fact that, if a client is compelled into financial administration or winds up immediately after receiving a ‘transparent’ audit report and the financial statements are found to embody material errors or insufficient disclosures, the auditor may resort to litigation as a result of damages suffered from loss of the entity’s failure.

As pointed out by Ainapure and Ainapure (2009:257),’’audit risk means the risk that the auditor gives an inappropriate audit opinion when the financial statements are materially misstated. In

simple terms, it means the risk of giving a wrong audit report when the accounts have material errors''.
''the significance of the application of the concept of risk to the audit approach is that the concern is not with the choice of a particular strategy for collecting evidence perse, but rather than with providing a criterion for making that choice and determining the overall direction of audit work''(Turley & Cooper,1991,pp.15).

Accounting and Internal Control Systems and Audit Risk Assessments define audit risk as the risk that auditors may provide an appropriate audit opinion on financial statements.

Audit model '' is the conceptual model that underlies risk-based audit –approach. Relevant auditing literature indicate that firms had concluded that perceived audit failures led not from ineffectiveness of procedures in detecting misstatements, however, constraints, in acknowledging going concern from other aspects of the business content''.(Lenon et al, 2000, pp.12).

The risk which material error is present in the (unaudited) financial statements, this risk of error taking place leads to inherent risk and internal control risk

The second the risk that the auditor will fail to detect material error which is present in the (unaudited) financial statements; this risk component is known as detection risk and consists of sampling risk and quality risk.

Some of the underlying components of inherent risk are analyses below:

- ❖ Management Risk: The tendency of material error being present in the financial statements is strongly influenced by the integrity of the audit-client's management. It comprises of inherent integrity and situational integrity.
- ❖ Account Risk: Material error may also occur within the financial statements as a result of specific account balances being susceptible to misstatement.
- ❖ Business Risk: The tendency of material error occurring in the financial statements is also affected by the nature of the audit-client's business while some businesses are comparatively risk-free; others are vulnerable to changes in the state of the economy, competition and/or technological advancements. For example, jewelry outlets are affected by changes in consumer wealth, fashion-wear businesses are susceptible to changes in customer fads, and businesses in the electronics industry are particularly prone to changes in technology.
- ❖ Internal Control Risk: This is the material misstatement will occur in the audit-client's accounting data because it is not prevented or detected by the entity's internal control. Some internal control risk will always be present because any system of internal control has inherent limitations. But, if any entity has an effective internal control, the likelihood of error occurring in its financial statement can be reduced to a minimum. As documented by Lenon et al 2000,p.10, as a result of relatively narrow interpretation of risk and control, auditors are tended to focus their attention on risks that financial statements were materially misstated, rather than on a broader view of risk to an organization''.
- ❖ Sampling Risk: This is the risk that the auditor may fail to detect material error is examined and a particular transaction or account balance which is materially misstated is not included in the samples of transactions or balances examined during the audit. Sampling risk is also known as the risk of the sample of evidence selected for examination not being representative of the population from which it is drawn. When statistical sampling techniques are used, sampling risk is quantifiable and controllable.
- ❖ Quality Control Risk: This is the risk that the auditor will fail to detect material error which is present in the financial statements because sufficient appropriate audit evidence is not collected and/or is not evaluated properly. This component of audit risk relates to human error in areas such as:
  Understanding the client, its business, its industry and its key personnel.
- ❖ Assessing audit risk.

Setting materiality levels
Planning the audit.
Selecting, directing and supervising audit staff
Preparing and reviewing audit working papers.

In current's environment of strong competition in the auditing arena, audit firms have stressed their attention on carrying out efficient cost-effective audit. The objective of risk-based auditing is to achieve maximum efficiency and effectiveness. It is designed to facilitate that either the financial statements as neither a whole, nor any segment thereof, are under or over- audited, that is, that neither too little, nor too much, audit evidence is collected to achieve the auditor's desired level of assurance. Too little audit evidence leaves the auditor with greater exposure to audit risk is reduced to beyond the level he is prepared to accept and, as result, represents unnecessary expenditure of audit time and cost.

The auditor assesses the overall risk of material error being present in the financial statements, and identifies high audit-risk areas, primarily through:

Gaining a thorough understanding of the client, its business, its industry and its key personnel.

Performing analytical procedures, and evaluated the client's system of internal control.

Under the market economy system, with its keen competition, the modern internal audit system has come about and has been developed to meet the needs of competitive enterprises of struggling for existence Yan Jin (1997).

In the words of Carmichael and Willingham (1987), and Grigorakou (1989) offer an argument that internal audit is the audit which is discharged by employees of organization.

In current growing competitive business landscape, internal audit plays a catalytic role (Papadatou, 2005).

The role of internal auditing among others include supervision, prevention and protection, promotion, evaluation and certification and consultancy play a huge roles in the development of internal auditing.

In modern business environment internal audit promotes the effectiveness of goods and material supply, efficiency of productive organization and resource utilization, cost-benefit, economic contracts and effectiveness of product sales.

The concept of materiality states that ''information is material if omitting it or misstating it could influence decision that users make on the basis of financial information about a specific reporting entity'' (IASB 2010:84).''
''Materiality assessment is considered a black box'' (Bernstein, 1967:90).

Surprisingly, prior audit judgement research on assessment of materiality has mainly focused on materiality as a task'' (Nelson & Hun-Tong 2005:45-46), rather than perceived materiality as a judgement that includes both a task person and interpersonal interpretations''.

Despite there is stock of research abut materiality, relatively not much is known concerning auditors assess materiality (Turtle et al,2002) or concerning the absence of consensus among starters, other auditors as well as users in respect of the materiality threshold.(Turtle and Coper,1991, Chong; Iselin & Iskander,1999)

Two key motives for materiality such as the absence of agreement for instance, absence of transparent materiality guidelines for professional accounting association and standard and another motive for the absence of consensus those quantitative variables is likely to influence the materiality threshold (Iselin & Iskandar 2000).

Analytical procedures are the means by which meaningful relationships and trends in both financial and non financial data may be analyzed actual data may be compared with budgeted or forecast data, and the data of any entity may be compared with that of similar entities and industry averages.

The importance of Analytical Procedures are by and large regarded as highly efficient and effective audit tests, however, it must be borne in mind that their effectiveness is constantly dependent upon the quality of the underlying data. As indicated above, these procedures offer useful means of establishing of whether financial statements amounts display unexpected characteristics that is whether they deviate from the auditor's expectations given his or her understanding of the client, its business. Its industry and detailed knowledge of events which have affected the client's financial position and/or performance over the reporting period.

Analytical procedures are used at three different stages during an audit to achieve three objectives During the planning stage-they are used to help gain an understanding of the client's business, to help assess the likelihood of errors being present in the unaudited financial statements, to help determine appropriate levels of materiality, and to help determine the nature, timing and extent of audit procedures. During the substantive testing stage-they are used to obtain audit evidence in relation to individual account balances and classes of transactions. Furthermore, during the final review stage-they are used to help confirm for challenge. Thus, conclusions reached by the auditor regarding the truth and fairness of the financial statements.

According to Costa (2007), the approaches accompanied to analytical procedures serve the biggest challenge within the auditing profession. The rise use of analytical procedures within the planning phase in terms of audit also comes under theories as explained by Glover et al (2007) & Houck (2003) that confirms that not taking advantage of analytical procedure, in this phase tends to be incompetent audits.

METHODOLOGY

In understanding the situation, the risks are most significant; an auditor can plan their audit. This is carried out to increase efficiency as well as effectiveness when carrying out the study.

In the process of the planning stage, an analysis is conducted of the risk that, misstatement could happen in the client's audit operations. In the process of understanding of coping with the risks and most significantly an auditor can plan their audit to spend ample time in a situation of the risks being huge. In the planning process, an auditor will establish an understanding of their client's, their client's internal controls.

In conducting this study, the author had no assistance. Therefore, no participants were involved. There was problem of staff of Ghana Audit Service releasing confidential information. The author had to create imagination to enrich the research process.

Data Sources

By definition, secondary data is reanalyzing data that have already been collected for some other purpose. The secondary sources include textbooks, reports, journals articles, internet sites, newspapers, statistical materials etc.

In coping with risks are most useful, an auditor can plan their audit. This is carried out to increase efficiency and effectiveness when carrying out the research.

Data Collection Method

The study was mainly qualitative data. Thus, qualitative can be construed as a research strategy that usually emphasizes words rather than quantification in the collection and analysis of data. Because qualitative methods are flexible and unstructured, they employed a limited number of observations and try to explain different aspects of problem area and for that matter providing an assessment of the planning the audit risk with a case study of Audit Service of Ghana.

Research Limitation

A scope limitation results from conditions in which the auditors are unable to obtain sufficient competent evidence.

RESULTS AND DISCUSSIONS

Taking into account Entity Risk Management processes. The planning process must consider the extent to which management has already assessed risk and what common elements of this assessment the auditor can use.

Table 1 The common elements of risk management and risk-based audit planning

Stage of the audit	Objective	Nature of procedures used
Planning the audit	To understand the client's business. To assess the likelihood of errors being present in the unaudited financial statements. To set materiality levels. To identify high risk audit areas. To plan the nature, timing and extent of audit procedures.	• Trend analysis. • Ratio analysis of entity data. • Comparative analysis of entity data with that of other similar entities and industry averages. (Focus is on the entity's overall financial position and performance).
Substantive procedures	To obtain evidence to confirm (or refute) individual account balances.	Ratio analysis based on direct relationships amongst individual accounts. (Focus is on the reasonableness of individual account balances).
Final review	To confirm conclusions reached with respect to the truth and fairness of: - profit and loss statement amounts; - balance sheet amounts; - cash flow statement amounts; - financial statement note disclosures.	• Trend and percentage analysis of individual accounts. • Ratio analysis of financial statement data. (Focus is on the truth and fairness of the financial statements as a whole in portraying the entity's financial position, performance and cash flows).

Figure 1: The Use of Analytical Procedures in an Audit

During the planning stage in terms of an audit, analytical procedures are used in specifically, to support the auditor:

Gain an understanding of the client's financial affairs: And also-assess the tendency of the financial statement containing material errors. Determine suitable materiality levels. Spot high risk areas, thus, identify the accounts or audit segments where errors appear most likely to exist. Plan the audit procedures to be performed during the rest of the audit.

On the basis of the auditor understanding of the client and its business, and knowledge of events which have affected the client's financial position and performance during the reporting period, the auditor will have certain projections; they raise questions concerning the accuracy of the financial and on financial data used in the interpretations and about or about information previously obtained by the auditor on which his understanding of the entity and its financial affairs is based.

Criteria	**Accounting Firms**						
	1	**2**	**3**	**4**	**5**	**6**	**7**
Net profit – before tax –after tax	10%*	9-10%	5-10%	5%	5-10%	5-10%	5%
Sales	1-1$^1/_2$		$^1/_2$ – 1%	$^1/_4$ - $^1/_2$%		Ghc #	$^1/_2$%
Gross Profit				1-2%			
Total assets	1%		1-2%	$^1/_2$%	1%		$^1/_2$%
Current assets				1%			
Working capital						Ghc #	
Shareholders' funds			2-5%	1-5%		Ghc#	

***** The materially level can be increased to 12$^1/_2$ per cent for subsidiaries within a group.
# Consideration is given to cedi amounts involved when determining materially.

Figure 2: Planning Materiality Guidelines used by the 'Big 7' Accounting Firms in Ghana in 2016

Findings from the study demonstrated that the percentage applied by different firms to the same financial statement base differed quite widely. For instance, the percentage applied to net profit before tax ranged from 5%,used by firms 4 and 7,to 10%,adopted by firms 1,similarly, the percentages applied to sales ranged from 1/4 -1/2 percent, applied by Firm 4,to 1- 11/2 percent, used by firm 1.,as found in the Ghanaian study, the percentage differences seem to show that some firms (such as) Firm 4) establish planning materiality based on detected errors.

Most of the firms arrived at a figure (or range of figures) for planning materiality by receiving the estimates derived from the various bases and exercising judgement. Only Firm 2 depend on just one base, namely, net profit before tax.

The study as indicated in figure 8.3(c) ,other factors remaining the same, if the auditor considers there is a high risk of material error taking place in the financial statements as a result of inherent risk and internal control risk, the lower the level of detection risk which is necessary. The reverse relationship between the risks of errors occurring in the financial unaudited financial statements, determine the level of detection risk the auditor plans to accept and this in turn, determine the extent of the substantive procedures. A finding from the figure 8.3(c) demonstrates that the lower the planned level of detection risk, the more extensive or powerful are the necessary substantive procedures. The more assured the auditor wishes to be of not failing to detect material error in audited financial statement, the more extensive the substantive procedures (s) he will plan to perform. The study, to further illustrate the ideals conveyed in figure 8.3(a) to 8.3(e),it may be stated that, if the auditor's desire level of audit risk is assumed to be low, the materiality threshold are low and the risk of material error occurring in the audited financial statements is high, then the planned detection risk will be low and the necessary substantive procedures are extensive.

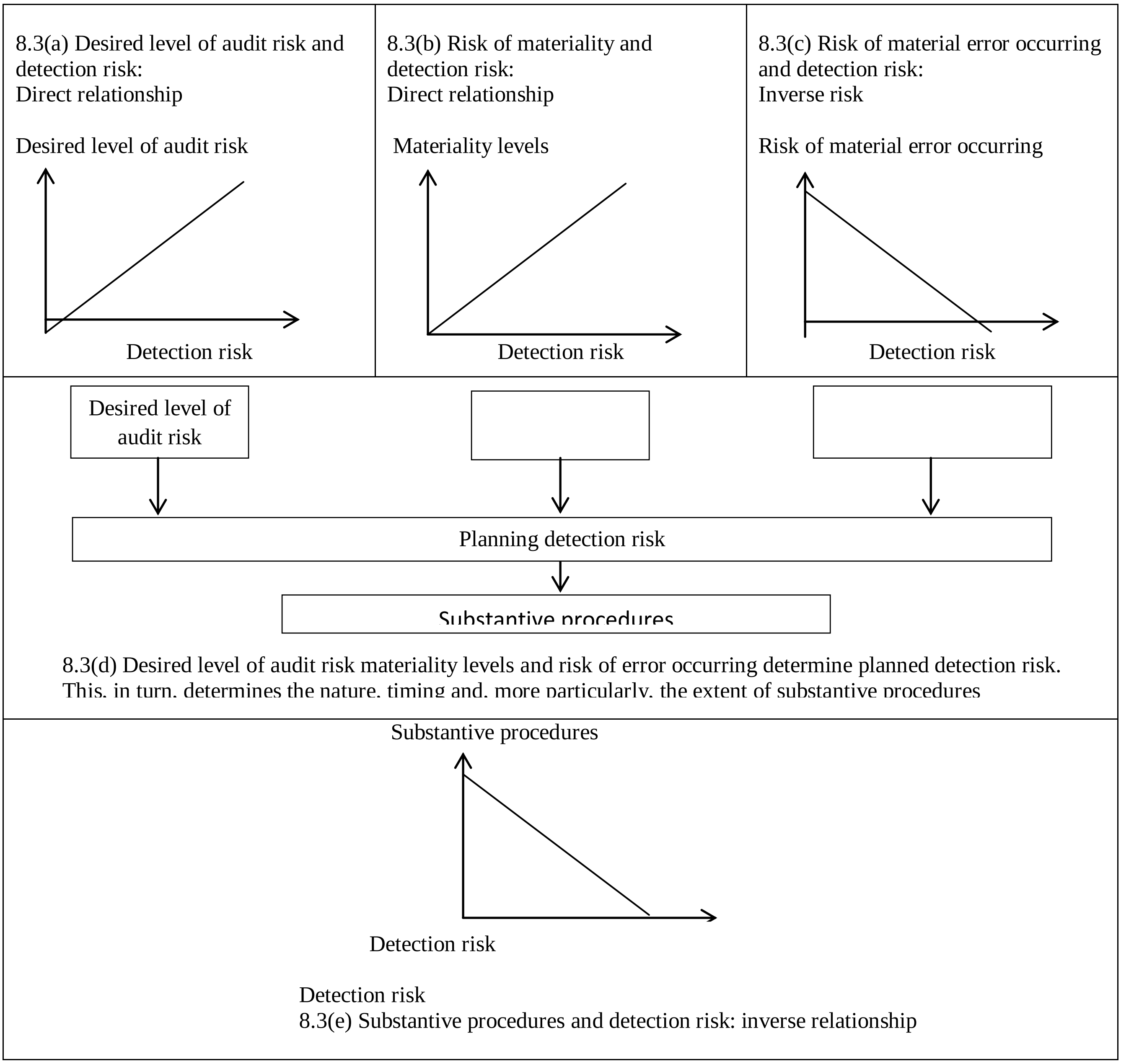

Figure 3: Interrelationships between Desired Level of Audit Risk, Maternity, Detection Risk and Extent of substantive Procedures

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CONCLUSION

In summary, the research have identified two phases involved in planning an audit-developing the audit strategy and designing and audit programme.. Significantly, the study have examined the auditors' desired level of assurance (the desired level of audit risk), the concept of materiality, the distinction between planning materiality and tolerable error., and the setting of materiality thresholds. The study has also discussed the concept audit risk and demonstrates that overall audit risk comprises two major components. : The risk of material error being present in the financial statements and the risk of the auditor failing to detect material error which is present. Again, the study have demonstrated that each of these components of audit risk consists of two elements, namely inherent risk and internal risk control risk Additionally, the research examined the relationship between the audit risk components and established that, while inherent risk and internal control risk are generally beyond the direct control of the auditors, detection risk is not. As consequence, in order to achieve the desired level of audit, the auditor risk, the auditor needs to assess inherent risk and internal control risk, and to plan the nature, timing and extent of audit procedures in order to ensure that detection risk, and therefore audit risk, is minimized to the desire level.

RECOMMENDATION

That auditors need to minimize risk and that training can go a long way to improve the auditing process and do away with fraud. There is the need to suggest that audit firms are eager to consider putting into place this optional training methodology in enhancing their performance program. This can go a long way to improve auditor fraud. Audit firms need to provide audit work in conformity to auditor's risk; managers at the helm of affairs need to stick to the professional code of practice and relevant audit standards.

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