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Discussant's Response to "An Investigation of Adaptability in Evidential Planning"

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Whether audit plans reflect differences in risk characteristics between industries as well as changes in risk over time for specific enterprises is a subject of interest to practitioners in the accounting and auditing profession. If audit plans do not reflect such differences in risk, serious questions arise as to both the effectiveness and efficiency of the audits performed pursuant to the plans.

While the research questions addressed by the authors of the paper are of interest, several factors diminish the usefulness of the results of the research and the paper generally from a practitioner's perspective.

First, the industry selections of merchandising and manufacturing are awfully broad. The former, which presumably is synonymous with retailing, would include everything from food to appliances to clothes to drugs to autos to recorded entertainment to building products to toys to jewelry to PC's and so on. Similarly, manufacturing could include production of many of the products referred to above (drugs, autos, toys, clothes) as well as steel, airplanes, mainframe computers, pulp and paper and so on. The risk characteristics for the more narrowly defined industries may differ substantially. However, when aggregated under the general headings of merchandising and manufacturing, such differences may be blurred and insight for the practitioner lost. Frankly, a more direct approach to the research might have been to select individual audits in more narrowly defined industries which are known to have distinctive risks for comparison of the audit plans. While the approach taken has statistical validity, the potential for more enlightening results may have been sacrificed.

Similarly, the research approach to the question of whether audit plans for specific enterprises reflect changes in risk over time is not the most direct, i.e., what is the likelihood that dramatic changes in risk will have occurred in the sample of enterprises during the two years for which an audit plan is being evaluated? It would seem more appropriate to identify enterprises where inherent risk has obviously changed over some appropriate period and then evaluate the audit plans for the same period to determine whether and how responsive they were to the changes in risk. This is acknowledged on page 21.

With respect to both the question of industry definition and changes in risk over time, the research approach employed may have been driven by the relative availability of and access to audit plans and personnel and the need or requirement for a sufficient sample size to meet academic publication expectations. Either way, the practitioner's interest in the issues is not well served.

A second area where the research could be crisper is with respect to the use of operating cycles for the comparisons. Risk factors typically impact financial statement components and the individual financial statement assertions within those components but rarely do they impact all the assertions and financial statement components involved in the broad concept of an operating cycle (e.g., purchasing, accounts
payable, payments). Whether an assertion specific approach to the research would have produced significantly different results is not known. However, practitioners are increasingly relating risks to specific assertions to determine the most efficient and effective audit procedures to reduce those risks to acceptable levels.

A third area where the research approach limits the usefulness of the results is the use of audit plans from a single audit firm. Evidence that the results may not be representative of audits generally can be found in the extensive use of accounts payable confirmations. Such a procedure is not routine in my firm nor is it in certain other firms.

Further, the fact that the audit plans were from a firm that makes extensive use of “standard” programs may have had significant “firm effects” on the results.

Finally, from an editorial perspective, the language used in the paper could have been more practitioner friendly. The meaning of a phrase such as “adaptability of evidential planning” is at best unclear and sounds at least slightly antithetical to an audit. That is, an auditor doesn’t plan evidence. Rather, an auditor plans to perform procedures and obtain evidence.

The concepts of inherent risk and control risk are confused in the paper. For example, Table 3 (and page 79) refer to inherent risk but Table 3 clearly lists control risk factors in the detail; page 84 identifies internal control reliance as a specific inherent risk factor; and page 82 refers to inherent and financial risk factors, the latter not defined.

Further, in Table 3, “reclassifications” are referred to in the context of account payable and accounts receivable. In practice, the definition and significance of reclassifications can vary significantly and further explanation of the use of that terminology would be useful. Similarly, on pages 87 and 88, “tests of controls” are referred to as a “substantive audit area” which is confusing.

Many of the points noted above are acknowledged in the paper. If they are addressed in future research the results will be more useful to practitioners in assessing the efficiency and effectiveness of audits in varying risk environments.