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DECLARATION

**AN INVESTIGATION OF THE EFFECTS OF AUDIT PLANNING ON
INVENTORY AUDIT. A SURVEY OF SELECTED AUDIT FIRMS IN NAIROBI
COUNTY.**

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REG NO: D53/CTY/PT/23297/2011

**A REASERCH PROJECT SUBMITTED IN PARTIAL FULFILMENT FOR THE
AWARD OF A DEGREE OF MASTER OF BUSINESS ADMINISTRATION OF
KENYATTA UNIVERSITY (FINANCE OPTION).**

OCTOBER 2013.

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DECLARATION

I, the undersigned, declare that this project is my original work and that it has not been presented in any other University or Institution for academic credit. I am entirely responsible for any errors or omissions in this report.

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DEDICATION

I dedicate this project to my entire family members and all those who gave me financial and moral support.

ACKNOWLEDGEMENT

I thank God for the strength, favour and provision he has given me this far. Thank you Lord.

My special gratitude goes to my supervisor Mr. Anthony Thuo for his time, gentle and constructive criticisms which have enabled me to successfully complete this research Project.

I would also like to acknowledge the encouragement from my entire colleagues at work, my MBA classmates, friends and relatives whose remarkable devotion and dedication throughout the project work was incredible. To those I am unable to mention but assisted me either directly or indirectly I say thank you all. May God bless the work of your hands.

OPERATIONAL DEFINITION OF TERMS

Inventory	Refers to the current supply count of the company owned product and merchandised.
Audit plan	Refers to a specific guideline to be followed when conducting an internal and external audit
Audit strategy	Describes in general terms how the audit will be carried out.
Auditing:	Refers to the accumulation of evidence about information to determine and report on the degree of correspondence between the information and established criteria.
Audit scope	The actual parameters, boundaries and associated activities

ABBREVIATION AND ACRONYMS

PKF	Pannel Kerr Forster
CPA	Certified public Accountant
AICPA	American Institute of certified public Accountants
KPMG	Kenya Peat Marwick Consultants Ltd
FOB	Free on board
IFA	International Federation of Accountants
IT	Information Technology
ICQ	Internal Control Questionnaire
ICEC	Internal Control Evaluation Checklist
HR	Human Resource
ISA	International standard on auditing
CAS	Canada Auditing Standard

ABSTRACT

The current competitive business environment has forced organizations to scrutinize their inventory because of the important role it plays in the overall business operations. Thus the main purpose of the study was to investigate the effects of audit planning on inventory audit with particular reference to selected audit firms in Nairobi County. The general objective of the study was to investigate the effects of audit planning on inventory Audit while the specific objective of the study was to determine the effects of audit strategy, allocation of resource, focus on priority risk areas and the determination of the scope of audit on inventory audit. The research study used descriptive research design in collecting the data from respondents. The target population was drawn from two hundred and six audit firms located in Nairobi County consisting of Audit Partners, Audit Managers and other Audit Staff. The research study used stratified random sampling procedure to select a representative sample. The primary data for the study was collected using the questionnaires. Quantitative data was analysed using regression and correlation statistics with the aid of Statistical Package for Social Sciences (SPSS17), while qualitative data was analyzed using content analysis. According to the study 87.3%, 76.1%, 81.7%, 77.5% of the respondents stated that, audit strategy, allocation of resources, scope of audit and priority risk areas respectively influence inventory audit. The study established that audit planning facilitates the auditor to develop audit strategy so as to determine in general terms how the inventory audit is to be carried; process of audit scope helps the auditor determine the resources necessary to perform the inventory audit and establishes the depth of the inventory audit; giving priority to risk areas and facilitates the auditors to factor various risks associated with inventory audit into the planning process. The study recommended that the auditor obtains the understanding of the accounting and internal control systems in the organization; consider the complexity of the entity's systems and controls and the manner in which they are used.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

An inventory audit is an accounting procedure designed to keep track of a company's products and merchandise Ballou & Heitger (2002). Inventory is the current supply count of company owned products. Numbers produced during inventory counts are closely evaluated by the auditor during the audit phase. Ordering managers and company owners typically perform these procedures to gain valuable information that helps them avoid inventory problems such as overstock and shortfalls. The primary reason auditors observe their client taking the physical inventory is to make sure the inventory reflected on the balance sheet actually exists and that the balance sheet includes all inventory owned by the company. This includes all raw materials, supplies, inventory in transit when using Free on Board (FOB) shipping point, inventory the company may have on consignment with another business, and inventory stored off the premises (Bedard, Mock & Wright, 1999).

According to (Bedard and Wright,2000) audit of inventory is important in many organisations as misstatement affect reported profit: misstatement of inventory balances has a direct effect on reported profit as inadequate or inappropriate inventory held can fail to meet the demands of sales and production requirements; high inventory levels resulting in poor cash flow and financial loss; inaccurate or incomplete record of inventory movements resulting in lack of awareness of the actual inventory position and difficulties in meeting customer needs; lack of security over inventory resulting in loss, theft or misappropriation and obsolete inventory held or incorrectly supplied to customers, results in financial loss and damage to reputation.

An efficient and effective audit can only be performed if the audit has been thoroughly and properly planned (AICPA, 2002). An audit plan is the specific guideline to be

followed when conducting an internal or external audit. An audit plan is viewed as a structured plan of action mapping out the audit procedures to be carried out with the aim of reporting on whether a specified set of accounts show a true and fair view of the state of the financial affairs of the Company (Greenwood & Salterio, 2002). The objectives of the plan are to ensure that: appropriate attention is devoted to the different areas of the audit; potential problems are identified and audit review is facilitated. Internal audits are usually conducted by a company's internal audit staff and are primarily used for a management review of accounting processes. External audits are conducted by external public accounting firms or private certified public accountants (CPA) to assure outside stakeholders that the company's inventory information is prepared in accordance with that jurisdiction's accepted principles (Lemon, Tatum & Turley, 2000).

Messier (2003) notes that an audit plan usually consists of: planning, fieldwork, follow-up meeting and a remedial audit. The planning phase is where external auditors meet with company management to determine which accounting processes will be audited and what the depth and breadth of the audit should be. During this initial meeting, auditors typically request that the company managers prepare a specific sample of inventory information for auditors to review. Asking for this information during the planning phase ensures auditors don't waste time collecting this information when conducting fieldwork (Bedard & Wright, 2000).

In planning an audit, the auditor should: identify important aspects of the environment in which the audited entity operates; develop an understanding of the accountability relationships; consider the form, content and users of audit opinions, conclusions or reports; specify the audit objectives and the tests necessary to meet them; identify key management systems and controls and carry out a preliminary assessment to identify both their strengths and weaknesses; determine the materiality of matters; review the internal audit of the auditee and its work programme; assess the extent of reliance that might be placed on other auditors i.e. internal auditors; determine the most efficient and effective audit approach; and provide for appropriate documentation of the audit plan and for the proposed fieldwork (Bell, Marrs, Solomon & Thomas, 1997).

The planning stage of the audit is used to establish an overall audit strategy, develop an audit plan and reduce audit risk to an acceptably low level. In other words, the auditor plans the audit engagement so that it will be performed in an effective manner and in accordance with the International standards of auditing (AICPA, 2002). Thus, initial engagements include additional audit procedures required to be adopted to gather audit evidence concerning the inventory information (Bell, Peecher & Solomon, 2002). Adequate audit planning also ensures that appropriate attention is given to crucial areas of the audit and that potential problems are identified on a timely basis (KPMG, 2002). At the planning stage the audit engagement partner should assign the necessary staff who possess the skills and ability required in order to ensure the audit is carried out efficiently and in accordance with the International Standards on Auditing (AICPA, 2002).

1.1.1 Overview of the Audit Sector in Kenya

The audit sector consists of big five audit firms which include: PriceWaterHouseCoopers, KPMG, Delloitte and Touch, PKF and Ernest and Young who are industry leaders and two hundred and one audit firms ranging from small to medium sized. The audit firms are located in Nairobi County.

1.2 Statement of the problem

The current competitive business environment has forced organizations to scrutinize their risk exposures in greater detail especially in the inventory management because of the important effects it plays in the overall business operations (Knechel, 2001). Audit committees are taking a hard look at risk management processes in inventory audit planning and assessments. Management of progressive companies have turned the spotlight on the effects that a robust inventory system must play within the larger drive towards effective governance, risk, compliance, quality management and overall organization performance and profitability (Huss, Jacobs, Patterson & Park, 2000). Audit planning has become essential in enhancing the effects of auditors who have to proactively identify problem areas in the inventory management as well as give constructive suggestions to inventory managers about how to improve the performance of the inventory management system in the organization. As a result, the effects of planning on audit inventory is receiving increased attention and resources, necessary to comply with the organization business objectives and regulations (KPMG, 2002).

However, despite the increased exposure and buy-in from management in most organizations, planning during inventory audit is not taken seriously due to lack of commitment by managers concerned, lack of requisite employees' skill levels and lack of emphasis on the importance of inventory management (KPMG, 2002). There is thus no effective planning to institutionalize the effects of audit so as to effectively enable the identification of weaknesses in oversight programs, establishment of the minimum standards for monitoring compliance and risk management programs and activities such as enforcement; and documentation, analysis, and reporting of results (Bell et al. (2002). Hence auditors in these organizations do not provide input to management, the board of directors, and the audit committee in form of inventory monitoring and oversight; ensuring compliance monitoring and enforcement of optimum inventory requirements for effective business operation (Ballou & Heitger, 2002).

Despite the growing number of companies who have established and institutionalized the functions of audit planning in their inventory units, there is a scarcity of papers that

actually examine the effects of audit planning on inventory audit. Therefore this research study sought to investigate the effects of audit planning on inventory audit.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of the study was to investigate the effect of audit planning on inventory Audit. A survey of selected audit firms in Nairobi County.

1.3.2 Specific objectives

The following specific objectives guided the study:

- a) To determine the effects of Audit strategy on inventory audit.
- b) To assess the effects of allocation of resource on inventory audit.
- c) To examine the effects of focus on priority risk areas on inventory audit.
- d) To determine the effects of audit scope on inventory audit.

1.4 Research Questions

- a) To what extend does the development of Audit strategy affect inventory audit?
- b) How does the allocation of resource affect inventory audit?
- c) How does focus on priority risk areas affect inventory audit?
- d) To what extend does the scope of audit affect Inventory audit?

1.5 Significance of the Study

The study will be significant to management and staff of audit firms who will be able to know and appreciate the effect of planning on inventory audit and seek ways to strengthen the variables that enhance this role so as to achieve organization objectives.

The study will be significant to the Auditing firms as they will be able to understand and appreciate the effect audit planning plays in enhancing inventory audit in the sector and take appropriate action to enhance the same through application of effective strategies, policies and management practices.

Clients of audit services will have a better understanding of the essence of audit planning during inventory audit, hence will be able to comply well with auditors so as to make audit process authentic. The study will also help clients to establish the reliability of audit reports depending on the procedures that are used in any audit process. The study will be of great significance to regulatory bodies in establishing how well and reliable auditing services are to the general public, and also how auditing standards are maintained as per the set standards. The study will provide the background information to research organizations and scholars who will want to carry out further research in this area. The study will also facilitate individual researchers to identify gaps in the current research in this area.

1.6 Scope of the Study

The study was limited to investigating the effect of audit planning on inventory audit with particular reference to audit firms in Nairobi County. The study focused on how development of audit strategy, allocation of resource, prioritizing of risk areas and the determination of the scope of audit influence inventory Audit.

1.7 Limitation of the Study

There were some respondents who were unwilling to provide full information for fear of being reprimanded by their managers for giving out information that they considered confidential. However the researcher assured the respondents of the confidentiality of the information that they provided and sought authority from the management to undertake research. There were some respondents who did not provide authentic information but instead provide general information. However the researcher alternated closed and open ended questions in order to get direct answers.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter, literature, which is related to and consistent with the objectives of the study, is reviewed. Important theoretical and practical problems are brought out; relevant literature on the aspects pertaining to the effects of audit planning on inventory Audit is discussed.

2.2 Theoretical Review

A theory is defined as systematic structure of broad scope, conceived by the human imagination that encompasses a family of empirical (experiential) laws regarding regularities existing in objects and events, both observed and posited. Mautz and Sharaf (1961) describe the purpose of auditing theory as the hope that it will provide us with solutions or, at least, clues to solutions, of problems which we now find difficult. There are several different theories that may explain the demand for audit services.

2.2.1 Planning Theory

Management theorist Henri Fayol (1841-1925) whose work still endures today included planning amongst what he said were the prime responsibilities of management: planning, organizing, command, co-ordination and control. He described planning as: 'examining the future, deciding what needs to be done and developing a plan of action'. Planning helps determine the direction and scope of an organization over the long term, matching its resources to its changing environment and, in particular, its markets, customers and clients, so as to meet stakeholder's expectations (Johnson & Scholes, 1993).

Planning goes through a systematic process to determine if a formal plan is required. Choices have to be made based on a rationale and on information, and a procedure or

planning method has to be followed (Johnson & Scholes, 1993). Beyond making decisions, 'Planning' can and should be used to interact with internal and external stakeholders, building understanding and commitment depending on the circumstances planning can take one day or several months although this depends on the activity, circumstances and the purpose. Any formal planning exercise requires time and resources; resources can be in terms of money or personnel time as there should be an understanding of the opportunity costs involved as well as real costs. The timing needs therefore to be appropriate and the resources mobilised proportional to the task and intended outcome (Bedard & Wright, 2000). Strategic planning is important whether the organisation's direction needs reviewing, whether its priorities have changed or whether the means of achieving desired objectives need to be updated due to internal or external forces effecting delivery.

2.2.2 Theory of inspired confidence

According to Limperg (1932), the demand for audit services is the direct consequence of the participation of outside stakeholders in the company. These stakeholders demand accountability from the management in return for their contribution to the company. Since information provided by management might be biased, a possible divergence between the interest of management and outside stakeholders, an audit is required to assure the reliability of this information. The auditor's job should be executed in such a way that the expectations of a rational outsider are not thwarted. So, given the possibilities of audit technology, the auditor should do everything to meet reasonable public expectations.

2.2.3 Agency theory

Jensen and Meckling (1976) refer to the firm being a 'black box', operated so as to meet relevant marginal conditions with respect to inputs and outputs, thereby maximizing profits, i.e., present value. There must be a mechanism to reconcile the conflicting objectives of individual participants to enable the firm to succeed in value maximization. A principal-agent relationship arises when principals engage another person as their agent to perform some service on their behalf. Delegation of responsibility is helpful in

promoting an efficient and productive economy, however delegation also means that the principal needs to place trust in an agent to act in the principal's best interests. Because of information asymmetries between principals and agents and different motives, principals may lack trust in their agents and may consequently need to put in place mechanisms to reinforce this trust and this mechanism can be an auditor. Watts and Zimmerman (1986) suggests that the auditor is appointed in the interests of both the third parties as well as the management.

An audit provides an independent check on the work of agents and of the information provided by an agent, which helps to maintain confidence and trust (Eisenhardt, 1989). Auditors are engaged as agents under contract but they are expected to be independent of the agents who manage the operations of the business on behalf of the principal, the auditor assesses whether the financial statements, prepared by the agent, present a true and fair view of the company and are prepared in accordance with general accepted accounting principles. The primary purpose of audited accounts in this context is one of accountability and audits help to reinforce trust and promote stability (Eisenhardt, 1989).

2.3 Empirical Review

2.3.1 Inventory Audit

Auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria. Auditing should be done by a competent, independent person (AICPA, 2002). The primary reason auditors observe their client taking the physical inventory is to make sure the inventory reflected on the balance sheet actually exists and that the balance sheet includes all inventory owned by the company. This includes all raw materials, supplies, inventory in transit when using Free on Board (FOB) shipping point, inventory the company may have on consignment with another business, and inventory stored off the premises. Confirming the existence of inventory through your observations addresses the occurrence and completeness assertions as well (KPMG, 2002).

An inventory audit is an accounting procedure designed to keep track of a company's products and merchandise (Archibugi, 2004). Inventory is the current supply count of company owned products. Numbers produced during inventory counts are closely evaluated by the auditor during the audit phase. Ordering managers and company owners typically perform these procedures to gain valuable information that helps them avoid inventory problems such as overstock and shortfalls. Computer inventory software often simplifies the auditing process by making inventory tracking a more accurate and continuous process (Abdolmohammadi, 1999).

Conclusions drawn from an inventory audit commonly influence future policy and decision making for a company. For example, prevailing market trends are usually reflected in their impact on company inventory. A prevailing market trend is a noticeable change in the purchasing habits of consumers (Archibugi, 2004). The auditor reviews current and past inventory numbers of a company to find patterns and anticipate the future needs of their customers. Regular audits can help a company move with the changes in the industry while keeping a lean inventory (AICPA, 2002).

The information supplied by an inventory audit is most useful when inventory counts are performed in a legitimate and uniform manner (Masha & Miller, 2000). The accuracy of an inventory count can be increased by performing an on-site audit with each supervising manager. It is generally beneficial to install redundant procedures that ensure proper counting for all the types of inventory held by the company. Displaying current inventory charts and allowing employees to have access to view computerized inventory software can also provide them with accurate information to communicate to the customer. Auditing company inventory accurately allows for both minor and major decisions to be made with confidence to improve the profitability of a company and increase supply to the right markets (Akresh, Loebbecke & Scott, 1999).

The audit of inventories is important in many organizations as misstatement of inventory balances has a direct effect on reported profit and results into: inadequate or inappropriate inventory held to meet the demands of sales and production for instance stock out; high

inventory levels resulting in poor cash flow and financial loss; inaccurate or incomplete record of inventory movements resulting in lack of awareness of the actual inventory position and difficulties in meeting customer needs (Wilson & Root, 2000). It also leads to lack of security over inventory resulting in loss, theft or misappropriation and obsolete inventory held or incorrectly supplied to customers, results in financial loss and damage to reputation; inaccurate or incomplete record of inventory movements results in lack of awareness of the actual inventory position and difficulties in meeting customer needs, lack of security over inventory resulting in loss, theft or misappropriation, obsolete inventory held or incorrectly supplied to customers, resulting in financial loss and damage to reputation (Chartered Accountants of Canada, 2011).

Inventory audit at a certain stage involve physical inventory counts which normally is done periodically for instance at or close to the year end or perpetual that involve counting on a continuous basis over the whole year. Each item is physically inspected at least once a year, and more frequently in the case of items liable to loss. Adequate records are kept up to date which are amended and signed as a result of physical inspection and that there are appropriate reports and investigation procedures for discrepancies. According to ISA 501, when inventory is material to the financial statements, the auditor should obtain sufficient appropriate audit evidence regarding its existence and condition by the attendance at physical inventory counting unless impracticable.' Attendance enables the auditor to: inspect inventory; observe compliance to proper stock count procedures in order to provide evidence as to the reliability of the stock count exercise.

In planning a combination of audit objectives and the evidence that need to be accumulated to meet these objectives, the auditor will follow an audit process. Elder, Beasley and Arens (2010) define the audit process as a well-defined methodology for organizing an audit to ensure the evidence gathered is sufficient, complete and that all audit objectives are met. The process of planning the audit involves the understanding of the client and its environment, an overall audit strategy, and the risk assessment of financial statements material misstatement (Elder et al. (2010).

2.3.2 Overall Audit Strategy

The audit strategy describes in general terms how the audit is to be carried out and the audit plan details the specific procedures to be carried out to implement the strategy and complete the audit (Ballou, Earley & Rich, 2002). In establishing the overall audit strategy, the auditor determines the characteristics of the engagement that define its scope, such as the basis of reporting, industry-specific reporting requirements, and the locations of the entity (Bedard & Wright, 2000). The auditor must also ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required, such as deadlines for interim and final reporting, and key dates for expected communications with management and those charged with governance (Bell, Peecher & Solomon, 2002). He must consider the important factors that will determine the focus of the audit team's effort, such as determination of appropriate materiality levels and preliminary identification of areas where there may be higher risks of material misstatement (KPMG, 2002). Preliminary identification of material locations and account balances, evaluation of whether the auditor may plan to obtain evidence regarding the operating effectiveness of internal control and identification of recent significant entity-specific, industry, financial reporting, or other relevant developments is equally critical of determination beforehand (Greenwood & Salterio, 2002).

In developing the audit strategy, the auditor also considers the results of preliminary engagement activities and, where practicable, experience gained on other engagements performed for the entity (AICPA, 2002). The auditor updates documents and any significant revisions to the overall audit strategy to respond to changes in circumstances (Archibugi, 2004). Once the audit strategy has been established, the auditor is able to start the development of a more detailed audit plan to address the various matters identified in the audit strategy, taking into account the need to achieve the audit objectives through the efficient use of the auditor's resources (AICPA, 2002). Although the auditor may establish the audit strategy before developing the detailed audit plan, the two planning activities are not necessarily discrete or sequential processes but are closely interrelated since changes in one may result in consequential changes to the other (Bedard et al .(1999).

Establishing the overall audit strategy for the audit of an entity need not be a complex or time-consuming exercise; it varies according to the size of the entity and the complexity of the audit (Bedard & Wright, 2000). For example, a brief memorandum prepared at the completion of the previous audit, based on a review of the audit documentation and highlighting issues identified in the audit just completed, updated, and changed in the current period based on discussions with the owner-manager, can serve as the basis for planning the current audit engagement (AICPA, 2002).

The audit strategy sets the scope, timing and direction of the audit. At this stage the auditor will develop the detailed audit plan which will help identify problem areas and important audit areas (KPMG, 2002). The auditor must develop an audit plan in which the auditor documents the audit procedures to be used that, when performed, are expected to reduce audit risk to an acceptably low level. The audit plan is more detailed than the audit strategy and includes the nature, timing, and extent of audit procedures to be performed by audit team members in order to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level. Documentation of the audit plan also serves as a record of the proper planning and performance of the audit procedures that can be reviewed and approved prior to the performance of further audit procedures (Bedard & Wright, 2000).

The audit plan should include a description of the nature, timing, and extent of planned risk assessment procedures sufficient to assess the risks of material misstatement. A description of the nature, timing, and extent of planned further audit procedures at the relevant assertion level for each material class of transactions, account balance, and disclosure and performing audit procedures in response to assessed risks and evaluating the audit evidence obtained (AICPA, 2002). The plan for further audit procedures reflects the auditor's decision whether to test the operating effectiveness of controls, and the nature, timing, and extent of planned substantive procedures. A description of other audit procedures to be carried out for the engagement in order to comply with generally accepted auditing standards (for example, seeking direct communication with the entity's lawyers) (Mock & Wright, 1999). Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement is developed. For example, planning of the auditor's risk assessment procedures may occur early in the audit process.

However, planning of the nature, timing, and extent of specific further audit procedures depends on the outcome of those risk assessment procedures (Zimbleman, 1997). The auditor should document changes to the original audit plan. In addition, the auditor may begin the execution of further audit procedures for some classes of transactions, account balances, and disclosures before completing the more detailed audit plan of all remaining further audit procedures (AICPA, 2002).

At the planning stage the auditor will develop the overall audit strategy. The audit strategy sets the scope, timing and direction of the audit (IFA, 2006). At this stage the auditor will develop the detailed audit plan which will help identify problem areas and important audit areas (De Angelo, 2005). At the planning stage the materiality level is set and areas where material misstatement might occur are identified. Materiality must always be assessed where an audit opinion is given (AICPA, 2002).

According to (De Angelo, 2005) audit strategy and audit plan include the following: arrangements to be made with the previous auditor, for example, to review the previous auditor's audit documentation. Any major issues (including the application of accounting principles or of auditing and reporting standards) discussed with management in connection with the initial selection as auditors, the communication of these matters to those charged with governance, and how these matters affect the overall audit strategy and audit plan (Bedard & Wright, 2000).

According to Waller (1993) obtaining the understanding of the accounting and internal control systems is important. An audit strategy that places reliance on internal controls in supporting a reduced level of substantive procedures which is not, in fact, a single strategy, but a range of strategies determined by the relative effectiveness of applicable control procedures (combined with assessments of inherent risk and materiality) (Messier, 2003). Auditors must make separate decisions in adopting such a strategy; each of these decisions must be supported by relevant evidence. These decisions control procedures are effectively designed and effectively operated (Zimbleman, 1997).

The explanatory guidance in ASA 300 explains that the overall audit strategy sets the scope, timing and direction of the audit, and guides the development of the more detailed audit plan, as well as helping ascertain the nature, timing and extent of resources needed (AICPA, 2002). The guidance goes on to explain the factors that the establishment of the audit strategy ordinarily involves. It explains the need to consider the results of preliminary engagement activities and, where practicable, experience gained on other engagements performed for the entity. The guidance goes on to explain that although the auditor ordinarily establishes the audit strategy before developing the detailed audit plan, the two planning activities are not necessarily discrete or sequential processes but are closely inter-related since changes in one may result in consequential changes to the other (De Angelo, 2005).

Typically, determining an audit strategy and the planning of an audit are (more often than not) dynamic processes, and managers should be aware that the audit procedures which form part of the initial strategy or plan may not be carried out, or, conversely, may be extended as a consequence of findings from initial tests. For example, during the course of an audit, an audit firm may discover fraudulent activity which has been carried out by a director of a company. This discovery would probably result in a change in strategy for the remainder of the audit (International Federation of Accountants, 2003).

2.3.3 Allocation of Resources

The process of developing the audit strategy helps the auditor determine the resources necessary to perform the engagement, such as: the resources to assign for specific audit areas, such as the use of appropriately experienced team members for high-risk areas or the involvement of experts on complex matters; the amount of resources to assign to specific audit areas, such as the number of team members assigned to observe the inventory count at material locations, the extent of review of other auditors' work, or the audit budget in hours to allocate to high-risk areas (De Angelo, 2005). It also includes when these resources are to be assigned, such as whether at an interim audit period or at key cutoff dates; how such resources are to be managed, directed, and supervised, such as when team briefing and debriefing meetings are expected to be held, how the auditor with

final responsibility and manager reviews are expected to take place (for example, on-site or off-site), and whether to complete engagement quality control reviews (Bedard et al. (1999).

Archibugi (2004) indicated that the auditor should consider whether specialized skills are needed in performing the audit. If specialized skills are needed, the auditor should seek the assistance of a professional possessing such skills, who may be either on the auditor's staff or an outside professional. If the use of such a professional is planned, the auditor should determine whether that professional will effectively function as a member of the audit team (AICPA, 2002).

The use of professionals possessing information technology (IT) skills to determine the effect of IT on the audit, to understand the IT controls, or to design and perform tests of IT controls or substantive procedures is a significant aspect of many audit engagements. In determining whether such a professional is needed on the audit team (Kinney, 2000), the auditor should consider such factors as the following: The complexity of the entity's systems and IT controls and the manner in which they are used in conducting the entity's business. The significance of changes made to existing systems, or the implementation of new systems (Millichamp, 2002). The auditor must also consider the extent to which data is shared among systems; the extent of the entity's participation in electronic commerce; the entity's use of emerging technologies and the significance of audit evidence that is available only in electronic form (Donadio, 1992).

The audit team should have the benefit of drawing services of subject matter experts and other knowledgeable groups or individuals available within the organization, where it may be necessary to obtain expert advice, particularly when the audit team lacks the necessary specialized knowledge. If skills are not available internally, Senior Internal Auditor may take a decision to hire the services of an outside expert (AICPA, 2002).

Using the profiles of auditors and the schedule of audit engagement, the staff should be identified based on the needed competence, knowledge and skills in the audit work to be

engaged in and the audit work assigned. The role of each member of the audit should be clearly defined (De Angelo, 2005). The following factors should be taken into consideration in making assignments of individuals: staffing and timing requirements of the specific audit, evaluations of the qualifications of personnel as to experience, position, background, and special expertise, the planned supervision and involvement by supervisory personnel, appropriate consideration to be given, in assigning personnel, to both continuity and rotation to provide for efficient conduct of the audit and the perspective of other personnel with different experience and backgrounds (Bedard & Wright, 2000).

Supervision involves directing the efforts of assistants who are involved in accomplishing the objectives of the audit and determining whether those objectives were accomplished (Zimbleman, 1997). Elements of supervision include instructing assistants, keeping informed of significant issues encountered, reviewing the work performed, and dealing with differences of opinion among firm personnel. The extent of supervision appropriate in a given instance depends on many factors, including the complexity of the subject matter and the qualifications of persons performing the work, including knowledge of the client's business and industry (Salterio & Weirich, 2001).

In addition, assistants should be informed of their responsibilities and the objectives of the audit procedures they are to perform (Bedard & Wright, 2000). They should be informed of matters that may affect the nature, timing, and extent of audit procedures they are to perform, such as the nature of the entity's business as it relates to their assignments and possible accounting and auditing issues (De Angelo, 2005). The auditor with final responsibility for the audit should direct assistants to bring to his or her attention accounting and auditing issues raised during the audit that the assistant believes are of significance to the financial statements or auditor's report so the auditor with final responsibility may assess their significance. Assistants also should be directed to bring to the attention of appropriate individuals in the firm difficulties encountered in performing the audit, such as missing documents or resistance from client personnel in providing access to information or in responding to inquiries (Bedard & Wright, 2000).

2.3.4 Scope of the Audit Engagement

Audit scope can best be defined as the processes and procedures undertaken in a collaborative fashion by all participating parties involved in the audit that help define the actual parameters, boundaries, and all other associated activities for the actual audit (AICPA, 2002). The audit scope, ultimately, establishes how deeply an audit is performed. Audit scope means the depth of an audit performed. An audit scope can range from simple to complete, including all company documents. Scope can be a major factor on the duration, cost, and overall complexities of an audit (Abdolmohammadi, 1999).

Audits are performed for several purposes: regular checkups of company records, to check for internal errors, for the purpose of finding fraud inside a company, for the purpose of finding fraud in another company, or even for the purpose of finding tax income and other offenses against the law (Archibugi, 2004). Due to this fact, audit scope and objectives have a different meaning depending on the person performing the audit as well as the reason behind the audit. If the audit is being performed for regular internal processing it will generally only have a scope which includes the latest period which has passed. This is because the previous period probably already has been audited (Bedard & Wright, 2000).

The auditor may consider the following matters when setting the scope of the audit: With respect to materiality: setting materiality for planning purposes; setting and communicating materiality for auditors of other locations (Haskins & Dirsmith, 1995). Reconsidering materiality as audit procedures are performed during the course of the audit and identifying the material locations and account balances. This requires the auditing of areas where there is a higher risk of material misstatement; the effect of the assessed risk of material misstatement at the overall financial statement level on scope, supervision, and review (Kotchetova, 2001). The selection of the audit team and the assignment of audit work to the team members, including the assignment of appropriately experienced team members to areas where there may be higher risks of material misstatement (Millichamp, 2002). Setting the scope of the audit also includes budgeting, including considering the appropriate amount of time to set aside for areas where there may be higher risks of material misstatement (Salterio & Weirich, 2001).

The auditor is also to see and review the results of previous audits that involved evaluating the operating effectiveness of internal control, including the nature of identified weaknesses and action taken to address them is also of importance (Ballou, et al. (2002). Volume of transactions, which may be a factor in determining whether it is more effective for the auditor to rely on internal control, importance attached to internal control throughout the entity to the successful operation of the business may be worthy considering (Bedard et al. (1999). The auditor must also consider business developments affecting the firm, including changes in information technology, business processes; changes in key management; industry developments, such as changes in industry regulations and new reporting requirements; accounting changes, such as changes in generally accepted accounting principles and other relevant developments, such as changes in the legal environment affecting the firm and may have significant bearing on the outcome of the audit must be interrogated and effectively considered (Bell et al. (1997). It also includes a review of the expected audit coverage, including the number and locations need to be included in the audit plan including the nature of the control relationships between a firm and its subsidiaries, nature of the subsidiaries or divisions to be audited, including the need for specialized knowledge need to be considered and included in the plan scope (De Angelo, 2005).

Huss, Jacobs, Patterson, and Park (2000) acknowledge that other considerations that the Auditor must make include the statutory or regulatory audit requirements, firms' use of service organizations and how the auditor may obtain evidence concerning the design or operation of controls performed by them, expected use of audit evidence obtained in prior audits, for example, audit evidence related to risk assessment procedures and tests of controls and the effect of information technology on the audit procedures, including the availability of data and the expected use of computer-assisted audit techniques. Finally, the coordination of the expected coverage and timing of the audit work with any reviews of interim financial information and the effect on the audit of the information obtained during such reviews (Kotchetova, 2001).

The auditor may also consider the following matters in setting the scope of the audit: the reporting objectives of the engagement, the timing of the audit, and the nature of communications required; the firm's timetable for reporting, including interim periods, the organization of meetings with management and those charged with governance to discuss the nature, extent, and timing of the audit work (Lemon et al (2000).

The scope of the Audit must include aspects of discussion with management and those charged with governance regarding the expected type and timing of reports to be issued and other communications, both written and oral, including the auditor's report, discussion with management regarding the status of audit work throughout the engagement and the expected deliverables resulting from the audit procedures (Millichamp, 2002). The planning scope need to include the communication with auditors of other locations regarding the expected types and timing of reports to be issued, expected nature and timing of communications among audit team members, including the nature and timing of team meetings and timing of the review of work performed and any other expected communications with third parties, including any statutory or contractual reporting responsibilities arising from the audit (Messier, 2003).

2.3.5 Priority risk areas

Risk is the level of exposure to the chance that some event happens. The event might be beneficial or prejudicial, or might have subsequent implications to other situations or process (AICPA, 2002). Therefore, in business there is a risk of losing money, a risk of fraud, and a risk of misstatement in the financial information. As consequence, business and individuals manage risk and the level of exposure to specific risk according to their judgment (International Auditing and Assurance Standards Board, 2002).

Before commencing with the detailed planning of the audit, it is imperative for the auditors to build up an extensive knowledge of the business. This is because it would be impossible to reliably assess levels of risk without having a full understanding of the company and its environment (Bell et al. (2002). A thorough understanding demands an appreciation of matters such as the business sector, particular operating issues faced by the company, the company's ethos, its management structure, systems and governance

procedures, and its customer and supplier profiles (AICPA Auditing Standards Board, 2002).

An auditor should determine overall responses to assessed risks at financial report level, and perform audit procedures at the assertion level. Responses at financial report level include: assigning more experienced staff; using experts; and incorporating unpredictability into selection of further audit procedures (Archibugi, 2004). An auditor must consider significance of the risk; likelihood of misstatement occurring; nature of specific controls; whether auditor expects to obtain evidence to determine if entity's controls are effective in preventing or detecting and correcting, material misstatement (De Angelo, 2005). Analytical procedures involve the use of ratios, trend analysis and operating statistics for comparison with internal and external data. Analytical procedures can be used at all stages of the audit (International Auditing and Assurance Standards Board, 2002).

Risks associated with inventory include : inadequate or inappropriate inventory held hence become unable to meet the demands of sales and production e.g. stock out ; high inventory levels resulting in poor cash flow and financial loss; inaccurate or incomplete record of inventory movements resulting in lack of awareness of the actual inventory position and difficulties in meeting customer needs; lack of security over inventory resulting in loss, theft or misappropriation and obsolete inventory held or incorrectly supplied to customers, resulting in financial loss and damage to reputation (AICPA, 2002).

Assessing audit risk and inherent risk is an essential part of audit planning because it determines the quantity and quality of evidence that will need to be gathered and the staff that need to be assigned to the particular audit (Eilifsen, Knechel, and Wallage, 2001). If for example there were valuation issues with property inherent risk would then be assessed as high, therefore meaning more evidence would have to be gathered and staff that are more experienced assigned to perform testing on this (IFA, 2006).

As a part of the risk identification process during the planning stage of the audit, an auditor will assess the risk of a material misstatement due to fraud (CAS 240). When assessing fraud risk, an auditor will adopt an attitude of professional scepticism to ensure that any indicator of a potential fraud is properly investigated. This means that the auditor must remain independent of their client, maintain a questioning attitude, and search thoroughly for corroborating evidence to validate information provided by the client (AICPA, 2002).

Where the understanding of the accounting and internal control systems has been obtained through the use of an internal control questionnaire (ICQ), assessment of the design of controls is part of the same process (Knechel, 2001). Otherwise most auditing firms have developed internal control evaluation checklists (ICEC) for assessing design effectiveness. These checklists identify potential misstatements and control procedures likely to prevent or detect such misstatements. In evaluating design effectiveness the auditors identify the presence of the suggested control procedures or other compensating controls that have the same effect (Messier, 2003).

To prevent the business risks identified above from materializing, the directors of the company should have implemented an effective system of internal control, one which demonstrates the various standard attributes with which all auditing should be familiar (such as segregation of duties, authorization controls, or application controls) (Knechel, 2001). Indeed, it is this system of internal control that the auditor would ascertain and evaluate when determining the levels of control risk and overall financial statement risk in existence (O'Donnell, and Schultz, 2003).

Based on this preliminary assessment, the auditors will draw up the audit programme incorporating both tests of control and substantive procedures. The tests of control are designed to verify that control procedures are actually operating as laid down (AICPA, 2002). The level of planned tests of control depends on the assessed level of control risk to be confirmed. The lower the assessed level of control risk, the higher the level of tests of control required to confirm that assessment and conversely, the lower the planned level of substantive procedures (Eilifsen et al. (2001).

equity leverage, avoid corporate or personal taxes, avoid breach of a bank covenant, shift income/expense to future periods, or conceal other financial statement manipulation or misappropriation of assets (O'Donnell & Schultz, 2003). Auditor must inquire of management, key employees, and any component auditors about the existence of: related parties not already identified and details of such transactions, agreements or loan guarantees not reflected in the financial statements, preferential terms, or side deals not disclosed (Messier & Austen, 2000).

The responsibility for preventing and detecting fraud rests with those charged with governance at the client. Prevention refers to the use of controls and procedures aimed at avoiding a fraud. Detection refers to the use of controls and procedures aimed at uncovering a fraud should one occur (Messier, 2003). It is the responsibility of the auditor to assess the risk of fraud and the effectiveness of the client's attempts to prevent and detect fraud through their internal control system (Lemon et al. (2000). When assessing the risk of fraud, an auditor can consider incentives and pressures to commit a fraud, opportunities to perpetrate a fraud, and attitudes and rationalizations used to justify committing a fraud (AICPA, 2002).

The auditor uses knowledge gained from the strategic understanding of the client business and industry to assess client business risk, the risk that client will fail to achieve its objectives. It is management's responsibility to identify the business risks facing the company and respond accordingly to those risks (AICPA, 2002). The auditor's main concern is the risk of material misstatement in the financial statements due to client business risk. It is important to note that not all business risks will turn into risks leading to material misstatement in the financial statements. ISA 315 stresses the importance of all members of the audit team understanding the potential risk of misstatements in each client's financial statements. In particular, the standard introduces the concept that the auditor is required to obtain an understanding of business risks and significant risks to the extent that they are relevant to the financial statements. ISA 315 requires the audit team to discuss risk factors as part of the audit planning process (De Angelo, 2005).

2.4 Summary and Research Gaps

The credit crisis and resulting uncertain economic conditions have forced organizations to scrutinize their risk exposures in greater detail. Most of the organizations, however, support perfunctorily developed risk management strategies. Audit committees are taking a hard look at risk management processes, with a particular focus on the quality of risk inventories and assessments, as well as the usefulness of management's risk reports, said one of the directors at the conference. The board shoulders the ultimate responsibility for the integrity of the corporation's financial disclosure (Messier & Austen, 2000). However, the challenge for internal auditors is to identify if there are discrepancies in company's financial statements, confirm whether they are abiding by the financial reporting standards, verify whether sufficient controls are in place, and affirm whether shareholders or potential investors or lenders have sufficient information to make informed decisions.

The board and management are responsible for ensuring the integrity of the business, while the internal auditor is responsible for validating, directly or indirectly, whether the company's business model is sound. Moreover, with communication shrinking the world, and global economies growing ever more intricately connected, organizations operate in a far more complex fashion than before (O'Donnell & Schultz, 2003). However this increases the potential for negative circumstances like inconsistency in enforcing audit processes across business units, erroneous data collection, and various gaps that result from isolated silos of information.

The risk management unit and the risk management committee are responsible for risk management, but it is the internal auditor's task to ensure the risk management program works (De Angelo, 2005). An effective internal audit management system depends on the ability to build process cycles against an accurate matrix of assessed risk. However, given the dynamic regulatory environment and the complex inter-connectedness of business functionalities, it is often extremely difficult to assess the multi-faceted nature of business risk.

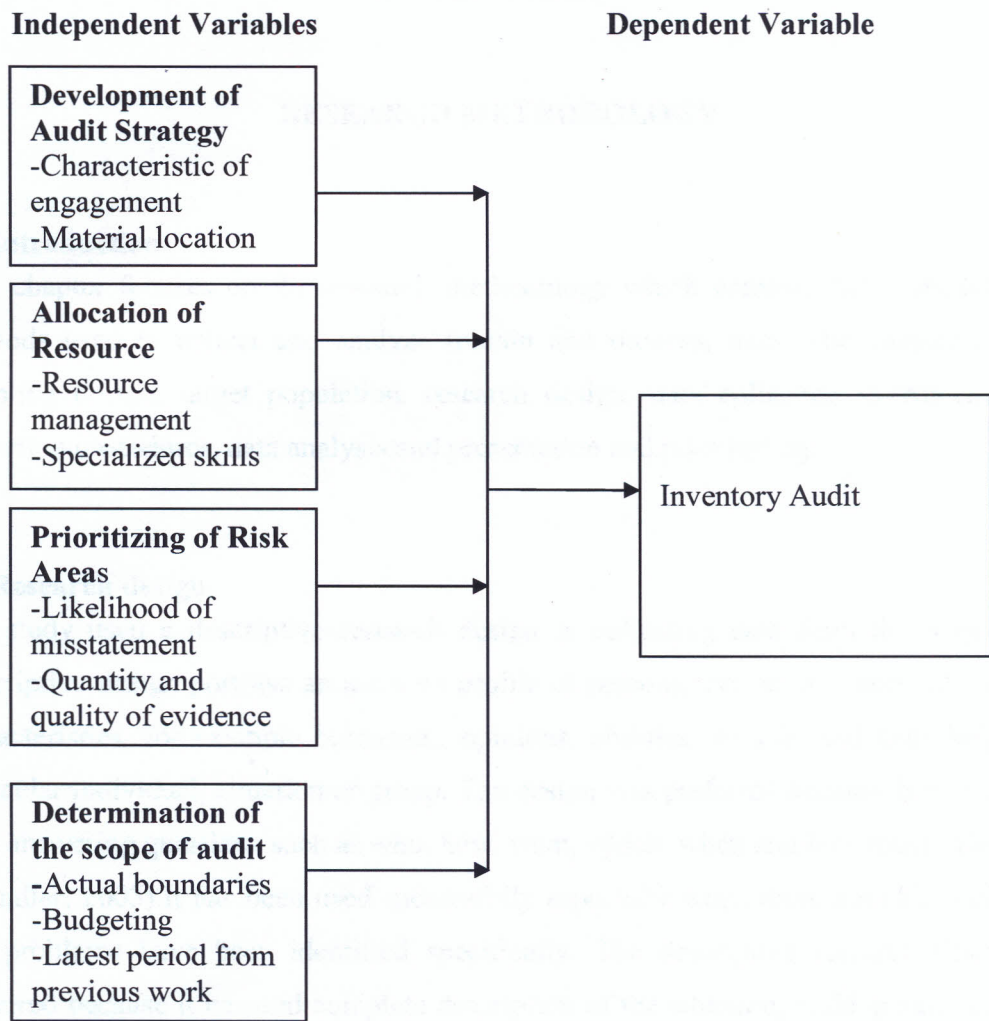
Top-to-down 'buy in' for internal audit is something that can only be achieved when the leadership of the company is sensitized to and convinced of the vital impacts it has on compliance, quality, business continuity, and operational profitability (KPMG, 2002). Internal auditors should work closely with the audit committee to establish the audit department's responsibilities, and the board and management should support those duties. However, internal audit processes can sometimes be ignored by the top management, who may choose to focus time and resources on areas they deem to be more pressing to bottom lines .

Most organizations expect internal audit departments to provide additional input to management, the board of directors, and the audit committee in form of monitoring and oversight; ensuring compliance monitoring and enforcement of essential requirements. To address the issue of weaknesses in oversight programs, the department needs to establish the minimum standards for monitoring compliance and risk management programs (International Federation of Accountants, 2003). However, these standards should address compliance monitoring activities; technical assistance; enforcement; and documentation, analysis, and reporting of results. Stiff penalties for non-compliance have prompted employers and employees to take a proactive approach to reduce the risks of fraud within their organizations. With an increase in awareness and interest in corporate governance, the audit function faces rise in the number of special requests. However little research has been done on the effect of audit planning on inventory audit.

2.5 Conceptual Framework

The conceptual framework presented in a schematic interpretation shown in the figure 2.1 below identifies the variables that when put together explain the issue of concern. The conceptual framework therefore explains the relationship between the development of Audit strategy, allocation of resource, prioritizing of risk areas and the determination of the scope of audit (Independent Variables) and the Inventory Audit (Dependent variables).

Fig. 2.1 Conceptual Framework



Source; Author, (2013)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter focuses on the research methodology which contains the procedures and methods used to collect and analyze (obtain and process) data. The chapter looks at sampling design, target population, research design, data collection instruments, data collection procedures, data analysis and presentation and pilot testing.

3.2 Research design

The study used a descriptive research design in collecting data from the respondents. Descriptive design portrays an accurate profile of persons, events, or account of the characteristics, for example behaviour, opinions, abilities, beliefs, and knowledge of a particular individual, situation or group. The design was preferred because it is concerned with answering questions such as who, how, what, which, when and how much (Cooper & Schindler, 2003). It has been used successfully especially when there are clear objectives and problems have been identified specifically. The descriptive research design was preferred because it ensured complete description of the situation, making sure that there was minimum bias in the collection of data (Kothari, 2003).

3.3 Target Population

The term population is commonly used to refer to the group of people or entities (the universe) to which the findings of the sample are to be generalized (Cooper & Schindler, 2003). A target population is the collection of elements about which we wish to make

some inferences (Cooper & Schindler, 2008). The target population was drawn from two hundred and six audit firms in Nairobi County.

3.4 Sampling Design

The study initially used census sampling methodology to select the big five audit firms (Price water House Coopers, KPMG, Delloitte and Touch, PKF and Ernest and Young) because of the importance of the big five audit firms in the audit sector. The remaining two hundred and one (201) audit firms were randomly sampled by taking 10% of the population giving a base of twenty audit firms. This was added to the big five audit firms giving a total of twenty five (25) audit firms.

Thereafter the study respondents were drawn from twenty five audit firms using purposive sampling by selecting an Audit partner involved in audit planning and an audit manager involved in actual inventory auditing and then two (2) other audit staff involved in both audit planning and inventory auditing per audit firm. This gave a total of one hundred (100) respondents from all the twenty five audit firms.

3.5 Data Collection Instruments

Data is anything given or admitted as a fact on which a research inference will be based on. (Mugenda & Mugenda, 2008). Both primary and secondary data was collected. Primary data was collected through the use of a questionnaire. Kuter and Yilmaz (2001) define a questionnaire as a method for the elicitation, recording and collecting of information. Kothari (2003) argues that questionnaires generate data in a very systematic and ordered fashion. The secondary data was collected through reviewing records, reports and data on the effects of audit planning on inventory audit.

Quantitative and qualitative data was collected using a questionnaire containing closed and open ended questions as this allowed for intensity and richness of individual perceptions by not restricting the content of responses. The study used this method because it was flexible as it facilitated the capture of in-depth knowledge of the

respondents, promoted respondent cooperation and allowed for the understanding of the actual beliefs of the respondents (Burns & Grove, 2000).

3.6 Pilot Testing

The objective of validity and reliability is to ensure that the scale (each item or question of the questionnaire) measures what it is supposed to measure. In this study content validity of the construct (composing, wording) measurements (of questionnaire items) was of concern from early stage of questionnaire development. Three stages were followed to ensure the validity of the research instrument (questionnaire): Firstly, a review of the relevant literature, as well as a set of exploratory interviews with target population, was conducted. This resulted in the development of an initial list of items representing each of the study's constructs. Secondly, this list of items was modified based on recommendations from the supervisor and the peers. Thirdly, the amended list of items was then piloted on 11 respondents from different audit firms in Nairobi County who were not part of the sampled population to ascertain the thinking behind the answers to accurately assess whether the questionnaire was filled out properly, whether the questions were actually understood by respondents, and whether the questions asked what the researchers intended. As a result of the pilot test, changes in the research instrument were made accordingly to ensure reliability.

3.7 Data Collection Procedure

The researcher used the self-administered questionnaire method for all correspondents. The self-administered questionnaire is a questionnaire that a respondent completes on his/her own, either on paper or online (Oso & Onen, 2009). Self-administered method was preferred because the potential anonymity of the respondent led to more truthful or valid responses, it was inexpensive and allowed the respondents to complete the questionnaire at a convenient time. A cover letter explaining the purpose of the study was attached to the questionnaires.

3.8 Data Analysis and Presentation

The data collected by use of the questionnaire was first thoroughly edited and checked for completeness and comprehensibility. Quantitative data, which was collected using closed ended questions in the questionnaires, was chronologically arranged with respect to the questionnaire outline to ensure that the correct code is entered for the correct variable. Data cleaning was then done and tabulated.

The study used correlation and regression models in analyzing the tabulated data on the effects of audit planning on inventory audit with the use of SPSS 17. The study categorized the effects of audit planning on inventory audit into dependent and independent variables. The dependent variable of this study was inventory audit. Independent variables included: Audit strategy, allocation of resources, priority risk areas and scope of audit. The model was therefore presented in the equation below:

$$Y = \alpha + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + \varepsilon$$

Y = Inventory Audit.

α = constant

b_{1-4} = Régression Coefficient

X_1 = Audit strategy

X_2 = Allocation of resources

X_3 = Priority Risk areas

X_4 = Scope of audit

ε = error term

Qualitative analysis involved coding and organizing collected data into themes and concepts that address the research questions and then analyzed using content analysis.

Presentation of data was in form of tables, pie-charts and bar graphs only where it provided successful interpretation of the findings. Summary data from the study was presented in the form of figures, so that it was easy to observe general trends. Descriptive data was provided in the form of explanatory notes.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter presents the analysis of study findings of the investigation on the effects of audit planning on inventory Audit based on the specific objectives of the study which included to determine the effect of Audit strategy, allocation of resource, focus on priority risk areas and audit scope on inventory Audit. This chapter analyses the variables involved in the study and estimates of the model presented in the previous chapter.

4.2 General Information

4.2.1 Response Rate

The response rate of the respondents who participated in the survey is as shown in table 4.1 below. Out of the 100 issued questionnaires, 71 questionnaires representing 71% of the total questionnaires distributed were returned fully completed, while 29 questionnaires were not returned representing 29% of the total questionnaires distributed to the respondents. It can be inferred that the response rate was good. According to Mugenda and Mugenda (2003), a response rate of 70% and over is excellent for analysis and reporting on the opinion of the entire population.

Table 4.1: Response Rate

Response	Frequency	Percentage
Filled in questionnaires	71	71%
Unreturned questionnaires	29	29%

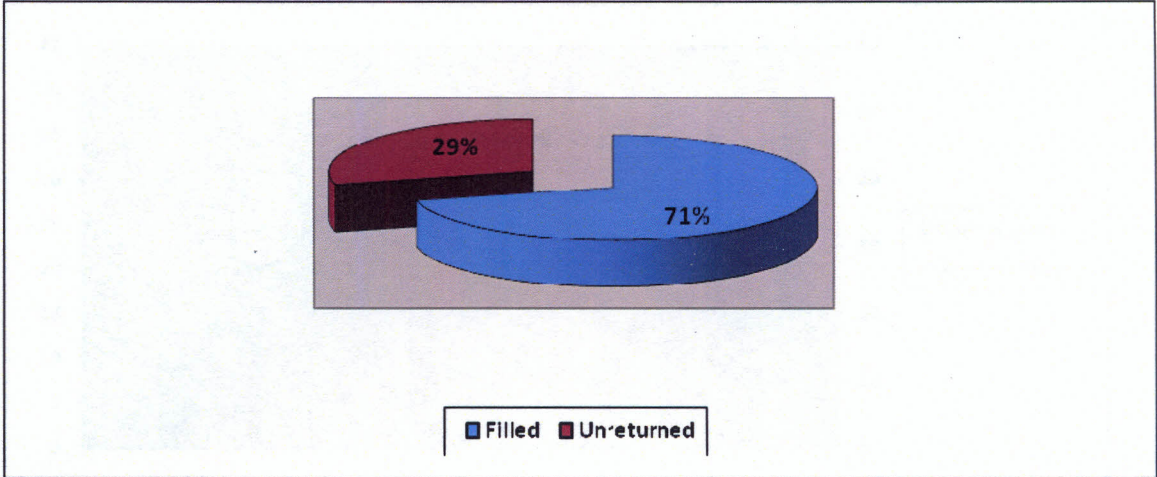


Figure 4.1: Response Rate

4.2.2 Current Work Status

The study sought to establish the current work status of the interviewed respondents. 18.3% of the respondents were Audit Partners, 54.9% were Auditors, while 26.8% respondents were Audit Managers .This shows that the study cut across categories of the respondents.

Table 4.2: Current Work Status

Work Status of Respondents	Current Status (n = 71)	
	F	%
Audit Partners	13	18.3
Auditors	39	54.9
Auditor Managers	19	26.8
	71	100

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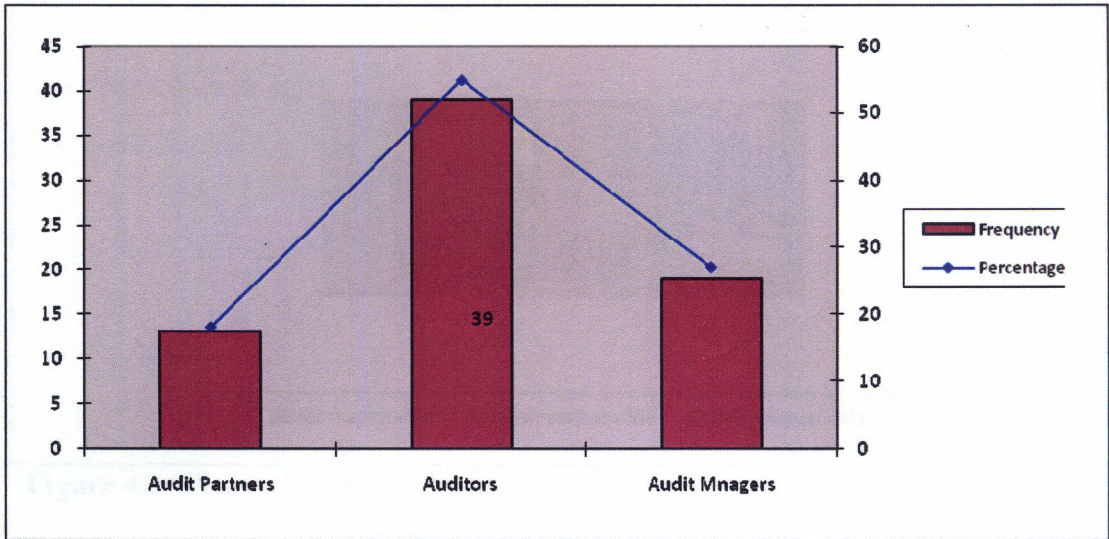


Figure 4.2 Current work status

4.2.3. Client's Inventory Audit

The study sought to establish the responsibility of respondent's on the client's inventory audit. 33.8% of the respondents were not responsible, 45.1% were partly responsible, while 21.1% respondents were fully responsible. This shows that majority of the respondents were partly responsible for their client's inventory audit.

Table 4.3: Frequency Responsibility of Respondent's Client's Inventory Audit

Responsibility for your Client's Inventory audit	Responsibility (n = 71)	
	F	%
Not responsible	24	33.8
Partly responsible	32	45.1
Fully responsible	15	21.1
	71	100

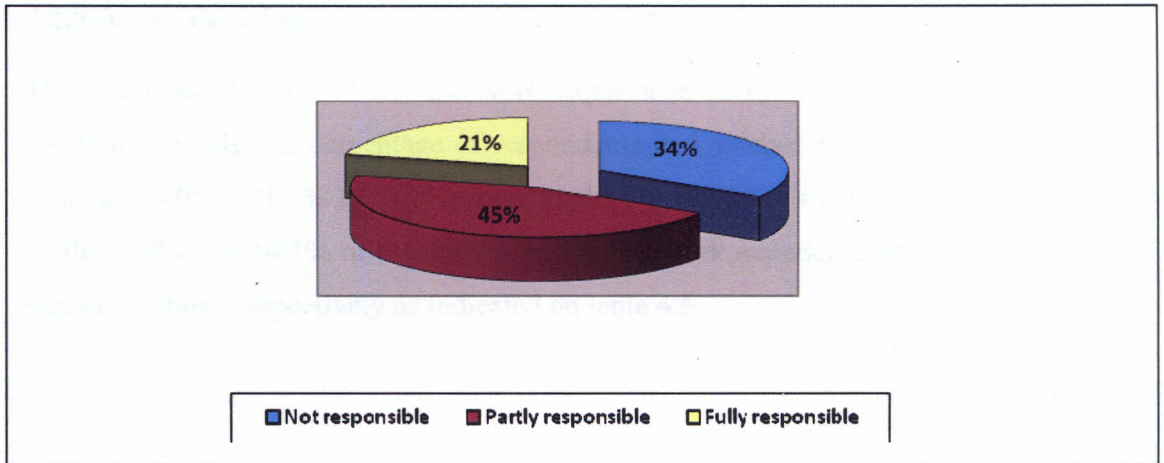


Figure 4.3 Client's Inventory Audit

4.2.4 Work Experience

The study sought to find out the work experience of the respondents from the audit firm. The highest percentage of respondents had worked for a period of less than 5 years at 35.2% , 31.0% of the respondents had worked for a period between 5-10 years while 18.3% and 15.5% of the respondents had a work experience of 11-15 years and 15 years and above respectively as indicated on table 4.4.

Table 4.4: Frequency Distribution of Work Experience of Respondents

Work Experience of Respondents	Years of Service (n = 71)	
	F	%
Less than 5 years	25	35.2
5-10 years	22	31.0
11-15 years	13	18.3
More than 15 years	11	15.5
	71	100

4.2.5. Work duration.

The study sought to find out the work experience of the respondents in their current position. The highest percentage of respondents had worked for a period of less than 5 years at 38.0% , 31.0% of the respondents had worked for a period between 5-10 years while 16.9% and 14.1% of the respondents had a work experience of 11-15 years and 15 years and above respectively as indicated on table 4.5.

Table 4.5: Frequency Distribution of Duration of Work

Work period	Work period (n = 71)	
	F	%
Less than 5 years	27	38.0
5-10 years	22	31.0
11-15 years	12	16.9
15 and above	10	14.1
	71	100

4.2.6 Level of Education

Table 4.6 below indicate that (35.2%) respondents who participated in the study were college graduates, 49.3% indicated they were undergraduates and 15.5 % indicated they were post graduates. This shows that majority of the respondents were undergraduates.

Table 4.6: Frequency Distribution of Level of Education

Education level		
(n = 71)		
Education level	F	%
College	25	35.2
Undergraduate	35	49.3
Postgraduate	11	15.5
	71	100

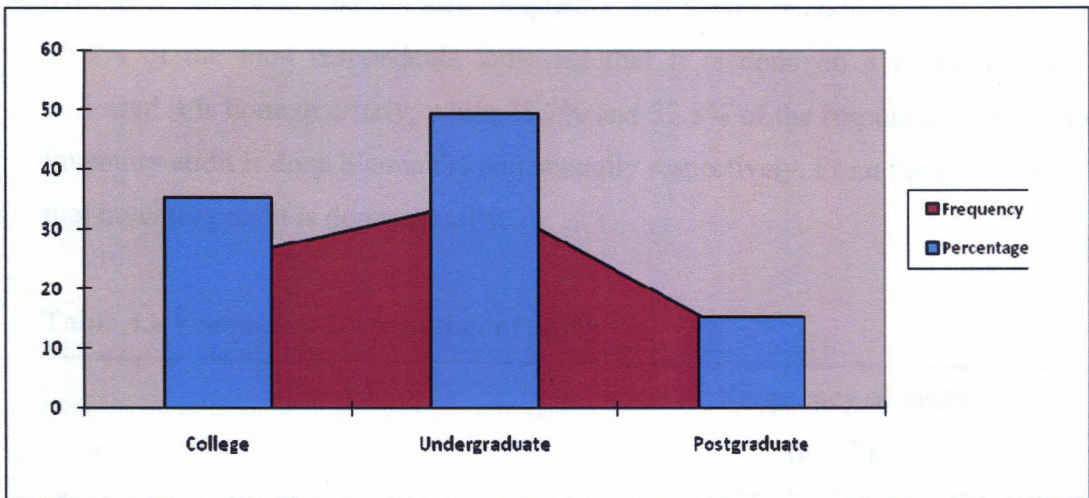


Figure: 4.4 Level of education

4.2.7 Inventory Audit

The study sought to find out whether the audit firms undertake inventory audit for their client's. Majority of the respondents (80.3%) who participated in the study indicated they undertake inventory Audit, while (19.7%) of the respondents pointed out that their firms do not undertake inventory audit for their client. From the study it can be concluded that majority of the respondents audit firms undertake inventory audit.

Table 4.7 Frequency Distribution of Inventory Audit

Question	Scale	Distribution	
		F	%
Does your audit firm undertake inventory Audit for its client.	Yes	57	80.3%
	No	10	19.7%
	Total	71	100%

4.2.8 Frequency of Audit

The study sought to find out how frequently the inventory audit is done. From the study 16.9% of the total respondents indicated that it is done on a monthly basis; 21.1% indicated it is done quarterly; while 28.2% and 33.8% of the respondents pointed out that inventory audit is done biannually and annually respectively. From the study it can be seen that inventory audit is done annually.

Table 4.8 Frequency Distribution of audit

Frequency of audit	Frequency of audit (n = 71)	
	F	%
Monthly	12	16.9
Quarterly	15	21.1
Biannually	20	28.2
Annually	24	33.8
	71	100

4.2.9 Audit planning

The study sought to find out from the respondents whether audit planning is undertaken prior to commencement of inventory audit. 83.1% of the total respondents who

participated in the study acknowledged that audit planning is undertaken prior to commencement of inventory audit while 16.9% of the respondents indicated that audit planning is not undertaken prior to commencement of inventory audit as indicated on table 4.9 below. From the study it can be seen that audit planning is undertaken prior to commencement of inventory audit.

Table 4.9 Frequency Distribution on Audit Planning

Question	Scale	Distribution	
		F	%
Is audit planning undertaken prior to commencement of inventory audit?	Yes	59	83.1%
	No	12	16.9%
	Total	71	100%

4.2.10 The role of audit planning in inventory audit.

The study shows the views of respondents on the role of audit planning in inventory audit. Majority 83.3%, 44.4%, 72.2% and 55.6% of the respondents strongly agreed and agreed respectively that audit planning; facilitates the development of inventory audit strategy, enables the allocation of resources to facilitate inventory audit, enables the auditors to focus on priority risk areas and facilitates the determination of the scope of audit, as shown on table 4.10 below.

Table 4.10 The role of audit planning in inventory audit

Use of Audit planning	SA	A	(n = 71)		
			N	SD	D
	%	%	%	%	%
Facilitates the development of inventory audit strategy	83.3	16.7			
Enables the allocation of resources to facilitate inventory audit	38.9	44.4	16.7		
Enables the auditors to focus on priority risk areas	72.2	27.8			
Facilitates the determination of the scope of audit	33.3	55.6	11.1		

4.2.11 Effects of audit planning on inventory audit

The study sought to find out whether the effect of audit planning on inventory audit include the facilitation of development of audit strategy, allocation of resources, focus on priority risk areas and the determination of the scope of audit. Majority of the respondents 94.4% who participated in the study indicated that the effect of audit planning on inventory audit include the above stated, while 5.6% of the respondents indicated that the effects doesn't include the former as illustrated in table 4.11 below. This depicts that the effects of audit planning on inventory audit includes the facilitation of development of audit strategy, allocation of resources, focus on priority risk areas and the determination of the scope of audit.

Table 4.11 Frequency distribution of effect of audit planning on inventory audit

Question	Scale	Distribution	
		F	%
Does the effect of audit planning on inventory audit include the facilitation of development of audit strategy, allocation of resources, focus on priority risk areas and the determination of the scope of audit?	Yes	67	94.4%
	No	4	5.6%
	Total	71	100%

4.2.12 Audit strategy

Table 4.12 below shows the views of respondents on audit strategy. According to the study, majority (50.0%), (55.6%), (44.4%) , (61.1%) and 72.2% of the respondents strongly agreed and agreed respectively that audit strategy; describes in general terms how the audit is to be carried out and the specific procedures to be followed in inventory audit; determines the characteristics of the engagement and the basis of reporting; preliminary identification of material locations and account balances; sets the scope, timing and direction of the audit; helps in ascertaining the nature, timing and extent of resources needed

Table 4.12 Audit strategy

Audit strategy	SA	A	(n = 71)		
			N	SD	D
	%	%	%	%	%
Describes how the audit is to be carried out and the specific procedures to be followed in inventory audit	33.3	50.0	11.1		0.5
Determines the characteristics of the engagement and the basis of reporting	55.6	38.9	0.5		
Preliminary identification of material locations and account balances	27.8	44.4		0.5	16.7
Sets the scope, timing and direction of the audit	16.7	61.1	22.2		
Helps in ascertaining the nature, timing and extent of resources needed	27.8	72.2			

4.2.13 Influence of Audit Strategy

The study sought to find out whether audit strategy influences inventory audit. Table 4.13 below, shows that 87.3% respondents who participated in the study indicated that audit strategy influences inventory audit, while 12.7% indicated that it does not. From the study it can be concluded that audit strategy influences inventory audit.

Table 4.13: Frequency Distribution of Influence on Inventory Audit

Question	Scale	Distribution	
		f	%
Does Audit strategy influence inventory audit?	Yes	62	87.3%
	No	9	12.7%
	Total	71	100%

4.2.14 Relationship between audit strategy and inventory audit

Results on table 4.14 below shows the correlations between audit strategy and inventory audit process, while holding the correlation coefficient (r) value at between plus and minus one (-1.00 and +1.0). The study used the significance level of alpha = .05. (95%), Degrees of freedom (df) of 7, and two-tailed test. Based on the study, correlation coefficient (r) was .833 and the coefficient of determination (r²) was .693 indicating that 69% of the inventory audit process can be predicted by audit strategy. Since the correlation of .693 is positive it can be concluded that the correlation is statistically significant, hence there is a positive relationship between audit strategy and inventory audit process.

Table 4.14 Correlation Model

R	R Square	Df	Sig
.833 ^a	.693	7	.028

b. Dependent Variable: Inventory Audit Process

4.2.15 Allocation of Resources

The study shows the views of respondents on the allocation of resource in inventory audit. Majority (38.9%), (83.3%), (50.0%) and (77.8%) of the respondents strongly agreed and agreed respectively that: audit planning helps the auditor determine the resources necessary to perform inventory audit engagement; audit planning determines when the resources are to be assigned, such as whether at an interim audit period or at key cut-off dates; Audit planning indicates how the resources are to be managed, directed, and supervised and that it determines whether specialized skills and technology are needed in performing the audit, respectively.

Table 4.15 Allocation of Resource in Inventory Audit

Allocation of Resource	SA	A	(n = 71)		
			N	SD	D
			%	%	%
Audit planning helps the auditor determine the resources necessary to perform the engagement	38.9	33.3	11.1	0.6	11.1
Audit planning determines when the resources are to be assigned, such as whether at an interim audit period or at key cut-off dates	83.3	16.7			
Audit planning indicates how the resources are to be managed, directed, and supervised	50.0	27.8	0.6	0.6	11.1
Planning determines whether specialized skills and technology are needed in performing the audit	22.2	77.8			

4.2.16 Effect of Resource Allocation on Inventory Audit

The study sought to find out whether allocation of resources necessary to carry out inventory audit during audit planning influence inventory audit process. 76.1% who participated in the study indicated that allocation of resources necessary to carry out inventory audit during audit planning influence inventory audit process, while 23.9% of the respondents indicated that allocation of resources necessary to carry out inventory audit during audit planning does not influence inventory audit process as shown on table 4.16 in below. This confirms that allocation of resources necessary to carry out inventory audit during audit planning influences inventory audit process.

Table 4.16 Frequency distribution of effect of allocation of resources on inventory Audit

Question	Scale	Distribution	
		F	%
Does allocation of resources influence inventory Audit?	Yes	54	76.1%
	No	17	23.9%
	Total	71	100%

4.2.17 Relationship between allocation of resources and inventory audit

Table 4.17 below shows the correlation between allocation of resources and inventory audit, while holding the correlation coefficient (r) value at between plus and minus one (-1.00 and +1.0). The study used the significance level of $\alpha = .05$. (95%), Degrees of freedom (df) of 6, and two-tailed test. Based on the study, correlation coefficient (r) is .643 and the coefficient of determination (r^2) is .413 indicating that 41% of the inventory audit process can be related to allocation of resources. Since the correlation of .413 is positive it can be concluded that the correlation is statistically significant, hence there is a positive relationship between allocation of resources and inventory audit process.

Table 4.17 Correlation Model

R	R Square	df	Sig
.643 ^a	.413 ^a	6	.031

b. Dependent Variable: Inventory Audit Process

4.2.18 Focus on Priority Risk Areas

Table 4.18 below indicates the views of respondents on focusing on prioritising risk areas in inventory audit. From the study majority 52.8%, 36.1%, 33.3% and 33.3% of the respondents agreed that: assessing audit risk is an essential part of audit planning because it determines the quantity and quality of evidence that will need to be gathered; audit planning takes care of risk such as likelihood of misstatement occurring; nature of specific controls and measures to prevent or detect and correct material misstatement; audit planning facilitates auditors to determine overall responses to assessed risks; and that audit planning facilitates the auditors to draw up the audit programme incorporating both tests of control and substantive procedures necessary to identify and control risks.

Table 4.18 Priority risk areas in audit planning

Statement	SA	A	(n=71)		
			N	SD	D
	%	%	%	%	%
Assessing audit risk determines the quantity and quality of evidence that will need to be gathered	47.2	52.8			
Audit planning takes care of risks	30.6	36.1	11.1	8.3	14
Audit planning facilitates auditors to determine overall responses to assessed risks	25.0	33.3	8.3	14	19
Audit planning facilitates the auditors to draw up the audit programme	30.5	33.3	11.1	8.3	17

4.2.19 Influence of Priority risk areas

The study sought to find out whether prioritising risk areas influences inventory audit. Table 4.19 below indicates that 77.5% of respondents who participated in the study indicated that prioritising risk areas influences inventory audit while 22.5% indicated that prioritising risk areas does not influence inventory audit. According to the study it can be deduced that prioritising risk areas influence inventory audit.

Table 4.19: Priority risk areas

Question	Scale	Distribution	
		f	%
Does prioritising risk areas influence inventory audit process?	Yes	55	77.5%
	No	16	22.5%
	Total	71	100%

4.2.20 Relationship between Prioritising Risk Areas and Inventory Audit

The study shows the correlation between focusing on priority risk areas and inventory audit, while holding the correlation coefficient (r) value at between plus and minus one (-1.00 and +1.0). The study used the significance level of alpha = .05. (95%), Degrees of freedom (df) of 6 and two-tailed test. Based on the study, correlation coefficient (r) is .761 and the coefficient of determination (r²) is .579 indicating that 58% of the inventory audit process can be related to focus on priority areas. Since the correlation of .579 is positive it can be concluded that the correlation is statistically significant, hence there is a positive relationship between focus on priority risk areas and inventory audit.

Table 4.20 Correlation Model

R	R Square	df	Sig
.761 ^a	.579	6	.026

b. Dependent Variable: Inventory Audit Process

4.2.21 Scope of Audit

Table 4.21 below shows the views of respondents on scope of audit. According to the study majority 41.7%, 52.8%, 44.4%, 36.1% and 52.8% of the category respondents agreed and strongly agreed respectively that: audit scope establishes how deeply an inventory audit is performed; scope can be a major factor on the duration, cost, and overall complexities of an audit; audit planning include the scope of communication, timing of reports, expected nature of communications, review of work performed communications with third parties; scope and audit will help to determine how materiality will be calculated during inventory audit, and that setting the scope of the audit also includes materiality, budgeting, amount of time set aside for areas with higher risks of material misstatement, audit team assignment and nature of communications required.

Table 4.21 Scope of Audit in Inventory Auditing

Scope of Audit	(n = 71)				
	SA	A	N	SD	D
	%	%	%	%	%
Audit scope establishes how deeply an inventory audit is performed.	36.1	41.7	11.1	0.3	08
Scope can be a major factor on the duration, cost, and overall complexities of an audit.	52.8	42.2			
Audit scope include communication, timing of reports	38.9	44.4	0.3	0.6	08
Scope of audit determines how materiality will be calculated during inventory audit	30.6	36.1	13.9	0.8	11.1
Scope of the audit also includes materiality, budgeting, , audit team assignment	33.3	52.8	0.6	0.3	0.6

4.2.22 Influence of Scope of Audit

The study shows the views of respondents on whether the scope of audit influences inventory Audit process. According to the study 81.7% of the total respondents agree that the scope of audit influences inventory audit process while 18.3% of the respondents indicated that the scope of audit does not influence inventory audit. From table 4.22 below majority of the respondents acknowledged that the scope of audit influences inventory audit process.

Table: 4.22. Frequency distribution of influence of scope of audit

Question	Scale	Distribution	
		f	%
Does the scope of audit influence inventory audit process?	Yes	58	81.7%
	No	13	18.3%
	Total	71	100%

4.2.23 Relationship between Scope of Audit and Inventory Audit

While holding the correlation coefficient (r) value at between plus and minus one (-1.00 and +1.0) the study used the significance level of $\alpha = .05$. (95%), degrees of freedom (df) of 6, and two-tailed test. The results of the study indicated, correlation coefficient (r) = .684 and the coefficient of determination (r^2) = .467 indicating that 47% of the inventory audit process can be predicted by scope of audit. Since the correlation of .467 is positive it can be concluded that there is a positive relationship between scope of audit and inventory audit process.

Table 4.23. Correlation Model

	R	R Square	Df	fig
1	.684 ^a	.467	6	.041

b. Dependent Variable: Inventory Audit Process

4.2.24 Regression between independent and dependent variables

The study sought to determine whether the coefficients on the independent variables (Audit strategy, allocation of resource, prioritizing of risk areas and the determination of the scope of audit) is different from 0 so that the independent variable is having an effect on dependent variable (inventory audit process) or if alternatively any apparent differences from 0 is just due to random chance.

The study used a significance level (alpha) of .05 (95%), degrees of freedom (df) of 5 and two-tailed test. The results of the study indicated: correlation coefficient (r), =.758; (r²) =0.574; computed t-value (t=2.06) is smaller than the critical (t-value = 2.57) and greater than the (alpha=0.05 or 1.965); while the p-value = 0.128 is larger than the significance level of 0.05. From the results it can be concluded that there is a relationship between independent variable (Audit strategy, allocation of resource, prioritizing of risk areas and the determination of the scope of audit) and the dependent variable (inventory audit process) hence audit strategy, allocation of resource, prioritizing of risk areas and the determination of the scope of audit influence inventory audit process.

Table: 4.24. Regression Model

Model	R	R Square	df	P-Value	Sig.
1	.758 ^a	.574	5	.128 ^a	.049 ^a

b. Dependent Variable: Inventory Audit Process

Table: 4.25. Coefficients^a

	B	Std. Error	Beta	t	Sig.
(Constant)	1.640	.212		7.752	.000
Audit Strategy	.060	.067	.155	1.902	.072
Allocation of Resources,	.084	.070	.209	2.213	.031
Prioritizing of Risk Areas	.051	.073	.127	2.696	.090
Scope of Audit	.029	.067	.074	1.440	.006

a. Dependent Variable: Inventory Audit Process

4.3 Summary

Data analysis was done by editing and coding with the goal of highlighting useful information, suggesting conclusions, and supporting interpretations. It involved breaking down factors identified through the data collected into simpler coherent parts in line with the objectives of the study in order to derive meanings. The tabulated data was analyzed quantitatively by calculating various percentages, while descriptive data was analyzed qualitatively by organizing collected data into meaningful notes. The presentation of the results of quantitative analysis was in form of frequency tables, pie-charts and bar graphs so as to highlight the results and to make it more illustrative and easier to understand and interpret, while the results of qualitative analysis was provided in form of explanatory notes. The data analysis established existence of a relationship between audit strategy, allocation of resource, prioritizing of risk areas and the determination of the scope of audit and inventory audit process.

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSION & RECOMMENDATION

5.1 Introduction

The purpose of this chapter was to summarise the findings, discuss and draw conclusions and recommendations on the findings of the main objective of the study which was to investigate the effects of audit planning on inventory audit based on the specific objectives of the study which included audit strategy, allocation of resources, prioritizing of risk areas and the determination of the scope of audit on inventory audit process.

5.2 Summary of the Findings

5.2.1 Overall Audit Strategy

According to the research study, 87.3% of the total respondents indicated that audit strategy influences inventory audit, as audit planning facilitate the auditor to develop audit strategy so as to determine in general terms how the inventory audit is to be carried out and the specific procedures to complete the audit, the inventory audit scope, such as the basis of reporting, which include reporting requirements, objectives of the engagement and the nature of the communications required, such as deadlines for interim and final reporting, and key dates for expected communications with management and the appropriate materiality levels to be tolerated.

5.2.3 Allocation of Resources

Based on the study, 76.1% of the respondents who participated in the study indicated that allocation of resources necessary to carry out inventory audit influence inventory audit process .This finding is based on the fact that the process of audit planning helps the auditor determine the resources necessary to perform the inventory audit. Resources that are allocated include experienced employees or experts number of audit staff assigned to undertake the inventory count at material locations, financial resources and time in hours needed to review the prior auditors work and to carry out actual work .The allocation

process also includes when these resources are to be assigned how such resources are to be managed, directed, and supervised and who will be accountable.

5.2.4 Scope of the Audit Engagement

Based on the study, 81.7% of the total respondents acknowledged that the scope of audit influences inventory audit process as the audit scope establishes the depth of the inventory audit, the range of documents that will be used in the audit and the resultant duration, cost, and complexity of an audit; reporting objectives of the audit, the timing of the audit, and the nature of communications required both written and oral; the firm's timetable for reporting, including interim periods, the organization of meetings and discussion with management regarding the status of audit work throughout the inventory audit and the expected deliverables resulting from the audit procedures.

5.2.5 Priority Risk Areas

According to the study, 77.5% of respondents who participated in the study indicated that prioritising risk areas through audit planning influences inventory audit as this facilitates the auditors to factor various risks associated with inventory audit into the planning process. This is because it determines the quantity and quality of evidence that will need to be gathered and the resources that need to be assigned to the inventory audit process. These risks may include: inadequate or inappropriate inventory held hence become unable to meet the demands of sales and production e.g. stock out ; high inventory levels resulting in poor cash flow and financial loss; inaccurate or incomplete record of inventory movements resulting in lack of awareness of the actual inventory position and difficulties in meeting customer needs; lack of security over inventory resulting in loss, theft or misappropriation and obsolete inventory held or incorrectly supplied to customers, resulting in financial loss and damage to reputation.

5.3 Discussion

5.3.1 Overall Audit Strategy

The research study established that audit strategy influences inventory audit, as audit planning facilitate the auditor to develop audit strategy so as to determine in general terms how the inventory audit is to be carried out and the specific procedures to complete the audit, the inventory audit scope, such as the basis of reporting, which include reporting requirements, objectives of the engagement and the nature of the communications required, such as deadlines for interim and final reporting, and key dates for expected communications with management and the appropriate materiality levels to be tolerated. These findings are in line with those of Bell, Peecher and Solomon (2002) who observed that the auditor must consider the important factors that will determine the focus of the audit team's efforts, such as determination of appropriate materiality levels, preliminary identification of areas where there may be higher risks of material misstatement.

The research study established that in establishing inventory audit strategy for the organization, the auditor must take cognisance of internal controls and procedures. However, Messier (2003) cautions that an audit strategy that places reliance on internal controls in supporting a reduced level of substantive procedures which is not, in fact, a single strategy, but a range of strategies determined by the relative effectiveness of applicable control procedures.

5.3.2 Allocation of Resources

The research study established that allocation of resources necessary to carry out inventory audit influences inventory audit process. This finding is based on the fact that the process of audit planning helps the auditor determine the resources necessary to perform the inventory audit. Resources that are allocated include experienced employees or experts number of audit staff assigned to undertake the inventory count at material locations, financial resources and time in hours needed to review the prior auditor's work and to carry out actual work .The allocation process also includes when these resources are to be assigned; how such resources are to be managed, directed, and supervised and who will be accountable. These findings are in concurrence with the views expressed by

Archibugi (2004) who indicated that the auditor should consider whether specialized skills are needed in performing the audit. If specialized skills are needed, the auditor should seek the assistance of a professional possessing such skills, who may be either on the auditor's staff or an outside professional. However, Millichamp, (2002) notes in his study that in allocating resources the auditor should consider such factors as the complexity of the entity's systems and controls and the manner in which they are used in conducting the entity's business.

5.3.3 Scope of the Audit Engagement

The study established that scope of audit influences inventory audit process as the audit scope establishes the depth of the inventory audit, the range of documents that will be used in the audit and the resultant duration, cost, and complexity of an audit; reporting objectives of the audit, the timing of the audit, and the nature of communications required both written and oral; the firm's timetable for reporting, including interim periods, the organization of meetings and discussion with management regarding the status of audit work throughout the inventory audit and the expected deliverables resulting from the audit procedures.

The research finding confirms the view of Messier, (2003) who observed that audit scope need to include the communication with auditors of other locations regarding the expected types and timing of reports to be issued, expected nature and timing of communications among audit team members, including the nature and timing of team meetings and timing of the review of work performed and any other expected communications with third parties, including any statutory or contractual reporting responsibilities arising from the audit while audit evidence related to risk assessment procedures and tests of controls and the effect of information technology on the audit procedures, including the availability of data and the expected use of computer-assisted audit techniques. Also, in line with the results of the study, Kotchetova, (2001) had established that the coordination of the expected coverage and timing of the audit work with any reviews of interim financial information and the effect on the audit of the

information obtained during such reviews must be included in the scope of the inventory audit.

5.3.4 Priority Risk Areas

The study established that prioritising risk areas through audit planning influence inventory audit as this facilitates the auditors to factor various risks associated with inventory audit into the planning process because it determines the quantity and quality of evidence that will need to be gathered and the resources that need to be assigned to the inventory audit process. These risk may include : inadequate or inappropriate inventory held hence becomes unable to meet the demands of sales and production , for instance stock out ; high inventory levels resulting in poor cash flow and financial loss; inaccurate or incomplete record of inventory movements resulting in lack of awareness of the actual inventory position and difficulties in meeting customer needs; lack of security over inventory resulting in loss, theft or misappropriation and obsolete inventory held or incorrectly supplied to customers, resulting in financial loss and damage to reputation. The results of the study concurs with sentiments expressed by De Angelo, (2005) that an auditor must consider propriety risk areas such as the likelihood of misstatement occurring; nature of specific controls; whether auditor expects to obtain evidence to determine if entity's controls are effective in preventing or detecting and correcting, material misstatement.

The study established without prioritising risk areas the outcome of the inventory audit is likely to be affected. These findings are in agreement with the observations of Eilifsen, Knechel and Wallage, (2001) who noted that assessment of audit risk is an essential part of audit planning because it determines the quantity and quality of evidence that will need to be gathered and the staff that needed to be assigned to the particular audit. On the same issue O'Donnell, and Schultz,(2003) contend that it is this system of internal control that the auditor need ascertain and evaluate when determining the levels of risk and overall financial statement risk in existence so as to determine the level of work needed and the resources to be allocated.

5.4 Conclusion

5.4.1 Overall Audit Strategy

The audit planning enables the auditor to develop and implement audit strategy which sets the scope, timing and direction of the audit, identify problem areas and important audit areas, the audit procedures to be used, the nature, timing, and extent of audit procedures, extent of resources needed, set materiality level and identify areas where material misstatement might occur.

5.4.2 Allocation of Resources

Audit planning helps the auditor determine the resources necessary to perform the inventory audit such as: the resources to assign for specific audit areas, such as the use of appropriately experienced employees or experts high-risk areas; time hours to be allocated, the amount of resources to assign to specific audit areas, such as the number of audit staff assigned to undertake the inventory count at material locations, review of the prior auditor' work, It also includes when these resources are to be assigned, at an interim audit period or at key dates; how such resources are to be managed, directed, and supervised and who will be accountable.

5.4.3 Scope of the Audit Engagement

Audit planning facilitates the auditor to determine the audit scope, by establishing the depth of audit to be performed, the range of document which will be used in the audit; and the resultant duration, cost, and complexity of an audit. The auditor may also consider the reporting objectives of the engagement, the timing of the audit, and the nature of communications required both written and oral; the firm's timetable for reporting, including interim periods, the organization of meetings with management to discuss the nature, extent, and timing of the audit work; the status of audit work throughout the engagement and the expected deliverables resulting from the audit procedures, the statutory or regulatory audit requirements, how the auditor may obtain evidence concerning the design or operation of controls performed by them, expected use of audit evidence obtained in prior audits.

5.4.4 Priority Risk Areas

Audit planning facilitates auditors to factor various risks associated with inventory audit into the planning process because it determines the quantity and quality of evidence that will need to be gathered and the resources that need to be assigned to the inventory audit process. These risk may include: inadequate or inappropriate inventory held hence become unable to meet the demands of sales and production e.g. stock out ; high inventory levels resulting in poor cash flow and financial loss; inaccurate or incomplete record of inventory movements resulting in lack of awareness of the actual inventory position and difficulties in meeting customer needs; lack of security over inventory resulting in loss, theft or misappropriation and obsolete inventory held or incorrectly supplied to customers, resulting in financial loss and damage to reputation.

5.5 Recommendation

5.5.1 Overall Audit Strategy

There is need to obtain the understanding of the accounting and internal control systems in the organization which supports a reduced level of substantive procedures determined by the relative effectiveness of applicable control procedures and in adopting audit strategy; each of the decisions must be supported by relevant evidence, while taking cognizance of the fact that audit is a dynamic process hence audit procedures which form part of the initial strategy or plan may not be carried out, or, conversely, may be extended as a consequence of change in circumstances.

5.5.2 Allocation of Resources

In the allocation of resources there is need for the auditor to consider the complexity of the entity's systems and controls and the manner in which they are used, the extent to which data is shared among systems; the organization use of technologies; staffing and timing requirements of the specific audit, the experience of audit staff , the objectives of the audit procedures, matters that may affect the nature, timing, and extent of audit procedures.

5.5.3 Scope of the Audit Engagement

The planning of scope need to be efficiently done so as to cover all areas of concern to the organization and required by statutes and may include, the communication with auditors of other locations regarding the expected types and timing of reports to be issued, expected nature and timing of communications among audit team members, including the nature and timing of team meetings and timing of the review of work performed and any other expected communications with third parties, including any statutory or contractual reporting responsibilities arising from the audit .

5.5.4 Priority Risk Areas

In considering the effect of risk on the level of substantive procedures necessary to achieve the desired level of detection risk, auditors may vary their nature, timing or extent. Auditor must inquire of management, key employees, and any component auditors about the existence of: related parties not already identified and details of such transactions, agreements or loan guarantees not reflected in the financial statements, preferential terms, or side deals not disclosed.

Prior to audit planning and even during implementation there is need for the auditors to acquire appropriate information on the risk area so as to reliably assess levels of risk with full understanding of the organization and its internal and external environment. Auditor must inquire of management, key employees, and any component auditors about the existence of: related parties not already identified and details of such transactions, agreements or loan guarantees not reflected in the financial statements, preferential terms, or side deals not disclosed.

5.5.5 Suggestion for further Research.

This study only examined specific effects of audit planning on inventory audit such as development of audit strategy, allocation of resource, focus on priority risk areas and audit scope, however there are other effects of audit planning which equally contribute to inventory audit hence it is recommended that further research on subject be done to identify and examine these additional effects.

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APPENDICES

Appendix 1: Questionnaire

This study is a requirement for the partial fulfilment of the degree of Masters in Business Administration (MBA). The purpose of this research is to investigate the effect of audit planning on inventory Audit. Please note that any information you give will be treated with confidentiality and at no instance will it be used for any other purpose other than for this project. Your assistance will be highly appreciated. I look forward to your prompt response.

Section A: Bio-Data

Kindly answer all the questions by ticking in the boxes or writing in the spaces provided.

1. Audit firm representative

Audit Partner Audit Manager Other Audit Staff

Other _____

2. Indicate to what extent you are responsible for your clients' inventory Audit:

No Responsibility Partly Responsible Fully Responsible

3. For how long have you worked for the audit firm?

Less than 5 years

5-10 years

11-15 years

Above 15 years

4. For how long have you worked in your current position?

Less than 5 years

5-10 years

11-15 years

Above 15 years

5. Educational Level

Secondary school

Undergraduate level

College level

Post graduate level

Section B: Inventory Audit

6. Does your firm undertake inventory Audit for its client?

Yes [] No []

7. How frequently is the inventory Audit done?

Monthly [] Quarterly [] Biannual [] Annually []

8. Is audit planning undertaken prior to commencement of inventory Audit?

Yes [] No []

9. In your considered view which is of the following constitute the role audit planning in inventory Audit?

Development of Audit strategy [] allocation of resource [] focus on priority risk areas [] Determine the scope of audit [] All the above [] none of the above []

11. Indicate the extent to which you agree with the following statements by using a scale of 1 to 4 where 1=strongly disagree and 4 = strongly agree. Circle (O) which best describes your opinion of the role audit planning in inventory Audit

Statements	Strongly Disagree	Disagree	Agree	Strongly Agree
Audit planning facilitates the development of inventory Audit strategy	1	2	3	4
Audit planning enables the allocation of resources to facilitate inventory audit	1	2	3	4
Audit planning enables the auditors to focus on priority risk areas	1	2	3	4
Audit Planning facilitate the determination of the scope of audit				

12. In your opinion does the effect of audit planning on inventory Audit include the facilitation of development of audit strategy, allocation of resource, focus on priority risk areas and the determination of the scope of audit?

Yes [] No []

Explain your answer above

.....

Section C: Audit Strategy

13. Indicate the extent to which you agree with the following statements by using a scale of 1 to 4 where 1= strongly disagree and 4 = strongly agree. Circle (O) which best describes your opinion of the statement on audit strategy

Statements	Strongly Disagree	Disagree	Agree	Strongly Agree
audit strategy describes in general terms how the audit is to be carried out and the specific procedures to be followed in inventory Audit	1	2	3	4
Audit Strategy determines the characteristics of the engagement and the basis of reporting	1	2	3	4
Preliminary identification of material locations and account balances	1	2	3	4
The audit strategy sets the scope, timing and direction of the audit	1	2	3	4
Audit strategy helps in ascertaining the nature, timing and extent of resources needed	1	2	3	4

14. In your view does Audit Strategy influence inventory Audit?

Yes [] No []

Explain your answer above

.....

Section C. Allocation of Resource

15. Indicate the extent to which you agree with the following statements by using a scale of 1 to 4 where 1= strongly disagree and 4 = strongly agree. Circle (O) which best describes your opinion of the statement on allocation of resource

Statements	Strongly Disagree	Disagree	Agree	Strongly Agree
Audit planning helps the auditor determine the resources necessary to perform the engagement	1	2	3	4
Audit planning determines when the resources are to be assigned, such as whether at an interim audit period or at key cut off dates	1	2	3	4
Audit planning indicates how the resources are to be managed, directed, and supervised,	1	2	3	4
Planning determines whether specialized skills and technology are needed in performing the audit.	1	2	3	4

16. In your view does the effect of audit planning include allocation of resources necessary to carry out inventory Audit?

Yes [] No []

Explain your answer above

.....

Section D Focusing on Priority Risk Areas

17. Indicate the extent to which you agree with the following statements by using a scale of 1 to 4 where 1= strongly disagree and 4 = strongly agree. Circle (O) which best describes your opinion of the statement on priority risk areas

Statements	Strongly Disagree	Disagree	Agree	Strongly Agree
Assessing audit risk is an essential part of audit planning because it determines the quantity and quality of evidence that will need to be gathered	1	2	3	4
Audit planning takes care of risk such as likelihood of misstatement occurring; nature of specific controls and measures to prevent or detect and correct material misstatement	1	2	3	4
Audit planning facilitates auditors to determine overall responses to assessed risks	1	2	3	4
Audit planning facilitates the auditors to draw up the audit programme incorporating both tests of control and substantive procedures necessary to identify and control risks	1	2	3	4

18. In your considered view does priority risk Areas influence inventory audit control?

Yes [] No []

Explain your answer above

Section D Scope of Audit

19. Indicate the extent to which you agree with the following statements by using a scale of 1 to 4 where 1= strongly disagree and 4 = strongly agree. Circle (O) which best describes your opinion of the statement on scope of audit

Statements	Strongly Disagree	Disagree	Agree	Strongly Agree
Audit scope establishes how deeply an inventory audit is performed.	1	2	3	4
Scope can be a major factor on the duration, cost, and overall complexities of an audit	1	2	3	4
Audit planning include the scope of communication, timing of reports, expected nature of communications, review of work performed communications with third parties,	1	2	3	4
Scope an audit will help to determine how materiality will be calculated during inventory audit	1	2	3	4
Setting the scope of the audit also includes materiality, budgeting, amount of time set aside for areas with higher risks of material misstatement, audit team assignment and nature of communications required	1	2	3	4

20. In your considered view does the scope of audit influence inventory Audit?

Yes [] No []

Explain your answer above

.....

Thank You

Appendix 2: Sampled audit firms

	Names of Audit Firms	Audit Partner	Audit Manager	Other Audit Staff
1	Deloitte & Touche,	1	1	2
2	Ernst & Young,	1	1	2
3	KPMG, Nairobi	1	1	2
4	Price Water House Coopers,	1	1	2
5	PKF Kenya	1	1	2
6	Ronald's and Associates,	1	1	
7	Grant Thornton,	1	1	2
8	Vipul shah and company	1	1	2
9	Wambugu and Associates,	1	1	2
10	Moses Mungai Kioi And Associates, Nairobi	1	1	2
11	Kimani & Associates	1	1	2
12	Anduuru & Co, Nairobi	1	1	2
13	RSM Ashvir Consulting Limited, Nairobi	1	1	2
14	Makonen & Co Certified Public Accountants, Nairobi	1	1	2
15	Omondi and Associates,	1	1	2

16	Sunil Davda and Co, Nairobi	1	1	2
17	Devani-Devani & Company, Nairobi	1	1	2
18	Esther Muchemi and Company,	1	1	2
19	DMC and Associates, Nairobi	1	1	2
20	P G Wahome and Co,	1	1	2
21	Mulandi auditors and Associates	1	1	2
22	Avinash Shah and Company	1	1	2
23	Mudamba and Associates Nairobi	1	1	2
24	Ochieng Onyango & Associstes, Nairobi	1	1	2
25	Mark David and Co	1	1	2
	TOTAL	25	25	50