IMPORTANCE IN PLANNING AN AUDIT OF FINANCIAL STATEMENTS

MLADIN FRANCA
franka.mladin@yahoo.com
ŞERBAN CORINA
TIBISCUS UNIVERSITY OF TIMISOARA

Abstract: *The auditor should plan and coordinate audit in accordance with the Auditing standards. An audit is effective only if it's based on adequate planning procedures, for which the auditor should understand well enough the entity's accounting and internal control systems. The significant aspects of the audit mission, identifying important issues and timely achievement of the business, are based on effective and efficient planning of the audit.*
Audit planning involves developing an overall strategy and a detailed overview of the nature, timing and extent of work. Through planning are identified the important areas of the audit, that need to be given proper attention and identify the problem area; is determined the amount of work required so that staff can be allocated properly.
The audit strategy and the audit plan should be updated and modified as necessary during the audit mission.

Key words: *audit planning, financial statement, audit area, problems area*

JEL Classification: *M42*

The financial auditor is particularly interested in achieving an effective financial audit in terms of cost/ benefit, both for him and the audited entity. Planning a financial audit is an important part in achieving this goal.

Good planning means determining all the background information needed to design an effective auditing methodology.

The general strategy of financial audit sets the main directions of audit and represents the basis in developing the audit plan. It is outlined based on information gathered about the audited entity.

The importance of planning consists in the fact that it ensures that appropriate attention is given to the important areas of the audit, that potential problems are identified and are resolved on time and that the audit engagement is adequately organized and managed in order to be efficient and effective.

The role of proper planning also supports adequate designation of duties among members of the engagement team, facilitates the management and supervision of the members of the engagement team and revision of their work and assists, where appropriate, the coordination of the work performed by auditors of components and experts.

The nature and extent of planning activities depends on the size and complexity of the entity and changes in circumstances that occur during the engagement.

Planning is a continuous and repetitive process that often begins shortly after (or in connection with) the completion of a previous audit and continues until the completion of the current audit engagement.

In planning an audit, the auditor considers the moment of certain planning activities and audit procedures that have to be completed before any other further audit procedures.

If the auditor plans a discussion with the members of the engagement team he has to consider the analytical procedures that need to be applied in risk assessment procedures, obtaining a general understanding of the overall regulatory and general framework applicable to the entity and how the entity complies with this framework, determining the materiality threshold, the involvement of experts and performing other procedures for assessing risks of important misstatement and performing further audit procedures at the assertion level for classes of transactions, account balances and disclosures that respond to those risks.

The audit program includes detailed procedures and techniques necessary for the audit.

In planning the audit are used: the financial audit plan and the financial audit program.

The financial auditor has the responsibility of preparing the financial audit plan and the financial audit program.

The main objectives of audit planning are:

a) establishing the means by which the legal obligations of the auditor and other audit priorities are met;
b) indentifying the tasks and foreseeable results of the auditors;
c) defining the manner in which will be obtained and analyzed the audit evidences necessary to achieve the audit objectives;
d) indentifying the resources that will be required, their effective use and establishing the time and cost budgets;
e) controlling and monitoring performed by the audited entity's management regarding individual audits, and by the supreme audit institutions the achievement of a control and total (general) monitoring.

The auditor should perform the following activities at the beginning of the current audit engagement: perform procedures related to the continuity of client relationships and specific audit engagement; assess compliance with ethical requirements, including independence; establish an understanding of the terms of the engagement.

The purpose of performing these preliminary activities of the engagement is to ensure that the auditor has considered any events or circumstances that may adversely affect the auditor's ability to plan and perform the audit engagement to reduce audit risk to an acceptable low level.

Performing these preliminary activities helps ensure that the auditor plans an audit engagement for which: the auditor maintains the necessary independence and ability to perform the audit; there are no aspects regarding the management's integrity that may affect the auditor's willingness to continue the engagement; there is no understanding with the client about the terms of the engagement.

The overall audit strategy is determined by the auditor and it sets the applicability area, timing and conduct an audit and offers guidance on developing a more detailed audit plan.

Establishing the overall audit strategy involves:

a) determining the characteristics of the engagement that define its applicability area, such as: the financial reporting framework used, industry-specific reporting requirements and location of the entity's components;
b) assessing the reporting objectives of the engagement to plan the timing of the audit and the nature of communications required, such as: deadlines for intermediate and final reporting and key dates for expected communications with management and those charged with governance;
c) considering the important factors that determine the focus of the engagement team efforts such as: determining appropriate significance levels, preliminary

identification of areas where there might be a higher risk of significant misstatement, assessing if the auditor can plan to obtain evidence on the effectiveness of internal control and identifying the most recent developments in financial reporting, industry or other relevant developments.

After establishing the overall audit strategy, the auditor may begin developing a more detailed plan to address the various issues identified in the overall audit strategy, taking into account the need to achieve the audit objectives through the efficient use of the auditor's resources.

The audit plan is more detailed than the overall audit strategy and includes the nature, timing and extent of the audit procedures that will be performed by members of the engagement team to obtain sufficient and appropriate audit evidence in order to reduce audit risk to an acceptable low level.

Documenting the audit plan also serves as a record of the proper planning and performing audit procedures that can be reviewed and approved prior to performing other audit procedures.

An audit plan contains three parts: tests of control mechanisms and tests of substantial operations; analytical procedures; tests of details of balances.

In most cases, a separate set of audit subprograms will be developed for each cycle of operations.

The audit plan regarding the testing of control mechanisms and substantial tests of operations includes a descriptive section documenting the understanding obtained regarding internal control.

The audit plan may include a description of the procedures followed in order to understand internal control and assess control risk.

The mission plan is in fact the general work program which summarizes all the obtained information based on which the audit engagement can be targeted and planned. The minimal content of an audit plan is: the legal framework of the audit; brief description of the activity, program or entity; reason for the audit; factors influencing the audit, including those that determine materiality (significance or relative importance) issues under consideration; risk assessment; materiality and materiality threshold; audit objectives; extent and approach of the audit, audit evidence to be obtained to achieve the audit objectives; resources needed and at what time; estimation of audit fees (if applicable); details of the persons within the audited entity, which ensures the relationship with the auditor; the audit program and the date on which the draft report will be available for the preliminary discussion; form, content and users of the final report.

In planning an audit mission is necessary to consider the following elements in order to develop an overall audit strategy and an appropriate audit plan: Preliminary activities of the mission; Obtaining information about the client and its environment; Perform preliminary analytical procedures; Determining the materiality threshold and audit risk assessment; Understanding internal control and accounting system.

1. Preliminary activities of the mission

In the stage - Preliminary activities of the mission, the auditor should consider and decide on certain aspects such as:

a) Whether to accept a new client or continue with a new assignment to a client with whom he is already working with.
b) Evaluate the compliance with ethical requirements, including independence.
c) Identify the reasons for which the client wants an audit.
d) Achieving an agreement with the customer on the terms and conditions of the audit engagement.

The purpose of performing these preliminary activities as part of the mission are intended to ensure that the auditor considered any events or circumstances that may adversely affect the auditor's ability to plan and perform the audit engagement to reduce the audit risk to an acceptably low level.

2. Obtaining information about the client and its environment

In the process of understanding the client, the auditor should consider the following elements:

a) General economic factors (the overall level of economic activity-recession, growth, interest rates and financing availability, inflation, currency revaluation, monetary, fiscal policies, financial incentives, tariffs, trade restrictions);
b) Business sector: market and competition; cyclical and seasonal activities; changes in product technology; business risk (high technology, easy access of competitors); Activity in expansion or reduction; Requirements and environmental issues,
c) Data about the audited entity - management and ownership, operational management, experience, internal audit function, attitude toward internal control environment, financial results;
d) Legislation - taxation; audit reporting requirements.

The information necessary for understanding the customer refers mainly to:

- information on the branch (field) in which the client operates;
- information that customizes that client.

It is very important that the auditor's knowledge of the customer to approach the reality, because he can understand better the work performed, the place and the role it plays in the economy segment of the market it represents, assess better the specific risks and materiality thresholds are established correctly.

The knowledge regarding the entity's branch of activity can be obtained from several sources: from the auditors who performed audit to the entities from that branch of activity or from that field; staff of the entity; publications that cover the respective sector; statistical yearbooks; from employers or associations formed in that branch.

3. Perform preliminary analytical procedures

To determine the nature, timing and depth of audits, the auditor is obliged to resort to a series of preliminary analytical procedures.

The analytical procedures performed by the auditor in the planning stages have the following purposes: help the auditor to achieve a more complete understanding of the entity's performed activities; assists the auditor in identifying areas that may present specific risks of occurrence of significant misrepresentation that would require further analysis.

The analytical procedures used in the planning phase can be based on aggregated data, such as various financial indicators: overall liquidity, immediate liquidity, speed of rotation of receivables, collection period of receivables, speed of rotation of stocks, duration of trading stocks, duration of transformation of stocks in monetary means, ratio debt/ equity, ratio net tangible assets/ equity, interest degree of coverage, gross percentage margin, profit margin, return on assets, levers – short-term debt, levers – effects payable.

4. Understanding internal control and accounting system

Information is significant if their omission or misstatement could influence the economic decisions of users taken based on the financial statements.

The materiality threshold depends on the size of the item or error judged in the particular circumstances of its omission or erroneous declaration.

Materiality threshold provides a limit rather than being a primary qualitative characteristic which information must have to be useful.

CONCLUSIONS

An efficient planning of the audit activity contributes to ensuring adequate attention on important areas of audit, identifying potential issues and activity efficiency. Acquiring general knowledge about the customer's activity is an important part of planning the audit activity.

Auditor's knowledge regarding the customer's activity helps to identify areas and significant systems of transactions and economic and financial operations that may have a significant effect on the financial statements.

Financial auditors must ensure that the information disseminated by the entity is not a result of some fraud or error activities in order to manipulate the decisions and behavior of users or to conceal significant issues related to their work, to obtain predetermined objectives.

Financial auditors must comply with the professional standards of auditing, basic requirements and principles contained in the Code of Ethics for Professional Accountants to be as pertinent in expressing their opinion in the audit report drawn up.

REFERENCES

1. Bunget, Ovidiu, *Audit financiar-contabil*, Editura Mirton Timisoara, 2010.
2. Dănescu T., *Proceduri şi tehnici de audit financiar*, Editura Irecson, Bucureşti, 2007.
3. Dănescu T., *Audit financiar. Convergenţe între teorie şi practică*, Editura Irecson, Bucureşti, 2007.
4. Ghiţă, M, Pereş, I, Popescu,M, Bunget, O, Croitoru, I, *Audit Public Intern,* Editura Mirton, 2008.
5. Ghiţă, M., *Auditul Intern*, Editura Tribuna Economică, Bucureşti, 2007.
6. Ghiţă, M., Pereş, I., Pereş, C.,Bunget, O., Zaharică F., *Guvernanţa Corporativă şi Auditul Intern,* Editura Mirton, Timişoara, 2009.
7. Ghiţă, M., Sprânceană, M., *Auditul Intern,* Editura Tribuna Economică, Bucureşti, 2009.
8. Greceanu-Cocoş, V., *Practica auditului la instituţiile publice (volumul II)*. Societatea Adevărul SA. Bucureşti, 2005.
9. Greceanu-Cocoş, V., *Practica auditului la instituţiile publice şi legislaţia utilă*. Societatea Adevărul SA. Bucureşti. 2000.
10. Oprean, I., *Control şi audit financiar-contabil.* Editura Intelcredo, Deva, 2007.
11. Pereș, Ion; Bunget Ovidiu – Audit financiar-contabil. Editura Mirton, Timișoara, 1999.