

PLANNING THE AUDIT: IDENTIFYING AND RESPONDING TO THE RISKS OF MATERIAL MISSTATEMENT

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Abstract: Practice shows that if you have a well-built and organized internal control system, it also shows an assessment of its effectiveness both in terms of achieving the set goals and in terms of cost-effectiveness. Audit planning is a set of actions to select an option that allows this goal to be achieved, i.e., selecting a strategy and tactics for conducting an audit, selecting the types, volumes and sequence of audit procedures.

Key words: audit planning, internal control, material misstatements, audit risks, preliminary planning, business risk.

Introduction. An audit is a fairly complex process, and it is also limited in time. Therefore, to ensure high quality work, it is necessary to prepare for it thoroughly. A necessary means of such preparation is a comprehensively thought-out plan that would create confidence in the performers that the most effective and efficient audit procedures are used.

The audit organization and the individual auditor are required to plan their work so that the audit is carried out effectively. Clear planning is also necessary for selecting the proposed approaches to achieving the audit objectives; performing and monitoring the work; ensuring that attention is drawn to the main aspects, that the work is carried out completely.

Much depends on what procedures, in what volume and in what sequence the auditor applies: whether the results of the audit will be sufficiently objective or not, whether the audit will be more or less labor-intensive, more or less risky, etc.

The regulatory framework for the audit planning stage is established by international standards ISA 300 "Planning", planning involves the development of a general strategy and a detailed approach to the expected nature, timing and scope of audit procedures.

The purpose of planning is to ensure that the audit is carried out in the best (optimal) way from the point of view of the selected criterion. The auditor, starting the audit, always faces the so-called optimization problem, i.e. the problem of choosing from a variety of possible solutions (options) the best one according to some criterion.

The question of which criterion should be selected as the "target function" (optimization parameter) is within the competence of the audit firm conducting the audit. For example, labor costs (then the optimization task is reduced to finding conditions that ensure minimum labor costs with acceptable risk), or audit risk (ensuring minimum risk with acceptable labor costs), or some other criterion, including a combined one, can be selected as the "target function". The question of choosing such a criterion (or criteria) is the subject of the relevant internal audit standard.

In order to carry out high-quality preparation of an audit and optimally solve the tasks facing auditors at the planning stage, audit organizations need to develop their own internal standard "Audit Planning" and define in it the procedure for the auditor's actions: from the moment of receiving an application for an audit to the issuance of an auditor's report.

Audit planning is a set of actions to select an option that allows this goal to be achieved, i.e., selecting a strategy and tactics for conducting an audit, selecting the types, volumes and sequence of audit procedures.

The following basic principles can be used when planning an audit:

- 1) comprehensiveness. The principle of comprehensiveness assumes ensuring the interconnection and coordination of all stages of planning – from the preliminary stage to the final procedures;
- 2) continuity. The principle of continuity is expressed in establishing related tasks for a group of auditors and linking the planning stages by deadlines and related business entities (structural divisions, branches, representative offices);
- 3) optimality. The principle of optimality allows for planning variability in order to select the optimal version of the general plan and audit program.

Audit experience confirms the validity of these principles and the need to adhere to them when planning an audit.

The main documents prepared during audit planning are: a working document on studying the client's economic activity, a letter on conducting an audit, an agreement to conduct an audit, a general plan and a general audit program.

The results of the planning process are formalized in two documents: an audit plan and an audit program. In accordance with the data obtained during planning (cost and duration of the audit), an agreement is drawn up and concluded.

Established practice identifies a number of key stages in the planning process, which are carried out in a certain sequence:

- 1) preliminary study of the economic entity and its business (preliminary planning);
- 2) formalization of relations with the economic entity (drawing up and providing the client with a letter of commitment, concluding an agreement);
- 3) assessment of the reliability of the economic entity's internal control system;
- 4) assessment of the components of audit risk;
- 5) assessment of the level of materiality (permissible error);
- 6) identification of accounting areas significant for the audit (areas with increased internal risk);
- 7) formation of an audit strategy (selection of the type, volume and sequence of audit procedures);
- 8) documentary registration of the planning results (drawing up an audit plan and program).

Stages of audit planning.

Audit planning consists of the following stages:

- 1) preliminary audit planning;
- 2) preparation and drafting of a general plan;
- 3) preparation and drafting of an audit program.

Preliminary audit planning means that before concluding an agreement, the auditor must get acquainted with the potential client, that is, analyze external and internal factors affecting the economic activity of the enterprise, learn about its individual characteristics. For effective audit planning, before writing a commitment letter and before concluding an agreement to conduct an audit, the audit organization must agree with the management of the enterprise on the main

organizational issues related to the audit. The auditor should obtain information about the organizational structure of the potential client, the specifics of its production activities and the range of products manufactured, its suppliers and customers, the procedure for distributing the received profit, the internal control system, the principles of forming the remuneration of personnel, etc. Based on the results of the enterprise study, the audit firm decides on the issue of conducting an audit. If the audit firm considers it possible to conduct an audit, it proceeds to forming a staff for the audit and concludes an agreement with the enterprise. Then a group of auditors is determined that will conduct the audit at the enterprise. In this case, such issues as the budget of working time for all stages of the audit, the expected terms of the group's work, the quantitative composition of the group, etc. should be taken into account.

The next stage of planning is the preparation of the audit plan and program. The general audit plan and program is prepared taking into account the information obtained at the preliminary planning stage. The general plan provides for the timing of the audit, its schedule, the time for preparing the auditor's report, and a written report to the company's management. In the process of planning the time expenditure, the auditor must take into account the actual labor costs, the level of materiality, and the assessment of audit risks. The general audit plan must contain information on the composition of the audit team, briefings, subordination, etc.

The auditor formalizes the audit program. It represents tests intended to collect information about the internal control system and accounting of the enterprise. The general plan and audit program must be formalized and endorsed in the manner established by internal corporate standards. During the first stage (preliminary study of the economic entity), the auditor evaluates the feasibility of conducting the audit, prepares the information base for subsequent planning stages, and makes a preliminary assessment of the possible scope and cost of the audit. It is assumed that the information obtained by the auditor during the preliminary planning stage will allow him to determine the essential terms of the contract for conducting the audit (duration, cost).

Subsequent planning stages (assessment of the reliability of the internal control system, etc., up to the preparation of a plan and program) are carried out according to this scheme after the conclusion of the contract and are preparatory to the actual audit.

During the preliminary planning stage, the auditor should meet with the client and clarify the purpose of the audit and the expected results of the audit. During the negotiations, the auditor obtains the client's consent to provide information necessary to understand its economic activities that have a significant impact on the preparation of financial statements.

Conclusion

Thus, the auditor needs to develop a document that should form the basis for determining the scope of audit work, labor costs and their cost assessment, containing maximum information about the client's economic activity. Such a document can be a questionnaire with a set of questions and tests filled in by the client or auditor during the preliminary examination of the state of affairs and documents of the prospective client, depending on the procedure established in the audit organization. Studying the client's economic activity at the preliminary planning stage allows the auditor to determine the client's integrity and solvency and thereby reduces the auditor's entrepreneurial risk.

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