

THE PLANIFICATION OF AN AUDIT OF ANNUAL FINANCIAL SITUATIONS FROM THE VIEWPOINT OF THE INTERNATIONAL STANDARD OF AUDIT 300

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Abstract:

The annual financial situations are represented by a set of documents (situations) that are meant to be a structured representation of the financial position, of the performances, of the modification of the financial position, of the treasury flows and of the way of administration of the resources of the entity that regards the closed financial exercise. The planification of an audit supposes the settlement of the general strategy of audit for the engagement and the elaboration of an audit plan in order to reduce the audit risk at an acceptably low level. The aim of this international audit standard (ISA) is to establish rules and to offer recommendations regarding the aspects and the activities that are applicable for the planification of an audit of the financial situations. The auditor must planify the audit activity in such a manner that the audit activity should be developed in the most efficient way. The adequate planification comes to support and to ensure the efficiency of an audit activity, the identification of the possible issues and their solutions in due time and that the audit engagement is organized and managed adequately for it to be efficient in an effective manner.

Key words: annual financial situations, planification, audit plan, the audit risk, international audit standard (ISA).

1. INTRODUCTION

An adequate planning of the audit activity supports the adequate delimitation of the responsibilities for each member of the audit team, it facilitates the management and the supervision of the members of the team of engagement. Planning does not represent only one of the steps of the audit process, but it represents a continuous and repetitive process that starts short after the end of another audit and it continues to the end of the current audit engagement (Mate 2006).

The purpose of this international standard of audit is to establish rules and to offer recommendations regarding the concept of the degree of significance as well as to the connection between the degree of significance and the risk of a audit.

The degree of significance is defined in "General terms for establishing and presentation of financial situations", issued by the Committee for the International Standards of Accountability as follows (Pîntea 2006).

"Information is significant if the omission or the erroneous declaration of this information could influence the economical decisions taken by users in base of these financial situations.

The auditor must take into consideration the degree of significance and its relation to the risk of audit when the auditor develops an audit engagement.

"The objective of an audit of financial situations is that of allowing an auditor to express an opinion according to which the financial situations have been established, with all the significant aspects, within a frame of financial reporting applicable." The assessment of what is significant is an aspect that regards the use of the professional reasoning.

In the elaboration of the plan of the audit, the auditor takes into consideration an acceptable level of the degree of significance in order to detect the significant distortions from the quantitative point of view. But, both the quantitative quality and the nature (quality) of the distortions must be taken into consideration.

The auditor must plan the audit in such a manner to assure that the mission will be fulfilled in conditions of economical, efficiency, and at the established term. (Example of qualitative distortions could be the inadequate description of an accountancy policy, when it is probable that a user of financial situations could be misled by it.)

The auditor is preoccupied by the significant distortions and he is not responsible with detection of distortions that are not significant for the situations audited considered as a whole. The auditor is the one that must consider if the effect of distortions incorrectly identified, both individual and cumulated, is significant for the situations as a whole.

Income- represents more economic advantages, during the financial year, in the form of inputs or outputs of assets, or debts diminutions, which have as a result the growth of own capitals under other forms that the growths that come from the participants inputs to the capitals. The definition of the income contains the own income as well as other income and complementary values. In the counterpart of the income there may appear different types of assets, as a consequence of entering or growing its value: liquidities, debts, goods, and services received in exchange for the supplied services.

The expenses- represent diminutions from the economical advantages, during the financial year, as outputs or diminutions of assets, that have as a result the diminution of own capitals in other ways than the distributions in favour of the participants at the own capitals.

Expenses also mean losses and decreases of value, as well as the expenses that refer to the ordinary activities of the company. The expenses that occur during the ordinary activity refer to the cost of sales, the expenses with the personnel, amortisations, etc. Usually they take the form of an output or decrease in the value of assets, for example, liquidities and liquidities equivalents, stocks, real estate, equipments.

The losses and the decreases in value can reveal or not current activities of the company. They represent diminutions of economical advantages and in this quality they are not different from the point of view of nature, from other expenses. In the category of losses we find such consequences as those of some phenomena (natural or not); the definition of losses includes in the same time all the losses that are generated by the effects of raisings in the course exchange of a foreign currency, when the company contracted external loans in that currency. In the international accounting standard IAS 1 reviewed „The presentation of the financial situations” there are some observations made regarding the presentation of the profit and loss account. Concerning the content, as it is in the case of the balance sheet, the standard presents a minimal list of information that have to be present in this situation.

As it is the case for the balance sheet, there are two categories of elements. The elements that are in the profit and loss account are the following: incomes, financial expenses, part in the result of the affiliated company and of the associates in participation put in equivalence, the earning or the loss before the imposition found on the occasion of the active sale or the discount of the obligations relative to the abandoned activities, the impositions of the benefit, the winning and the loss after imposition on the activities abandoned, the result of the financial year.

We can say that the level of service of the customers of the company is the result of the whole system of logistics. Its direct impact on sales and profits imposes the establishment of the level of service as an objective of the logistic strategy of the company. In an intense business environment with a high level of competitiveness, the level of service is an important means of differentiation from the competitors and the decrease of the loyalty of the customers.

A first group of approaches regards the models corresponding to the dispositions of the IVth the European Directive.

The IVth directive has foreseen four presentations schemes of presentation of the profit and loss account. The structures of the four models and the conclusions drawn from the analysis of these

have made the object of more specialty studies. The financial, economical, juridical, and cultural particularities of each European country have made that the normalization authorities and the companies choose the model that corresponds the best with the informational requests of the users.

The structure of realization of the profit and loss account after the French pattern allows its use for drawing up the tables of the intermediary balance of the financial administration and the valorization of the information held by these balances and in this manner the opening of the accountancy of the company towards the calculation of some macro economical aggregates.

As it is the case of the balance sheet, for the Romanian standardizes and accountants, the financial situations (the annual accounts) have been analyzed only from the procedural point of view (final products of the accounting) and of the control needs of the public administration and not as information instruments; of facilitating the financial analysis and of assistance of the economical decisions.

The pattern of the structure of the expenses after their nature are appropriate in an adequate manner to the small, middle or big companies, that do not overpass some lines of the indicators in the European delimitations: the turnover, the total of the assets and the number of the employees. In a paradox manner, the Romanian standardizes have generalised the structure on the nature base for all agencies, the function based structure being included in an explication note. « not to mention the fact that the model of this explication note shows us how a kitsh accountant can be elaborated and promoted: the number of functions chosen combine the information found in the international practice (the cost of the goods sold and of the services offered, the selling expenses, the general administration expenses) with information that remind us of the accounting thinking before 1989 (the expenses of the basic activity, the expenses of the auxiliary activities, the indirect expenses of production.)

How could the size of the cost of the goods sold and of the services, which is a cost of the sales, be calculated by adding the expenses of the main activity, of the auxiliary activities and of those indirect of production, when these last 3 categories of expenses do not refer to a sold production, the principle of the connection of the expenses to the income makes no sense anymore. The Anglo-Saxon approach of the profit and loss account presents a different structure of the continuous operations of the abandoned or interrupted activities. The latter activities include extraordinary results and the cumulated effect of the method change.

Unlike the system presented before, in this pattern the exploitation expenses are analysed by their function. In this way, the purchasing function leads to regrouping under the same group of the merchandise, the products and the services sold or offered cost the cost of this function, cost that deducted from the net income generated by sales, allow to reveal, in an explicit way the gross margin. The commercial function regroups the costs generated by the sale and the promotion of goods, wages or other personnel expenses, certain taxes and impositions, certain payments. As far as the amortisations are concerned, these can be analyzed on the functions presented before or can be cumulated sometimes in a specific line of the „operational expenses”.

The expenses on the provisions regarding the deducted strange credits, sometimes directly from the exploitation income. The financial results are mentioned, generally distinctively: the financial income and expenses, the dividends cashed, the part that belongs to the society in the result put in equivalence. In a separate manner, the imposition on the result of the current activities is presented, so it underlines the net result of the current operations. The distinction between the results of the current operations and those of the abandoned activities has especially the role to separate the activities for which the principle of continuity does not operate from the other activities. In the result of the abandoned activities or of those interrupted, the part that comes from the ceasing of the exploitation must be distinguished from that that is connected with the cession.

The notion of the result of the extraordinary elements must be understood in a restrictive manner: the extraordinary element has to be unusual by its nature, that is abnormal in comparison with the current activities and not frequent in comparison with its appearance. That is why the plus and the minus in value from the cession of the elements of active are not qualified, in general, as extraordinary elements. Beside the definition above, some transactions must be presented at the

extraordinary elements, so they are significant. They include the cessions for the r ecently acquired sectors of activity, the profits connected with the restructuration of debts, the majority of active expropriations. The incidence of adopting new accounting rules about the Balance of opening must be presented in its net imposition size , after the extraordinary elements.

The second important financial situation for the customers is the balance of the supplier company. The accounting referential analyses the balance in the concept of the IAS 1 standard „The presentation of the financial situations” in its reviwed form. The internation concept defines and characterizes the elements that describe the financial position of a company, the assets, the passive, the debts and the capitals. The balance makes a distinction between the current and the non-current elements, except the situation when a classification on the degree of liquidity is more relevant. The active and the current debts are the treasury, the elements held with the purpose of transactions, the ones to be received or to be paid in the normal cycle of exploitation and those which have the due time less than 12 months. The balance has to contain at least: tangible assets, short term financial investments, intangible assets, financial assets, participations put in equivalence, biolo gical assets, stocks, customers, and other debtors, treasury, suppliers and other creditors, provisions financial debts, assests and debts regarding the current impositions, assets and debts of postponed impositions and the own capitals (minoritary/part of the group). Moreover, the balance must present also the total of the assets and the debts destined to be transacted, according to the IFRS 5 standard. The strategy of logistics service of the customers is part of the logistics strategy of the company. Through the strategic operations regarding the logistics, the company aims to satisfy the requirements of the customers, in the conditions of the biggest contributions to the profit. The objectives of growth of the profits are fulfilled not necessarily by attracting new customers, but by developping relationships with companies that have already acquired the title of supplier costumer of the company.

2. PRELIMINARY ACTIVITIES OF THE ENGAGEMENT

The activities that the auditor must develop at the begin ning of the current audit engagement are:

- Establishing the procedures concerning the continuity of the customer’s relations and the specific audit engagement (ISA 220);
- Evaluation of the conformity with the ethical demands including independence;
- Establishing an understanding of the engagement terms (ISA 210).

The purpose of establishing these preliminary activities of the engagement is to help ensuring that the auditor has taken in consideratin any event or circumstance that may affect in a negative manner the capacity of the auditor to planify and realise the mission of audit in order to reduce the risk at an acceptably low level.

3. GENERAL STRATEGY OF AUDIT

The general strategy of audit settles the area of applicability, the length of the audit ac tivity, the moment when the activity of audit must start, the management of an audit activity and finally the elaboration of a more detailed audit plan.

Establishing the general audit strategy means:

- Determining the engagement characteristics that defin e its area of applicability such as the general frame used for financial reporting;
- Evaluation of the reporting objectives of the engagement in order to plan the moment of the audit and the nature of the requested communication;
- Taking in consideration the important factors on which the efforts of the audit team are going to focus on, like determining the adequate levels of signification: also identifying the initial fields where the risk of significant denaturations would be higher.

The process of elaboration of a general audit strategy helps the auditor to establish and determine in the same time the nature, the moment and the dimension of the necessary resources for the audit engagement to have an adequate finality, that is the objectives of the to be fulfilled. As far as the resources involved in the development of the audit activities, these are represented by experienced members in the areas that present a higher degree of potential risk as well as involving experts for the more complex aspects, and also the quantity of resources allocated to other specific domains of audit.

It is also very important the time when these resources are hired, that is the intermediary stage of the audit or the final stage of this one, as well as the manner in which they are administrated and supervised during the development of the mission of audit.

Once established the general strategy of audit, the auditor can start elaborating a more detailed plan of audit in order to approach the specific aspects in the general strategy of audit, taking into account the purpose of the audit, that is to meet the objectives of the audit by efficiently using the resources of the auditor.

Although the auditor usually establishes first the general strategy of audit before elaborating a detailed plan of audit, the two planning activities are not necessarily separated as fixed processes, but they are well connected processes, interdependent processes, as a modification in one of these two activities cause the modifications in the second one.

In the case of small and medium companies the audit can be realized by a small team, this team can be formed by an independent practitioner and a member of the engagement team, the communication between the members of the team being easier. The establishment of the general audit strategy for small companies depends primarily of the size of the entity and the complexity of the audit.

4. AUDIT PLAN

The fundamental objective of realizing an audit plan is to reduce the audit risk to an acceptably low risk.

The audit plan is more detailed than the general audit strategy and it includes:

- Nature of audit procedures;
- Moment of developing of the audit procedures;
- Length of the audit procedures;

All these stages are developed by the members of the team of audit in order to obtain sufficient audit proves adequate in order to reduce the audit risk to an acceptably low level.

The audit plan includes:

- A description of the nature, of the time and of the length of the planned procedures for evaluating the risk sufficiently to evaluate the risk of significant denaturations (ISA 315);
- A description of the nature, of the time and of the length of ulterior audit procedures at the level of assertion for each significant class of transactions, accounts balance and presentations (ISA 330);
- Other such other procedures requested to be developed during the engagement in order to be in concordance to other ISA.

Planning these audit procedures takes place during performing the audit, as far as the audit plan is being developed.

If the situation demands, the general audit plan and the audit programme must be reviewed any time it is necessary during the audit.

Before establishing an initial engagement the following need to be done

- The auditor must fulfill the procedures concerning the acceptance of the relations with the client and the specific audit engagements (ISA 220);

- To communicate with the previous auditor if an auditors' meeting took place; in accordance with the ethical demands.

This standard was applicable for the audit of the financial situations from the period starting the 15th of December 2004.

The purpose and the objective of planning the audit are the same no matter if the audit is an initial audit or an recurrent one.

Due to the lack of experience of the auditor, in the initial audit, the auditor can extend the planning activities of the audit. The supplementary aspects that the auditor can take into consideration refer to:

- Reviewing the audit file of the internal auditor;
- The planned audit procedures in order to obtain sufficient adequate audit proves regarding the initial balance;
- Also to the women personnel with adequate competences and abilities to answer to significant risks;
- other procedures requested by the quality control system of the company for the initial audit engagements.

5. CONCLUSIONS

We can state that an adequate planning comes to ensure that the important areas of the audit are attentively analyzed, that possible issues are identified and solved in due time and that the audit engagement is organized and conducted in an adequate manner so it could be developed in an efficient way. The annual financial situations drawn up by the economical qualities that overcome the specified size criteria are audited according to the law.

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