

Study about Audit Planning in Auditing Financial Statements by Independent Auditors in Vietnam

Hoang Thanh Hanh

Academy of Policy and Development, Hanoi, Vietnam. Email: hoangthanhhanh@apd.edu.vn

ABSTRACT

Auditing is an independent activity as an economic management tool performed by auditors. During the audit process, the auditor must always respect the principles of honesty, objectivity, legal compliance, ethical standards and professional standards.

Authors use mainly qualitative analysis, synthesis and inductive methods, combined with explanatory methods and experts experience in Vietnam.

Research results find out it is necessary to Strengthen the application of modern and appropriate accounting and auditing software to improve the efficiency and quality of accounting and auditing services provided to the market.

Last but not least, we make suggestions for improving audit planning in Vietnam.

Keywords

Audit Planning, Independent Auditors, Vietnam

Article Received: 10 August 2020, Revised: 25 October 2020, Accepted: 18 November 2020

Introduction

Human activities in society in general and economic activities in particular are purposeful activities that solve certain problems in society. In the context of increasingly scarce resources and far-reaching effects of the 4.0 technology revolution, it is imperative that purposeful human activities be planned.

Any audit is done according to the general process, where audit planning is the first step of the audit process.

Currently, the audit planning of independent auditing firms in Vietnam when performing audits of financial statements (financial statements) is changing on the basis of common standards due to the influence of : (1) the needs of the accounting firms to improve the quality and efficiency of the audit, (2) limited resources due to competition or scarcity, (3) the requirement to comply with legal regulations increasingly stricter audit principles and standards, (4) the influence of the 4.0 technology revolution on audit content and processes production and business, (5) the outbreak of the Covid-19 epidemic in the world and in Vietnam, causing the economy to face the risk of recession, human activities are limited by isolation regulations.

Therefore, the purpose of this article is to outline the theory of audit planning, analyze the current status of audit planning in the audit of financial statements performed by the Auditor General of Vietnam, thereby evaluating and proposing some solution to complete the audit planning of auditors or audit firms (audit) in the new situation.

Methodology and Concept

Methodology

Authors use mainly qualitative analysis, synthesis and inductive methods, combined with explanatory methods and experts experience in Vietnam.

Beside, dialectical materialism method is also used.

Concepts

- **Overview of Audit Planning in Financial Statement Audit**

The Concept of Audit Planning

According to VAS 300 on “Audit planning” it is clearly stated: “Audit and audit firm must develop an audit plan to ensure that the audit is conducted effectively” and: “Plan” the audit should be appropriately prepared to ensure that all material

aspects of the audit are covered; detect fraud, risks and potential problems; and ensure the audit is completed on time. Accordingly, audit planning includes 5 steps as follows:

Step 1: Prepare an audit plan.

Step 2: Find out about customer activities.

Step 3: Perform preliminary analytical procedures.

Step 4: Assess materiality and audit risk.

Step 5: Develop an overall audit strategy and make a detailed audit plan.

The Role of Audit Planning

First, the planning of the audit clearly states the method and manner in which the auditor collects audit evidence on which to base an opinion on the financial statements.

Secondly, audit planning helps the auditors to work in harmony with the audit assistants as well as effectively coordinate with other relevant departments such as internal audit of the client company, seeking to hire more experts... to achieve reasonable audit cost, audit quality control.

Third, an appropriate audit plan is the basis for the audit firm to avoid unexpected problems for clients such as disagreements. Based on the established plan.

Fourth, the auditor can control and evaluate the quality of the audit work being performed and after the audit is completed.

Main Results

Contents of Audit Plan

- **Preparing for Audit Plan**

Assessment of Audit Acceptability

For new customers KTV learns customer needs and other relevant factors. First, the auditor must collect information about the economic activity, financial status, reason for inviting audit of that

enterprise, consider the previous auditor's audit conclusions if any... obtain a preliminary understanding of the client's financial position, materiality estimates and risks in economic activities to decide whether to accept the client's audit.

For an old customer, the auditor needs to study and re-read the audit minutes of previous years to re-evaluate that customer, find out recent changes, and judge whether there are any risks that prevent the auditor from being able to continue to provide audit services to them or not?

When the auditor studies, considers and decides to accept this audit, the auditor must sign an audit contract. This contract is the official agreement between the audit firm and the client on the performance of audit and other related services.

Identify the Client's Audit Reason

In order to identify the client's audit reason, auditors need to identify the users of the financial statements and their intended use. The auditor may communicate with the client or judge based on the auditor's experience or previous audits. The client's audit rationale influences the collection of audit evidence, which in turn affects the proper planning of the audit.

Drafting Audit Contracts

When deciding to accept the audit for the client, the Auditor must prepare and sign the audit contract. After that, the audit firm will exchange ideas and negotiate with the client on the contents of the audit contract such as: purpose, scope of audit, responsibilities of the client's board of directors and auditors, presentation of audit results, audit time, audit fee and payment terms. If the two parties reach an agreement on the basis of respecting the audit contract standards, the two parties sign the contract, the audit firm becomes the official audit subject of the client.

Learn about Customer Activities

Business Lines and External Environment

Industry research includes general understanding of the economic situation, industry developments, and prominent companies in the same industry. Next, the auditor needs to thoroughly understand the business field of the client company, the specific information of the client such as: organizational structure, capital structure, customer services provided and location, effectiveness. of the internal audit department inside the client... to make a preliminary assessment of production and business activities, the control environment that affects the financial statements, thereby identifying potential risks.

Managing and Operating Business Goals of the Enterprise

Auditors need to collect and review documents on management and operating characteristics of the client's business such as: Shareholder structure, board of directors, board of directors; Management and operating policies of middle and senior leadership departments; Does the internal management process correctly align with the business goals of the enterprise? Thereby, the auditor makes a preliminary assessment of control risk.

Measure and Evaluate Performance

Measurement is "the use of methods and techniques to quantify things and phenomena for evaluation purposes". Measurement involves the categorization of events, phenomena or attributes by nature/criteria (qualitative) or involves the use of numbers in the quantification of events, phenomena or attributes (quantitative).

Evaluation is "the description and explanation of the presence or absence (frequency, degree, etc.) of the characteristic to be assessed (quantity, attitude, skills, needs,...)". Thus, any method used to gather and collect information (observation,

interview, profile study, text study, product research, questionnaire, multiple choice...) about the subject. for certain purposes (basis for making decisions, performance evaluation, comparison with benchmarks, etc.) are considered evaluation. Thus, in terms of operations, measurement and evaluation is the combination of the auditor's technical audit methods in a certain order to reflect the results of audit activities. Thereby identifying audit risk.

• Perform Preliminary Analytical Procedures

The Concept of Analytical Procedures

According to Vietnam Auditing Standard - VSA 520, "Analytical procedure is understood as the evaluation of financial information, through the analysis of reasonable relationships between financial and non-financial data".

The Purpose of the Preliminary Analytical Procedure

Analytical procedures are useful to the auditor in determining audit focus. When the financial statements contain unusual problems, by performing analytical procedures from simple to complex, the auditor can detect and localize information that may be at risk.

Types of Analytical Procedures

Analytical Procedures are Generally Divided into two Categories

- Horizontal analysis (trend analysis): is the analysis based on the comparison of the values of the indicators on the income statement. Commonly used metrics include:

+ Compare this period's target with the previous period or between different periods and through that, the auditor can see unusual fluctuations and identify areas of concern.

+ Compare actual data with mathematical data or compare actual data with the auditor's estimate.

+ Compare data with other companies similar in size, market, business type Vertical analysis (ratio analysis): is the analysis based on comparing the correlation ratios of different indicators and items on the financial statements. The ratios commonly used in vertical analysis are: ratio of short-term debt solvency, ratio of profitability ...

- **Assessment of Materiality and Audit Risk**

Key Reviews

Materiality is the concept of the magnitude of an omission or misrepresentation of accounting information by which an individual's judgments based on this information could in particular situations be affected or altered” During the planning process, the auditor will determine the overall (initial) materiality and determine the materiality level that follows the process of applying materiality. It is also an acceptable error for each item in the financial statements from which the auditor determines the appropriate amount of audit evidence required at a reasonable cost while ensuring that the aggregate of errors in the financial statements does not exceed exceed the original estimate of materiality.

Audit Risk Assessment

According to Vietnamese Auditing Standard 400, audit risk is the risk that the auditor and the auditor will give an inappropriate opinion when the audited financial statements contain material misstatements. Audit risk (AR) includes inherent risk, control risk and detection risk.

Inherent risk (IR), also known as inherent risk, is the existence of material misstatement in the audit object itself (i.e. existing in the operational functions and management environment). of the enterprise).

To assess potential risks, the auditor relies on the following influences:

- The nature of the client's business
- Integrity of the Board of Directors
- Results of previous audits

First-time audit contract and long-term audit contract

- Irregular economic transactions
- Accounting Estimates
- Amount of account balances

Control risk (CR): The existence of a material misstatement that the internal control system fails to detect and prevent in a timely manner. To assess control risk, the auditor needs to analyze and evaluate the components of the entity's internal control, including:

- Control environment
- Risk assessment process
- Information systems
- Control activities
- Supervision

Detection risk (DR): The existence of a material misstatement that cannot be detected by the audit system or the audit expert. The source of this type of risk is that the auditor does not understand the nature of the problem, does not have an appropriate audit method.

The relationship between materiality and audit risk:

In an audit, materiality and audit risk are closely related. If the acceptable level of misstatement increases, it is clear that audit risk will decrease. During the audit, the auditor must always consider and at the same time the materiality will be reduced to an acceptable level.

- **Develop an Overall Audit Strategy and Make a Detailed Audit Plan**

Develop an Overall Audit Strategy

After understanding the client's internal control system and assessing audit risk, the auditor will

conduct a comprehensive audit plan with detailed and concretized contents of the audit. In addition, an audit program is also prepared to outline the expected procedures to be performed for each item in the financial statements.

Prepare Detailed Audit Plan (Audit Program Design)

-Introduction to the types of audit tests:

+ Test of control (English term: Test of control). According to ISA 330, "Tests of controls are audit procedures designed to evaluate the effectiveness of controls in preventing, or detecting, and correcting material misstatements at the citation basis." The content of tests of controls includes: Systematic investigation techniques, Detailed tests of controls.

+ Substantive test: "is to verify the information expressed in money reflected on the summary table by combining methods of auditing documents and outside documents according to the order and manner of determination".

Normally, financial information has been verified many times through self-checking system (including accounting and internal audit) and external audit (independent audit). This relationship makes it possible to minimize the base test. In addition, in many audits, it is not necessary to perform a large number of substantive tests if the auditor finds the information on the financial statements to be reliable. On the other hand, saving time and improving audit efficiency also requires reducing repetitive and inefficient work. Therefore, in the audit has formed compliance audit or compliance testing." Contents of audit program design include: + Design test work + Design detailed tests for balances + Design method and sample size.

Actual Situation of Audit Planning in the Audit of Financial Statements Performed by the Auditor General of Vietnam

• Overview of Auditing in Vietnam

Accounting and auditing service providers in Vietnam are expanding in scale. In 2018, the number of enterprises and auditing organizations nationwide increased to 191 companies, and at the same time, the number of practicing auditors granted the Certificate of Practice Registration also increased significantly, in line with the regulations. scale in the market. Currently, the audit market has really made strong changes in a positive direction in the context of integration into the world economy with remarkable achievements, making a significant contribution to the national GDP and the overall development. of the national economy.

The number of practicing auditors in terms of number: As of December 31, 2018, the number of people with Vietnamese auditor certificates working in auditing companies was 3,784 people, an increase of 8.17% compared to 2017 (2,083 auditors), including 2,160 Vietnamese, 27 foreigners. The number of practicing auditors (qualified to sign audit reports) is 2,037 people. In terms of quality: Over the years, the audit firms have paid attention to improving professional qualifications, creating conditions for auditors to accumulate experience and professional capacity, with good skills and ethics up to international standards.

About audited objects: The number of clients of accounting and auditing companies every year is growing and increasing. Specifically, the number of customers in 2018 was 52,598, in 2017 it was 48,443, an increase of 8.58%. By type of enterprise and organization, limited company customers still account for a high proportion, 56.82% in 2017 and 54.77% in 2018. By form of ownership, state-owned enterprises still account for a small proportion, in 2017 it was 12.29%, in 2018 it was 12.47%, and the remaining two forms of ownership each accounted for over 42%.

Actual situation of audit planning in the audit of financial statements performed by the Auditor General of Vietnam

Preparation for Audit Planning

Auditing company is still essentially an audit service business and related services. Auditors must provide quality services at reasonable prices to be able to compete in the market mechanism. Exploiting new customers and stably maintaining old customers have become regular tasks of auditor and firm. Auditing is a typical service of the modern economy, but it is not an exclusive service but a specific and competitive service. Therefore, through the actual survey, the technical companies respect and do everything to sign service contracts with customers. Even if the client unit does not have financial statements or has it but is not reasonably honest, the accounting firm will sign an accounting service contract with the client.

Regarding the audit reason of the client company, through the author's survey and research, mainly the need to audit the financial statements of the enterprise comes from: (1) according to the provisions of law, some enterprises must audit financial statements, (2) due to other needs such as entering the stock market, participating in bidding, transparent information for shareholders, customers or to report to sponsoring organizations...

When deciding to accept the audit for the client, the audit firm prepares and signs the audit contract. Usually samples are available. In particular, the content of the contract may describe the terms of the agreement within the framework of the standards on audit engagements.

Actual Situation of Learning about Customer Activities

Through understanding the business lines, the Auditor makes a plan on the auditor's personnel accordingly, identifying potential risks. According to VTV 1 on April 18, 2021, it was reported that 8,700 commercial establishments across the country closed for business due to the impact of

the epidemic. Consumers limit spending, large investments in real estate, gold and securities affect the supply chain. Besides, there are more than 3,400 automobile and motorbike business establishments operating again, but only in moderation and waiting for market developments. All characteristics of the industry and business context profoundly influence audit planning.

The auditor also implements a number of techniques for collecting audit evidence such as testing, interviewing, reviewing documents, etc. to learn about the client, thereby identifying and initially assessing control risk.

In addition, the auditor has certain measures and evaluations about the audit, which is essentially the combination of the auditor's technical methods of auditing in a certain order to reflect the results of the audit activities. Thereby identifying audit risk.

Actual Situation of Performing Preliminary Analytical Procedures

Analytical procedures according to the author's survey and assessment, the audit firms either do not perform this procedure, or only perform some basic criteria to determine the focus of the audit, or do it to advise the client. row. In order to find errors, a detailed check of the balance must be performed.

In the context of the Covid 19 epidemic, when auditors work in conditions of having to thoroughly apply computer technology and an isolated environment to avoid large gatherings, the procedure for preliminary analysis of financial statements is the preferred procedure for auditors.

Actual Situation of Assessment of Materiality and Audit Risk

During the planning process, the auditor usually determines the overall (initial) materiality and determines the performance materiality. Materiality is different for different financial institutions and for different specific customers.

As for the risk, in addition to the preliminary assessment of IR and CR as above, the auditor always wants the DR to be at an acceptable level. This is too dependent on the capacity and ethics of the auditors and auditors. Therefore, every decision of the auditor is on the principle of prudence and always carries a certain level of risk. Simply because no one is confident enough to claim to be able to spot every material flaw. Furthermore, the audit objective is not absolute accuracy.

Through the author's survey, when planning, the audit projects pay special attention to the preliminary assessment of risks and materiality. Because in addition to the goal of designing an appropriate audit method, reducing audit service costs and ensuring audit quality are always vital factors.

Actual Situation of Building Overall Audit Strategy and Detailed Audit Plan

The overall strategy for the financial statements includes the business plan of the accounting firm and the audit program for the financial statements. This strategy is established and stable every year except for legal changes related to financial statements and accounting issues. It is also reviewed, evaluated and revised continuously to suit the situation. Through the survey due to the complicated situation of the Covid-19 epidemic and the direction of the Government and localities on epidemic prevention, most of the accounting firms reduced the growth targets in the audit strategy.

The detailed audit plan in the major accounting companies usually has 3 basic contents as follows: (1)Logistics plan: details of suitable personnel, funds and means, objects of operation are clearly presented, even the contingency plan is also clearly stated in this plan by the CTKT.

(2)Design of tests of controls (or tests of work) according to ISA 330 including Systematic Investigations Techniques, Detailed Tests of

Controls with Audit Technology Sampling in each CTKT.

(3) Design basic tests (Design of direct balance tests) on samples according to the auditing technology of each audit firm.

The detailed plan of the technical program is influenced by the following two factors:

- Covid 19 epidemic makes travel difficult due to epidemic prevention requirements or regulations on isolation, directly affecting logistics plans.
- The strong development of the application of 4.0 technology in the production and business of customers, including the engineering program itself. Especially, customers dealing in digital products make the auditor's qualification not meet the detailed inspection requirements, but only stop to check the relevant documents.

Difficulties and Challenges

From the auditors' and auditors' side, there are 2 standing issues: ethics and capacity. It is both a goal of auditor's striving and a barrier to providing quality services (appropriate and reliable).

Challenges from customers are issues such as awareness of the meaningful role of auditing, costs for audit services, only the need for auditing due to objective requirements, rarely seeing enterprises want to audit because self needs. Businesses are heavily affected by the Covid epidemic, facing the risk of recession. Besides, it requires the application of digital technology in production and business, which requires a large investment, the efficiency is difficult to evaluate....

Challenges from the State's legal regulations are not synchronized. Basically, the legal regulations are adequate, but there are still many shortcomings, especially in response to the new situation of digital government and constructivist government.

Cause

- The professional qualifications of the auditors are still limited, the number of auditors with international certifications is still thin, unable to meet all the complex professional requirements;
- Accounting software applied in enterprises today has many shortcomings;
- The system of professional standards for accounting and auditing in Vietnam is slow to innovate and has not kept up with the professional standard system in the world.
- The complicated development of the Covid epidemic affects the links of the supply chain and consumers. Those links are enterprises, and when the audit object encounters difficulties, it inevitably affects the audit results.

General Assessment of the Audit Planning in the Audit of Financial Statements Performed by the Auditor General of Vietnam

Advantages

The outstanding advantage when planning an audit in the audit of financial statements conducted by the Auditor General of Vietnam is that it has complied with professional standards and related legal regulations, is flexible, and meets the assessment requirements. audit quality.

The second advantage is the creative use of computer technology in the planning process. Especially learn about customers online.

The third advantage is that accounting firms rationally arrange personnel and audit resources in the context of the Covid 19 epidemic.

Discussion and Conclusion

Auditing has clearly become an important tool in economic-financial management and creating a healthy environment, publicity and transparency in investment and economic development. Audit

planning is the first step in the financial statement audit process. A reasonable and scientific audit plan will contribute to improving the quality and efficiency of the audit, reducing audit risks and serving as a basis for audit quality control. The process of establishment and development of the audit industry in Vietnam has been 30 years (since 1991), although it has not had as much experience as in other developed market economies in the world, but it has also achieved remarkable achievements. certain achievement. Therefore, audit planning must be constantly researched, revised and appropriately applied modern auditing techniques.

4.Solution to complete the audit planning in the audit of financial statements performed by the Auditor General of Vietnam.

Improve the Quality of the Staff

The qualifications of the staff is always an extremely important factor in a technical program. In order to plan thoughtfully and effectively, the solution of CTKT staff is always a topical topic. Improving the quality of employees must aim at the following contents:

- Regular training and retraining on standards, especially international financial reporting standards (IFRS), law, computer and computer technology, and foreign languages;
- Continuously fostering ideology, lifestyle as well as other material concerns for employees;
- Training and recruiting specific professions: chemicals, construction of floating works, underground works, machine assembly, manufacturing machine parts, automation, agricultural engineers... for auditing businesses.

For Audit Firm

* Short-term solutions

- Improve understanding and regularly update laws and regulations related to the provision

of accounting and auditing services, and always comply with the audit process.

- Strictly control the input quality of employees. Regularly organize training and capacity tests to strengthen and improve the professional qualifications of employees, especially in developing soft skills and understanding digital technology.
- It is necessary to develop a management regime and method for employees. A good regime, professional environment is an important factor that contributes significantly to the quality of employees.
- Strengthen the application of modern and appropriate accounting and auditing software to improve the efficiency and quality of accounting and auditing services provided to the market.
- Establish appropriate human resource policies to attract accountants and auditors with good professional qualifications and good ethics, and have appropriate remuneration policies to encourage them to study. improve qualifications and long-term commitment with enterprises.

* Medium and long term solutions

- Comply with the law on accounting and auditing;
- Encourage audit firms to expand their scale;
- Diversifying accounting and auditing services;
- Invest in and equip hardware and software to apply information technology.
- In the context of a profoundly influenced digital society, accounting firms need to promote sales by relationships, propagate the benefits of auditing, and encourage businesses to use services;
- Ensure a good human resource policy to attract talent and encourage long-term commitment with the enterprise;

- The accounting firm needs to seriously and thoughtfully fulfill its commitments to customers;

Diverse audit service fees to suit the market;

References

- [1] Prof. Dr. Nguyen Quang Quynh, Assoc. Prof. Dr. Nguyen Thi Phuong Hoa (co-editor), Basic Auditing Textbook, National Economics University Publishing House, Hanoi.
- [2] Prof. Dr. Nguyen Quang Quynh, Assoc. Prof. Dr. Ngo Tri Tue (co-editor), Financial Auditing Textbook, National Economics University Publishing House, Hanoi.
- [3] Ministry of Finance (2003), Vietnam Auditing Standard No. 300 – Financial statement audit planning.
- [4] Ministry of Finance (2003), Vietnam Auditing Standard No. 520 – Analytical Procedures.
- [5] Ministry of Finance (2003), Vietnam Auditing Standard No. 400 – Risk assessment and internal control.
- [6] Ministry of Finance (2003), Vietnam Auditing Standard No. 330 – Auditor's handling of assessed risks.
- [7] Assoc. Prof. Dr. Phan Trung Kien, Topica Uni, Lesson 4: Planning the Audit.
- [8] Cafebiz, Audit Risk.
- [9] Dr. Hoang Thanh Hanh, Accounting information of enterprises in the industrial revolution 4.0, Hanoi Publishing House 2020.