

IMPACT OF AUDIT PLANNING ON AUDIT QUALITY: CASE STUDY OF LOCAL AUDIT FIRMS IN UZBEKISTAN

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Abstract

Audit planning is a uniform but not an obligatory measure to enhance the quality of auditing results. It facilitates smooth and less risky auditing process for the auditing team and leads to more qualitative and clear evaluation. Primary function of audit planning is mistakenly said as an identification of enterprise behaviour, timing and auditing procedures. In fact, audit planning is initially oriented to mitigate error, fraud and external risks. This article examined the effect of audit planning on audit quality in case of audit firms in Uzbekistan. Analyses revealed that audit quality was enhanced by audit planning and there was a positive relationship.

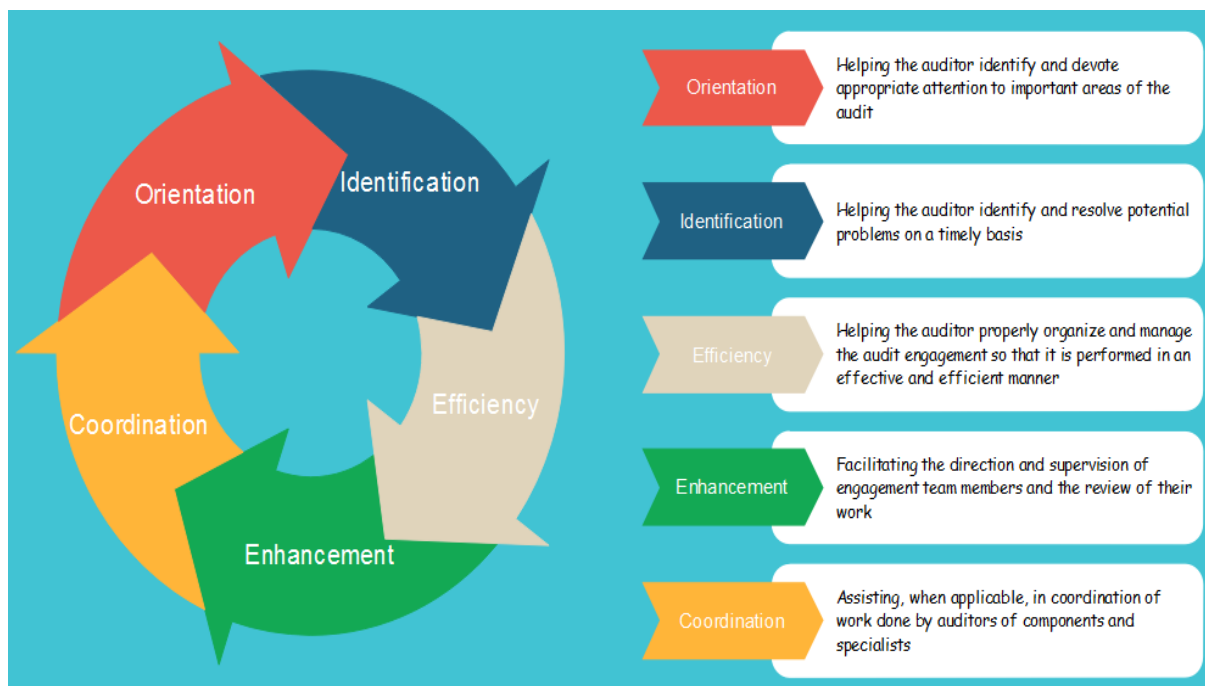
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INTRODUCTION

Planning for an audit, just like every human endeavour, is essential for the smooth performance of the audit work and its successful completion. Planning ahead for an audit work will not only guarantee a valid audit opinion (AAA, 2004). Audit planning is a non-obligatory but helpful measure which enhances the quality of auditing process with clear-cut results and conclusions. It is often seen as an important task to better identify the risks an enterprise may face in upcoming financial period. Audit planning is a set of steps in pre-auditing, auditing and post-auditing processes. In international practice, an audit strategy should be established before audit planning. Audit strategy and audit plan has many similarities in essence, but audit plan is more detailed, while audit strategy embraces overall actions. Audit strategy helps auditor take appropriate orientation, make better choice of risk identification and assessment procedures, select appropriately team members with relevant skills and experience, set clear audit

objectives and necessary audit resources. Audit planning is a measure to clarify nature, behaviour, time and scale of auditing process in accordance with auditing rules and standards. In most cases it enables auditors to conduct auditing in an efficient and less time consuming manner (See Figure 1).

Figure 1. Role and benefits of audit planning



Source: Author's illustration, 2017.

Number of steps and sequence of actions in an audit plan differ across size, nature, business, and complexity of an enterprise under auditing. It directly influences on the timing, procedure and manner of auditing. In audit planning, in the initial step, a financial reporting framework must be established by the auditor in order to identify needs for financial information and possibilities of reconciliation to other financial reporting requirements. In some cases an enterprise under auditing check-up may be subject to other specific reports depending on local legislation or industry it operates, or an enterprise under auditing may have several locations to be checked and to be included in the audit plan. In these cases audit coverage changes and leads to respective change in the audit plan. In literatures related to audit planning, control relationship, branches and need for specific knowledge for auditing particular enterprises operating in specific industries are often seen as a considerable risk sources due to complexity. Therefore, it is strongly advised to use separate approach in audit planning.

The key advantage of audit planning is seen in the quality of auditing results. Audit planning prevents errors which may occur in auditing process and frauds that may be face during the in the final auditing phase. Conclusively, it reduces error and fraud risk in auditing and enhances audit quality. However, audit planning possesses a significant power to mitigate high risks originated from diverse sources e.g. misstatement, inappropriate audit team building, lack of auditor's competence and existence of need for external expert. In this paper, impact of audit planning on total quality of audit is examined in the sample of 16 auditors in Uzbekistan. Author specified an econometric model based on the questionnaire data and analysed the applicability and effect of audit planning by local audit firms of Uzbekistan.

LITERATURE REVIEW

Being a pure practical issue, audit planning attracts research interest of scientists and large auditing companies. Despite limited number of literature related to audit planning, there is a great deal of research results audit planning was secondary research objective or at least touching to it. In this research, AICPA's guidance on audit planning (2016) was the key source of international experience. Burke (2015) investigated the applicability of ISA 300: Planning an Audit of Financial Statements and explained the purpose, methodology of audit planning. In her paper, she clarified the updated term of client acceptance, audit risk, client's business risk and analytical procedures. In 1997Zimbelman tested the cost and benefits of SAS No.82 by analysing its impact on fraud detection, fraud risk management through audit planning decision. He found that audit planning helps to mitigate fraud risk by helping auditors identify fraud. In 1993 Christ studied the problem representation in audit planning by conducting an experimental study on 211 auditors from Big Eight audit companies. Her experiment showed that managers and partners better form audit planning to do more efficient and effective work.

METHODOLOGY

In order to test the advantage of audit planning the author designed a questionnaire and emailed it to all 34 local audit firms operating in Uzbekistan to fill within a month from the date of sending.

The questionnaire for data collection was designed by author in order to gather expert opinion about the costs and benefits of audit planning with their evaluations. In the given period 16 auditing firms responded to the questionnaire and provided their evaluations anonymously. In the requirements for filling auditor in terms of work experience and use of audit planning method in auditing enterprises operating in different areas. In the questionnaire, auditors were

asked to evaluate the help of audit planning in their own experience by error, fraud and high risk. They used the scale of assessments as shown below:

Category	Score
Very useful	3
Useful	2
Useful in rare occasions	1
Useless	0

We set a linear function formula expressing the relationship between audit quality and audit planning:

$$AQ = f(ERP, FRP, HRM)$$

Where, AQ – audit quality, ERR – help of audit planning in preventing errors in auditing, help of audit planning in preventing fraud in auditing, help of audit planning in mitigating high risk.

Then we specified an econometric model in OLS method for assessing the impact of audit planning in quality audit check-up as follows:

$$AQ_i = \beta_0 + \beta_1 ERP_i + \beta_2 FRP_i + \beta_3 HRM_i + \varepsilon_i$$

Where, AQ – audit quality in *i* auditor, ERP – help of audit planning in preventing errors in auditing in *i* auditor, FRP – help of audit planning in preventing fraud in auditing in *i* auditor, HRM – help of audit planning in mitigating high risk in *i* auditor, ε – error term.

ANALYSIS AND RESULTS

Before analysing the data an author sorted out the responses by auditors from local audit firms and formed the preliminary data format as shown in Table 1.

Table 1. Responses of auditors to questionnaire

Audit firm	Audit quality	Error prevention	Fraud prevention	High risk
1	3	3	3	1
2	2	2	1	2
3	3	3	2	2
4	1	2	1	0
5	3	3	3	3
6	3	3	1	2
7	3	2	3	3
8	3	2	3	3
9	2	3	2	2
10	3	1	3	3
11	3	3	2	3
12	0	1	0	0
13	2	2	2	1
14	3	2	3	2
15	3	3	3	2
16	3	2	3	2

Before running OLS analysis, an author run descriptive statistics test to examine the range and power of responses (Table 2). Descriptive statistics shows that error prevention function of audit planning is found at least useful in rare occasions with 1 point minimum. However, auditors confidently agreed for the positive impact of audit planning with 0.004828 of probability coefficient.

Table 2. Descriptive statistics

	AQ	ERP	FRP	HRM
Mean	2.500000	2.312500	2.187500	1.937500
Median	3.000000	2.000000	2.500000	2.000000
Maximum	3.000000	3.000000	3.000000	3.000000
Minimum	0.000000	1.000000	0.000000	0.000000
Std. Dev.	0.894427	0.704154	0.981071	0.997914
Skewness	-1.732051	-0.485311	-0.818594	-0.706389
Kurtosis	5.000000	2.188334	2.483555	2.588698
Jarque-Bera Probability	10.66667 0.004828	1.067272 0.586469	1.964735 0.374424	1.443406 0.485924
Sum	40.00000	37.00000	35.00000	31.00000
Sum Sq. Dev.	12.00000	7.437500	14.43750	14.93750
Observations	16	16	16	16

Estimated using EViews 9.5 analysis tool

We conducted OLS test to analyse the impact of audit planning benefits on the quality of audit check-up and obtained following results.

Table 3. OLS test results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.031688	0.381256	-0.083115	0.9351
ERP	0.366849	0.146590	2.502547	0.0278
FRP	0.433272	0.131582	3.292796	0.0064
HRM	0.379647	0.129939	2.921739	0.0128
R-squared	0.848873	Mean dependent var		2.500000
Adjusted R-squared	0.811091	S.D. dependent var		0.894427
S.E. of regression	0.388751	Akaike info criterion		1.160563
Sum squared resid	1.813528	Schwarz criterion		1.353710
Log likelihood	-5.284501	Hannan-Quinn criter.		1.170453
F-statistic	22.46774	Durbin-Watson stat		2.474278
Prob(F-statistic)	0.000033			

Estimated using EViews 9.5 analysis tool

OLS test results reveal that all three functions of positively impacted on audit quality in audit check-ups of all 16 auditors. In contrary to results of descriptive statistics analysis, the least positive effect was of error prevention function with 0.366849 coefficient. The most effective function was fraud prevention function with 0.433272 coefficient and the second most powerful function was high risk mitigation function with 0.379647 coefficient.

CONCLUSION

In literatures audit planning was sufficiently investigated and examined but with other types of methods and approaches. Particularity of this paper takes roots from the methodology applied in the analytical part. Analyses clearly reflected the importance and positive effect of audit planning for auditing process and audit results. However, they were based on observations of less than half of all local audit firms in Uzbekistan. Therefore, possibility of generalization of research results are effective for selected audit firms only. Considering the research limitations and obtained results, following recommendations are proposed to improve the planning practices of auditors:

1. Creation of risk scales and risk assessment mechanisms for enterprises in consistent with business environment, business size and operating sector enables auditors to set a plan with comparatively definite timing, nature and risk profile.
2. In error identification and correction processes auditors are to follow specific industrial aspects and other separate reporting calendar, form and rules in order to reduce the risk of error amplification, if the enterprise presents reports to several organizations other than tax and statistical authorities. They are advised to make necessary records in the audit plan.
3. Auditors are recommended to specify the corporate structure of the enterprise in the audit plan. If the enterprise is affiliated to any multinational or transnational corporation, auditors should follow reconciliation of dual reporting rules and previous auditor's work.

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