

AUDIT PROCESS PLANNING

The audit of financial statements is a critical process that ensures the accuracy and reliability of a company's financial reporting [1].

Broadly, the audit process can be summarised in five phases (fig. 1).



Figure 1 – Audit process phases

Planning - initial planning activities include formal acceptance of the client by the audit firm, verifying compliance with independence requirements, building the audit team and performing other procedures to determine the nature, timing and extent of procedures to be performed in order to conduct the audit in an effective manner [2].

Risk assessment - auditors use their knowledge of the business, the industry and the environment in which the company operates to identify and assess the risks that could lead to a material misstatement in the financial statements.

This requires a good understanding of the business and its risks, which is typically built up over a number of years as part of the audit firm's and auditor's knowledge.

It also means that the auditors need to be well informed about the industry and wider environment in which the company operates, and about what its competitors,

customers, suppliers and - where relevant - regulators are doing.

Audit strategy and plan - once the risks have been assessed, auditors develop an overall audit strategy and a detailed audit plan to address the risks of material misstatement in the financial statements.

Among other things, this includes designing a testing approach to various financial statement items, deciding whether and how much to rely on the company's internal controls, developing a detailed timetable, and allocating tasks to the audit team members. The audit strategy and plan is continually reassessed throughout the audit and adjusted to respond to new information obtained about the business and its environment [1].

Gathering evidence - auditors apply professional scepticism and judgement when gathering and evaluating evidence through a combination of testing the company's internal controls, tracing the amounts and disclosures included in the financial statements to the company's supporting books and records, and obtaining external third party documentation.

Finalisation - finally, the auditors exercise professional judgement and form their overall conclusion, based on the tests they have carried out, the evidence they have obtained and the other work they have done. This conclusion forms the basis of the audit opinion. Auditors interact with the company during all the phases of the audit process listed above.

Using their professional scepticism and judgement, auditors challenge management's assertions regarding the numbers and disclosures in the financial statements. Various theoretical approaches have been developed to enhance the quality and effectiveness of audits.

References:

1. *Bell, T. B., & Solomon, I.* (2002). Cases in Strategic-Systems Auditing. KPMG LLP.
2. *Johnstone, K. M., & Bedard, J. C.* (2003). Risk-based audit planning: A new approach. *Journal of Accountancy*, 195(4), 41-47.

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