

## **PRELIMINARY ACCEPTANCE OF THE ENGAGEMENT ACTIVITIES**

**Sorin Sandu VÎNATORU**  
University of Craiova, Romania  
vinatorus@yahoo.com

**George CALOTĂ**  
Athenaeum University of Bucharest, Romania  
gcalota2003@yahoo.com

### **Abstract**

*In this paper, we tried to capture how auditors gather documents with sufficient probative value, particularly with regard to basic planning and procedural areas examined, showing: the extent of understanding and knowledge, risk sighted investigations made findings made judgments made, conclusions and decisions, in short "movie" that will accomplish the mission. Leaving aside the fact that underlying the evaluation by professional bodies to audit quality, work files must be prepared based on the idea that they can be used as evidence in any legal proceeding that may arise (referrals, complaints, evidence courts and others). Since a mission conducted by professional principles requires the establishment of documentation thick and complex, it is recommended that the professional to be selective and concise, but detailed enough to understand immediate control objectives, findings and conclusions reached, so that the files include only information relevant significance - updated official and complete. Preliminary engagement activities are quite different depending on the nature of the commitment or initial or recurrent slightly more difficult if the initial audit, which is why it requires individualization of specific elements.*

**Key words:** audit, documentation, samples, activities, preplanning

**JEL Clasification:** M40, M42

### **1. Peculiarities documentation for statutory audit**

Whatever type of audit that we conducted, auditors gather documents with sufficient probative value, particularly with regard to basic planning and procedural areas examined, showing: the extent of understanding and knowledge, risk sighted, investigations conducted findings made judgments made, conclusions and decisions, in short "movie" that will accomplish the mission.

The viewpoints encountered in the literature documenting audit is part of the mission which brings together and working materials prepared by the auditor during the conduct of the undertaking, as paper documents, records or other electronic media carriers of information.

After long experience, came to encapsulate that appropriate documentation (including that relating to assets) helps the auditor to improve efficiency and effectiveness in that:

- a) facilitating mission planning audit in accordance with auditing standards and subject to audit risks identified;
- b) provides a record of weaknesses, errors and irregularities detected during the mission, and the strengths of the reference entity;
- c) confirms and supports the rationale, conclusions and opinions issued;
- d) permit the engagement team as a whole and individually, to be responsible for his work;
- e) the source of information in preparing reports and / or answer questions about the entity verified;
- f) confirms compliance with standards and audits, internal procedures of the company specialized in such missions;
- g) support or provide evidence against claims, legal proceedings and other legal proceedings against the auditor;
- h) record and mostly include audit evidence resulting from work performed;
- i) facilitates review and quality assurance audit because:
  - Helps the reviewer to determine whether the conduct of the undertaking were met mission objectives to ensure that the activities delegated to other auditors and experts have been properly fulfilled, appreciate judgments issued by professionals throughout the process and identify areas where additional work would be required to obtain sufficient appropriate evidence;
  - Provides the basis for audit quality. Documents collected, particularly those developed by the auditor in a mission, are the underlying assessment of the independent evaluator of quality and compliance with International Standards on Auditing work;
- j) Maintain records of continuing value problems for future audits.

We emphasize again at this level, the conceptual difference between audit evidence and documents which, in our opinion, largely can overlap.

We believe that we are not wrong in saying that it is right that all stages of an audit to be carefully recorded documents systemized into folders. Documents or worksheets is the main way to record the auditor's work and the conclusions drawn about important issues, based on the auditor's judgment. Work files contain one or more folders or other storage media, in physical or electronic format, which records found composing audit documentation for a specific engagement.

Leaving aside the fact that underlying the evaluation by professional bodies to audit quality, work files must be prepared based on the idea that they can be used as evidence in any legal proceeding that may arise (referrals, complaints, evidence courts and others). Therefore, auditors should date and sign documents they place in these cases.

Regardless of their form and content, as specified by the International Auditing Standards, working papers are the property of the auditor. Although parts or extracts from documents can be made available to the entity audit-ului agreement, the auditor documents do not replace the records of the audited entity, but supporting them. In the US, there is a provision that financial auditor working files have surrendered to authorities when they require and therefore can be used as evidence in court against both the financial auditor and auditee against.

Regarding the presentation of the sheets and / or work files, literature meets their idea of standardization, which is not negligible. There is also suggestive rules in this regard, but in our opinion, the format may be influenced by many factors, including the nature of the engagement, customer profile and auditor's judgment are the reference.

Working papers are designed and organized to meet the circumstances and the auditor's needs for each individual audit. In our opinion, the use of standardized documents (checklists, specimen letters, standard organization of working papers, etc.) can improve the efficiency with which it is performed and review working papers. Thus, they facilitate the delegation of work while providing a means of controlling their quality. To improve audit efficiency, the auditor may utilize schedules, analyzes and other documentation prepared by the entity. In such situations, the auditor should be satisfied that those materials have been properly prepared.

Scope of documents is a matter of professional judgement because it is not possible to preset which should include working papers. However, when assessing the coverage of working papers, well-built file will be the one that is sufficiently complete and detailed, so as to allow another experienced auditor with no previous connection with that commitment, activity and can understand validity opinions. Documents (file) work must

have a number of qualities such as clarity, readability, relevance, accuracy, conciseness, correctness and completeness (unit).

Regardless of the material used (disk, CD, DVD, etc.) is necessary to ensure adequate identification that completely describes the origin and location content data files.

The form and content of working papers related assets are influenced by a number of factors such as: the objective of the audit, the audit report form, nature and complexity of the objects of the audited entity, the nature and peculiarities of the accounting and internal control of the audited entity and the audit methodology used, the factors leading to the following structure:

- Audit contract;
- Overall strategy, plan and audit programs;
- Various analyzes;
- Descriptions of the issues;
- Summaries of significant matters;
- Letters of confirmation and representation;
- Checklists;
- Correspondence performed, including electronically on significant issues etc.

The auditor may include abstracts or copies of records entity (eg, contracts and invoices to purchase of fixed assets and significant and specific agreements) as part of audit documentation. However, audit documentation is not a substitute for the entity's accounting records.

To improve the efficiency of the auditor may utilize schedules, analyzes and other information prepared by the client entity. In our view, it is preferable that the conditions of this cooperation to be included in the engagement letter or contract audit. However, in such situations, user information must be satisfied by alternative methods that those documents were properly prepared and credible.

Since a mission conducted by professional principles requires the establishment of documentation thick and complex, it is recommended that the professional to be selective and concise, but detailed enough to understand immediate control objectives, findings and conclusions reached, so that the files include only information relevant significance - updated official and complete. It is not necessary for the auditor to include in the audit documentation projects worksheets or replaced financial statements, notes that reflect only preliminary considerations taken in other documents or incomplete, previous copies of documents corrected for typographical or other errors.

The oral explanations of the auditor, independent, is not an adequate justification for the work performed and conclusions, but can be used to

explain or clarify information contained in the audit documentation. Also, it is neither necessary nor possible for the auditor to document every aspect examined or judgment filed in an audit. Moreover, it is not necessary for the auditor to document separately for compliance with aspects such as has been demonstrated by other documents implicitly included in the audit file.

An important factor in determining the content and extent of audit documentation of significant matters is the extent appropriate to exercise professional judgment in carrying out the work and the evaluation results. Documenting the professional judgments made, when they are significant help to explain actions and improve quality auditor conclusions. These issues are of particular interest to those responsible for reviewing audit documentation, including those carrying out subsequent audits when examining the continuing significance.

In our opinion, proper use of professional judgment proper paperwork requires inter alia:

- auditor's conclusions argument, where a provision provides that the professional "must consider" certain information or factors, and that consideration is significant in the context of that mission;
- basis for the auditor's conclusions about the reasonableness of areas where subjective judgments were applied (for example, the reasonableness of significant accounting estimates);
- basis for the auditor's conclusions about the authenticity of a document when performing additional investigations (such as proper use of the activity of an expert or of confirmation procedures) in response to circumstances identified during the mission, which had created the impression that the auditor document may not be authentic.

For ease of reference and understanding the contents of the working papers and, in particular, identifying and evaluating audit evidence supporting the conclusions, recommendations and reports, using the technique of double crosses in which each document mentions both the source from which it was obtained, as and its destination. Applying this technique requires an initial connection logic and clear of all working papers.

The practitioner may find useful preparation and preservation as part of the documentation several abstracts, called Memoranda of audit, which records, for example, discussions with specialized personnel and management, internal control system assessments, observing the situation of assets errors identified. The most important summary memorandum conducted by auditors is completed, describing major issues identified during the mission and how they were treated, or that include references to other relevant supporting documentation that provides such information. Such a summary may facilitate the conduct of examinations and inspections on effective and efficient audit documentation, particularly for large and

complex engagements. Moreover, the preparation of such a summary can contribute to how the auditor considers material respects. It also can help the professional to consider whether, in the context of the audit procedures performed and conclusions reached, there is an individual target relevant standards requested that the auditor is unable to perform, which would prevent the achievement of objectives.

The documentation is not limited to records prepared by the auditor but may include other appropriate records such as minutes of meetings prepared by the entity's personnel and agreed on by the auditor. The professional can discuss on significant issues and others, staff and external parties entity, such as those that provide professional counseling services to the entity.

In documenting the nature, timing and extent of audit procedures performed, the auditor should record the identifying characteristics of the specific items tested; the person who conducted the compliance check and completion date; person who reviewed the audit work performed and the date and extent of the review.

Registration identifying characteristics serves several purposes and enables the engagement team to be responsible for his work, and on the other hand, facilitates the investigation of exceptions and inconsistencies. Identification characteristics are influenced by the nature of audit procedures and tested element or aspect.

Professional requirement to document the name of the person who reviewed the audit work performed does not imply that each worksheet to include evidence of review. However, the record of audit work being reviewed, the person who performed the review and when it was revised remains a necessity.

The documentation of the audit of a smaller entity is generally less extensive than the one for the audit of a larger entity. Furthermore, if an audit engagement partner out the work of examination and assessment, the documentation will not include matters that should be referred only to inform or instruct members of the mission team or provide evidence of review by other members team. In other words, there will research issues within the team discussions or supervision issues.

In our opinion, the paperwork audit of a smaller entity, it can be useful and efficient for the auditor to record various aspects of mission together in a single document, referring to supporting working papers, where necessary. Examples of issues that can be recorded with include understanding the entity and its internal control, the overall audit strategy and audit plan, materiality determined, assessed risk, significant matters noted during the mission and the conclusions drawn.

## **2. Preliminary activities accepted auditing**

Preliminary engagement activities are quite different depending on the nature of the commitment or initial or recurrent slightly more difficult if the initial audit, which is why it requires individualization of specific elements.

Generally, the preamble current commitment, the auditor should perform the following activities:

A. to perform procedures regarding the acceptance and continuance of client relationships

Investigate new customer unite involves assessing potential client's reputation in the business community that the stability of its relations with financial and accounting expertise and audit firms that worked. Sources of information may include local lawyers, other auditors, banks and other businesses. In some situations, the auditor might even hire a professional investigator in order to obtain the necessary information on past reputation and key members of the management team of the prospective client.

The acceptance and continuance of client relationships and specific audit engagements include consideration of:

- The integrity of the principal owners, key management and those charged with governance of the entity;
- The extent to which team is competent to perform the audit engagement, and if he has time / availability and resources;
- Capacity of the company and team comply with ethical requirements.

Deciding whether to continue a client relationship includes consideration of significant matters that have arisen during the current or previous commitment and their implications for maintaining the relationship. For example, a client may have started expanding recurring activity in an area where the audit firm does not possess the knowledge or experience required; or the customer has developed an activity which, by its nature, is very risky and the auditor is willing to get involved, considering that lies indirect risk is too high.

Where the engagement partner get - before or during the mission - information that could lead to the resignation of the audit firm, it must communicate that information promptly audit firm so that it can take appropriate measures. For illustration, if a contract to review the annual financial statements in which it was agreed that any action honest audit team considered reasonable, but then there are some changes the position of the client entity, then it becomes natural that the audit firm -and reconsider. This case may be possible:

- The client insists to test financial relationships of a small number of borrowers, to not stress;

- We prohibit access to certain confidential contractual clauses;
- Required not evaluate auditee relationship with certain customers;
- We are not allowed expenditure verification protocol and various commissions, as the company deems considered taboo etc.

If such information were not made in discussions / negotiations employment mission and appear on the map, representing sensitive issues, not to mention risky, then team them to the partner company, which is part and on whose behalf it acts, because it can decide responsibly and knowingly on alternative forward.

B. assess compliance with ethical requirements, including independence team.

The engagement partner should take responsibility for the overall quality of each audit engagement to which he is appointed. Thus, among others, he is obliged to consider whether team members comply with ethical requirements presented in Fig. 1.

Partner notification remains attentive to cases of failure of ethics during the commitment.

If a problem occurs in the engagement driver's attention through systems firm commitment or in any other way, showing that the team members did not comply with ethical requirements, the partner, in consultation with others in the firm, determines the appropriate action. Responsible commitment and, where appropriate, other team members, document ethical issues identified and how they were resolved.

In as much as concern for ethics, the partner should form a conclusion on compliance with independence requirements that apply to the audit engagement. To do this, it must:

(A) obtain relevant information from the firm to identify the circumstances and relationships that create threats to independence;

(B) Evaluate information on identified breaches, if any, on policies and procedures of the firm's independence, to determine whether they create a threat to auditor independence;

(C) take appropriate measures to eliminate such threats or reduce them to an acceptable level by applying safeguards. Engagement partner shall promptly report to the firm any failure to resolve the problems of independence to take action;

(D) Document conclusions on independence and any relevant discussions with other partners, which support these conclusions.



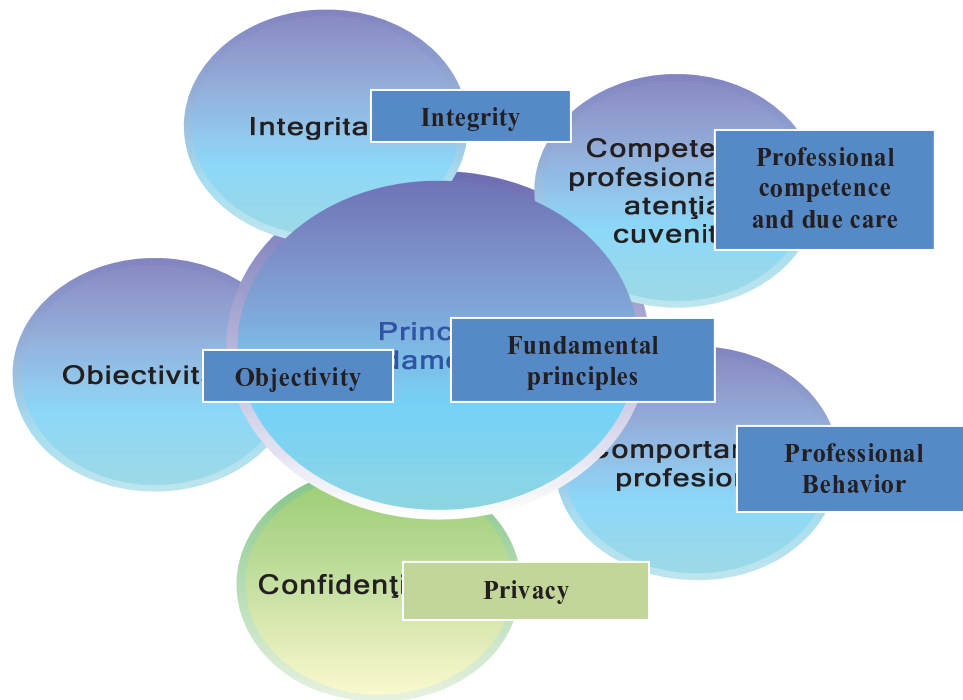


Figure no. 1 *Fundamentals principles of financial auditor profession*  
 Source: Horomnea E., *Financial Audit. Concepts. Standards. Norms*, Alfa Publishing House, Iași, 2010, pg. 93.

Auditor's attention on the continuity of the relationship with the customer and ethical requirements, including independence, occurs throughout the conduct of the undertaking as new conditions arise and changes in old ones. However, the initial procedures on the continuity relation officer and evaluation of ethical requirements (including independence) are performed prior to performing other significant activities for the current audit engagement.

***C. to establish an understanding of the terms of the engagement.***

The purpose of performing these preliminary engagement activities is to assist ensure that the auditor has considered any events or circumstances that may adversely affect the ability to plan and carry out the mission to reduce audit risk to an acceptable level low.

Before starting the initial commitment, the auditor should perform the following activities:

- a. to undergo procedures on acceptance of client relationships that are similar to "continue" relations, but efforts audit firm to know a new entity are somewhat different - much more consistent and inevitably accompanied by risks arsenal still unexplored;

b. to communicate with the predecessor auditor if there was a replacement in accordance with ethical and legal requirements.

The purpose and objective of the mission planning are the same whether an initial audit or a recurring audit. However, in an initial mission, the auditor may need to expand activities (pre) planning works because it has no previous experience with the entity. For initial audits, additional matters the auditor may consider in developing the overall audit strategy include:

- unless prohibited by law or regulation to enter into agreements with the predecessor auditor, for example on the review of the audit file of professionals involved therein;
- any major issue arises (including the application of accounting principles, auditing or reporting) should be discussed with management, communication aspects of those charged with governance and how these matters affect the strategy and audit plan;
- programming of all audit procedures necessary to obtain sufficient appropriate evidence regarding the opening balances;
- appointment of company personnel with the skills, abilities and skills appropriate to address significant risks;
- consideration of other procedures required by the quality control system of the audit firm for the initial commitments. For example, quality assurance system may require the involvement of another partner or senior staff to review the overall strategy of the mission before the actual start of significant procedures or to review reports prior to the issue - submission.

The objectives of the auditor in the pre-planning stage can be summarized in the Table. 1:

| Objective                               | A method of making  |
|---|---|
| Global knowledge society and risk areas | <ul style="list-style-type: none"> <li>- A summary of work carried out by the audited company</li> <li>- Obtaining information about shareholders or members of the parent or subsidiary, where the company is part of a group</li> <li>- Knowledge of their internal organization</li> <li>- Location of premises and working points, if any</li> <li>- The existence and importance of accounting department, the nature and quality of the work they perform</li> <li>- Knowledge of the main accounting regulations, legal and tax related to the company's business (accounting and tax characteristics)</li> <li>- Identifying size works executed (request for an audit of financial statements of a transaction or activity)</li> <li>- Specific deadlines respected</li> <li>- Delineation of potential areas of risk (related to the company's business, accounting organization, accounting methods, the financial and legal)</li> </ul> |
|   | The auditor should consider whether features:   |

| Objective   | A method of making  |
|---|---|
| Findings of independence, the absence of incompatibilities and auditor competence | <ul style="list-style-type: none"> <li>- Appropriate to the enterprise skills: knowledge of the industry and its work issues (legal, fiscal, social, risks)</li> <li>- Sufficient time available for the task, especially when auditing large companies or complex activities</li> <li>- The means to cover the mission within the time required, especially when expressing needs requirements for consolidation of accounts for the parent company etc.</li> <li>- Independent from the client: personal interest, fees importance in relation to the size of the enterprise customer and his cabinet turnover</li> </ul> |
| The decision granting the mandate   | Based on the information collected to achieve two objectives earlier decision may be taken: <ul style="list-style-type: none"> <li>- To accept the mission, in which case the decision forms varies depending on the information obtained from risk analysis, so either accept a mandate without apparent risks or accept mandate under proper supervision and individual measures</li> <li>- Refuse mission</li> </ul>   |
| Drawing letter of assignment  | If the audit engagement is accepted, proceed to the preparation of the letter of assignment   |

*Source: Processing by A. Morariu, E. Turlea, accounting audit, Economic Publishing House, Bucharest, 2005.*

Table 1. *Objectives pursued by the auditor preplanning*

From the presentation above, it follows that the decision to accept an audit engagement should not be regarded lightly. As many authors say we subscribe to the idea that "the acceptance of a mission, the auditor assumes professional responsibility to the public, client and other members of the accounting profession."

As a problem that affects more than significant audit methodology profile, we considered useful some elements on theme difference between initial and recurrent commitment. For illustration, if we get an initial audit, and before us was not audited entity, the strategy focuses significantly on the examination of opening accounts. In other words, a recurrent audit, strategy start from the premise: the end of the previous accounts have been audited by us ... but an initial audit strategy and, in particular, the audit fieldwork begins with opening balances. If you are a recurrent audit, we realize not only a simple verification of the principle of inviolability balance. If the initial audit, both auditor and the entity, check balances initial action is extensive and expensive.

#### ACKNOWLEDGEMENT

This work was supported by the strategic grant POSDRU/159/1.5/S/140863, Project ID 140863 (2014), co-financed by the European Social Fund within the Sectorial Operational Program Human Resources Development 2007 – 2013 "Researchers competitive at European

level in the field of science humanities and socio-economic. Research Network multiregional "CCPE.

### **References**

- [1] Arens A., Loebbecke J. (2003), *Audit - an integrated approach 8th edition*, Arc Publishing House, Kishinev.
- [2] Cosserrat G. W., Rodda N. (2004), *Modern Auditing*, John Wiley & Sons Ltd Publishing House.
- [3] Danescu T. (2007), *Audit financiar – convergente intre teorie si practica*, Irecson Publishing House, Bucharest.
- [4] Domnisoru S. (2011), *Audit statutar si comunicare financiara*, Economica Publishing House, Bucharest.
- [5] Horomnea E. (2010), *Audit financiar. Concepte. Standarde. Norme*, Alfa Publishing House, Iasi.
- [6] Morariu A. (2008), *Documentarea în audit – test suprem de calitate al misiunilor de asigurare*, Audit financiar, no. 1, CAFR Publishing House, Bucharest.
- [7] Oprean I., Popa I. E., Lenghel R. D. (2007), *Procedurile auditului si ale controlului financiar*, Risoprint Publishing House, Cluj Napoca.
- [8] Rusovici A., Farmache S., Rusu Gh. (2008), *Manager in misiunea de audit*, Monitorul Oficial Publishing House, Bucharest.