

IMPORTANT ASPECTS OF THE AUDIT PLANNING IN AGRICULTURAL ENTITIES FROM THE REPUBLIC OF MOLDOVA

Elena PETREANU, Silvia ZAHARCO

Moldova State University, 60 Alexei Mateevici str., Block C, Office 330, Chisinau, Republic of Moldova, Phones: +37369589128, +37379544676, Emails: elena.petreanu@usm.md, silvia.zaharco@usm.md

Corresponding author: elena.petreanu@usm.md

Abstract

The study presents relevant aspects regarding the conduct of the audit in agricultural entities and, namely, its planning stage. Determination of the materiality threshold, in terms of financial situations on the one hand and account balances and transactions on the other hand, is a crucial component in the field of audit planning. Contributing factors in approaching this subject constituted the extension in the Republic of Moldova of the demand for an audit obligation in medium and large companies and, as well, the lack of studies in the area of audit of the agricultural entities. After presenting the importance and concepts related to the materiality threshold, the author revealed the method which is considered appropriate for determining the materiality threshold in the framework of audit planning in agricultural entities. As a result of the application of the described method, emphasis is placed on the relationship between the relative value of the materiality and the risk of incorrect organization of the accounting of the agricultural entity; the particularities of the agricultural activity are also taken into account.

Key words: agricultural entity, audit planning, materiality threshold, relative value, basis of comparison

INTRODUCTION

The practice of auditing in the Republic of Moldova identifies the audit as an independent examination of the annual financial statements, the consolidated annual financial statements and other information related to them of the audited entity in order to express a professional opinion of the auditor on their correspondence, under all significant aspects, to the requirements established for these situations. Until the adoption of the Law no. 287 of 15.12.2017 on Accounting and Financial Reporting [5], the audit was mandatory for public interest entities, which represent entities whose securities are admitted to trading on a regulated market; bank; insurer (reinsurer) / insurance company; body for collective investment in securities with legal personality; large entity that is a state-owned enterprise or a joint-stock company in which the state's share exceeds 50% of the share capital. Once this law entered into force, the area of application of the audit was expanded and the following are directly subject to the

mandatory audit: individual financial statements of medium-sized entities and large entities and groups' consolidated financial statements. In this regard, agricultural entities comprised in the classification of medium and large entities should conduct the audit of the financial situations of the administration period.

The purpose of this research is to investigate the basic features of the planning phase of the audit in agricultural entities, specifically, the interpretation of the questions regarding the evaluation of the materiality threshold in terms of auditing practice of given entities.

We mention that in order to obtain a prosperous exercise of audit operations in agricultural entities, it is essential to set up an academic basis adequate to their planning phase, inclusively the use of the materiality threshold at this stage, considering the specific elements of agricultural activity. Concomitantly, examining the specialized literature, we note a scarcity of works to address the audit components in entities representing the agricultural sector.

Topics regarding the use of the materiality threshold in audit are examined in a limited number of publications in the country. But, at the same time, we can mention the work of the researchers M. Manoli and N. Zlatina [7], which focuses on the materiality threshold in the audit context, and the basic results targets the ways of choosing the materiality threshold and determining the audit risk in the audit planning.

The term „audit” is connected to the development of entities with the differentiation of the competencies and responsibilities of managers from those of owners, along with the complex nature of transactions carried out by entities and the development of the economic business sector. The appearance and expansion of auditing was and is a natural necessity, as a consequence of international and European trends and practices in this field [12].

Also, the researcher S. Slobodeanu in his work [9] highlights some aspects of the system of indicators with percentage intervals assigned for the calculation of the materiality threshold recommended by the experts of the Chamber of Financial Auditors from Romania. The results of the conducted research lead to the proposal of a method for calculating the materiality threshold from their average value, and not from the amount of the balance closing the reporting period.

In this regard, acknowledging the must for compulsory audit in medium-sized and large entities, along with the absence of research in the field of audit of agricultural entities, we consider the topic of the present research to be actual and of both, theoretical and practical interest.

MATERIALS AND METHODS

The present study has a theoretical-applied character and is based on both qualitative and quantitative research methods; deductive and inductive; the methods of analysis and synthesis have been used, as well.

The document analysis method was widely used by us, which allowed to carry out a content breakdown of all the approached

aspects. The paper took into account the results of studies carried out by local and foreign researchers related to the application of the notion of the materiality threshold when arranging and carrying on the audit.

Concomitantly, the stipulations of the legislative acts of the Republic of Moldova and the auditing regulations of the International Federation of Accountants (IFAC), such as the International Standards on Auditing (ISA), were taken into account.

The data used in the analysis of the method for calculating the materiality threshold were collected from the financial statements and the Balance Sheet of the synthetic accounts of the agricultural entity "Clasicvinagro". The nominated entity is subject to audit, despite the fact that it represents a medium-sized entity and falls under the action of the Law no. 287 of 15.12.2017 on Accounting and Financial Reporting, which provides for the mandatory audit for this type of entities.

According to the latest ascents of international and national economic realities, the responsibility assigned to the audit activity becomes a premise for ensuring correct, objective, transparent, and especially comparable financial-accounting information, on the basis of which the best possible economic decision can be made. In this context, the general accounting and auditing framework is continuously improving the quality of its accounting information by applying accounting regulations in line with European Union Directives. Thus, the European Union seeks to align European accounting principles with International Financial Reporting Standards (IFRS) and, concomitantly, to deploy a standard language in running business by reaching a common point [11].

The method relying on the relationship between the relative value of the materiality and the risk of incorrect organization of the entity's accounting has been used to illustrate in the audit practice within the agricultural entity on the way of determining the materiality threshold.

RESULTS AND DISCUSSIONS

In order to successfully carrying out the planning stage of an audit mission in agricultural entities, it is essential to carefully studying the pertinent regulatory framework of the audit. Here we mention the ISA 300 "Planning an Audit of Financial Statements", ISA 320 "Materiality in Planning and Performing an Audit", which is examined simultaneously with ISA 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing" and ISA 450 "Evaluation of Misstatements Identified During the Audit". We mention the aspect that these standards have been applied in the Republic of Moldova since 2012. Also, a deep knowledge of the accounting method in agricultural activity is required, which is regulated by the National Accounting Standard (SNC) "Particularities of accounting in agriculture".

The auditor's objective in the planning stage is to plan the activities, so that the audit is carried out in an effective manner. In this context, in accordance with the provisions of ISA 300 "Planning an Audit of Financial Statements" [2], we can mention a number of benefits of planning activities, in case they are appropriate:

- ensure that greater attention is paid to the important areas of the audit;
- contribute to identifying and solving potential problems in a timely manner;
- ensure the correct organization and management of the audit mission;
- facilitate the coordination and supervision of all members of the mission team and the review of their work.

At the same time, the auditor will identify the factors on which the volume of planning depends, among which we can nominate: the dimension and complexness of the agricultural entity; the intricacy of the audit; the auditor's former work experience with the particular agricultural entity and the understanding of the character of the client's business.

It is crucial for the auditor to ascertain the key aspects of the planning phase. In the case of the agricultural entities, they can be summarized as follows:

- acquiring information about the character of the client's business;
- acknowledging and assessing the entity's internal control;
- risk assessment and determination of materiality threshold;
- establishing the general strategy and developing the audit plan.

An essential element of planning the audit mission is the determination of the materiality threshold. In this regard, it is needed to understand the importance of the materiality threshold, the terms that define materiality and the stages of its determination [1].

We mention the circumstance that the actual financial reporting framework implemented in the Republic of Moldova approaches the notion of materiality threshold considering the establishment and the disclosure of financial statements. Therefore, in accordance with the SNC "Accounting policies, changes in accounting estimates, errors and subsequent events" [10], the materiality threshold is illustrated as a standard created by the entity in order to determine the necessity to introduce or to amend information in the financial statements, taking into account the possibility of the influence of these presentations or corrections on the users' economic decisions. At the same time, in the context of conducting the audit, the materiality threshold is treated as follows from the provisions of ISA 320 "Materiality in Planning and Performing an Audit", that is, misstatements, including omissions, are considered to be material if it can be estimated, in a reasonable manner, that they, separately or collectively, will affect the economic decisions of the users, based on the financial statements.

Auditing practice shows that certain factors must be taken into account when determining the materiality threshold, such as the relativity of the materiality threshold and the basis of comparison [6]. The relativity of the materiality threshold is demonstrated by the

reason that a particular value chosen as a materiality threshold for an agricultural entity might be material, whereas, concomitantly, for another entity it could be remarkable. Furthermore, the relative feature of the materiality threshold leads to the establishment of materiality in relative quantities, which are to be applied to absolute values of the data in the financial statements. It is critical to state that ascertaining the materiality threshold implies the application of the auditor's professional judgment as evidenced in our previous research [8]. In this regard, for setting a baseline for comparison, the auditor should consider specific factors including: the components of the financial statements (assets, liabilities, equity, income, expenses); the components on which users of the entity's financial statements will draw their attention; the character of the entity and the sector of activity; the ownership composition of the entity and the manner in which it is funded.

According to us, when carrying out audits of the financial statements of agricultural entities, it is necessary to take into account the particularities of agricultural activity. Thus, their financial statements contain elements specific to the field of activity, which can be identified as a basis for comparison when establishing the materiality threshold at the planning stage, such as: biological assets, agricultural products, production in progress, etc. For example, as it follows from the information presented by the agricultural entity "Clasicvinagro", fixed biological assets, which are represented by vine plantations, occupy 71.2% of the total assets of the entity and 86.8% of the total fixed assets whereas the production in progress comprises 76% of the entity's total stocks.

Moreover, we believe that in addition to the peculiarities of the agricultural activity, the auditors should consider the risk of inaccurate organization of the entity's accounting when assessing the materiality threshold. We justify this particular aspect by the idea that the accounting information system constitutes a basic element of the internal control system of the agricultural entity.

We underline the fact that accordingly to ISA 315 "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment" [3], the auditor should assess, besides the accounting information system, other components of the entity's internal control, namely: the environmental control, the risk assessment process, the control activities pertinent to the audit and the examination of controls.

Correspondingly, we find it relevant to employ the technique of establishing the materiality threshold that relies on the correlation between the relative value of materiality and the risk of inaccurate organization of the entity's accounting [4]. This particular relationship is illustrated by us in Table 1.

Table 1. Correlation between the relative value of materiality and the risk of inaccurate organization of the entity's accounting

Risk of inaccurate organization of the entity's accounting %	Level	The relative value of materiality	Level
10	Low	9	High
20	Low	9	High
30	Low	8	High
40	Medium	7	Medium
50	Medium	6	Medium
60	Medium	5	Medium
70	High	4	Low
80	High	3	Low
90	High	2	Low

Source: Presented by author based on [3].

The information presented in Table 1 is used by us to determine the materiality threshold at the stage of planning the audit in the agricultural entity "Clasicvinagro", whose information flows are used as the object of study in the given paper. We would like to mention that when establishing the basis of comparison (column 1, Table 2) elements were identified, which are of interest to the users of the financial statements and express the particularities of the agricultural activity. Here we have in mind, first of all, the entity's performance indicators, its debt level, along

with the value of fixed biological assets. Concomitantly, the risk of inaccurate organization of the entity's "Clasicvinagro"

accounting (column 3, Table 2), is determined on the basis of the examination of the internal control at the entity.

Table 2. Determining the materiality threshold within the "Clasicvinagro" agricultural entity

Comparison base	The value of the comparison base, lei	The risk of inaccurate organization of the entity's accounting, %	Relative value of materiality %	Materiality threshold, % (col.4*col.2), lei
1	2	3	4	5
1. Fixed assets	12,881,085	20	9	159,298
2. Fixed biological assets	88,992,956	30	8	7,119,436
3. Production in progress	4,791,621	40	7	335,413
4. Current trade receivables	12,310,989	20	9	1,107,989
5. Long-term loans	52,904,497	20	9	4,761,404
6. Current commercial liabilities	17,014,746	20	9	1,531,327
7. Short-term bank loans	9,346,814	30	8	747,745
8. Net profit in the management period	2,381,774	40	7	166,724
9. Income from sales	42,210,759	20	9	3,798,968
The average of indicators	X	X	X	2,192,034

Source: Developed by the author based on the data of the agricultural entity "Clasicvinagro".

Within the presented method, the materiality threshold, at the level of financial statements as a whole, is determined as the arithmetic average of the indicators calculated in column 5 of Table 2. According to the presented data, the average of the indicators in column 5 makes up 2,192,034 lei. The practical importance of the calculated materiality threshold lies in the aspect that it represents the maximum admissible value of the error in the financial statements of the entity, on which basis the auditor evaluates the integrity of the information shown and the impact on the decisions of the users of the financial statements.

CONCLUSIONS

The findings connected to the carried out research in this paper consists in the following basic points:

- In the Republic of Moldova, the audit is an independent examination of the annual financial statements, the consolidated annual

financial statements and other information related to the audited entity, in order to express a professional opinion of the auditor on their correspondence, under all significant aspects, to the requirements established for these situations. With the adoption of the new regulations related to accounting and auditing, namely, the entry into force of the Law no. 287 of 15.12.2017 on Accounting and Financial Reporting, the domain of applicability of the audit was broadened by the introduction of the requirement for compulsory auditing of medium and large entities. Therefore, accordingly to the modifications done in the legislation in the field, agricultural entities which satisfy the conditions which allow them to be included in the groups of designated entities are required to conduct the audit of the financial statements.

The investigation of the theoretical and methodological basis regarding the audit in agricultural entities, including its planning stage, shows that it is insufficiently

elucidated, while an applied approach to the concept of the materiality threshold in the audit is necessary.

- Determining the materiality threshold involves the exercise of the auditor's professional judgment. The auditor is to evaluate a series of factors provided by ISA 320 "Materiality in Planning and Performing an Audit", while, at the same time, he must take into account the particularities of the agricultural activity and the risk of incorrect organization of accounting, as a constituent element of the internal control of the agricultural entity.
- Based on the above mentioned, in our opinion, we believe that the use of the method of determining the materiality threshold, which is based on the relationship between the relative value of the materiality and the risk of incorrect organization of the client's accounting, is appropriate in the audit of agricultural entities. The practical approach of the above mentioned method is revealed by the information in Tables 1 and 2 of this paper, as well as by the conclusions made on them.

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