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PRODUCTION STOCKS AUDIT OF AN INDUSTRIAL ENTERPRISE

АУДИТ ВИРОБНИЧИХ ЗАПАСІВ ПРОМИСЛОВОГО ПІДПРИЄМСТВА

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Кімінчидзхи Г.І., Балан А.А., Кірсанова В.В. Аудит виробничих запасів промислового підприємства. Науково-методична стаття.

Стаття присвячена дослідженню організації і методики аудиторської перевірки виробничих запасів на підприємстві ПП «Металозахист». Розглянуті міжнародні та національні стандарти і положення, а також чинна нормативна база аудиту запасів. Запропоновані робочі документи допоможуть аудитору досягти поставленої мети при перевірці виробничих запасів на підприємстві. У ході дослідження розроблено загальний план та детальна програма аудиту ВЗ обраної організації, що допоможе вчасно виявити порушення у фінансовій звітності. Проведена аудиторська перевірка відповідно міжнародним стандартам аудиту (МСА) на підприємстві ПП «Металозахист» та надано аудиторський висновок керівнику для покращення фінансової безпеки організації.

Ключові слова: аудиторська перевірка, план і програма аудиту, виробничі запаси, МСА, тестування, робочі документи аудитора, аудиторський висновок

Kiminchydzhy H.I., Balan A.A., Kirsanova V.V. Production Stocks Audit of an Industrial Enterprise. Scientific and methodical article.

The article is devoted to the study of the organization and methods of production stocks audit at the enterprise "Metalozakhyst" LP. International and national standards and regulations, as well as the current regulatory framework for inventory audit are considered. The proposed working papers will help an auditor to achieve this goal when checking production stocks at the enterprise. In the course of the research, a general plan and a detailed audit programme of the selected organization were developed, which will help to identify violations in the financial statements in a timely manner. The audit examination was conducted in accordance with international auditing standards (ISA) at the enterprise "Metalozakhyst" LP and an audit report was provided to help the manager improve the organization financial security.

Keywords: audit, audit plan and programme, production stocks, ISAs, testing, an auditor's working papers, audit opinion

An audit at an enterprise performs a preventive function, allows to identify strengths and weaknesses in the activity, promotes sound decisions adoption by the managing director. One of the bottlenecks of an industrial enterprise operation is the organization, adjustment and maintenance of accounting and production stocks control. The enterprise management constantly needs up-to-date information on the movement of production stocks, purchase prices and volumes, cost, withdrawals/writing-offs, losses. In the conditions of financial instability, the issues of optimizing the purchasing cost, maintaining and using production stocks in the manufacturing process become especially relevant. Therefore, special attention needs to be paid to the organization and control of production stocks of the industrial enterprise. But it is important not so much to identify the problem, but to develop the most optimal management solutions aimed at its localization and elimination with the most favourable conditions.

The aim of the article is to develop the production stocks audit programme, the auditor's working documents development for the production stocks audit organization at the industrial enterprise «Metalozakhyst» LP.

The tasks to achieve the target goal are: the theoretical essence substantiation of the statement «stocks audit methodology»; investigating the main stages of stocks audit; identifying the typical errors; creating and researching the audit methodology options.

Analysis of recent researches and publications

An important component of the audit at the enterprise is the organization and methodology of production

stocks audit. The main aspects and issues related to the production stocks audit, which are covered by scientists in their works are listed in the Table 1.

Table 1. Main Aspects Concerning the Production Stocks Audit Reflected in the Scientists' Works

Scientists	The scientists' proposals in their works					
	PS audit programme	PS auditing methods	audit evidence collection	Recommendations concerning optimization	Inquest	Audit examination stages
O.A. Petryk		+		+	+	
H.M. Davydov	+	+				+
K.S. Melnikova		+	+	+		
H. Syrotiuk		+			+	
O.A. Skoroboiiu		+				+
M.I. Skrypnyk		+		+	+	
S. Bardash	+		+		+	
S. Levytska		+		+		+
V. Ya. Savchenko			+	+		
N.I. Hordiienko and O.V. Kharlamova	+			+		+

Source: compiled by authors on materials [1-10].

Analysis of the consolidated results in the table 1, allows to arrive at a conclusion that the vast majority of scholars pay attention to the methodology of the PS audit examination and provide appropriate recommendations for optimizing the verification process in terms of individual elements and articles. Each author examines this issue from his/her own viewpoint, but not enough attention is paid to the audit programme development of production stocks of the industrial enterprise, and therefore, the auditor's working papers will need to be clarified.

The main part

An audit is the examination of financial statements, accounting records, primary documents and other information on the financial and economic activities of economic entities with a view to obtaining a professional independent opinion of the auditor on the reliability of their accounts, taking into account its completeness and conformity with the current legislation and established standards.

Key approaches to the audit performance are shown in the figure 1

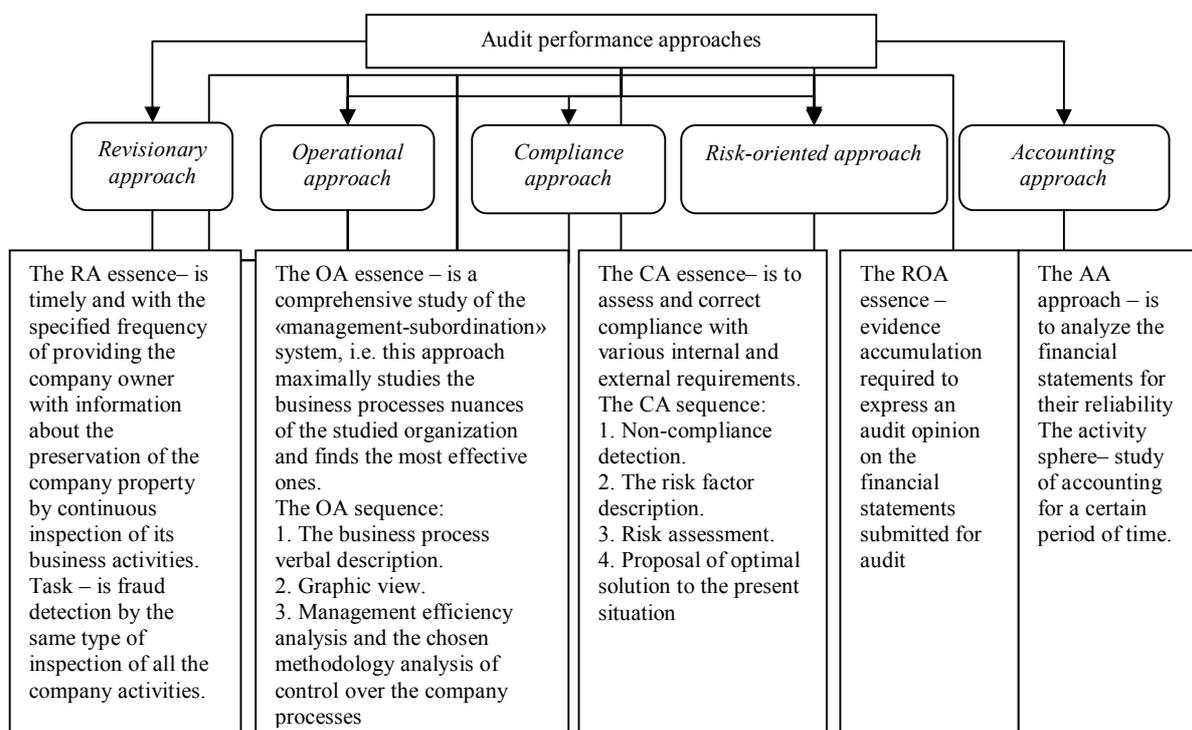


Figure1. Approaches to Audit Performance

Source: authors' own development

To date, it is believed that a risk-based approach to auditing was formed as a part of the International Standards on Auditing (ISA) system development, which introduced the concept of "reasonable assurance". It refers to the evidence accumulation that is necessary to prepare an audit opinion and express an audit viewpoint on the financial statements submitted for audit for compliance with the applicable principles of financial reporting. That is why it is advisable to apply a risk-oriented approach to auditing according to MCA at the "Metalozahyst" LP. This will make possible to decrease waste, identify ways to reduce the products cost manufactured through the rational use of inventories, to develop the most optimal management solutions aimed at localizing problems with the most favourable conditions.

For the industrial enterprise "Metalozakhyst" LP the audit was primary, as it was conducted for the first time by an auditor at this enterprise. For the audit company «AudKim», the initial audit is an audit that is conducted for this client for the first time.

Ukraine is on the list of countries that have abandoned their own standards for regulating auditing in favour of international ones. At the same time, the introducing borrowed institutions into domestic practice does not provide answers to all problematic issues of organizing the documentation at different stages of the audit (from previous activities to reporting to the services owner).

One of such problematic issues is the clear identification of the auditing stages with the regulated norms of a particular International Standards on Auditing (ISA). The following is a breakdown in International Standards on Auditing by appropriate stages (fig. 2).

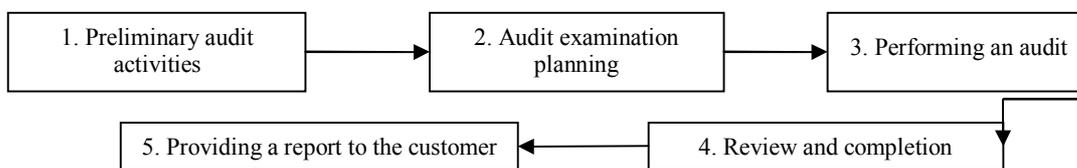


Figure 2. The ISA Audit Activities Stages

Source: authors' own development

Using the preliminary auditor's working papers is a valuable source of information for the auditor about the corporate client's activities in previous periods, as it will contain observations and significant issues that he/she has drawn attention to during the audit. It will further avoid threats to the auditor's independence, establish the fraud risks existence, and provide the auditor with independent professional evidence regarding the enterprise's accounting practices and internal control systems. The next auditor's letter to the previous auditor with a request to provide access to the audit file on the task of auditing the financial statements for the previous year is sent in the case of the previous audit presence. No preliminary audit has been conducted at the enterprise "Metalozakhyst" LP. The auditor then sends a letter of request to lawyers in order to identify violations of the law by the client that may influence the conduct and results of the audit.

One of the most important audit procedures is the company's financial statements evaluation. The auditor is guided by the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" dated 16 July 1999 №996-XIV and regulations [11].

The auditor, managing statutory instruments, checks the assessment correctness of balance sheet items and financial statements. Audit risk means that the auditor can evaluate the balance sheet and other forms of reporting positively, while they conceal materially uncertain information that does not correspond to reality.

The paragraph 3 of ISA 400, "Risk Assessments and Internal Control" states that audit risk is the risk that the auditor will express an independent audit opinion if the financial statements do not contain material misstatements [12]. Such distortions may be due to fraud or error. ISA 400 identifies 3 audit risk components: intrinsic risk, control risk and non-detection risk and provides guidance on assessing such risks [12].

The auditor's ultimate confidence in the magnitude of internal control risk is achieved through certification. If the control risk is considered acceptable by the auditor, then the higher it is, the more control tests should be performed by the auditor. The risk factor assessment of the internal control system – 2 (Insufficient control) at the enterprise "Metalozakhyst" LP.

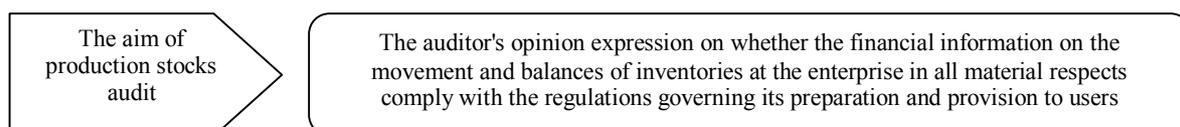


Figure 3. The Aim of Production Stocks Audit

Source: authors' own development

International and national standards and guidelines, current regulations, information sources and legal framework for stocks audit are shown in Figure 4 and Table 2.

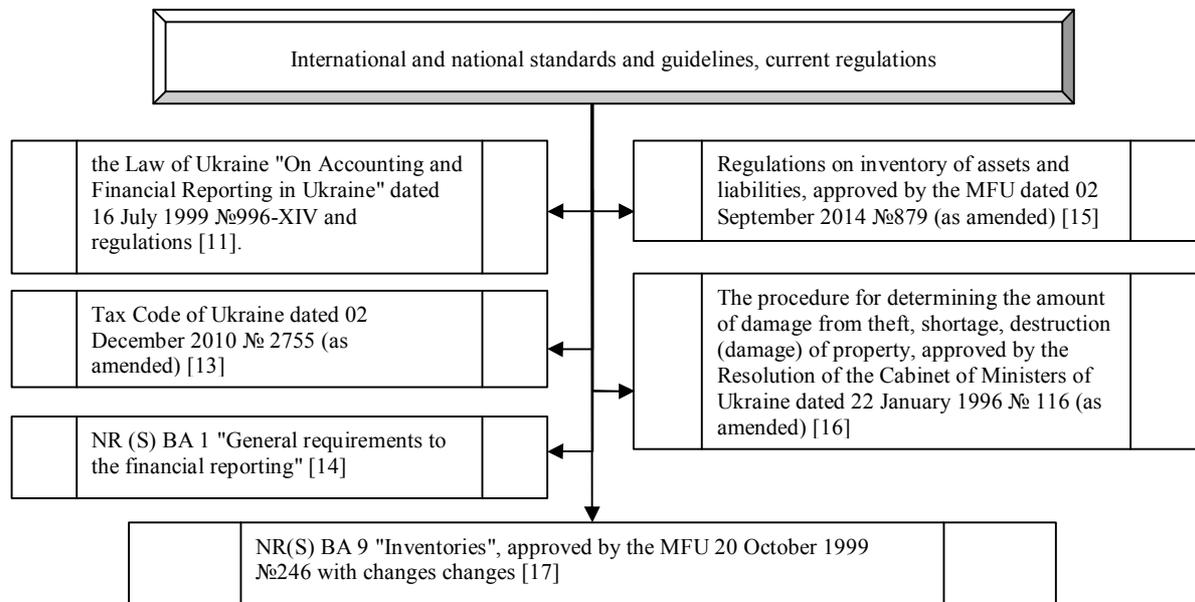


Figure 4. International and National Standards and Guidelines, Current Regulations
 Source: authors' own development

Table 2. Information Sources and Regulatory Framework for Stocks Audit

Sources of information and regulatory framework of inventory audit
1. Order on accounting policy
2. Basic documents on stocks accounting: received goods logbook, materials receipt record, resource limit card, warehouse accounting materials card, material balances record in the warehouse, inventory report, invoice, bill of landing, act of inventory purchase, fault report, shortage statement
3. Accounting records used to reflect inventory transactions (journals-orders №)
4. acts and certificates of previous audits, auditor's opinions and other documentation summarizing the control results
5. Reporting (Balance sheet) form №), notes to the financial statements (form №)

Source: authors' own development

Accounting ensures the economic facts reflection, and the audit confirms their reliability, legality and reflection completeness (Table 3). When considering the task of production stocks audit, it is necessary that the auditor, performing the audit, would go beyond accounting [18]. As the auditor's task is to identify and prevent violations.

Table 3. The Production Stocks Audit Organization

Production Stocks Audit			
Accounting policy (1)	Warehouse management (2)	Production stocks inventory making (3)	Stocks valuation
- Initial stocks assessment - stocks revaluation - method of estimating the stocks disposal		Inventory description	Comparative ledgers of inventory making results (4)
Assessment methods of production stocks (6)		checking the correctness of filling in the basic documents (5)	
1. the method of determining the cost of stocks disposal at the identified cost of the relevant unit of stocks 2. the method of production cost of the first time stocks receipts 3. method of estimating the stocks disposal at selling prices		checking the correctness of the transactions reflection on correspondent accounts (7)	
		checking the correctness of the transactions reflection in the accounting registers (8)	
Registers of analytical and synthetic accounting		General Ledger	Accounting balance-sheet

Source: authors' own development

It is impractical to carry out a continuous production stocks inspection, as it requires large material and labour costs. Therefore, it is desirable to check and evaluate the internal control system. The study and evaluating the internal control and production stocks accounting system requires certification, which can examine the strengths and weaknesses of the research object [19]. Assessing the internal control system of "Metalozakhyst" LP -1 (Sufficient control).

On the basis of the accounting policy of the researched enterprise, the statute, material responsibility contracts, the job description the materials representation was chosen in the form of testing.

At the industrial enterprise "Metalozakhyst" LP the form of internal control is decentralized, so there is no internal control department. Therefore, control functions are assigned to management entities. In terms of financial statements preparation – for accounting staff.

The internal control test of production stocks is presented in the table 4. The test results make it possible to choose the method of audit organization: continuous selective or combined. Assessing the control status of production stocks- 2 (Insufficient control).

Table 4. Internal Control Test of Production Stocks of "Metalozakhyst" LP

Sr No	Questions Contents	Answer Options		
		Yes	No	Notes
1	Compliance with the requirements for proper storage of production stocks: technological conditions, necessary adaptations, damage prevention.	+		
2	Materially responsible people's responsibility for stocks in a warehouse and in operation	+		
3	Production stocks audit runs over: A) accountable people, B) storage place	+		A, B
4	Carrying out an inventory when transferring a warehouse for a vacation		+	
5	Access to the inventory database is available only to people for whom it is related to job responsibilities	+		
6	Frequency of making inventory: A) Once a year B) More often once a year. C) At least once a year.	+		A
7	Display in the Inventory Making of the Obtained Results.	+		
8	The damage presence and lack of production stocks in the current period.		+	
9	Write-off existence of natural loss of production stocks according to norms		+	
10	Comparison of General Ledger data and information specified in the registers of production stocks	+		
11	Organization of control over timely claims regarding the quality and quantity of received PS		+	
12	Carrying out control over unused orders that were handed in late	+		
13	Checking the control over the fact of PS destruction and from damage.		+	
14	Carrying out control over the basic documents data on the accuracy of counting the number of PS received.	+		
15	Available production stocks Inclusion without the right of ownership (otherwise owned) in the calculations		+	
The main criteria for determining the status of production stocks control:				
<i>The value of indicator control</i>		<i>Assessment</i>	<i>Comment</i>	
Sufficient		1	Probably there are no problems	
Insufficient		2	Probably there are problems	
Ineffective		3	There are probably significant problems	

Source: authors' own development

According to the test results, the auditor proceeds to draw up a plan and programme for the production stocks audit. The following is the production stocks audit plan to determine the tasks list in the sequence of their implementation, which will be used to obtain and provide audit evidence in accordance with the audit purpose (table 5).

Table 5. General Plan for the Production Stocks Audit of the Enterprise "Metalozakhyst" LP

No	Aim and objectives	Procedures list	Audit term	Full name
1	2	3	4	5
The preparatory stage				
1.	Acquaintance with the client's business, assessing the internal control and accounting system, determination of audit risk, materiality, production stocks audit planning	Letters exchange, an agreement conclusion, acquaintance with enterprise activities: survey, testing	From 1 March to 2 March	
The main stage				
2.1	To obtain sufficient and relevant evidence in relation to the allegations substantiation of the existence, completeness, transactions accuracy to reflect the stock acquisition from suppliers	the display audit of the stock acquisition, their initial value formation	From 3 March to 10 March	

Continuation of Table 5

1	2	3	4	5
2.2	Analysis of statements substantiation concerning existence, completeness, accuracy and operations classification on stocks write-off	Stocks write-off audit	From 10 March to 15 March	
The final stage				
3.	Audit report preparation and making audit opinion	procedures implementation for systematization and substantiation of information	16 March	

Source: authors' own development

The following is the programme of production stocks audit for the enterprise "Metalozahyst" LP, which is an important part of the auditor's work papers (table 6).

Table 6. The Programme of Production Stocks Audit for the Enterprise "Metalozakhyst" LP

The organization being audited			"Metalozakhyst" LP				
The review period			From 01 March 2021 to 16 March 2021				
Sr No	Auditing procedure	Evidence	Assertions	Work papers code	Auditing method	Responsible party	Time frame
1	2	3	4	5	6	7	8
1	Correspondence of the production stocks value in the Balance Sheet and the General Ledger	Balance Sheet, General Ledger	Availability, truthfulness, rights and obligations, completeness, valuation, submission, disclosure	PS-1	Documentary verification, arithmetic, selective		
2	Checking the data of finance statements and accounting records for their compliance	Finance statements and account ledgers	Availability, truthfulness, disclosure, completeness	PS-2	Documentary, comparison, arithmetic, analytical		
3	Checking the contracts availability for the materials supply	Contracts for the materials supply	Availability, completeness, correctness	PS-3	Documentary verification		
4	Checking the availability of basic documents for PS	Act of acceptance of the PS transfer, income, warrants	Completeness, accuracy, legality, reliability, correctness	PS-4	Documentary, comparison, analytical		
5	Checking the correctness and completeness of the basic documents for PS	Supply contracts, profitable consignment note, invoice, registers	Availability, truthfulness, rights and obligations, completeness, measurement	PS-5	Documentary, selective		
6	Checking the compliance of prices in contracts and profitable consignment notes	Profitable consignment note, contracts	Availability, truthfulness, rights and obligations, completeness, measurement	PS-6	Documentary, comparison, analytical		
7	Verification of timely offsetting of advances for delivered materials	Bank statements, profitable consignment notes, Form-№6	Availability, truthfulness, rights and obligations	PS-7	Documentary, comparison, arithmetic		
8	Counter-verification of contract data, profitable consignment notes, documents for payment according to the analytical and BU	profitable consignment notes, invoices	Availability, accuracy, legality, reliability, correctness	PS-8	Documentary inspection, regulatory and legal		

Continuation of Table 6

1	2	3	4	5	6	7	8
9	Checking the correctness of registration, storage and closure of attorney powers for the materials supply	Registration journal of attorney powers, income and expenditure orders, profitable consignment note	Availability, truthfulness, rights and obligations, completeness, correctness	PS-9	Documentary, selective, arithmetic		
10	Checking the correctness of the assignment to production stocks	profitable consignment note, accounting policy	Availability, truthfulness, rights and obligations, completeness	PS-10	Documentary, selective, arithmetic		
11	Verification of the PS assignment to the relevant sub-accounts	Synthetic and analytical accounting of PS	Availability, truthfulness, rights and obligations, completeness, measurement	PS-11	Arithmetic, documentary, selective		
12	Checking the correctness of the stocks assessment on receipt	profitable consignment note, contract	Availability, truthfulness, rights and obligations, completeness, measurement, valuation	PS-12	Arithmetic, documentary, selective		
13	Verifying compliance with accounting policies that include and allocate TPC in PS	General ledger, accounting policy	Completeness, accuracy, legality, reliability, correctness	PS-13	Documentary, analytical, arithmetic		
14	Checking the correctness of the PS initial cost upon receipt	Acts, profitable consignment note	Completeness, accuracy, legality, reliability, correctness	PS-14	Documentary verification		
15	Checking the log, income and expenditure orders for advance reports on the materials supply	Registration log order, income and expenditure orders	Completeness, accuracy, legality, reliability, correctness	PS-15	Comparison, documentary verification		
16	Checking the reflection correctness the in the accounting of the PS revaluation results	Revaluation report	Completeness, accuracy, legality, reliability, correctness	PS-16	Documentary, arithmetic		
17	Checking the correctness of stocks assessment in use	Accounting policy, expense invoice	Availability, truthfulness, rights and obligations, completeness, measurement, valuation	PS-17	Arithmetic, documentary, selective		
18	Checking the organization of analytical accounting of PS write-off	Expenditure invoices, TBS	Availability, truthfulness, valuation, completeness	PS-18	Analytical, comparison		
19	Verifying the documentary reflection of accounting and the invariance of the method of estimating the PS disposal	Accounting policy, condemnation certificate, limit-withdrawal card	Completeness, accuracy, legality, reliability, correctness	PS-19	Arithmetic, comparison, documentary, analytical		

Continuation of Table 6

1	2	3	4	5	6	7	8
20	The changes legitimacy in the PS disposal in the accounting policy	Accounting policy	Completeness, accuracy, legality, reliability, correctness	PS-20	Documentary verification		
21	Checking the correctness of accounts correspondence with PS	Registers of synthetic, analytical accounting	Availability, truthfulness, rights and obligations, completeness	PS-21	Arithmetic, documentary, selective		
22	Regularity verification of corporate liability contracts at the enterprise	Contracts, employment books	Reliability, availability, accuracy, legality, correctness	PS-22	Regulatory audit, documentary		
23	Checking the compliance of the inventory report data with the profitable consignment notes and limit-withdrawal cards to identify the basic documents not specified in the report	Condemnation certificate, limit-withdrawal cards, inventory report	Completeness, accuracy, legality, reliability, correctness	PS-23	Documentary verification, comparison, arithmetic, analytical		
24	Checking the correctness of accounting for shortages and surpluses	Inventory act, TBS	Completeness, accuracy, legality, reliability, correctness	PS-24	Documentation, arithmetic		
25	Checking the correctness of the balance determination at the end of the period	Turnover balance sheet	Presence, truthfulness, completeness, presentation, disclosure	PS-25	Documentation, arithmetic		
26	Audit results summary	Financial statements, balance sheet	Availability, truthfulness, completeness, presentation, disclosure, valuation	PS-26	Documentary, arithmetic, analytical		

Source: authors' own development

Thus, the planning and organization of the production stocks audit includes direct preliminary planning of the audit and the development of a general plan and programme for the production stocks audit. These documents, in turn, will improve controls and auditing the production stocks transactions. On the basis of the plan and programme for the production stocks audit the direct audit of production stocks which includes methodical aspects of verification is carried out.

Audit document production is audit documentation ("working papers"). In accordance with ISA 230, audit documentation is a record of the audit procedures performed, the relevant audit evidence obtained and the conclusions reached by the auditor [12].

The lack of clear identification on documentation as one of the key audit methods demonstrates the importance of the auditor's working papers, their necessity and the nature of the information to be contained in them.

The auditor's working papers structure and the rules of their formation depend exclusively on the auditing firm (fig. 5). Therefore, for the proper functioning of the auditing firm and to ensure its employees' efficient and productive work, it is obvious the need to determine not only the the auditor's of working papers list, but also their compliance with a certain stage of the audit.

We propose to draw up some working papers (evidence) of the auditor on the production stocks audit according to the model shown in the tables below, namely:

- The Auditor's Working Paper PS-1 "Stock Balances Reconciliation" (Table 7).
- The Auditor's Working Paper PS-27 "Sampling the Stocktaking Results" (Table 8).
- The Auditor's Working Paper PS-28 "Control Test of Inventory Descriptions for Conformity" (Table 9).
- The Auditor's Working Paper PS-29 "Expenditures List not Included in the Stocks Initial Cost" (Table 10).

- The Auditor’s Working Paper PS-30 "Checking the correctness of the Production Stocks Allocation to Sub-Accounts" (Table 11).
- The Auditor’s Working Paper PS-31 "Comparative Statement of Production Stocks Inventory Results" (Table 12).

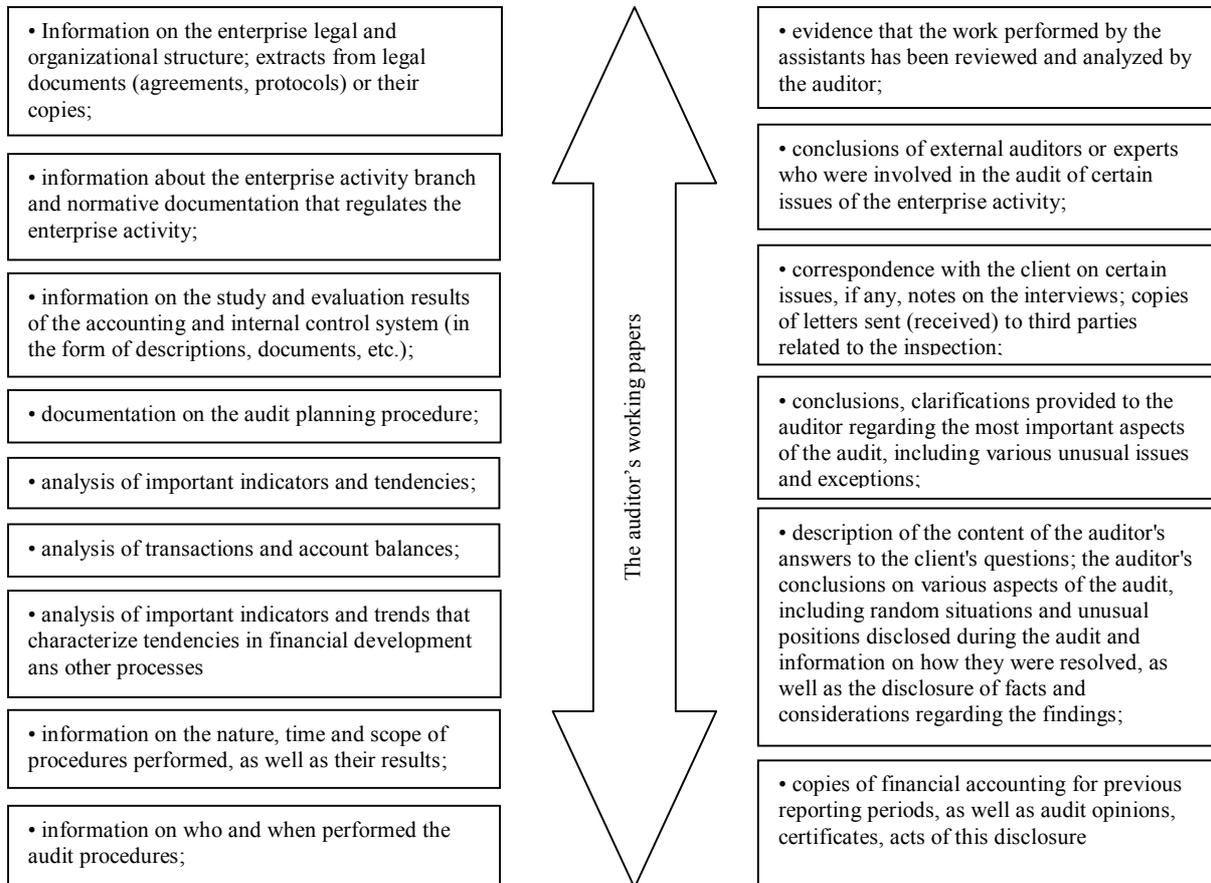


Figure 5. The Auditor’s Work Papers
Source: authors’ own development

Table 7. The Auditor’s Working Paper PS-1
"Stock Balances Reconciliation as of " ____ " ____ 2021"

Account in the general ledger	The balance on the general ledger	The balance on the journal	Deviations	Reasons
1	2	3	4	5

Table 8. The Auditor’s Working Paper PS-27
"Sampling the Stocktaking Results"

№	MRP’s Full name	The balance according to the inventory	The balance according to the accounting data	The amount detected by the inventory			Display in accounting				
				stocks shortage	surplus stocks	losses from stocks damage	credited by re-sorting	written off within the loss limits	Attributed to the perpetrators	written off on the financial and economic activities results	Notes
1	2	3	4	5	6	7	8	9	10	11	12

Table 9. The Auditor's Working Paper PS-28
"Control Test of Inventory Descriptions for Conformity"

№	Sample element	(+ Misconducts						
		Lack of signatures of the inventory commission members in the working and final documentation	No receipt from the materially responsible person	Lack of capitalization of the stocks total amount on each page of the description	Lack of number (in words) of natural indicators	Absence on each page of the record description "Prices and signatures checked" and theMRP's signature	Errors and corrections not signed and not verified by the Commission members	Absence on the last page of the inventory description of the materially responsible person's receipt
1	2	3	4	5	6	7	8	9

Table 10. The Auditor's Working Paper PS-29
"Expenditures List not Included in the Stocks Initial Cost"

№	The basis for assignment				Reflected in accounting			Influence on balance surplus
	No, document date	Accounting register	Amount	Expenditures name	Debit	Credit	Amount	
1	2	3	4	5	6	7	8	9

Table 11. The Auditor's Working Paper PS-30
"Checking the correctness of the Production Stocks Allocation to Sub-Accounts"

Sub-accounts	According to the enterprise data	According to the audit data	Deviations
1	2	3	4
201 "Materials and supplies"			
202 "Purchasing semi-finished products and components"			
203 "Fuel"			
204 "Containers and packaging materials"			
205 "Building materials"			
206 "Materials transferred for processing"			
207 "Replacements"			
208 "Agricultural materials"			
209 "Other materials"			

Table 12. The Auditor's Working Paper PS-31
"Comparative Statement of Production Stocks Inventory Results"

Name of the stock items	Amount, UAH.	Balance				Lack		Surpluses	
		According to the auditor's data		According to the inventory data		Number, pcs.	Amount, UAH.	Number, pcs.	Amount, UAH.
		Number, pcs.	Amount, UAH.	Number, pcs.	Amount, UAH.				
1	2	3	4	5	6	7	8	9	10

The internal production stocks audit programme should include the deficiencies identification by the auditor and the audit report preparation. The main problems in the organization and maintenance of stock recording are the following:

- lack of necessary details in the basic documents for stock recording, which calls into question the information veracity and reliability;
- violating the inventory terms, which calls into question the fact of stock availability at the enterprise;
- violating the stocks write-offs, which entails overstatement of enterprise expenditures;

— violating the procedure for expenses and cases reimbursement by the materially responsible person's theft, which leads to the expenditures incorrect amount reflection.

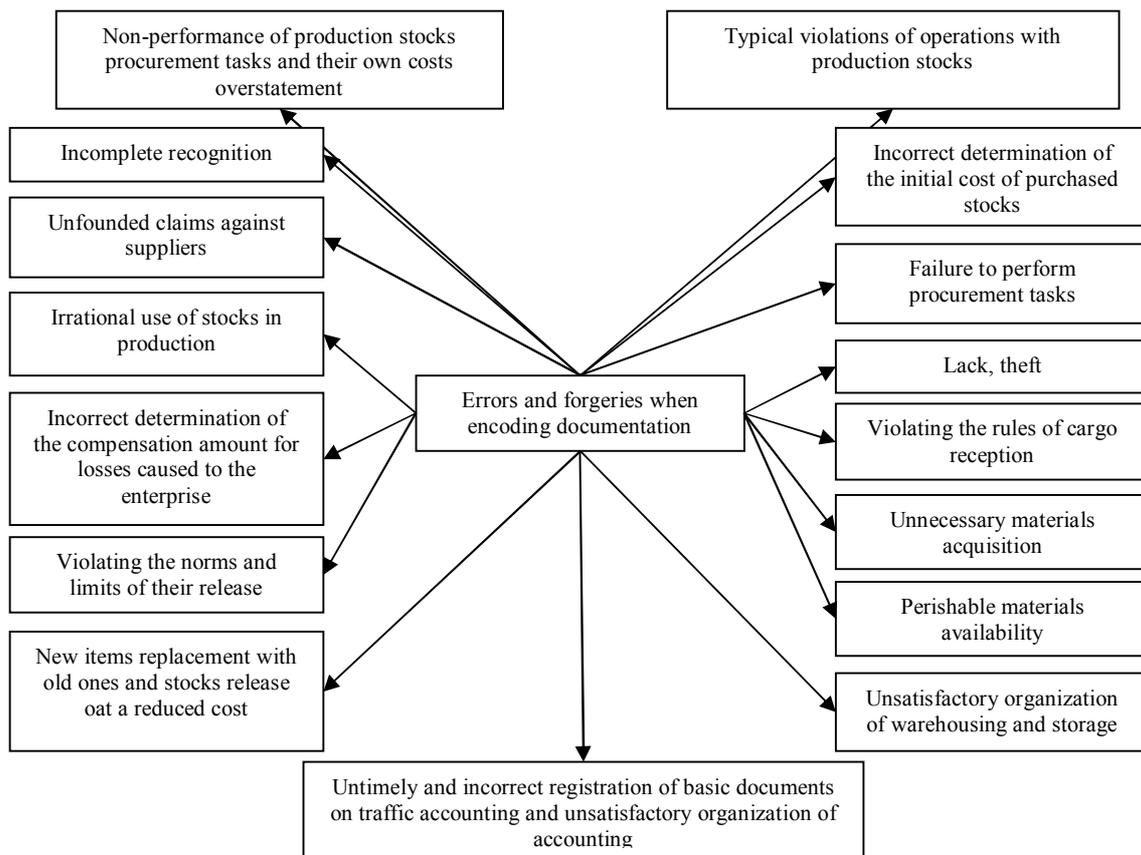


Figure 6. Typical Violations of Operations with Production Stocks

Source: authors' own development

The final stage of the audit examination, after carrying out all the necessary procedures according to the audit plan and programme, according to ISA 700 is the formation of the auditor's opinion on the production stocks inspection at the industrial enterprise "Metalozakhyst" LP alight of conclusions evaluation based on audit evidence and a clear written expression of this idea.

Conclusions

Making generalizations based on the work performed, we can summarize the following. At the industrial enterprise "Metalozakhyst" LP under investigation, an independent initiative audit was conducted by the audit company "AudKim" according to ISA, applying the risk-oriented approach. The audit examination was carried out voluntarily at the initiative of the client ("Metalozakhyst" LP) in order to assess the reality of determining the financial result (both existing and expected), as well as to determine and confirm the entity financial condition.

According to the financial statements data of the enterprise "Metalozakhyst" LP the auditor conducted the analysis of the financial condition for the period from 2018 to 2020 and identified typical violations of operations with production stocks that may adversely affect this organization activities.

In order to check the state of internal control of stocks, the auditor proposed the following tests: internal control test (in the absence of internal control department), production stocks internal control test, as well as an accounting policies questionnaire of production stocks. Audit company «AudKim» developed working papers.

The final stage of the audit examination is the preparation of the audit opinion and the preparation of the audit report. It should be noted that the auditor's opinion cannot predict the future viability of the organization, taking into account other indirect reasons. Nor can it guarantee the management professional competence and its positive or negative impact on the firm. The auditor, in the person of Hanna Kiminchydzhy, prepared a conditionally positive "The Independent Auditor's Audit Opinion on the Information Reliability on Production Stocks at the Industrial Enterprise ("Metalozakhyst" LP) for 2020".

The production stocks audit will allow the industrial enterprise "Metalozakhyst" LP after taking into account the auditor's recommendations to improve the system of accounting, internal control in general and, in particular, operations with production stocks.

An independent auditor' audit opinion on the information reliability on production stocks at the industrial enterprise "Metalozakhyst" LP is given below.

"The Independent Auditor's Audit Opinion on the Information Reliability on Production Stocks at the Industrial Enterprise ("Metalozakhyst" LP) for 2020"

Addressee: To "Metalozakhyst" LP Director S.S. Dilyk

The audit company "AudKim" conducted an audit of the financial statements: Balance Sheet, Financial Performance Statement, Cash Flows Statement, Equity and Notes Statement to the Financial Statements as of 31 December 2020. These reports are the management personnel's responsibility (the entity management) in accordance with the Law of Ukraine "On Accounting and Financial Reporting in Ukraine". The auditor is responsible for expressing an opinion on these financial statements on the basis of an audit in accordance with the Law of Ukraine "On Auditing" and ISA 200 "Purpose and General Principles of Auditing Financial Statements".

The audit examination was performed in accordance with International Standards on Auditing, which require auditors to plan and perform the audit in order to obtain reasonable assurance that the financial statements in the production stock items do not contain material misstatements. The PS audit included certification of evidence supporting the amounts and disclosures in the financial statements. The audit examination also included the accounting policies assessment applied in accordance with Regulations (Standards) on business accounting and significant prior estimates made by management, as well as evaluating the overall financial statements. The auditor claims that his audit confirms the production stocks nature (quantity, PS cost) due to new developed and proposed working documents and audit procedures.

According to the auditors' opinion, as a result of the PS audit it was established that the financial statements were prepared on the conceptual basis of R(S)BA, but there were significant limitations on the scope of audit work. Thus, the auditor cannot obtain all the necessary information, for example, due to the unsatisfactory state of financial accounting of settlement operations, or cannot perform the necessary audit techniques, such as monitoring stocks inventory, or experiment, etc due to time limits set by the client. Therefore, these discrepancies have a limited impact on the financial statements and do not distort the overall financial condition of the entity. We confirm that, except for the effect of production stocks inconsistencies, the financial statements, in all material respects, present fairly and fully the financial information as of 31 December 2020

Date 16 March 2021 p.

Abstract

An enterprise audit provides a basis for analyzing the enterprise financial and economic activities, which allows to identify strengths and weaknesses in the organization, make informed decisions to the managing director, as well as prevent administrative penalties and other liability established by law for reporting requirements violations.

The problem urgency of the production stocks audit is associated with the emergence of the need to obtain truthful and operational information for the enterprise management and production processes.

The aim of the article is to develop the production stocks audit programme, an auditor's working papers development for the organization of the inventories audit at the industrial enterprise "Metalozahyst" LP.

The tasks to achieve the target goal are: the theoretical essence substantiation of the statement «stocks audit methodology»; investigating the main stages of stocks audit; identifying the typical errors; creating and researching the audit methodology options..

An important component of the audit at the enterprise is the organization and methodology of production stocks audit. The vast majority of scientists pay attention to the method of auditing production stocks and provide appropriate recommendations for optimizing the verification process in terms of individual elements and articles. Each author explores this issue from his own viewpoint, but not enough attention is paid to the of the production stocks audit programme development and the auditor's working papers are not improved.

To date, there are several key approaches to auditing: revisionary, operational approach, compliance approach, risk-oriented and accounting approach.

At the enterprise under study, the audit company "AudKim" conducted an audit in accordance with ISA, using a risk-oriented approach. For the enterprise "Metalozakhyst" LP the audit was primary, as it was carried out for the first time by the auditor at the given enterprise. External audit by subject. It was carried out voluntarily by the client's initiative to assess the reality of determining the financial result, as well as determining and confirming the financial condition of the entity.

The use of the previous auditor's working papers is a valuable source of information as it will contain observations and significant issues. This will avoid further threats to the auditor's independence, to establish the existence of risks of fraud. A letter from the next auditor to the previous auditor with a request can be sent if

there has been a previous audit. No preliminary audit was conducted at the enterprise "Metalozakhyst" LP. The auditor then sends a letter of request to lawyers to identify violations of the law by the client.

One of the most important audit procedures is the evaluation of the company's financial statements. The auditor is guided by the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" of 16 July 1999 №996-XIV and regulations.

The test results made it possible to choose the method of audit organization: continuous, selective or combined. Based on the test results, the auditor proceeds to draw up a plan and programme for the production stocks audit. In accordance with the inventory audit plan, audit evidence will be obtained and provided. The structure of the auditor's working papers and the rules of their formation depend exclusively on the audit firm.

The final stage of the audit examination is the preparation of the audit opinion and the preparation of the audit report. It should be noted that the auditor's opinion cannot predict the future viability of the organization, taking into account other indirect reasons. Nor can it guarantee the management professional competence and its positive or negative impact on the firm. The auditor, in the person of Hanna Kiminchydzhy, prepared a conditionally positive "The Independent Auditor's Audit Opinion on the Information Reliability on Production Stocks at the Industrial Enterprise ("Metalozakhyst" LLC) for 2020".

The production stocks audit will allow the industrial enterprise "Metalozakhyst" LP after taking into account the auditor's recommendations to improve the system of accounting, internal control in general and, in particular, operations with production stocks.

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