

THE STOCK AUDIT OF THE ENTITIES OF THE CONSTRUCTION FIELD

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Abstract *The stocks undergo a continuous cycle of acquisition, the use of the production and respectively sale, in both cases, both the producing entities and the merchants- the stocks and the sale cost are significant for the financial situations and for the appreciation of the achieved performances.*

The financial audit has to have certainty that the stocks are properly highlighted in the accounting records according to proper legislation applicable to the audited entity and the applicable accounting standards.

Key word: *audit, stocks recognition, inherent and checking risks, detail tests*

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Introduction

The general frame regarding stocks, entities examples and particularities of construction field

- OMFP 3055/ 2009 for the approval accounting regulations consistent with the European Directives;
- Accounting law, law no. 82/1991, republished in the Official Gazette, first part no. 454 din18/06/2008;
- Law no.571 / december 22nd 2003 regarding Tax Code with the subsequent modification;
- IAS 2: Stocks

In an entity of the construction field the stocks mainly consist of raw materials, production and merchandise, example :

- cement;
- rebar of different categories;
- timber and wood material;
- nails;
- brick and different materials for brickwork ;
- mortar and casting materials
- tyne, plaster boards, mineral wool, boards etc.

In stocks category we also find assets with long term of manufacturing, allocated for sale or proposed to be sold by the producing entities for example residential or nonresidential buildings assemblies made by entities with main activity obtaining and selling houses).

If some constructions are made in purpose of long term exploitation, by the entity who made them, they are assets.

Of course, when a land is bought in purpose of building on it buildings meant of selling, it's recorded in stocks and sold like a merchandise(example: we record in account 371 "Merchandise" and not in 2111"Lands").

It may be there situations when an tangible asset will be improved in prospect of sale, at the moment of macking a decision regarding the modification of it's destination and localization, in accountancy the transfer of the asset framed in tangible assets category it's recorded in stocks. The transfer is recorded at unamortized value revalued of the

relative asset and if the asset was revalued we record the account closing 105 "Revaluation Reserves" .

When an entity decides to sell a tangible asset without being modernized, she continue to treat her like a tangible asset until it's disposed of bookkeeping, and not like stock element.

Modernization has the semnification of the subsequent expenses recognized like an asset component.

If an entity purchase lands and they are not used in building residential building assemblies and proposed to be sold, according to the rights and obligations of each part submitted in the purchase-sale contract, tha land value it's included in the value of the built asset, or it's highlighted in merchandise stocks, at the accountancy recording value.

If the land was reviewed, simultaneous with the change of the asset nature we close the Revaluation Reserve account.

In case of assets from the nature of residential building assemblies who initial where assigned to sale but they changed their destination, being used by the entity on longer period, or being rented to other entities, in accountancy we record it like a transfer from stocks to tangible assets.

The transfer is made at the date of the destination change, at the value that the assets where recorded in accountancy.

Summary

Stockes Recognitions

The recording in accountancy of the stock entrance is made at the date of risks and the benefits transfer.

In general, the tranfer dates of the property and the delivery are the same. Yet it can exist time gaps, for example:

- in the moment that goods are sold in consignment or stocks that are put at client's availability;
- pledged stocks delivered to the beneficiary creditor of the pledge; stocks that remain in debtor evidence until they are sold.
- received goods for which the supporting documents where not yet received, which has to be recorded in the buyer assets;
- delivered and uninvoiced goods , that have to be out of management, properly transfer taking place;
- sold goods but not delivered yet, for which the property transfer didn't took place. For example, at the sales that has the condition of delivery "ex-work", the sold goods are out of the salesman stock in the moment of their implementation for the buyer's availability, etc.

Oher aspects regarding the stocks recognition and accountin

a) the stock goods that are received for manufactured, in custody or consignment, are received and recorded as inputs in entities heritage, in accountancy for example the value of these goods is recorded in accounts outside of the balance(8 th class of accounts)

b) in the situation of existing a gap between the stocks supply and reception moment, which are in certain way in the entity's property, are proceed like this:

- the stocks that arrive without supporting documentation, respectively invoice, these are recorded as entrances in administration both at the place where they are stored and in accountancy, on reception and accompanying documents;
- the stocks that arrive and are unreceptioned are distinctly recorded in accountancy as management entry;

- c) in case of a gap between the sale and delivery of the goods moment, they are recorded as entity exit, no longer being considered the entity property, for example:
- the sold and non-delivered stocks are recorded distinctly in management, and in accountancy in accounts outside the balance
 - the delivered but non-invoiced stocks are registered as management exits, both at the places they are stored and in accountancy, on documents that certify according to the law the management exit.
- d) the stocks supplied by entities or sold with terms regarding property right are recorded in entrance and exits, both in administration and accountancy, suitable to the concluded contracts.

The audit objectives

- a). The auditor has to have the certainty that the stocks are properly highlighted in accordance with the corresponding legislation applied to audited entity and applicable accountancy standards;
- b). The auditor has to have the certainty that the stocks recorded in accountancy exit and belong to the client;
- c). The auditor has to have the certainty that the stocks owned by the company where included in the end of the year stock;
- d). The auditor has to have the certainty that the stocks where evaluated according to the company accountancy policies and that they are consistent applied;
- e). The auditor has to have the certainty that quantitative stock submitted in balance at the end of the year are correctly highlighted;
- f). The auditor has to have the certainty that distinct financial years between raw materials, production in progress and finished materials, and stocks, acquisitions and sales where performed correctly;
- g). The auditor has to have certainty that the stocks with slow movement, damaged and obsolete where identified and evaluated in appropriate;
- h). The auditor has to have the certainty that including the costs in time evaluation in progress is comply with accounting policies;
- i). The auditor has to have the certainty that any transfers in the profit and loss account about the production in progress long term contracts, where recognized on credible estimate of the income and expenses until finalisation;
- j). the auditor has to have the certainty that indirect cost allocation included in stock and production in progress evaluation is reasonable and it's made taking into account the normal level of activity of the company;
- k). The auditor has to have the certainty that provisions recognition for losses regarding the short term production in progress was adequate.

Inherent and central risks specifically for stocks

Stocks undergo a continuous acquisition cycle, utilisation in production and sales, in both cases, both producing entities and merchants – stocks and sales cost are significant both for financial situations and the appreciation for the realised performances.

Risks factors that can affect stocks(1):

- volume of the transactions regarding acquisitions, if the productions and sales are big, it contribute the risk of errors in accounts;
- it always exists neuralgic points regarding the stock evaluation as identification, sizing and allocation of indirect expenses the accountancy treatment of residual products, the appreciation of deviations from standard costs, correct allocated for the cost in case of making some complementary products;

- are necessary specific products for the determination of stock quantity and value as that the stock evaluation where made by other experts;
- many times the stocks are stored in different locations, so we have difficulties in control achieving, so we can prevent theft degradation;
- stocks can make the object of for return contracts ;

Mentioning that the auditor in stock audit process has to be aware of the high risk of the managemet afirmtion regarding the stock existence and evaluation, because the company leathership is forced to overstate that to undervalue.

Background and detail procedures apliable in stocks audit

Application of initial procedures on balances and registration that will be submitted to the following tests:

- analyze and check the stock analytical balances and we confrunt them with the balances
- analyze the stocks on component groups and subgroups
- analyze and identify the stock analytical operating mode in the computer application used by the entity so we ensure that the final result is corectly highlighted;
- the auditor will prepare a comment in which he explaines that the stock balances component comparing the past years;
- analyze and exam the significant changes in the stock values and levels when you compare it with the previous period.

Detail test regarding stock audit

If the stocks are significant for the anual financial situation, the auditor has to obtain enough aggregate audit evidence regarding the stock existence and condition thru:

- in the moment that the physical inventory occurs the auditor has to participate, except in the case that this thing is impossible

However in some cases, the participation at the stock physical inventory it can't take place because of the stock nature and location.

The difficulty time and cost aspect is not viable base for the auditor to emit an audit procedure , for what it doesn't exist another alternative or to settle with a less compelling audit sample.

In some cases in which the participation is impractical, the alternative procedures, for example the inspection of the sale documentation of the specific stock elements acquired before the inventory of the stocks, can provide enough appropriate audit evidence regarding the stock existence and condition.

In other cases it can't be possible obtaining enough audit evidence thru execution of alternative audit procedures. In those cases, ISA 705 provides that the auditor should modify his opinion in the report as a result of limiting the application of the area.

The detail tests allowed the auditor to note if the stock entrances and exits where correctly accounted and they belong to the current exercice, so they can be correctly highlighted and evaluated in the balance.

The inventory participation it's because:

- to evaluate, analyze and observ the producers of the control management for the result of the physical inventory entity stocks;
- to evaluate and observ the function of the procedures of the control management;
- to inspect the stocks in the entity administration;
- to take tests to the inventory.

Observing the procedures for the management inventory, for example the ones about the control about the stock movement before, during and after inventory, assists the auditor in obtaining the audit evidence, according to which the management inventory instructions and procedures are suitable set and implemented.

More, the auditor can obtain copies of the informations about year end, details about stock movement, that assists the auditor.

Stock inspection when participating to physical stock inventory assists the auditor, in setting stock existing, and identification for example of old stocks, deteriorated or impaired.

Alternative procedures

If the stock physical inventory is performed on a different date as the financial situation, the auditor has to perform additional audit procedures to obtain audit evidence regarding the measure in which the stock changes between the inventory date and the financial situation are recorded properly;

- If the auditor can't participate at the stock physical inventory because the unforeseen circumstances, the auditor has to perform or to observe some physical inventory at a different date;
- The auditor selects a sample of elements from the final lists of the stocks and we transpose them in the stock lists;
- The auditor checks the transactions and the events that were registered and are characteristic to the entity.

Obtaining the documents regarding to inventory

- We obtain a complete list of shipping documents for the unsent merchandise at the inventory date, and check if they were included in the inventory;
- we determine if the articles from the storehouse are included in inventory;
- we write the inventory lists number used so the auditor to make sure that none is on or out at a past date;
- all transactions and events that had to be recorded where recorded;
- we verify that there are no stocks in the storehouse without being recorded in accountancy;
- we verify thru invoice that the purchased stocks where recorded;
- we verify if the end of the year/ beginning of the year invoices;
- we verify if the evaluation policy at stock entrance is comply with OMFP 3055/2009.

Uncertainties regarding accountable estimates

In many cases the entity leathership doesn't have enough information to transpose a situation in the accounting balance, for example, or he can make a decision on an insufficiency information. For example: in the moment of signing the audit report, there are risks regarding some operations that can't be provisioned with a responsible approximation, because:

- their amount is unsure or unknown
- the probability of the achievement is unsure;

Even if the risk is provisioned or not, the auditor couldn't obtain sufficient probative elements to justify the provisioned amount or the absence of the provision formatio. This is a particular case of the limitation of obtaining the probative elements.

When the possible incidence is significant but not enough to deny the financial situation ensemble the auditor certify whit the spare one.

In the paragraph that he exposes the reasons for the refusal it will be specified all information elements about the uncertainty:

- risk nature;
- the post or the posts of the accountant balance;
- the maximum value of the risk, when it is possessed, or the fact that it can't be given;

-the incapacity he is into, to determinate the evolution of the uncertainty and to evaluate the eventual consequences of this situation;
-provisions insufficiency for the stock and receivables depreciation;
-overstated or undervaluated stocks because of an error in the production casts or in determination of stock size calculation;
-failure to the principle of the exercices independence;
-failure consideration of the past events that confirm a refute a situation at the closing year date;
-failure consideration of the principle prudence by assets overvaluation.

“When the uncertainty has an importance thru who achievement can return in discution the accounting balance ensemble, the auditor mentions that he is not able to grant the certification”

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