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Directions for using Analytical Procedures in Assessing the Financial Condition of Economic Entities

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ABSTRACT

Methodological aspects of the application of analytical operations in audits are studied in the article. As a result of the research, proposals were developed to improve the use of analytical procedures.

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INTRODUCTION

In the conditions of further development of the economy, the use of financial reporting information is important in the process of formation of various entities in the process of their management, control and analysis of their activities. In the conditions of increasing interest of users in financial reporting information, the role of audit in solving the problem of ensuring its reliability and transparency increases. In the transition to international standards, the justification of the field of activity of the audit, as well as the reliability of the audited organization's financial reports, becomes an urgent issue.

The procedures used by the auditing organization in confirming the reliability of the financial statements of economic entities are of great importance. Analytical procedures are widely used as the most effective audit procedures to ensure the adequacy and appropriateness of audit evidence and to improve the quality of audit conclusions. The use of analytical operations serves to reduce the time of obtaining and processing information for making management decisions or forming professional judgments.

LITERATURE REVIEW

Analytical procedures are considered in the framework of audit activities in normative legal documents. According to in the international audit standard "Analytical procedures consist of evaluating financial information by studying the relationships between financial and non-financial information. Analytical activities include the analysis of significant trends and coefficients, as well as the study of correlations and outliers if they do not match the data elsewhere or differ from predicted values" [1].

The presented definition of the concept of "analytical procedures" in regulatory legal documents goes back to the analysis of interprocedures.

There are different opinions regarding the concept of "analytical operations" in scientific literature.

A.A.Mulman considers analytical operations as a method of evaluating possible relationships between financial and non-financial indicators [2].

According to A.Z. Avlokulov, "analytical procedures are a variety of audit procedures that include researching important financial and economic indicators of the audited economic entity, evaluating and analyzing the data collected by the auditor in order to identify economic transprocedures incorrectly reflected in accounting, as well as errors. is different" [3].

J. Kritzinger and K. Barac stated that "in the audit planning stage, analytical procedures are used as risk assessment procedures to help the auditor identify the risk of material misstatement at the financial statement level" [4].

By Xing Yin states that "the audit opinion is directly related to the analytical procedures used to gather evidence" [5].

As can be seen from the points mentioned above, economists approach the definition of analytical operations from the point of view of the purpose and tasks of their application. Summarizing all the points, it should be noted that analytical procedures are considered to determine the interrelationship between the investigated phenomena, as a result of which a professional opinion is formed by evaluating the indicators.

RESEARCH METHODOLOGY

The issues of applying analytical procedures in audits are reflected in the international audit standards. The use of analytical procedures in audits based on international standards is of great importance in improving the scientific and methodological apparatus of audit activity.

ANALYSIS AND RESULTS

In the audit of financial statements, the main attention of the auditors is focused on the evaluation of the financial and economic activity of the entity and the continuity of its activity. Business continuity determines not only the stability of the business entity, but also the risk of the audit organization. Therefore, auditors are required to pay special attention to business continuity when expressing their opinion during the audit.

In the audit of financial statements, auditors should make extensive use of analytical procedures to achieve their goals. Analytical procedures are the most widely used method for gathering evidence and forming an auditor's opinion. Also, analytical operations allow to reduce the time and cost spent on audits.

In recent times, special attention has been paid to the wide use of analytical procedures in the audits conducted by the world's leading auditing organizations. Many types of analytical operations are used in practice. Table 1 presents the classification of analytical operations.

Through quality indicators, the economic activity of the economic entity and the logical connection between the indicators based on the application of accounting data are studied. Quality measures are highly subjective, making it difficult to form an adequate opinion.

Typical quantitative analytical procedures include those described in international auditing standards. Examples of this include comparison of financial statement indicators with plan indicators, comparison with average indicators of the industry, comparison with indicators of the base period.

Table 1. Classification and description of analytical operations[1]

Types of analytical procedures	The essence	Advantages	Limitations on use
Analytical procedures used in the assessment of quality indicators	Logical interprocedures are based on the economic activity of the economic entity and the application of accounting information.	- relatively simple method; - there is no need for specific information	– assessment subjectivity; - the results depend on the qualifications and experience of the auditor
Simple quantitative operations	It is used in assessing the relationship between various indicators of financial reporting.	- allows obtaining quantitative and accurate results; – objectivity	- used in various types of audit, control and inspection; - limited application, mainly used in control activities and evaluation of various indicators.
Advanced analytical operations	It is based on the use of econometric modeling, correlation, and regression methods	- the results are highly accurate; - objectivity	- high value; - labor capacity; – software; - special knowledge and skills; - availability of a large amount of initial information

Complex analytical operations serve to assess the relationship between indicators at a very precise level, and their composition includes econometric modeling, regression, and correlation methods.

[1] Made by author.

Unfortunately, these procedures are hardly used in the auditing activities of our country. Because this kind of practice requires strong knowledge.

In our opinion, it is necessary to expand the areas of application of analytical operations due to the high efficiency of use and, first of all, the reduction of labor capacity and the provision of homogenization.

It should be noted that there is no clearly defined procedure for performance evaluation. Each auditor, based on his experience, qualifications and characteristics of the subject's activity, uses his own system of indicators and set of analytical procedures.

In the first stage of activity evaluation, i.e., in the preparatory stage, the legality of the operations carried out by the economic entity is assessed based on regulatory legal documents, the charter of the joint-stock company, the memorandum of association, other information related to the management process, the accounting policy and other documents related to accounting. In addition, the interrelationship between indicators is studied.

It is worth noting that due to the fact that the management of the business entity and the accounting service staff do not understand the changes in the current legal documents in time, it often causes errors in the financial report.

In general, the main purpose of the preparatory stage is to assess the readiness for data analysis.

The second stage is a preliminary assessment of financial data, focusing on positive and negative trends in the activity of the business entity. At this stage, the growth rates of the main indicators of economic activity are analyzed, as well as the comparison of the main indicators of activity with the average indicators for the industry. In addition, financial statements are checked for problematic items/

CONCLUSION

1. The quality and efficiency of audits conducted by audit organizations directly depends on the widespread use of analytical procedures. Analytical procedures are considered the most effective method for obtaining audit evidence and are widely used by the world's leading auditing organizations. For this reason, it is desirable to widely introduce analytical practices in the activity of audit organizations of our republic.

2. Simple quantitative analytical procedures are often widely used in audits. Although these procedures are easy to apply, their results are not reliable enough. Today, there are many types of software tools for applying econometric models in analytical operations. In the current environment, where the digital economy and information technologies are developing widely, it is necessary to use more sophisticated analytical procedures based on econometric models.

3. Since the goal of audits is to form an unbiased opinion on the reliability of financial statements, it is necessary for audit organizations to objectively assess the financial status of economic entities. In our opinion, analytical operations are the most effective means of determining the indicators of financial stability, financial independence, and solvency.

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