



Features of the Application of Analytical Procedures in the Audit of Property, Plant and Equipment

Aliyev Sherzod Abduxomidovich

Independent Researcher, Tashkent state university of economics

ABSTRACT

Methodological aspects of the application of analytical procedures in the audit of property, plant and equipment are studied in the article. As a result of the research, proposals were developed to improve the use of analytical procedures in the audit of property, plant and equipment.

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INTRODUCTION

Implementation of deep structural changes in the economy, continuous modernization of production and technological updating are among the important tasks of economic reform. It is only because of this that it is possible to ensure the stable development of the economy and successfully compete in the world market. In the implementation of these tasks, it is necessary to modernize and technologically update the main means, to establish effective control over them, and to use analytical procedures widely.

LITERATURE REVIEW

In the economic literature, there are many views on revealing the essence of the application of analytical procedures in property, plant and equipment and their audit.

“Property, plant and equipment are tangible items that: (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes ; and (b) are expected to be used during more than one period” [1].

The recommendations developed by the KMPG audit organization include the following directions for applying analytical procedures in the audit of property, plant and equipment: “The following features of property, plant and equipment have an impact on the related audit procedures: by their very nature, property, plant and equipment are turned over much slower than current assets which are held for sale; the average unit of property, plant and equipment is normally of a relatively larger rupee value; since property, plant and equipment are high value items, their acquisition is normally more closely controlled” [2].

Mohammed Eid Al-Hajaia stated, “The use of analytical procedures contributes to reducing the errors of external audit reports, which significantly affect the financial community's confidence in the audit process, and also affects the practical steps to implement the audit process because it carries in its principles accuracy in obtaining information through the accuracy of its mechanisms” [3].

A group of economists said “Analytical procedures may represent a powerful tool in obtaining audit evidence about account balances result. That kind of substantive testing can be used directly or indirectly. Direct tests occur when an income or expenditure is compared with other relevant data to determine the reasonableness of the balance” [4].

According to Pece Nikolovskia, Igor Zdravkoski, Goce Menkinoski, Snežana Dičevska, Vera Karadžova, “in high-risk situations where high level of security is needed, the auditor may choose to perform a combination of detailed tests and analytical procedures related to the same accounts and receivables” [5].

As can be seen from the above-mentioned points, the studies mainly focused on the organization of the audit of property, plant and equipment. However, insufficient attention is paid to the application of analytical procedures in the audit of property, plant and equipment.

RESEARCH METHODOLOGY

Organization of the use of analytical procedures in the audit of property, plant and equipment in economic entities on the basis of international standards is of great importance in improving the scientific and methodological apparatus of audit inspections.

ANALYSIS AND RESULTS

Analytical procedures are widely used in the audit of property, plant and equipment. Analytical procedures mean the analysis and evaluation of the information received by the auditor, the identification of unusual and incorrectly reflected facts of economic activity in accounting, and the study of important financial and economic indicators of the audited economic entity in order to determine the causes of such errors and confusions.

In the conditions of modernization of the economy, conducting audits of the results of the enterprises' activities, as well as the wide use of analytical procedures in improving the quality of audit work, is of great importance in the effective management of resources and in increasing economic interests. Because problems such as ensuring the internal and external factors affecting the financial stability of

enterprises in advance, creating an informative and theoretical basis for making effective management decisions on their prospective development, require the organization of control using modern methods of economic analysis in the activities of enterprises.

The international auditing standard No. 530 entitled "Analytical Procedures" emphasizes the importance of using analytical procedures in audits. When solving a few specific audit issues or when the balance of accounts is not very large, it is possible to obtain sufficient evidence due to analytical procedures. In most cases, it is necessary to obtain additional information based on the results of analytical procedures so that the adequacy of the audit evidence is at the required level.

Analytical procedures are carried out in several stages: determining the purpose of the operation, planning tests, testing, analyzing the results and drawing conclusions.

Analytical procedures are used for the following purposes:

getting to know the client's business;

assessment of the perspective of the continuity of financial and economic activity of the enterprise;

to determine the place of deficiencies in the client's account and report;

identifying possible errors in the financial statement;

reducing the number of detailed tests at the main stage of the audit.

Analytical procedures are one of the most common ways to learn about network characteristics and customer business. The auditor uses the knowledge and experience gained in previous years in planning the audit processes of the current period. Analytical procedures (based on the comparison of the audit data of previous years with the data of the current audit period) are useful in determining the important changes that have occurred in the economic activity. These changes may reflect significant trends or network-specific events that must be taken into account when planning an audit. Also, in the main and final stages of the audit, the effectiveness of the audit will be increased, time and costs will be saved through the extensive use of analytical procedures.

There are several types of analytical procedures, including:

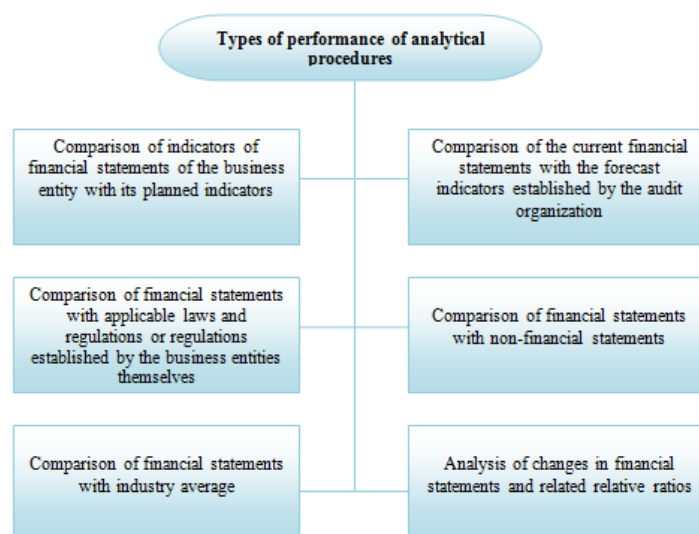


Figure 1. Types of performance of analytical procedures¹

¹ Made by author.

Thus, to improve the quality of audit work, extensive use of analytical procedures is required. This increases the bilateral (client and audit organization) interest not only in each stage of audits carried out in a mandatory or voluntary form, but also in the provision of additional audit professional services.

In our opinion, when checking the use of property, plant and equipment, attention will be paid to:

reducing the level of use of property, plant and equipment available to the business entity, the level of return of the fund over the years, the availability of measures taken to increase the return of the fund, the reliability of the use of property, plant and equipment, cases of non-use of fixed assets;

ensure the level of involvement in the production of new property, plant and equipment accepted by business entities, that is, the application of the adopted main instrument to production faster, without remaining in warehouses, and, as a result, compliance of the tool utilization rate in the business entity with the norms;

identification of the causes of downtime of unused and unused production equipment, their involvement in rapid production;

expediency of vacation work in order to ensure stability in the production of property, plant and equipment available to the business entity, direct execution of finishing work.

CONCLUSION

1. In a market economy, enterprises play the role of the main instruments in the implementation of financial and economic activities. Property, plant and equipment play a very large role in the production process of the enterprise, since they form the production technical base, based on all enterprises and which is a criterion for assessing the production capacity of the enterprise.

2. Currently, enterprises have poorly established the use of analytical procedures in assessing the level of provision of basic tools. Analytical procedures are used mainly in the process of evaluating dynamic changes in property, plant and equipment. This creates disadvantages in identifying answers to which main tool used in enterprises is effective. In our opinion, a number of statistical indicators and indices, as well as international best practices, should be used in the analysis of the effective use of property, plant and equipment. Disclose all aspects of the effective use of property, plant and equipment in enterprises.

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