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WAYS OF USING ANALYTICAL PROCEDURES IN ASSESSING THE RELIABILITY OF INFORMATION ABOUT LIABILITIES

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ABSTRACT

The use of international standards in auditing procedures leads to an increase in the quality of auditing. In order to increase the quality of the audit, it is necessary to pay attention to its methodological aspects, in particular, the wide use of analytical procedures during the audit process. This article describes the directions of applying analytical procedures in the audit of liabilities. As a result of the research, proposals were developed to improve the process of applying analytical procedures in the performance audit.

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Introduction

Financial statements are prepared by accounting service personnel of economic entities and their reliability is confirmed by auditors and are intended to provide information to foreign and domestic investors to make rational economic decisions based on financial statements. The primary objective of an auditor conducting an audit is to obtain sufficient evidence to determine whether the financial statements of an entity are free from material misstatement, whether due to error or fraud, and then to express an opinion on the reliability of those financial statements.

A key aspect of engagement audits is the gathering of evidence. Ensuring the adequacy and appropriateness of the evidence lays the foundation for a reliable and truthful structure of the audit opinion. There are many ways to gather audit evidence. However, analytical procedures are the most commonly used method of gathering evidence. It is important to organize the use of analytical procedures in the process of auditing liabilities based on international standards.

Literature review

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Regulatory and legal documents and the works of economists pay a lot of attention to analytical procedures.

Analytical procedures are defined in the international standard as follows: "analytical procedures consist of evaluating financial information by studying the relationships between financial and non-financial information. Analytical procedures 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].

According to Anneke Maré Moolman, "evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount" [2].

Carlos Pinho said that "audits tend to be more efficient, the lower the combination of inherent risk and control risk is assessed to be, allowing the auditor to carry out less extensive and less timely auditing tests, meaning that in some cases analytical procedures are a good tool to support the opinions formed by the auditor" [3].

According to Mohammed Eid Al-Hajaia "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" [4].

American economists came to the following conclusion: "the standards require that analytical procedures be undertaken in addition to evidence collection at the preliminary review and but the decision about which analytical techniques to use is left to auditor judgment" [5].

A group of economists said that, "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" [6].

As can be seen from the points mentioned above, economists have approached the definition of analytical procedures from the point of view of the purpose and tasks of their application.

Analysis and results.

Analytical procedures are performed to understand the type of activity and control environment, as well as operations and events that occurred during the audited period, during the audit of financial statements of economic entities.

During the planning phase, analytical procedures serve as an important tool for assessing the risk of material misstatement, whether due to error or fraud, and for subsequently developing the nature, timing, and scope of substantive audit procedures. Analytical procedures can be used in the process of gathering evidence about audit assertions, if the independent use of analytical procedures during the verification process is more effective than testing. At the final stage, analytical procedures are used to comprehensively assess the reliability of financial statements, to ensure that there are no irregularities or significant errors, and to form an appropriate audit opinion.

In the final stage of the audit, analytical procedures are used to determine the presence of material misstatements or other financial problems in the financial statements. At the final stage of the audit and in the formation of the auditor's conclusions about the reliability of financial statements, one of the directions of using analytical procedures is the assessment of business continuity, the need for which is explained in the international audit standard No. 570 entitled “Going Concern”.

The going concern assumption is a fundamental principle of financial reporting. According to this principle, it is assumed that the enterprise will continue its activity during the 12 months of the year following the reporting year and that there is no intention or need to terminate it, stop its activity. Ensuring compliance with this principle is very important for users of the audit report, such as creditors, investors, banks and credit institutions, suppliers and buyers.

In order to confirm the continuity of activity of the audited entity, the auditor should check the quality of net assets and their compliance with established requirements using financial analysis methods, carefully analyze debt funds, especially overdue liabilities. This situation is explained by the fact that enterprises have a real ability to fulfill their liabilities.

If the audited entity uses a commercial loan, it must analyze the compliance with the terms of the loan and make sure that the debt to the suppliers for the shipped goods, raw materials, materials, performed works or rendered services is paid on time. Identified deviations from the terms of payment of the commercial loan specified in the contract indicate the existence of financial problems that cast doubt on the ability of the enterprise to continue its continuous operation in the future.

It is necessary to use the methods of financial analysis as analytical procedures, to obtain evidence of the assumption of continuity of activity, to perform a comprehensive economic analysis of economic activity, and to analyze the dynamics of the main indicators of economic activity. Also, it will be necessary to apply analytical procedures to ensure stable growth rates of the production volume and to increase the ability of the audited entity to maintain its position in the market of goods, works, and services. Marketing analysis plays an important role in these analytical processes.

During the audit, special attention should be paid to the analysis of the supply of labor and material resources of the economic entity. Here, it is necessary to evaluate the efficiency of their use with the help of indicators of labor productivity and capital productivity. The evidence that the auditor should collect when checking the application of the assumption of continuity of activity may be the following: evidence of staff shortages, interruptions in the supply process at the enterprise, a decrease in the productivity of production workers; increasing the material intensity of production with a constant assortment of products, etc.

When expressing an opinion on the reliability of financial statements, the auditor must take into account the sum of financial, production and other factors that affect compliance with the principle of continuity of activity. Unfortunately, the regulatory documents do not specify the system of criteria that the auditor should pay attention to when making a decision on such a serious issue. Therefore, in our opinion, there is a need to develop criteria for the analysis of the assessment of continuity of activity.

It is appropriate to compare the indicators obtained during the analysis (ratios, percentages and absolute values) with the corresponding values for a number of previous periods in order to identify trends that allow to achieve certain results. Currently, there is no well-established opinion about the optimal number of reporting periods for which the auditor should use the data. However, in international practice, it is appropriate to study indicators for four years. In our opinion, the decision to select the number of periods to be analyzed should depend on the specific circumstances of the audit and the professional judgment of the auditor. However, in the initial audit and when there are signs of financial instability, a deeper analysis is necessary.

To conduct an analysis of the financial stability indicators of the enterprise, it is necessary to use not only accounting and financial reporting data, but also founding documents, accounting policies and other accounting registers. In this case, the auditor should proceed from the principles of completeness and reliability, according to which all documents describing the solvency of the enterprise in one way or another should be included in the analysis, and the conclusions should be based on real evidence. In the process of evaluating the financial position, the following items of the financial report should be thoroughly studied by the auditor using analytical procedures:

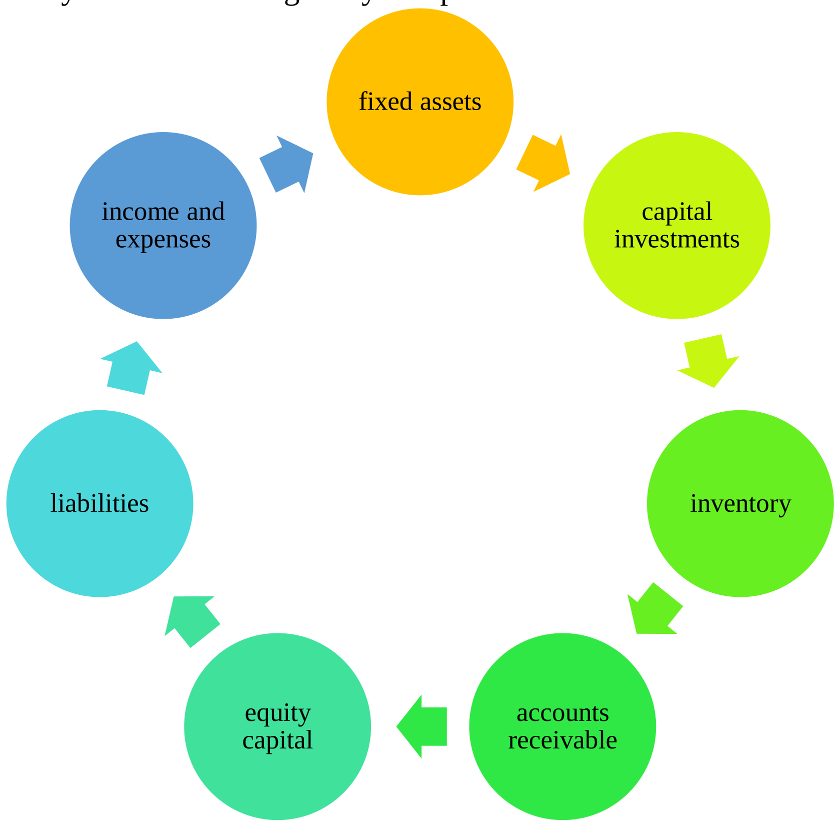

Figure 1. Important items of the financial statement that are studied in the evaluation of the financial position through analytical procedures[1]

The main attention of the auditor should be focused on the extent to which the company's liabilities are covered by its assets. The next important indicator used in the process of evaluating the financial condition using analytical procedures should be the current solvency ratio, this ratio allows you to determine the period of time for the company to repay its current creditors from income. Indicators such as the share of overdue payables in liabilities and the share of receivables in total assets require the auditor's serious attention.

Compliance of the financial statements of the economic entity with the regulatory legal documents is checked through analytical procedures. Information on detected violations is shown in the documents containing the analysis of the financial condition of the economic entity.

Conclusion.

1. The reputation of the auditing organization directly depends on the quality of the audits conducted by this organization and the reliability of the audit conclusions. It is important to gather sufficient evidence through the use of analytical procedures to reliably form audit conclusions.

2. Analytical procedures create an opportunity to give a true assessment of the financial indicators of the economic entity and to determine the relationships between the indicators. Fraud prevention and audit risk reduction can be achieved through the use of analytics.

3. It is possible to determine important indicators of efficiency in economic entities by applying analytical procedures in audits. Determination of these indicators creates a basis for assessing the continuity of business entities by auditing organizations.

[1] Made by author

4. Conducting an audit of liabilities makes it possible to conclude that the amounts of liabilities reflected in the financial statements are objective. In this case, the methods of obtaining evidence are based on analytical data generated by accounting within the system of accounting and analytical procedures. An effectively organized system of accounting, analysis and auditing forms a reliable and fast information base necessary for managing the financial and economic activities of the enterprise and developing a strategy for its further development.

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