AUDITING OF THE FINANCIAL STATEMENTS OF THE ENTERPRISE

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Audit procedures are an integral part of the audit methodology. Audit procedures are the appropriate order and sequence of actions of the auditor to obtain the necessary audit evidence.

The auditor obtains audit evidence for the formulation of reasonable conclusions, on which the audit opinion is based, by performing audit procedures for the purpose of:

– obtaining an understanding of the business entity and its environment, including its internal control system, to assess the risks of material misstatement at the level of financial statements and assertions (auditing procedures performed for this purpose are referred to in the ISA as «risk assessment procedures»);

– testing the operational effectiveness of control procedures in preventing or detecting and correcting material misstatements at the assertion level (auditing procedures performed for this purpose are referred to in the ISA as «tests of control»). Control tests are performed in order to obtain audit evidence regarding the effectiveness of:

– the organization of accounting and internal control systems, that is, whether they are properly organized to prevent material distortions and to detect and correct them;

– functioning of internal control during a certain period.

– detection of significant distortions at the level of assertions (auditing procedures performed for this purpose are designated in the ISA as «substantive procedures») [3].

Based on the purpose of the audit, auditors must evaluate (check) financial statements in the following sequence:

– formal verification;

– analytical verification;

– verification of turnover and balances [1, 2].

The formal inspection begins with a review of the financial statements for filling in the address part, all the necessary details, and the presence of signatures of managers.

The auditor begins to familiarize himself with the financial statements at the preparatory stage and studies all articles of the statement to assess and determine the amount of risk for each of the articles.

When studying the balance sheet (Statement of financial condition), it is appropriate to pay attention to the following questions using tests for compliance with the chief accountant, his deputy and the head of the enterprise.

The main points are:

– assess the state of suitability of fixed assets (how new fixed assets are at the enterprise; are there fixed assets of non-production purpose; availability of fixed assets transferred for operational lease, etc.);

– assess the availability of intangible assets and their use;

– determine whether long-term financial investments are available;

– assess the state and movement of stocks (finished products, materials, work in progress, goods);

– pay special attention to the presence of receivables and payables (namely, their absence in case of non-cash payments between enterprises, as there may be collapsed balances), its increase or decrease;

– to determine the method of calculating the reserve of doubtful debts;

– detect changes in own capital;

– assess the state of articles of current and long-term bank loans, etc. [2].

A formal assessment of financial statements will provide an opportunity to clarify the areas of the audit and assess possible risks, as well as identify possible distortions.

With the help of analytical verification of financial statements, those components of it are determined where the audit risk is the greatest, that is, where the possibility of fraud or the presence of errors in accounting and reporting for this client is most likely.

The correctness of the preparation of financial statements is verified by substantive and calculated verification of reporting indicators, namely:

– checking the correctness of filling in the address part;

– determination of the type of activity of the enterprise;

– verification of the correctness of filling out the reporting according to the forms: the presence of all the prescribed indicators, the absence of cleanings, corrections, etc. [3].

It is necessary to carry out a logical analysis of reporting indicators to determine the component of reporting with the most likely possibility of detecting fraud and errors.

Those operations and property that must be checked in more detail, and those for which it is possible to use the client's information, must be determined; checking and comparing the consistency of indicators that are displayed in different forms of reporting.

References:

1. On the audit of financial statements and audit activity: Law of Ukraine № 2258-VIII dated December 21, 2017. URL: https://zakon.rada.gov.ua/laws/show/2258-19#Text

2. Vynogradova M.O., Zhideeva L.I. Audit: training manual. Kyiv: Center for Educational Literature, 2021. 654 p.

3. Ivanova N.A. Rolinsky O.V. Audit organization and methodology: training manual. Kyiv: Center for Educational Literature, 2021. 216 p.