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Improving of assessment methodology of the audited organizations performance at the stage of audit planning

Abstract. The authors consider the role of assessment procedure of the performance of an audited organization at the stage of audit planning. They have systematized external and internal factors affecting the activities of an audited organization and developed a unique model that includes a separate unit of assessment of investment attractiveness with the help of rating express method of the economic entities ranking.

Keywords: Audit Planning; Going Concern Assumption; Competitiveness; Investment Attractiveness; Performance Assessment

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Удосконалення методики оцінки діяльності аудійованої організації на етапі планування аудиту

Анотація. У даній статті визначено роль оцінки діяльності аудійованої організації на етапі планування аудиту, система-тизовано зовнішні та внутрішні фактори, що впливають на діяльність аудійованої організації, розроблено авторську модель, що включає окремий блок оцінки інвестиційної привабливості за допомогою рейтингової експрес-методики ранжирування економічних суб'єктів.

Ключові слова: планування аудиту; допущення безперервності діяльності; конкурентоспроможність.

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Совершенствование методики оценки деятельности аудируемой организации на этапе планирования аудита

Аннотация. В данной статье определена роль оценки деятельности аудируемой организации на этапе планирования аудита, систематизированы внешние и внутренние факторы, влияющие на деятельность аудируемой организации и разработана авторская модель, включающая отдельный блок оценки инвестиционной привлекательности с помощью рейтинговой экспрес-методики ранжирования экономических субъектов.

Ключевые слова: планирование аудита; допущение непрерывности деятельности; конкурентоспособность.

1. Introduction. Assessment procedures of the audited organizations' performance are not enough specified in the regulatory documents in Russia. In this regard, there is a need to develop the method of assessing the performance of an audited organization at the planning stage. The necessity of developing the methodological tools of audit work contributes to the quality of audit at the planning stage and the whole procedure of audit work in general.

2. Problem statement. The planning of audit work is specified in the normative documents. However, they are of general nature and do not take into account the specific objects of an audit, there is no regulation of special methodological instruments for assessing the performance of an audited organization at the stage of audit planning.

The method of assessing the performance of audited organizations at different stages of audit may have distinctive features. At the stage of audit planning, there is a need in express method of estimating performance indicators for the purpose of appropriateness of additional indicators calculation. In connection with this, there is a need to clarify indicators and the assessment method of an audited organization's performance. Aforementioned determines the obvious relevance of the study.

3. Analysis of recent studies and publications. The concept of audit planning, the main stages and principles of its planning are discussed in the works of such foreign scientists and practitioners, as: R. Adams (1995) [1], A. A. Arens (1995) [2], A. Burke (2015) [3] D. R. Carmichael (1995) [4], J. K. Loebbecke (1995) [2], R. Dodge (1992) [5], J. Robertson (1993) [6], O. Podolyanchuk (2014) [7], A. V. Smetanko (2014) [8], etc.

The organization and methods of audit are considered in the works of leading Russian scholars and practitioners, namely:

N. V. Parushina (2008) [9], V. I. Podolsky (2014) [10], A. A. Savin (2015) [11], I. A. Savin (2015) [11], V. P. Suits (2008) [12], N. N. Khakhonova (2011) [13], A. D. Sheremet (2008) [12], etc.

In accordance with the international standard on auditing activities ISA 300 «Planning an Audit of Financial Statements», audit planning involves the overall audit strategy establishing and an audit plan developing [14].

In the Russian practice of auditing activity, audit planning is regulated by the Federal rule (standard) of auditing activity No. 3 «Audit Planning». It considers audit planning as «the development of a general strategy and detailed approach to expected nature of audit, time frame and scope of audit procedures» [15]. The same opinion is expressed in the works of N. N. Khakhonova, I. N. Bogataya (2011) [13, p. 108], N. V. Parushina, S. P. Suvorova (2008) [9, p. 65].

According to A. A. Arens and J. K. Loebbecke (1995), preliminary planning is carried out at the initial phase of audit work, and often (if appropriate) at the client's office. Preliminary audit planning includes deciding on the consent to begin or continue the audit for a client, establishing reasons why a client justifies his order on the audit, selecting personnel to perform audit work and making up a written commitment [2].

A. Burke (2015) says that there are some primary benefits from audit work planning: it helps an auditor to obtain sufficient appropriate evidence of circumstances that make it possible to see the reasonable cost of audit in order to avoid misunderstandings with a client [3].

However, it should be noted that theorists and practitioners do not have a shared opinion about the content of the preparatory stage of audit. The questions of standardization of audit planning content are insufficiently worked out, which

determines not only the quality of audit planning and its procedure, but also the quality of an auditor's judgment.

4. The purpose of the article is to summarize the proposed methods for assessing the performance of an audited organization at the stage of audit planning and to develop own technique based on the assessment of investment attractiveness with the help of rating express method of ranking the economic entities.

5. Results. When planning audit work, one must not forget an important issue of quality and reliability of information. Also, as state M. Vasyliuk and O. Hryhoriv (2015), «All actions on formation of management system and quality assurance of audit services should be based on the following general management functions: problem definition, goal setting; ensuring the implementation of the set task; task control; taking corrective measures in case of deviations of results from the set targets and goals» [16, p. 65].

At the initial stage of audit planning, an auditor must make a conclusion that an organization will be able to continue as a going concern, as it is a fundamental principle of preparing financial statements. The need for such analysis is due to the fact that an organization makes forecast for the future only when it is going to operate in this future.

The actions of an auditor on checking the validity of preparing financial reporting by the economic entity on the basis of going concern assumption is regulated by Federal Rules (Standards) of Auditor Activity No. 11 «The applicability of going concern assumption of an audited entity» [15]. In international practice, there is ISA No. 570 «Going concern». On the whole, the content of the Russian and international standards of auditing does not have significant differences.

According to the legislation on conducting accounting and drawing up accounting statements, economic entity must conduct a special evaluation procedure of its going concern ability, and also it must disclose all events and conditions being subject to review that may affect the compliance with going concern assumption.

«Certain financial indicators can be estimated with the use of analytical procedures, the definition of which is given in Federal Standard of Auditor Activity 7/2011 «Audit evidence». In accordance with this Standard, when performing analytical procedures, an auditor evaluates financial information and analyzes the relationship between the data of financial and non-financial nature. Analytical procedures also include the study of the revealed deviations and relationships that contradict any other information or differ significantly from the forecast data» [17, p. 127].

According to ISA 500, audit evidence is the information used by an auditor in formulating the conclusions which form an audit opinion [7, p. 61].

A very important purpose of audit along with the confirmation of accounting reliability of reporting is the assessment of an organization's performance, which involves the development of methods for integrated assessment of external and internal factors affecting the business of an audited entity [18, p. 116].

In line with this, there is an objective necessity, namely the development and modification of assessment methods of the performance of an audited organization and all factors influencing it at the stage of audit planning.

Federal Standard of Auditor Activity No. 8 involves the assessment of internal and external factors affecting the business of an audited entity, however, it is not enough developed and requires further regulation in the local papers of audit organizations.

A. V. Smetanko (2014) recommends dividing the factors into 2 groups:

- environmental factors (external) are the most risky factors that usually do not depend on the decisions taken by senior management. These factors are defined by the expert method and in most cases they are objective ones. For example, such risk factors include inflation, regulatory policies, etc.;
- factors of internal environment (internal) are the risk-factors that arise in the system of management in business transactions (business processes and busi-

ness transactions) and management decisions. Such factors of risk include shares prices, the amount of distributed dividends, production volumes, etc. [8, p. 137].

Our earlier studies revealed that the method of assessing the performance of an audited organization should take into account the influence of state policy, industry practices, regulation, the organizational structure of an enterprise and the structure of accounting, profit level and growth rate of borrowed funds. All these factors allow one to assess the performance of an enterprise, but any analysis necessarily includes comparing the values of indicators with industry average indicators or with similar indicators of other enterprises of the same industry. In other words, more objective assessment of an enterprise's performance requires comparative assessment of its performance indicators with those of other companies; so to say it is necessary to assess the competitiveness of an audited organization. Also, at the stage of audit planning, it is important to evaluate the investment attractiveness of an audited organization. This would allow an auditor to give the most reasonable assessment of an enterprise's performance, and an auditor would be able to study audit results of other companies in the same industry, which would help him in the course of audit work to give recommendations what should be paid more attention to. In general, it could give a better understanding of the specifics of the whole industry.

The investment attractiveness of an enterprise is an integrated indicator that characterizes the advisability of investing in the given company [19, p. 137].

The proposed methods do not take into account the level of competitiveness and investment attractiveness, which is of particular value for the assessment of going concern of an audited organization.

The analysis of competitiveness level and investment attractiveness of an enterprise can be carried out with the help of rating express method of ranking the economic entities [19, p. 96].

Our developed methodology is based upon the assessment of the most significant coefficients: financial stability index, asset turnover ratio, liquid assets ratio, profitability ratio and their comparison with standard values. Complying with the criteria for each of the analyzed financial coefficients, gives the appropriate value of rating in points with the use of corrective points. After the performed calculations, an economic entity may refer to the one of 4 groups of investment rating (where 1 is the highest index, and 4 is the lowest index of rating score).

Let us apply the developed methodology to assess the level of competitiveness and investment attractiveness of the OJSC «Kursk Factory of Technical Fabrics» (a consumer goods industry enterprise from Kursk Region). The results of assessment are presented in the Table 1.

Production and economic assessment of our research object showed that in 2014, the OJSC «Kursk Factory of Technical Fabrics» had decrease in its performance indices as compared with 2013. In particular, despite an increase in growth rates of the company's revenues, profit growth rates were increasing slowly, and asset growth rates were increasing faster than

Tab. 1: Rating express method of assessment of the enterprise's performance (On the example of the OJSC «Kursk Factory of Technical Fabrics» data for 2014)

Coefficients	Value. point	Indicator value	Standard value	Assigned point
Equity to Total Assets	+2.0	0.59	0.5	+2.0
Leverage ratio	+1.5	0.70	-	+1.5
Current liquidity ratio	+2.0	1.81	2	0
Intermediate liquidity ratio	+1.0	1.34	1	+1.0
Absolute liquidity ratio	+1.0	0.06	0.2-0.3	0
Return on sales	+1.0	9.8% (reduced by 22%)	-	0
Profitability of operating activities	+1.0	11% (reduced by 3%)	-	0
Share of debit debt in current assets:	Corrective point	68%		
less than 25%	-0.5		-	-
from 25 to 50%	-1.0		-	-
more than 50%	-1.5		-	-1.5

Source: Developed and calculated by the authors

revenues growth rates. That is, the company did not follow the so-called «golden rule of economy». The indicators of returns on assets, liquidity, profitability and turnover decreased in 2014 as compared with 2013. This decreasing tendency was greatly influenced by a significant increase in the cost of fixed assets, growing accounts receivable and accounts payable, lack of funds to repay the most urgent commitments. Aforementioned points to the fact that the organization's performance reduced in 2014. In addition, there was a high percentage of fixed assets wear, and, in particular, its active part (about 70-80%). In 2014, the organization significantly updated basic production assets, which, at a later stage, will allow it to increase production volumes, reduce costs for repair and maintenance of equipment and make it possible to produce more competitive products.

The assessment of investment attractiveness and competitiveness has shown that this enterprise belonged to group 3 of ranking score of investment attractiveness, i.e. investment of finance in this enterprise is risky enough.

Thus, for a more complete assessment of the enterprise's performance, an auditor must include the assessment of competitiveness and investment attractiveness of the enterprise in the preliminary planning. This will provide a comprehensive and detailed study of the performance of an audited entity and more qualitative audit on the whole. Figure 1 presents an updated algorithm for the assessment of the performance of economic entities at the stage of audit planning.

Thus, the assessment of competitiveness and investment attractiveness of economic entities allows us to determine the group of investment rating to which a certain enterprise belongs, i.e. it allows us to assess the attractiveness of an organization for investors.

This is one of the most important indicators of an enterprise's performance, since investments provide an opportunity to grow, to increase production rate, to develop a new market share. Competitiveness and investment attractiveness show the efficiency of a company's performance in comparison with other organizations in the same industry. Since competition is one of the most important external factors influencing a company's performance, its assessment is necessary at the stage of audit planning.

6. Conclusion. The results of economic entities' performance assessment during the stage of audit planning is closely linked with the use of analytical methods of internal accounting information processing and the analysis of external factors concerning the state of the market, partners, competitors, financial system, etc.

The investment attractiveness of organizations is a key condition for their sustainable development, as the need to re-

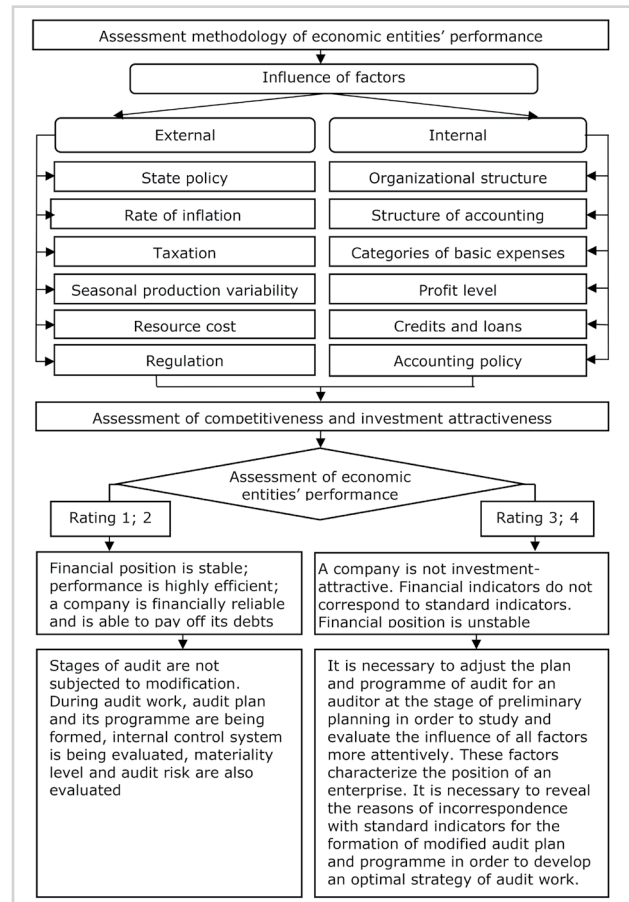


Fig. 1: Updated algorithm of assessing the performance of economic entities

Source: Developed by the authors based at previous works

store raw materials potential is a factor of increasing the competitiveness of products (works, services).

The proposed algorithm includes the assessment of investment attractiveness based upon rating express method of economic entities ranking. At the stage of audit planning, it will allow us to identify high-risk areas, which, in general, will lead to a fair reasonable assessment of an audited organization's performance and its going concern.

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