

Special Features of Auditing in the Application of Separate Stages of the Bankruptcy Procedure in the Russian Federation

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Abstract: This research raises the questions of organizational and methodical nature in respect of the audit of the organisation-bankrupt, together with those determined by the basic definition, the approaches on the ratio of insolvency, bankruptcy. The proven need for audit organizations that are at various stages of the bankruptcy procedure, provides the features in the implementation of the audit in the planning, the collection of evidence, generalization of the results, generated main areas used by the auditor.

Key words: Audit, bankruptcy, external control, under bankruptcy, bankruptcy proceedings, the settlement agreement, observation, insolvency, the organisation-the debtor, the financial recovery

INTRODUCTION

The stability of the economic system, the separate business entities in particular, largely depends on the degree of development of the legal institution of bankruptcy. It should also consider the fact that the impossibility of exclusion from the business environment inefficient participants forms one of the causes of systematic non-payment which impacts status of the individual sectors of the economy and the state as a whole.

In recent years, the legal institution of bankruptcy is of increased interest. In many works, there have been covered such issues as the legal regime of the insolvent debtor's property, the analysis and audit of the probability of bankruptcy.

Taking into account experience in research on the problem, it is necessary to note the continuing need for the study of theoretical issues of audit of the economic entity for the application of the individual stages of the bankruptcy proceedings and scientific and applied aspects.

MATERIALS AND METHODS

Implementation of accounting in the organizations of the Russian Federation in a state close to bankruptcy has a number of specific features due to the urgency of the situation. The nature of this situation is determined by the Federal Law "on insolvency (bankruptcy)". From the point of view of the Russian legislation, insolvency

(bankruptcy) is recognized by the arbitral tribunal debtor's inability to fully satisfy the claims of creditors on monetary obligations and to fulfill the obligation to make compulsory payments.

This fact has considerable impact on reliability, the presented bankrupt organization of information, being a basis of adoption of judicial and administrative decisions and also promotes management efficiency increase, brings system character in interaction of the parties in the course of carrying out an audit inspection and rendering the services accompanying audit.

RESULTS AND DISCUSSION

The conducted researches allowed to establish separate provisions of organizational and methodical bases within which elements of an audit inspection and drawing up working documentation of the auditor are formed.

Specifics of theoretical approaches to the conceptual framework applied concerning the specified problem:

There are two approaches in the evaluation of this problem, based on the opinion of the researchers. The first one, based on the identification of concepts, points out that it is convenient and acceptable to use them as synonyms in both the theoretical and practical side.

Some researchers claim that the failure of the trader can end in bankruptcy and the trader itself can end up to be a bankrupt with views of the prison, not to mention the deprivation of all property rights and a reference.

Supporters of the second approach argue that these concepts are not identical. And there are a lot more of similar opinions. Shershenevich defined failure as a «state of property, officially registered which gives reason to assume his failure to cover all the debts of the owner.».

Foreign scientists Le Hoa indicates that inconsistency is insolvency. Constant prolonged inconsistency leads to absolute insolvency and becomes bankrupt that is a bankrupt debtor in respect of which the decision to liquidate was made (Hoa, 1998).

Modern researchers in the Russian Federation support the view of differentiation of concepts as this fact is primarily due to irredeemable and criminal liability. So, Annenkov notes that if the legal entity can't fulfill the obligation to the creditors, at first it will be compelled to undergo procedure of bankruptcy and only then will be liquidated.

Prerequisites of bankruptcy: It should be noted that the conditions of bankruptcy occur long before the onset of the danger of bankruptcy. And researches in this area were conducted by both foreign and domestic scientists (Korol, 2011; Ohlson, 1980).

During the conducted research it is established that the main elements of a possible occurrence of a troubled state organizations at different stages of the production system are:

- At the stage of development of the economic entity (increase scientific and technical level of the system and the efficiency of production) rapid obsolescence of newly introduced technologies due to the slow pace of development or non-progressive adoption of technological solutions in the design of the system; inconsistency of the actual demand for manufactured goods prior to the forecast demand; increased competition
- At the stage of stable operation of the technological system slowing growth in demand for manufactured goods; increased competition, followed by a loss of market position; saturated or damping demand, the threat of loss of market
- At the stage of the technological system degradation loss of competitiveness; risk of ruin

The audit purpose at different stages of procedure (insolvency) of bankruptcy: An audit of the insolvent enterprise is complex and multi-faceted process with probable allocation of different areas of testing when the purpose of the audit depends not only on the legal procedures but also on the bodies of management of the company.

At the stage of observation objective of the audit is defined as an assessment the degree of reports reliability (reporting structure of the insolvent companies to be audited is determined according to the applicable bankruptcy proceedings) which reflects financial position of the insolvent companies in accordance with the legislation of the Russian Federation as well as an analysis of the financial condition of the debtor.

At the stage of financial recovery objective of the audit is defined as an expression of opinion on these statements and compliance of accounting procedures with the legislation of the Russian Federation on the operations connected with the restoration of solvency and debt repayment in accordance with the established timetable.

At the stage of external control objective of the audit is defined as an expression an opinion on how reliably statements reflect the results of external control aimed at restoring solvency insolvent companies in accordance with the plan of external management.

At the stage of bankruptcy proceedings as an expression an opinion on the liquidation accounts and the report of the arbitration control and compliance of the accounting legislation of the Russian Federation for the transactions related to the satisfaction of creditor's claims.

At the stage of settlement agreement as an expression of opinion on the compliance of the accounting legislation of the Russian Federation for the transactions related to the cessation of production in the bankruptcy case.

Principles of audit: Principle of competence. Acts as not less important parameter ensuring integrity of financial statements and a guarantee of that the external auditor is independent, by competent and does careful work (Dauda, 2015).

Principle of a continuity: This principle should be understood how «methodology which allows independent auditors to present written guarantees regarding check by means of a number of reports of the auditor is given which are formed after the termination of all stages of check or by results of each stage» (Aslan and Kaya, 2014).

Features of audit of insolvent economic subjects: As features of audit of the insolvent organizations allocate:

- Lack of legislatively fixed methodology of accounting and audit of financial and economic transactions carried out in the course of bankruptcy proceedings
- The inapplicability of the basic principles of accounting and auditing
- The use of specific forms of documents and financial statements

- The use of alternative approaches to the assessment of property in the preparation of reports
- Allocation of responsibilities between the liquidator and the management of insolvent companies for the organization, accounting and tax accounting, reporting, depending on the stage of the arbitration process on the bankruptcy case
- Implementation of non-cash payments using a single account
- Low efficiency of conventional techniques and methods of the audit
- Discrepancy forms of tax ledgers specifics of insolvent enterprises

The audit strategy

Planning the audit: A systematic approach to planning the audit in the conditions of bankruptcy should be based on a comprehensive consideration of methodological issues of risk assessment and determination of materiality and consistent with the target content of insolvency.

Materiality accounting of the financial statements of the debtor in the Russian Federation is determined by each user. But any of them must be confident in the relevance and reliability of the information provided and

only in this case it may be useful to make informed financial decisions. Given that the objectives of the specific procedures of bankruptcy are significant differences, the conclusion about the need to study and evaluate this factor seems to be quite reasonable.

A detailed study of the factors influencing the level of the individual components of audit risk will allow the auditor not only to reduce the volume of procedures and consequently, reduce the cost of testing but also to identify the real problems in the economic and financial activities of the debtor that must be addressed to restore its solvency. This conclusion is due to the existence of a direct link between an effective system of internal control the debtor and its crisis.

Determination of the main directions of the audit and the formation of the evidence base:

We believe that the main directions of the audit of financial and economic activities of the organization bankrupt and reliability of accounting information, formed by the liquidator in the Russian Federation are as follows (Fig. 1).

Taking a more scrupulous look at the audit in the Russian Federation, the auditor should focus on the following procedures.

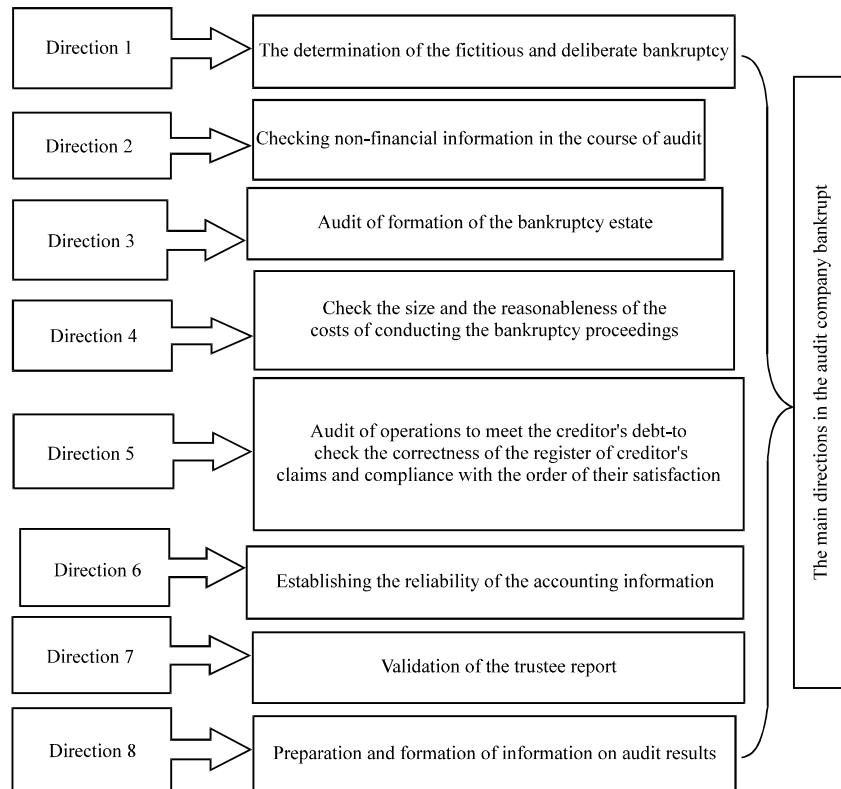


Fig. 1: The main directions of the audit of financial and economic activities of the organization bankrupt in the Russian Federation

If any signs of fictitious and deliberate bankruptcy the auditor should bear in mind that the concept of fictitious and deliberate bankruptcy and the responsibility of officials in these cases is formed in the criminal code of the Russian Federation and the Russian Federation code of administrative offences.

Checking the non-financial information, the auditor should ensure compliance with the order of convening and holding the meeting of creditors under the Federal law on insolvency (bankruptcy), namely:

- In the proper notification of all creditors of the time and place of the meeting of creditors
- To prevent sending regular mail and telephone messages
- To comply with the order of decision-making in the voting (votes determined in proportion to the amount of the claims of bankruptcy creditor's or the authorized agency on obligatory payments, recognized at the date of the meeting)
- To prevent the participation in the meeting of representatives of creditors without proper powers of attorney of representatives of the creditors whose claims are not established as well as other persons who are not entitled to participate in the meeting of creditors
- The authenticity of the text of the protocol meeting of creditors (whether it was not rigged)
- In the absence of the transfer of the liquidator's duties in full or in part on the performance of another person by power of attorney

For check of completeness of formations of competitive weight it is necessary to track the movement of property and receivables from the moment of appointment of the competitive (arbitration) managing director before sale of property or collecting debt. Check the size and the reasonableness of the costs of conducting the bankruptcy proceedings includes:

- Checking documentary proof of expenses
- An analysis of the feasibility and necessity of expenses incurred
- Verifying classifying expenditure items (analytical accounting)
- Checking the calculation of remuneration bankruptcy trustee

In the course of audit of operations on satisfaction of requirements of creditors check of correctness of drawing up the register of requirements of creditors and observance of sequence of their satisfaction, an order of

reception and consideration of requirements of creditor's, determination of the sum of debt to each creditor, besides proportionality of satisfaction of requirements in case of partial repayment of debt of the corresponding turn is put. Audit of establishment of reliability of reporting information defines application of the following procedures:

- Verification of data of intermediate liquidating balance
- verification of data of liquidating balance

The predominant amount of information on the availability and cost of assets and liabilities of the bankrupt company is contained in the interim liquidation balance sheet. In view of the correctness of the balance sheet as it appears by comparison and linkages with its performance with those of other documents: the act of inventory valuation report of the property, the register of creditor's claims. Determining the differences it's recommended to find out their causes by checking the primary documents.

During the validation report of the bankruptcy (arbitration) of the control is necessary to form an idea of the information related to the costs of the bankruptcy proceedings as well as information on satisfaction of creditor's claims.

Studies have shown that a combination of electronic and manual sources complements the audit evidentiary basis and therefore, the supervisory functions have significant positive impact on the financial performance of companies (Effiok and Bassey, 2015).

The content of the accounting information on the results of the audit:

In reporting information of the auditor it is necessary to give the characteristic of basic data for check and to specify restrictions in access to them if those were. The main part of the report shall be given:

- Assessment property of the economic entity at the time of insolvency (bankruptcy)
- Characteristic state accounting of the debtor in the period preceding the bankruptcy
- Measures taken competitive (arbitration), the manager to form the bankruptcy estate

The auditor should assess the decisions and actions of the management of the debtor for their compliance with the interests of the owner including the impact on the financial condition of the company. Also an analysis of the arbitral control and compliance with the interests of the creditors and the debtor is carried out. The report

should provide the user with sufficient information about the described circumstances, facts, events in order to enable him to take appropriate decisions.

It should be noted that foreign researchers (Austine *et al.*, 2013) recommend to form the report so that important components of collected proofs weren't excluded to reduce cost and to make the financial report short but powerful and relevant.

CONCLUSION

An audit in respect of an insolvent economic entity is a sufficiently in-depth and comprehensive study with the need to determine the various trends and strategy audit organization in the process of insolvency (bankruptcy). Moreover, improvement of audit procedures for the organization of a bankrupt is required in accordance with the increasingly complex economic processes and financial technologies. According to this, the prior aim of research is further improvement of the quality of the audit activities of the bankrupt in the Russian Federation on the basis of the implementation and use of federal, internal standards of audit, adapting them to the practical conditions, especially the activities of the insolvent client as well as strengthening the legislative and regulatory framework insolvency of economic entities and the application of the internal control system.

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