

Development of Audit System for Operations with Fixed Assets as a Tool for Efficiency Improvement of Social Activity of the Enterprise

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Abstract: The study is aimed at validation of theoretical provisions and development of practical recommendations for improvement of audit system for operations with fixed assets as a tool to improve the efficiency of social activity of the enterprise. The research objectives are: to study and specify economic essence of such categories as “audit evidence”, “analytical procedures” and to offer audit documentation to record and register the audit evidence obtained to confirm the audit opinion to determine the basic indicators of fixed assets use efficiency in social economic activity of the company. With the help of such scientific methods as a systematic approach, scaling and deductive methods, comparison, economic statistics, systematization and generalization of data modern methodology relating to the audit of operations with fixed assets have been studied and the basic lines of its development have been offered with the aim of the social activity efficiency of the company improvement. The work features the basic procedures for collecting audit evidence and its recording in the working papers of the auditor. It also examines the use of analytical procedures in obtaining audit evidence and offers indicators to assess the effectiveness of social economic activity used for monitoring changes in social position of the company.

Key words: Audit, social activity, audit evidence, audit procedures, audit documentation indicators of social economic activity, Russia

INTRODUCTION

In modern conditions the main factors determining economic growth at the micro level include the quality and competitiveness of manufactured products the level of production base and efficient use of all resources. Intensification of activity and high scientific and technical potential provide profit growth and its high quality which is an evidence of business sustainability. Fixed assets have traditionally been one of the most important resource components in social economic activity. The efficiency of activity depends eventually on their condition the intensity of upgrading and level of technological development. Fixed assets comprise the core value of the company often acting as the loan collateral or a profitable investment. Due to this fact, the need in continuous monitoring of the availability and condition of fixed assets as well as effective management of such type of assets becomes evident.

Audit of fixed assets is an important part financial and economic activity control of any business entity. Its purpose is to check the legitimacy of operations on fixed assets transactions and confirm the compliance of data in the financial statements with legal requirements.

In the course of audit fulfillment, appropriate and sufficient audit evidence shall be acquired. They will enable the auditor to formulate his professional opinion on the accuracy in all essential aspects of financial (accounting) statements of the audited entities and compliance of their accounting records with the current legislation.

MATERIALS AND METHODS

Theory: Specific steps toward the audit evidence are planned depending on the type of the enterprise activity, its size, legal-administrative status and other specific features. In addition, the audit of different areas of accounting at a single enterprise requires various procedures as well as study of different types of information. Such diversity of initial conditions complicates the task of planning the process of collecting audit evidence, meant to become the basis for professional opinion expressed by the auditor. However, there are some fundamental cornerstones of the research process of accounting and reporting data. Basing on them you can develop a universal scheme of audit evidence

collecting. This scheme will be adequate for audit of different companies and different areas of an enterprise. It will simplify and make clearer the process of audit tests and procedures conducting in fact aimed at formulating complex of audit evidence. This scheme will also facilitate audit planning and a procedure of audit programs preparation (Arens and Loebbecke, 1997).

Composition of audit evidence and auditor's responsibilities related to the development and implementation of audit procedures for obtaining sufficient appropriate audit evidence is governed by international standard of audit 500 "Audit evidence".

The concept of "audit evidence" is a significant professional term widely used in the theory and practice of audit. Audit evidence is interpreted in the "dictionary of terms" of international audit standards in international audit standard 200 "basic objectives of independent auditor and audit in accordance with international audit standards" as well as in international standard on auditing 500 "audit evidence" as information used by an auditor in formulating of conclusions serving a basis for an audit opinion. Audit evidence includes both data contained in the accounting records underlying financial statements and any other information.

The category of "audit evidence" has different interpretations. Some sources audit evidences are facts which prove the genuineness or falsity of any opinion. Some authors refer to audit evidence as to information on the audited business entity obtained in the course of audit (Mukhina, 2015). There is also an approach which defines audit evidence as the sequence of actions taken to establish the credibility of separate assumptions (Korsi *et al.*, 2013). An opinion based on multiple approaches to audit evidence understanding is of a particular interest:

- Audit evidence in the form of supporting documents
- Audit evidence in the form of additional information source
- Audit evidence in the form of a sequence of actions procedure subject to fulfilment in order to verify the assets or liabilities accounting reliability

In our opinion, the most comprehensive is the definition, according to which the audit evidence presents data with special characteristics and received in the process of analysis and evaluation of accounting systems and internal control of the audited entity for the purpose of expressing a reasoned opinion by the auditor on the reliability of data contained in accounting (financial) statements.

Audit evidence includes: data obtained in the process of audit procedure; information received from other sources including previous audit tasks; information obtained as a result of quality control procedures carried out by the audit firm at making decisions on further relationship with the audited entity; accounting data; information submitted by experts; information supporting and confirming the prerequisites of management.

In the process of audit opinion formation the auditor basically obtains and evaluates audit evidence. Collecting of audit evidence may be accompanied by such auditing procedures as observation inspection, recalculation, confirmation and analytical procedures. The process of obtaining audit evidence involves the following steps:

- Definition of the purpose for obtaining audit evidence
- Identification of information sources which are required to obtain evidence
- Assessment of risks related to the facts of considerable misstatement of economic activity
- Determination of audit procedures
- Collection of audit evidence
- Analyses and adjustment of collected evidence
- Evaluation of quality and quantity of the evidence obtained
- Formulation of an audit opinion on the basis of the evidence obtained

Using the data obtained in the course of reviewing internal control systems and accounting adjustments are made to planned audit procedures, identified risks and initially formed opinion is assessed and then confirmed or refuted (Susanto, 2016; Gaumnitz *et al.*, 1982; Quadackers, 2002; Woo and Lim, 2015).

The sequence of steps performed by the auditor is determined on the basis of information obtained during the planning phase and includes techniques and procedures for further study of the entity.

Based on available data, the auditor analyzes the facts, contradictions that entail the emergence of evidence-based arguments. As a result, a certain stage of the audit opinion is formed which is largely determined by the risk of material misstatement of information about the economic entity being checked. New audit evidence occurs which at each specific stage of validation and having an already formed opinion can be again subjected to judgment of an auditor to assess quality in the adoption of certain provisions and remove defective items.

At each audit stage, the requirements of information flow isolation must be performed for setting of sequential

actions, clarification of audit procedures, risk assessment, formation of opinion on reliability of financial statements (Osman *et al.*, 2016; O’Keefe *et al.*, 1994).

All the information which is important for audit opinion confirmation shall be supported by working papers of an auditor. The cases in which the working papers are used include: audit planning, implementation of current control and checks of the work performed by the auditor; record of audit evidence obtained to confirm the audit opinion. The auditor has the right to set the volume of working papers for specific audit. The auditor may use his or her professional opinion.

The form and content of working papers are influenced by the nature of the audit task; requirements that are applied to the audit report the nature the complexity of the audited economic entity the nature and status of the internal control system and accounting of the audited economic entity; the need for monitoring the implementation of audit by the staff; specific methods and techniques used in the audit. Standard working papers can be developed by audit organization. They may contain the following information: the name of audited economic entity; persons exercising control; audit planning; preliminary assessment of internal control systems and accounting; materiality level and evaluation of audit risks; methods of an audit sampling development; control tests performed; testing procedures on the merits the results and conclusions of the auditor for verification (Osman *et al.*, 2016; O’Keefe *et al.*, 1994).

The main methods during the process of audit evidence collection are audit procedures and detailed evaluation of turnover.

RESULTS AND DISCUSSION

Let’s review the features of audit procedures application in collecting audit evidence at the initial stage of audit operations with fixed assets.

In the initial audit phase fixed assets accounting substantiation is performed. For obtaining audit evidence it is advisable to use a working paper of an auditor (Table 1).

During the audit of the fixed assets inventory objects accounting, the auditor uses the inventory register made as of the date of inspection. It should reflect such information as: name of an object, date of purchase, brief description of an object, book value, service life, depreciation amount of accrued depreciation.

To verify the correctness of assets separation into various areas the auditor applies the working paper of the auditor “Local survey of fixed assets” (Table 2). The auditor shall control whether fixed assets are divided under the following areas:

By their purpose: Incorrect division of fixed assets by purpose leads to incorrect calculation of rent or depreciation.

By type of participation in productive activity: In correct division of fixed assets by participation type leads to incorrect calculation of depreciation as laid-up fixed assets particularly do not charge depreciation.

When auditing depreciation expenses, auditor verifies the correctness of depreciation charges by individual assets and in general for all objects for the

Table 1: Working paper of an auditor “Verification of primary documents registration on fixed assets receipt”

Primary document	No. and date of document execution	Audit procedures	Amount (rubles)	Detected violations	Auditor’s conclusion
Delivery acceptance act of fixed assets	No. 12 of March March 11, 2016	Formal verification, compliance with accounting principles, full disclosure and authenticity of the documents control, defects arising in the course of documents execution of non-registered alterations detecting	267800	The date of commissioning and the date of last capital repairs missing in the documents related to used fixed assets objects	A distortion of fixed assets book value is possible, as its origin and the correctness are questionable. It is necessary that the Director and Chief accountant exercised more rigid control of the business transactions registration in the primary documents

Table 2: Working paper of the auditor “Local survey of fixed assets”

Primary document	No. and date of document execution	Auditor procedures	Amount (rubles)	Detected violations	Auditor’s conclusion
An inventory register of fixed assets	No. 6 of November 7, 2016	Inventory auditing	246700	Improper division of fixed assets by their purpose	Possibly incorrect rent calculation or depreciation accrual. Control over subsumption of objects to fixed assets in the primary documents on the part of the Director and Chief accountant shall be increased

Table 3: Working document of the auditor “Appropriate depreciation verification”

Name of fixed asset's object	Date of recording	Full original cost thousand rub.	Value-added use term	Depreciation norm (%)	Annual amount of depreciation thousand rub.	Amount depreciations per month	Amount of accumulated depreciations, thousand rub.	Remaining value, thousand rub.	Auditor's procedures	Detected violations	Auditor's conclusion
Crawler tractor	30.04.14	750	10	10	75	6250	125	625	Arithmetic recalculation, cross-control	Not detected	The results of the audit determined shop that the data contained in the statements of depreciation of fixed assets repairs matches the amounts in the inventory cards. The amount of accumulated depreciation was calculated in the process of audit of fixed assets depreciation. The results of calculations and data in the analytical accounting of fixed assets matched. Errors in calculation of the company have not been revealed
Work-shop for agricultural machinery repairs	12.09.12	21888	32	3	684	57000	2907	18981	Arithmetic recalculation cross-control	Not detected	
Frame saw	23.11.14	613.2	7	14	87.6	7300	182.5	430.7	Arithmetic recalculation cross-control	Not detected	
PC	09.01.16	56304	1.5	33	18.768	1564	18.768	37.536			

reporting period. Using the evidence collected, the auditor shall verify whether proper standards and amounts of accrued depreciation are applied.

When identifying the appropriate use of calculation methods and norms of depreciation and determining depreciation cost of fixed assets objects the auditor performs arithmetic recalculation of the depreciation expenses amount by individual objects. Besides, he compares the received results with the data contained in developed depreciation calculation tables and analyzes accounts specified in the registers of correspondence accounts. Then, basing on this, the auditor determines whether the norms of calculation method and depreciation rate are applied appropriately, so as depreciation value of objects is identified. The results of depreciation correctness verification are reflected in the working document of the auditor (Table 3).

Performance of audit procedures by the auditor result in detection of deviation indicators availability or absence in the financial statement of the company. If unusual deviations are revealed not confirmed with evidence from other sources the auditor shall perform their investigation to verify the reliability and objectivity of audit procedures.

Modern methods of auditing involve active use of analytical procedures in obtaining audit evidence. The issues of analytical procedures application in auditing are governed by International standard of auditing 520, “analytical procedures” which defines “analytical procedures” as an assessment of financial information through analysis of probable relationships between financial and nonfinancial data. Analytical procedures also include investigation of identified fluctuations or relationships that are contrary to other available information or diverge significantly from the expected indicators. International standard on auditing 520 sets out the duties of an auditor in relation to analytical procedures as verifying procedures on the merits (“analytical audit procedures on the merits”). In addition, this standard regulates the duty of the auditor conducts analytical procedures towards the end of the audit which will contribute to the formation of the auditor’s overall conclusion on the financial statements.

Analytical procedures involve the comparison of financial information: comparative information for prior periods; anticipated results of operations of the organization such as budgets or forecasts or expectations

Table 4: Indicators of fixed asset efficiency use in social economic activity of an enterprise

Indicators analysed	Order of calculation
V_{wrt} : Amount of funds allocated by the enterprise for the construction of treatment facilities, thousand rubles per unit of production	$V_{wrt} = \sum_{wrt}^3 q \sum_{wrt}^3$; the amount of funds allocated by the company for the waste construction of waste treatment facilities, thousand rub. q-product output quantity
INV_{eop} : Investment amount in objects of environmental protection, particular objects of land, subsoil, soil protection as well as surface and groundwater; forests and other vegetation, animals and other organisms and their genetic fund; atmospheric air, ozone layer of the atmosphere and near-earth space, thousand rub.	$INV_{eop} = \sum_{eop}^3 \sum_{eop}^3$ -expenses on objects of environmental protection (thousand rub.)
V_{oss} : Amount of funds allocated for support of housing and communal services fixed assets, thousand rub./unit	$V_{oss} = \sum_{oss}^3 q \sum_{oss}^3$; expenditure for support of housing and communal services fixed assets, thousand rub q-product output volume
V_{mse} : Amount of funds allocated by the company for purchase of medical service equipment and tools for diagnosis, treatment and rehabilitation in various fields of medicine, thousand rub./unit of product	$V_{mse} = \sum_{mse}^3 q \sum_{mse}^3$; expenditures on medical service equipment acquisition and tools for diagnosis, treatment and rehabilitation in various fields of medicine, thousand rub. q-product output volume
V_{apt} : The amount of funds allocated by the company for purchase of fixed assets objects under the program of agro-tourism development thousand rub./unit of product	$V_{apt} = \sum_{apt}^3 q \sum_{apt}^3$; expenditures on acquisition of fixed assets under the program of agro-tourism development (thousand rub). q-product output volume

of the auditor for example, regarding depreciation; similar information from the industry such as mapping of sales to receivables ratio in an average organization with industry benchmarks or indicators from other organizations in the same industry of similar size (Klychova *et al.*, 2016; He, 2015).

Analytical procedures also include study of the following ratios: between the elements of financial information expected to conform to a predictable structure based on the experience of the organization e.g., percentage of gross profit (Klychova *et al.*, 2015a, b) between financial information and relevant nonfinancial information for example the expense ratio for the Payroll fund and number of employees (Nazarova, 2015).

Various methods can be used for analytical procedures-from simple comparison to complex analysis with application of advanced statistical techniques. Analytical procedures can be executed with respect to consolidated financial statements, components and individual elements of information.

Data base for analytical procedures presents the macro-economic, sectoral and regional indicators and the performance of enterprises. Methods of analytical procedures implementation include: comparison, balance method, coefficient method, deterministic factor analysis, expert assessment, situational analysis and prediction (Mostafa and John, 2016).

During the process of fixed assets revision in the assessment of a client’s business the auditor shall conduct a rapid analysis of fixed assets security dynamics at the enterprise and the efficiency of their use.

For that purpose the following indicators are calculated: availability of funds; power equipment; value of gross output per 100 rub. of production facilities, rub. the amount of gross income per 100 rub. of production facilities, rub; profit amount per 100 rub. of production

facilities, rub. (Sokolov and Sungatullina, 2015; Strelnik *et al.*, 2015). In addition, we believe that it is necessary to calculate the following indicators to assess the efficiency of social economic activity of agricultural organizations (Table 4).

Such system of indicators is intended to evaluate the efficiency of measures taken at the initiative of the company in order to reduce harmful effects on the environment; activities aimed at uniting people who live in the same area and their sense of one social group with common interests formation as well as development of social infrastructure for creating jobs (Klychova *et al.*, 2014) developing systems of education and health for ensuring a comfortable life conditions of people in their territories (Fig. 1).

Table 5 shows estimates of Agricultural production cooperative named after “Vakhitov” located in Kukmor region. Indicators of availability and economic efficiency of fixed assets use including the sphere of socio-economic activity in general remain at a high level, ahead of the national average data, despite the significant fluctuations and decrease within the period analysed.

In addition, it is expedient to analyse market conditions information on competitors, suppliers and buyers, the development trend of the industry and foreign trade activity for objective evaluation of indicators. One of the steps in the analysis of fixed assets is the analysis of the reporting forms containing data on fixed assets:

Fixed assets are recorded at residual value in the “balance sheet” the amount of revaluation (devaluation) of fixed assets can be considered in the line “added capital” off-balance sheet accounts reflect the cost of leased fixed assets including leasing.

Table 5: Dynamics of the enterprise coverage with fixed assets and the efficiency of their use in agricultural production cooperative named after “Vakhitov” of Kukmor district, the Republic of Tatarstan in 2012-2016

Indicators	Years					Average in the Republic of Tatarstan in 2016
	2012	2013	2014	2015	2016	
Availability of assets per 100 ha of agricultural land, thousand rubles	4063.1	4098.1	4281.4	6027.6	7502.7	3391.4
Funds availability per 1 worker, thousand rubles	513.2	517.6	569.5	969.5	1410.7	1980.9
Power equipment availability per 100 ha of arable land, horsepower	604.3	597.6	556.1	546.1	485.9	131.9
Power available per 1 worker, horsepower	68.0	67.2	66.0	80.9	84.8	67.1
Value of gross output per 100 rub. of fixed assets (rub.)	3.9	3.3	3.0	2.2	1.9	1.9
Amount of gross profit per 100 rub. of fixed assets (rub.)	97.2	60.6	70.4	72.2	62.1	17.5
Amount of profit per 100 rub. of fixed assets (rub.)	27.5	19.6	26.7	33.2	26.2	7.4
Amount of funds allocated by the company for construction of treatment facilities, thousand rub.per unit of product	8.2	7.3	9.8	14.2	17.8	13.9
Amount of investments in objects of environment protection (thousand rub.)	18.9	22.6	22.4	19.1	24.3	19.5
Amount of funds allocated for the support of fixed assets of housing and communal services, thousand rub/unit	16.4	15.6	17.5	19.3	22.3	18.2
Amount of funds allocated by the company for the purchase of medical equipment and tools for diagnosis, treatment and rehabilitation in various fields of medicine, thousand rub./unit of product	8.2	7.1	4.3	6.1	7.9	7.7
Amount of funds allocated by the company for the purchase of fixed assets objects under the program of agro-tourism development, thousand rub./unit of product	-	-	-	1.2	1.4	2.1

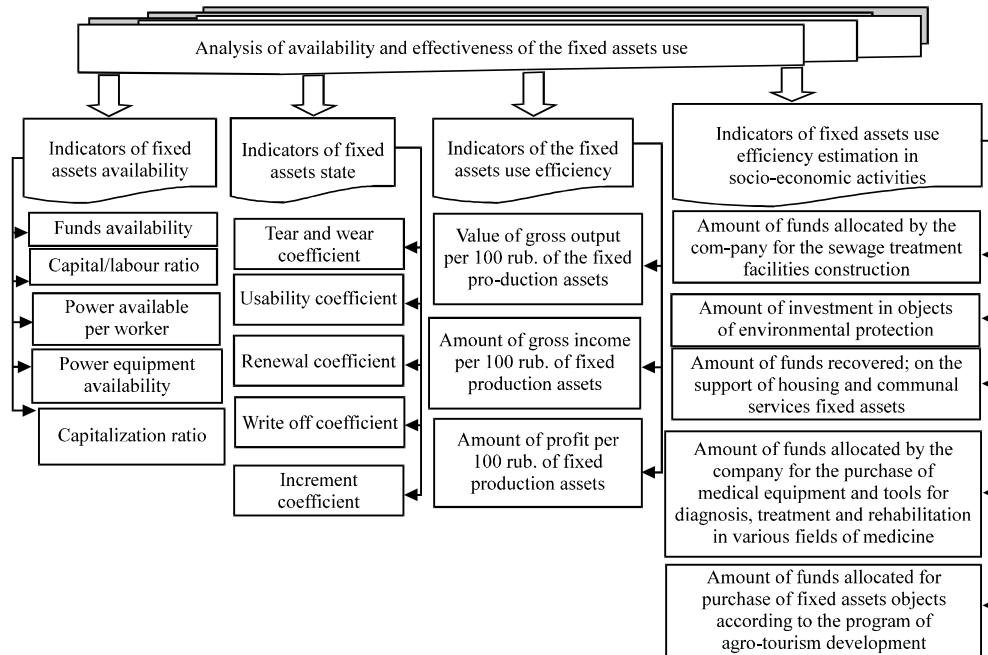


Fig. 1: Evaluation indicators of availability and effectiveness of fixed assets use

The “report of financial results” includes proceeds from the sale of fixed assets interest payable and interest received from the lease of fixed assets into other income and expenses.

Statement of cash flow from investment activity reflects proceeds from the sale of fixed assets the amount of acquired fixed assets. Notes to the balance-sheet reflect the original cost of fixed assets by their types at the

beginning and at the end of the year the cost of the outgoing and incoming objects the amount of accrued depreciation the cost of received and leased fixed assets and the result of revaluation.

The analysis reveals facts of accounting statements distortion basing on such analytical procedure as the assessment of the accounting records comparability (Fig. 2).

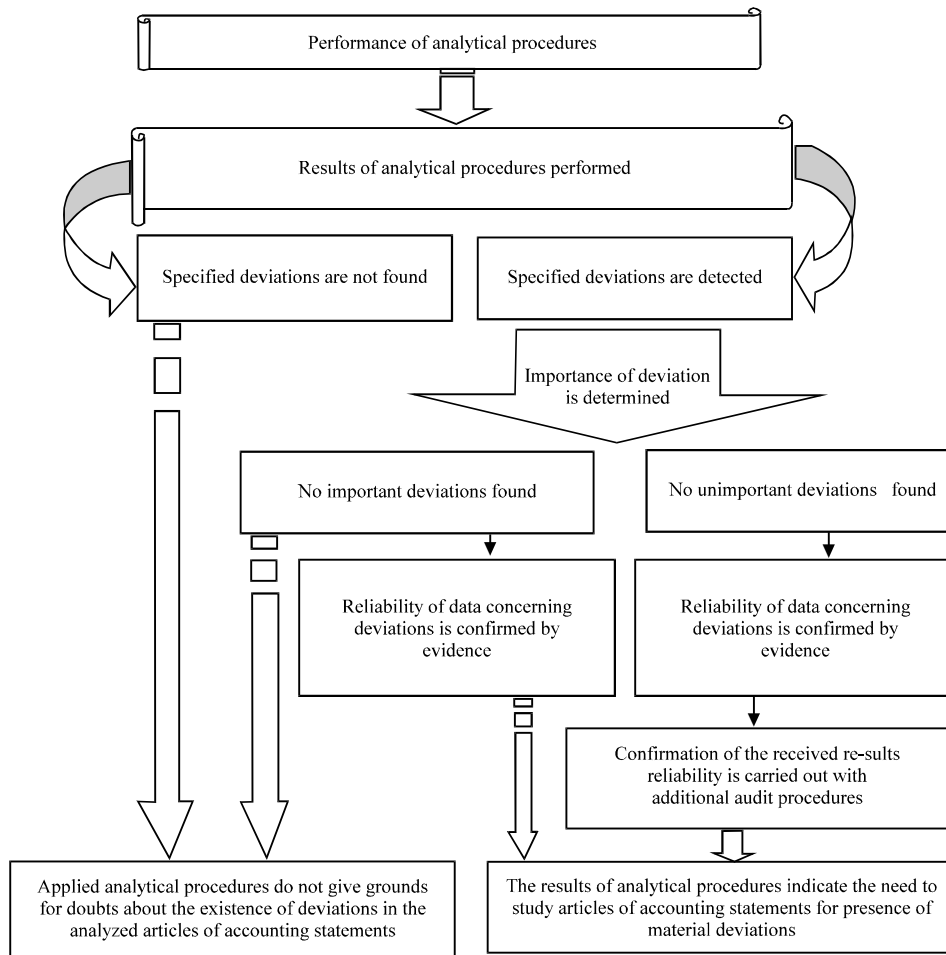


Fig. 2: Analysis of the performed analytical procedures results

CONCLUSION

Thus, we can conclude that the choice of auditing procedures, the composition and content for obtaining audit evidence is influenced by the stage at which they are used as well as by adequacy and availability of information applied at validation. The use of audit procedures in verifying transactions with fixed assets enables to get the correctness evidence of the accounts or group of accounts to focus the auditor's attention on more important issues which leads to the reduction of inspection volume and their periods. In addition, evidence acquired during audit procedures conducting shall be supported by relevant working documents of the auditor which in their turn are included in the company standards, helping to improve the quality of inspections.

Analytical procedures which are conducted during the actual audit are applied along with detailed tests to reduce the amount and periods of audit while improving the quality. In general, the selection of analytical procedures, composition and content depend on the stage at which they are applied as well as the availability and adequacy of information used. The positive aspect of analytical procedures use in auditing is that the auditor obtains evidence for separate accounts or groups of accounts correctness. They form the basis for the assessment of liquidity and profitability (in general, of the company financial condition) both as of the particular date of inspection (allowing to make a conclusion of the enterprise's functioning in the foreseeable future "principle of operating enterprise") and for the past periods. Analytical procedures applied in the course of audit with fixed assets operations help to focus the

attention of an auditor on the most important points or “bottlenecks” which reduces the amount of verifications and as a consequence the periods of inspections. Another important factor in determining the conducting of qualified inspection is the presence of developed internal company standards allowing to improve the quality of audits.

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