

METHODOLOGICAL ASPECTS OF ASSESSMENT OF CONTINUITY OF ACTIVITIES OF BUSINESS ENTITIES IN AUDITORIAL INSPECTIONS

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Abstract

This article discusses the issues of assessing going concern during audits. As a result of the research, the influence of going concern on the types of audit reports is scientifically substantiated.

Key words: audit, audit activities, financial statements, international financial reporting standards, going concern, audit plan, audit program.

INTRODUCTION

In the context of rapid development of the modern market, information about the financial condition of the business entity and the possibilities of its further activities will be the focus of users interested in financial reporting. The main indicator for assessing the development prospects of business entities is the continuity of its activities. When auditing financial statements, special attention should be paid to business continuity. REFERENCES Continuity of activity is one of the basic principles of accounting. The main document determining the continuity of activities is the Law "On Accounting" No. ZRU-404, adopted on April 13, 2016. According to Article 3 of this Law, the main principles of accounting are continuity, reliability, comparability of indicators [1]. Based on the provisions of International Financial Reporting Standards (IFRSs), an accountant must base its existence on an indefinite period of time in the absence of signs of cessation of operations [2]. In the Republic of Uzbekistan, on the conceptual basis of financial reporting, an entity is considered to be operating continuously, ie to continue to operate in the future. It is assumed that it has neither the intention nor the need to terminate its activities or significantly reduce the scope of its activities [3]. According to IFRS 1, the preparation of financial statements on the principle of continuity means that the entity is continuous and continues to operate for an indefinite period of time, ie the entity does not need to terminate itself or reduce its scope of operations [4]. Economists Ya.V. Sokolova and S.M. According to Bychkova's research [8], eight of the nine sources reviewed by them emphasize the need to assess the continuity of activities during the audit. According to some economists, the principle of continuity of activity allows to determine the ability of the subject to carry out future activities, the reduction and cessation of activities [9]. According to Spanish economists Jose Luis Gallizo and Ramon Saladrignes, the principle of continuity of activity should be the basis for the recognition and evaluation of objects in accounting [6].

According to another economist, auditors need to focus on assessing business continuity. This is because the correct assessment of the continuity of the client's activities serves to effectively run the business of the audit organization [5]. According to Malaysian economists Hanah Haron, Bambang Hartadi, Mahfuz Ansari, and Ishaq Ismail, the type of audit trait is directly related to the outcome of the assessment of business continuity [7]. RESEARCH METHODOLOGY Audits used methods such as induction, induction, grouping, and comparison to conduct research to assess customer continuity. ANALYSIS AND RESULTS Performance appraisal is one of the main objectives of the audit and contributes to the achievement of its main goal - to express an opinion on the reliability of the audited financial statements. Legitimacy of business continuity assumption has led to the need to recognize it as one of the basic principles of accounting, to examine the use of financial statements by auditors as independent experts to meet the needs of interested users. Since the assessment of the continuity of the business entity is a key principle in the preparation of financial statements in accounting, the auditor should include this issue in the audit program. It should be noted that the assessment of business continuity is one of the most difficult aspects of audit practice. Legislative and regulatory documents contain only generalized guidelines of the criteria system that the auditor should follow in formulating his or her professional opinion on the matter. The lack of a universally accepted methodology in the legislation leads to a decrease in the objectivity of the results obtained during the audit. At the same time, it should be borne in mind that each business entity is given specific factors that affect the prospects of its activities. It should be noted that the process of assessing business continuity should be phased, as outlined in the provisions of audit standards. However, the content of the standards is mainly limited to advising auditors on the formation of their professional views, there is no systematic

approach to conducting audits. At the same time, it should be noted that the auditor should not focus the analysis solely on assessing the probability of bankruptcy when assessing the continuity of client activities. Therefore, this problem should be considered comprehensively, taking into account many factors. Considering the views of various scholars on the classification of characteristics that affect and / or may affect the ability of the audited entity to continue its activities and perform its obligations for at least 12 months after the reporting period, the authors consider two types of continuity factors - quality and it is recommended to highlight the group of quantitative factors. Based on the results of such grouping, we propose three stages of assessing the continuity of the business entity. The first stage begins at the planning stage and the audit activities are carried out during the audit on the merits. At this stage, the auditor makes a written request to the management of the audited entity requesting an initial assessment of its continuity. If the management of the business entity has made such an assessment, it is necessary to determine on what basis such an assessment was made. If the management of the audited entity identifies the factors (signs) associated with the breach of business continuity, the auditor should implement further plans in this area. The auditor then sends a request to the management of the audited entity for information not later than 12 months from the date of signing the financial statements and for information about the events that are known to affect the audited entity on a regular basis. At this stage, it is proposed to study the qualitative factors that should be divided into external and internal parts. The need for the auditor to consider not only internal but also external factors is due to the fact that there are external factors that can have a strong negative impact on the activities of business entities at present.

It is proposed to identify and evaluate economic and political factors as external factors. Economic factors are determined by the state of the country and the world economy. Political factors are related to the direction and methods of development of a society. It is recommended to include financial, production, organizational, legal and personnel factors among the internal factors. Financial features are related to the untimely and incomplete fulfillment of financial obligations by the audit organization or its partners. Factors of production are related to the implementation of production activities, the development of new equipment and technologies. Organizational characteristics are related to the internal organizational processes of the audited entity and include the firm's strategy, business principles, resources and use, quality and level of management and marketing. The influence of legal factors is based on the possibility of changing various legislation affecting the financial and economic activities of the audited entity, non-compliance with the legislation, improperly concluded contracts, as well as contracts between the audited entity and its counterparties. Personnel factors are determined by the number, composition, qualifications, education and professional skills of the employees of the enterprise under investigation, the suitability of their skills and abilities for the positions they hold. By considering the combination of factors presented, the auditor is able to comprehensively assess the performance of the audited entity. Upon completion of the planning phase, the auditor should develop an initial professional opinion on the following considerations: - whether the management of the inspected enterprise has doubts about the continuity of its activities; - the presence or absence of events in the activities of the audited entity for a period exceeding 12 months from the date of signing the financial statements; - the presence or absence of events in the case of the person being investigated, which go beyond the period during which the person under investigation conducts an independent assessment of the continuity of activities; - the presence or absence of qualitative factors affecting the continuity of activities of the inspected person. The assessment of quality criteria at the planning stage is the initial mechanism for further analysis of the quantitative indicators of the audited entity, which includes consideration and evaluation of the system of financial indicators. The analysis of quantitative factors should be carried out at the final stage of the audit, because in this case the auditor will have an objective idea of the reliability of the audited financial statements, according to which the analyzed system of financial indicators will be calculated. If the reporting data is unreliable, then the financial indicators calculated from such data will also be unreliable and therefore lose the meaning of the audit. The auditor then analyzes the quality factors that affect and / or may affect the continuity of the business. The second stage of the audit is devoted to the assessment of quantitative factors (financial performance of the organization). The auditor should make a comprehensive assessment of the financial stability of the audited entity, as well as the results of its activities. The methodology of financial analysis allows the auditor to obtain sufficient information about solvency, financial stability, business and investment activities, as well as the activities of the audited entity. In addition, it is also necessary to calculate the coefficients of fulfillment of obligations by the audited entity. The auditor can calculate the following ratios: the ratio of indebtedness on loans and borrowings, the ratio of indebtedness to other organizations, and so on. Thus, taking into account the proposed additions, Table 1 presents the methodology for analyzing the financial results of the audit organization.

Table 1 The structure of analytical activities used in assessing the continuity of the business entity¹

| | |
|---|--|
| Financial analysis phase | Analytical activities |
| Analysis of the financial condition of the audited entity | Assessment of property structure and sources of its formation |
| | Valuation of net assets |
| | Financial Stability Analysis |
| | Liquidity analysis |
| Analysis of the effectiveness of the activities of the inspected person | Interpretation of performance results |
| | Profitability analysis |
| | Calculation of business activity indicators |
| Conclusions on the results of financial analysis | Evaluation of key performance indicators of the inspected person |
| | Evaluation of the results of the activities and financial status of the audited entity |

The result of the financial analysis is the formation of one of the following conclusions by the auditor:

- a) there is no doubt about the continuity of the activities of the inspected person;
- b) there are doubts about the continuity of the activities of the inspected person, but their impact is not significant;
- c) there are serious doubts about the continuity of the activities of the inspected person.

Upon completion of this phase of the audit, the auditor should use his or her professional judgment to communicate the results of the analysis of the continuity assessment to the management of the audited entity.

The third stage of the inspection. It is then necessary to determine the sequence of the auditor's actions in order to express an objective opinion about the continuity of the audited entity in accordance with the proposed valuation methodology.

This means that the financial statements of the audit firm are prepared in accordance with the requirements of the legislation on the possibility of continuity of activities. It follows from this conclusion that the audited entity carries out its activities on a regular basis and fulfills its obligations for at least 12 months of the year following the reporting year.

If the auditor concludes that there are serious doubts about the continuity of the audited entity, it should take additional steps to obtain sufficient evidence to confirm or refute the auditor's doubts about compliance with these requirements.

In addition, the following can be cited:

- Request information to the management of the inspected entity on the existence of regulatory problems in its activities;
- analysis of information related to the plans of the management of the audited entity;
- Assess the feasibility of the accounting policy selected by the audited entity and analyze the correctness and sequence of its application.

After conducting additional audit procedures, the auditor should, based on his or her professional judgment, determine whether there are any uncertainties related to events that seriously cast doubt on the ability of the entity being individually or jointly audited to operate continuously.

In conclusion, the auditor begins to consider the financial statements in terms of disclosing the grounds for serious doubt in their application in assessing business continuity.

¹ Муаллиф томонидан ишлаб чиқилган.

Table 2

Dependence of the type of audit opinion on business continuity²

| Circumstances that the auditor may encounter in the process of assessing the continuity of the audited entity | Auditor's report on the results of the audit | Type of audit report |
|--|---|-------------------------|
| The financial statements are prepared in accordance with the requirements of the legislation on business continuity and there is no doubt about the ability of the audited entity to operate continuously for 12 months after the reporting period. | A wordless positive thought | Unmodified audit report |
| The financial statements are prepared in accordance with the requirements of the law on business continuity, but there are serious inaccuracies in the definition of the report, which substantiates doubts about the ability of the audited entity to continue its activities. | Opinion on the need to include additional information in the audit report | Unmodified audit report |
| Serious but not comprehensive, there are events that affect the auditor's opinion | | |
| Incomplete or uncertain disclosure in the financial statements that there is serious uncertainty about events or factors that are based on serious doubts about the ability of the audited entity to operate continuously for the 12 months following the reporting period | Additional conditional opinion | Modified audit report |
| Conflicts with the management of the audited entity related to the assessment of the ability to continue its activities or the refusal to extend the period covered by such assessment | | |
| Limitation of the scope of the audit, which is not considered significant or comprehensive by the management of the audited entity | | |
| There are important and comprehensive events that affect the auditor's opinion | | |
| The audited entity's report is prepared on the basis of assumptions of business continuity, but the auditor has gathered sufficient evidence during the audit that there are serious doubts about the entity's ability to operate continuously for the 12 months following the reporting period. | Negative thought | Modified audit report |
| Non-disclosure of information in the financial statements in the presence of serious doubts in the assumption of business continuity by the audited entity | Negative thought | Modified audit report |

² Author construction

| | | |
|---|--------------------|-----------------------|
| Significant and comprehensive limitation of the scope of the audit by the management of the audited entity, as a result of which the auditor is not able to gather sufficient evidence to provide a basis for the audit and the expression of his opinion | Refusal to comment | Modified audit report |
|---|--------------------|-----------------------|

By analyzing the report in this way, the auditor should determine: - whether the financial statements of the audited entity disclose the factors that give rise to serious doubts about the continuity of operations, as well as the management's plans related to these factors; - whether the explanatory letter contains serious uncertainty related to events that are based on serious doubts about the continuity of the audited entity and therefore the audited entity may not be able to perform its assets and obligations in the normal course of business. The auditor should then formulate one of the following conclusions: a) this information is reflected in the financial statements of the audited entity; b) the financial statements of the audited entity contain inaccurate or misleading information; c) the financial statements of the audited entity do not contain such information. Based on the findings, the auditor decides on the form and type of the audit opinion.

CONCLUSION

1. Special attention should be paid to the continuity of the client's activities in the quality of audits and risk reduction in the activities of the audit organization. Assessing the continuity of the audit should be done not only at the planning stage of the audit, but at all stages.
2. Continuity is one of the most basic principles of accounting. The principle of continuity of activity allows the entity to determine whether it will be able to continue its activities in the near future, reducing the scope and cessation of activities.
3. The comprehensive approach proposed as a result of the research serves to increase the objectivity of the inspection, and therefore its quality. The proposed methodology for assessing the continuity of client activities allows the auditor to comprehensively consider a set of all factors that affect or may affect the continuity of the business entity under review in the near future.

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