

Improving the methodology of internal control of financial statements as a tool for managing the activities of the organization

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Abstract. In modern conditions the issues of providing the management of the economic entity with timely and reliable information about the financial and economic activities of the organization become particularly important. The main source of such information is the internal control of the accounting financial statements. The study's goal is to provide methodological tools for internal control of accounting financial statements in order to better control measure design and implementation. The primary directions of internal control were specified within the framework of the research, and working papers of internal control were prepared to contribute to the improvement of audit technique. To improve the planning of the internal control of the accounting financial statements a working document is offered that allows to increase the efficiency of the control measures and to systematize the results of the control procedures in a timely manner. The identified differences between the data of financial reports and data of accounting registers allow to draw conclusions about the deviations that may arise when transferring indicators from accounting registers to the reporting form. The internal control papers presented enable for the systematization of the outcomes of control processes and the provision of information to the economic entity's management for management choices.

1 Introduction

In modern conditions, the content of reporting determines its target orientation. In this regard, the economic literature distinguishes the following types of reporting: financial, tax and managerial [1, 2, 3]

In accordance with normative acts, annual reporting includes: balance sheet; report on financial results; appendices to them - report on changes in capital, statement of cash flows and their intended use.

Accounting (financial) statements is the main document that provides information about the financial position, financial performance of the economic entity at the reporting date and

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cash flows for the reporting period to interested users. Based on the information contained in the financial statements, it is possible to assess the effectiveness of the audited subject's financial and economic activities, determine strategic development directions, conduct statistical research, and calculate indicators used in the taxation process [4, 5, 6].

External stakeholders based on the indicators of financial reports make decisions on the feasibility of investments aimed at the development of the business of an economic entity, determine the terms of loans and credits, check the timeliness and accuracy of tax payments [7, 8, 9].

For external and internal stakeholders to be confident in the reliability of information contained in financial statements, its formation compliance with the requirements of regulations, it is necessary to carry out control measures, including within the framework of internal control [9, 10, 11].

Internal control of accounting financial statements assesses the correctness of reporting form formation, establishes the identity of the data contained in the statements to the synthetic accounting data, and checks the completeness of information disclosure in the explanations to the statements.

To achieve this goal, the following tasks must be completed:

- checking the composition and content of the reporting forms;
- checking the correctness of the evaluation of items contained in the reporting forms;
- determining whether the accounting methodology used in the economic entity complies with current legislation requirements;
- verify that the consolidated financial statements have been prepared correctly.

At the same time to achieve the goal of internal control and to solve the main tasks a clear and effective methodology of inspection should be developed [12].

The study's goal is to provide methodological tools for internal control of accounting financial statements in order to increase the efficacy of planning and implementing controls operations.

2 Materials and methods

In the process of research we used a systematic approach, the method of systematization and generalization of data. Legislative and normative-legal acts, publications of specialists in the sphere of formation of financial reporting [13, 14, 15] and development of internal control, materials of scientific and practical conferences and scientific magazines [16, 17, 18] served as information base for the work.

Based on the results of the study it is expected to develop internal control working document (ICWD), which will record information about the accuracy and completeness of the accounting data in the financial statements, improve the effectiveness of controls and timely systematize the results of control procedures, assess the impact of identified violations on the performance of the organization and the determination of the taxable base for certain types of taxes.

3 Results

The internal control planning phase establishes the control procedures and operations that are expected to be done in order to accomplish the audit outcomes [19]. The scope of the audit is also examined at this point, as is the reporting, the audit approach, and the internal control program. The usage of this internal control working document allows for increased control activity efficiency and timely systematization of control procedure findings (table 1).

Table 1. Internal Control Working Document (ICWD) «Internal Control Program of Accounting Financial Statements (AFS)».

Control direction	Source of information	Control period	Name of controller's	Nature of verification	Control Procedure
1. Control of the presence and composition of AFS	Accounting policy, reporting forms, General Ledger, synthetic accounting registers	14.02.2022	Panov V.I.	Continuous and selective	Arithmetic control, verification of records in accounting and reporting registers, observation
2. Control of the correctness of registration and compilation of AFS forms	Reporting forms, General Ledger, synthetic accounting registers	15-16.02.2022	Panov V.I.	Continuous	Arithmetic control, verification of entries in the accounting and reporting registers, observation, comparison
3. Control of correctness of valuation of items of AFS forms	Reporting forms, General Ledger, registers of synthetic accounting	17-18.02.2022	Panov V.I.	Selective	Arithmetic control, checking entries in accounting and reporting registers, observation, comparison
4. Control of correspondence of AFS data to the data of the General Ledger and synthetic accounting registers	Reporting forms, General Ledger, synthetic accounting registers	21-22.02.2022	Panov V.I.	Selective	Arithmetic control, checking entries in accounting and reporting registers, testing
5. Control of information links of accounting forms	Reporting forms	23.02.2022	Panov V.I.	Continuous	Arithmetic control, comparison, logical checking

The correctness of the accounting financial statements is verified on a constant and selective basis.

Control procedures can be selective in nature:

when evaluating the business of the audited entity,
in the analysis of accounting policy on the compliance of its provisions with the requirements of current legislation,
during the examination of the order of forming the AFS,
when reconciling the consistency of AFS data to the data in the general ledger of accounting registers,
when confirming the information obtained in the process of control.

Such methods of control as arithmetic control, verification of records in accounting and reporting registers, observation are used.

During the internal control of financial statements, auditors actively apply analytical procedures, which allow:

compare the reported data with the data for previous periods and standards [20],
evaluate the factors influencing changes in the indicators contained in the reporting forms [21],

establish the nature of changes in various items of the reporting forms, to analyze the dynamics of the ratios that characterize assets and liabilities, revenues and expenses, comparing them with the indicators of advanced enterprises, average regional data [22,23],

compare non-financial indicators for the reporting period [24],
forecast current account balances on the basis of a statistical model formed on the basis of financial and non-financial indicators of previous reporting periods [25].

At the first stage of internal control, the availability, composition and content of financial statements generated by an economic entity are checked. Examining the composition and content of reporting forms, auditors determine whether they meet the requirements of legislative acts, whether all reporting forms established by regulatory acts are available, whether all requisites are filled in.

The accounting reports should include the indicators, which characterize the activity of the audited organization and its structural subdivisions. The data contained in accounting reports must give reliable idea about liquidity, solvency and financial stability of economic entity, about financial results, about changes of capital and cash flow.

The composition of financial statements should be fixed in the accounting policy of the organization. Internal control is used to determine if the concept of consistency of accounting policy is followed. Cases of changes in accounting policy relating to the establishment of AFS should be documented and drawn out in compliance with legislative requirements.

The availability, composition, and substance of financial statements created by an economic entity are examined at the first level of internal control. Auditors examine the composition and content of reporting forms to assess whether they fulfill legislative act requirements, whether all reporting forms set by regulatory acts are available, and whether all requisites are filled out.

The accounting reports should include the indicators, which characterize the activity of the audited organization and its structural subdivisions. The data contained in accounting reports must give reliable idea about liquidity, solvency and financial stability of economic entity, about financial results, about changes of capital and cash flow.

The composition of financial statements should be fixed in the accounting policy of the organization. In the process of internal control it is established whether the principle of constancy of accounting policy is observed. The cases of changes in the accounting policy, concerning the formation of AFS, should be documented and drawn up in accordance with the requirements of the law.

In addition, the accounting policy should reflect the provisions concerning the recognition of income of an economic entity as income from ordinary activities. The accounting policy must define the types of activities that are classified as the main activities, and correctly classify income and expenses.

At the second stage, the correctness of registration and preparation of AFS forms is checked. To do this, the arithmetic control is used to calculate the results for individual items, groups of items, sections, and then by reconciliation check the compliance of the results obtained with the data contained in the statements.

At the third stage, during the verification of the correctness of the evaluation of reporting items, the controller establishes whether the basic requirements for its formation are observed, namely:

- the evaluation of the property and liabilities of the economic entity must be carried out by summing up the expenses;

- netting out between the assets and liabilities items cannot be performed;

- the indicators in the balance sheet should be reflected on a net basis;

- indicators in reporting forms must be formed in accordance with the requirements of legislative and regulatory acts.

At the fourth stage, there is control over the consistency of the data of the AFS with the data of the General Ledger and synthetic accounting registers.

By reconciling the identity of the indicators contained in the reporting forms with the indicators of the General ledger and accounting registers, auditors confirm individual items of financial statements.

When confirming the reliability of the indicators of accounting forms, the auditor should examine the results of the stock take taken before the preparation of the annual report. If the inventory revealed discrepancies with the accounting data, they should be eliminated before submitting the annual report to the relevant state supervisory authorities

Also at this stage is the verification of the completeness and accuracy of the reflection of the accounting data in the statements. The results of verification of the completeness and accuracy of accounting data should be reflected in the internal control working document (Table 2).

Table 2. InternalControlWorkingDocument (ICWD) «Checking the completeness and accuracy of accounting data reflection in the statements».

Name of the report indicator	Value of the report indicator	Name of the account	Value according to accounting registers	Deviations detected
Balance sheet				
1150 «Property, plant and equipment	324973	Account 01 «Fixed assets	326498	There were deviations in balance sheet item 1150 from the accounting registers in the amount of RUR 1,525 thousand.
1250 «Investments (excluding cash equivalents)	24579	Account 58 «Financial investments	24579	There were no deviations between balance sheet item 1259 and the data in the accounting registers.
Statement of financial performance				

2120 «Costofsales	399185	Account 90/2 «Costofsales	373580	There was a discrepancy between data in line 2120 of the profit and loss statement and data in the accounting registers in the amount of 2,5605 thousand rubles.
2320 «Interest receivable»	63	Account 91/1 «Other income and expenses	63	No deviations were found in the data on line 2320 of the statement of financial results from the data in the accounting registers.

Based on the proposed document, conclusions can be made about the accuracy and completeness of the accounting data in the financial statements. Identified deviations of the data in the financial statements from the data in the accounting registers may occur when transferring indicators from the accounting registers to the reporting form. To reduce the risk of such deviations it is necessary to increase the number of control activities carried out by internal controllers, as well as to invite independent auditors to conduct audits.

4 Discussion

An important step in internal control is the verification of information relationships between accounting forms. Verification of the relationship of individual items of financial statements allows to determine whether the requirements of consistency of indicators are observed.

To confirm the identity of the data contained in the reporting forms, a method of documentary control such as counter-checking is used. (Fig. 1).

We contend that it is fair to organize mistakes discovered during internal control of accounting financial statements in the internal control working document «Classification of detected errors and violations in the process of internal control of accounting financial statements» (Table 3).

This document serves to systematize the violations detected in the course of internal control in order to further assess their impact on the performance of the organization and the determination of the taxable base for certain types of taxes. It also determines the amount of damage for each violation and establishes how significant the detected violations are.

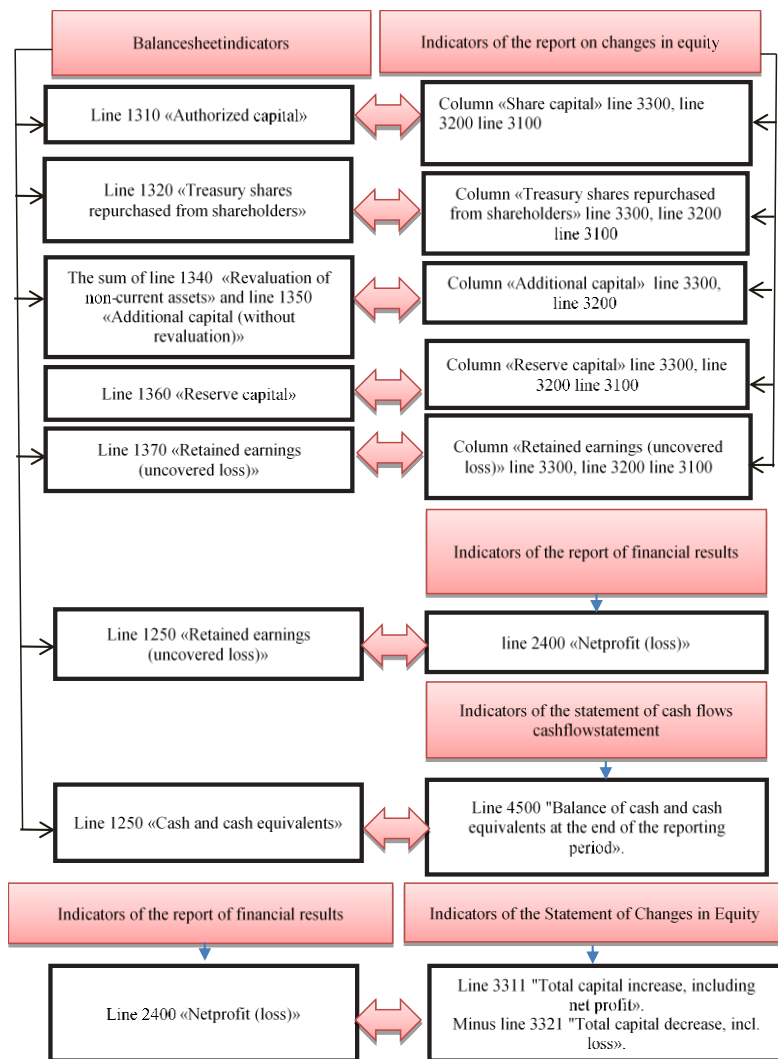


Fig. 1. Reconciliation of the identity of these reporting forms.

Table3. ICWD «Classification of detected errors and violations in the process of internal control of accounting financial statements»

Identified violations	Cause of occurrence	Amount, thousand rubles		
		According to the company	According to the controller	Deviations
Over stated amount of receivables	Accounts receivable on which the statute of limitations has expired are reflected	100887	95213	+5674
Overstated revenue from product sales	Income was classified incorrectly	390446	346976	+43470
Other expenses were understated	No reserve for bad debts was created	14007	16800	-2793

Understated net book value of fixed assets	Incorrect depreciation was calculated	324973	332390	-7417
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5 Conclusions

Thus, the research identified the major areas of internal control and generated internal control working documents, leading to the development of audit technique. A working paper was presented to enhance the planning of internal control of accounting financial statements in order to increase the efficacy of control measures and organize the outcomes of control operations in a timely way. The results of checking the completeness and accuracy of accounting data are recommended to be reflected in the internal control working document «Checking the completeness and accuracy of accounting data reflection in the statements», on the basis of which conclusions can be drawn about the accuracy and completeness of reflection of accounting data in the financial statements. Identified deviations of the data in the financial statements from the data in the accounting registers may occur when transferring indicators from the accounting registers to the reporting form. For the systematization of errors detected in the course of internal control of accounting financial statements it is suggested to use internal control working document «Classification of detected errors and violations in the process of internal control of accounting financial statements» in order to further assess the impact of the detected errors on the performance of the organization and the determination of the taxable base for certain types of taxes.

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