

Aspects of Financial Reporting Transformation Based on International Standards

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ABSTRACT

This article discusses the need to examine consolidated financial statements in accordance with International auditing standards, to identify audit risk and to obtain them in relation to the financial statements of companies in the group as a whole, as well as auditing the consolidated financial statements in a language that is understandable to shareholders and investors. The goal of the countries of the world is to organize quality, achieve a positive result in the field of production and services in modern economic practice, and thereby achieve maximum efficiency. In addition, mistakes in the organization of the consolidated financial statements in accordance with international standards are justified.

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Introduction

Currently, the transition to international standards of financial reporting requires abandoning national standards or adapting national standards to international standards and provides an opportunity to expand these activities and attract investments from developed countries. In connection with the transition of our country to a system of market economy, the most important task for the economy is to use the available funds and to manage their assets optimally. This is because the rapid development of the economic assimilation cube is directly related to its ability to manage and allocate existing resources. An important part of our economy is the system of companies and the longevity and convenient development of its activity depends on how the legal base of its activity is organized.

"International Financial Reporting Standards provide for the offsetting of the carrying amount of investments in each of the parent's subsidiaries and the share of parent in the equity of each parent's subsidiaries" [5].

For this purpose, at the first stage of reforms, the legal registration of the business system was completed. With the establishment of the big enterprises, the second phase of the business system: an internal audit service was established in this enterprises with the aim of building and improving the internal controlling.

The purpose of this was to cover up the creation of a joint stock company as well as to form the continuous controlling in the company that meets the requirements of the new market conditions and subjects. It should be noted that the fact that the amount of foreign investment has been steadily growing in recent years indicates the growth of confidence in the economy of Uzbekistan. Now it is more important to the further improvement of management of activities in joint stock companies where there is more share of the state and the transfer of shares of the state to foreign investors step by step. In order to attract foreign investors and provide them with the necessary information environment, as well as expand and improve their access to international financial markets by accelerating the transition of financial reporting to international financial reporting standards, it is stated on Presidential Decree №4611 dated February 24, 2020 "Insurance companies and legal entities included in the category of large taxpayers,

from January 1, 2021 organizes accounting based on International Financial Reporting Standards (IFRS), and from the end of 2021 will prepare financial statements based on IFRS”[1].

In this context, the success of Uzbekistan in the context of globalization will largely depend on the reliability of the financial statements and the holistic assessment, ie the auditor's assessment.

In this regard, on the the President of the Republic of Uzbekistan PD № 3946 dated September 19, 2018 "On further development of auditing activities in the Republic of Uzbekistan" the followings have been stated “The development of the audit services market is aimed at implementing modern approaches in accordance with international standards: to improve the quality of international audit services and to support the confidence of the business community in the audit results of the audit organization's work, to increase the level of involvement in the audit, to cooperate with the international organizations that determine the international audit standard of the public audit system ”[2].

It is safe to say that the adoption of this decree was one of the first steps in the field of accounting and auditing. Attracting foreign investments requires the widespread introduction of international financial reporting standards and international auditing standards in the preparation and audit of financial statements prepared by business entities.

Literature review

V.V. Kovalev, Vit.V. Kovalev write that "if the consolidated financial report reveals the true financial condition of the company, its audit is inextricably linked with the attraction of investment."[4].

In his scientific work, A.V. Arvachev says : “Auditing the consolidated financial statements contains 3 stages. In initial stage, auditor should get to know the other enterprises in the group before signing the contract with the head company and analyzes the general procedure and preparation of the auditing [3].

Scholars Schönfeldt, N., Hancock, P ., Birt, J . have noted that “the consolidated financial statements do not take into account the interim reports of the companies, they are prepared through the annual financial statements and are audited in accordance with international auditing standards”.[6].

Researches of Maffei, M., Fiondella, C. show that "conducting an audit in accordance with international standards, increasing the level of public understanding and reliability of the audit report is always one of the priorities."[8].

Analysis and results

It shows that we need to pay serious attention to the adoption of national standards in our country with international standards. If large entities have prepared their financial statements in accordance with IFRS, the audit also requires that we review the audit in accordance with international auditing standards and summarize its findings.

At this point, we can say that as a result of the expansion of enterprises, that is, the consolidation under one organization, the head, dependent, subsidiary companies emerge. At the same time, it ensures the reliability of the financial and economic activities of the above companies if they receive basic information about their assets and liabilities, rights and obligations from the consolidated financial statements. Reliable information from the consolidated financial statements Consolidated financial statements are based on financial statements, it is important that these financial statements are prepared in accordance with IFRS and that their review is also organized in accordance with ISA (International Standards on Auditing).

Well-known economists V.V. Kovalev, Vit.V. Kovalev defines the following in their works: “The creators of the consolidated financial statements are Artur Dickinson, auditor of Price Waterhouse, and Phibert, chief accountant of the US Steel Company. They put it into practice. These are “people who have developed a methodology for preparing consolidated financial statements based on international standards and their audit based on international auditing standards” [3].

When the audit organization examines the consolidated financial statements of the joint-stock company, it is also necessary to include the auditing risk of general group. As long as the application of the analytical procedure in the audit is performed using consolidated financial reporting data, the results of the

evaluation of the information that audit selected may be available only with significant distortions. In such a case, the consolidated financial statements, including the financial statements prepared by the auditor and the subsidiary, should serve as the basis for an audible signal with other information collected during the identification of significant misstatements by the auditor.

“One of the key indicators is to ensure that the values presented in all items and lines of the consolidated financial statements are fully consistent with the accounting and financial statements, and that the auditors approve them in accordance with international auditing standards and obtain a reliable conclusion.[7].

In examining the consolidated financial statements, the auditing risk should be distributed to the enterprises in the group. An audit of this statement will require an increase in the financial statement of the subsidiaries as well.

It should be noted that the audit of the consolidated financial report itself allows to identify possible risks and deviations in the accounting report, because evaluating the assessment of the state of the control and the periodicity of the audit procedure in the company will help the auditor to determine how detailed the audit procedure will be and to plan the selection process.

The following is a presentation of an auditing risk distribution that will arise while using another auditor's work in accordance with International Standards on Auditing No.600, entitled “Audit of Group Financial Statements” (Figure 1).

Thus, the use of another auditor's work has a positive side that complements the analysis of the auditor's self-report.

The auditor general is encouraged to meet with the management of the audited subsidiary to understand the scope and practice of the audit. It will be possible to agree with other auditors on the timing of the audit, the applicable audit practice, important information obtained during the audit, the assessment of receipt.

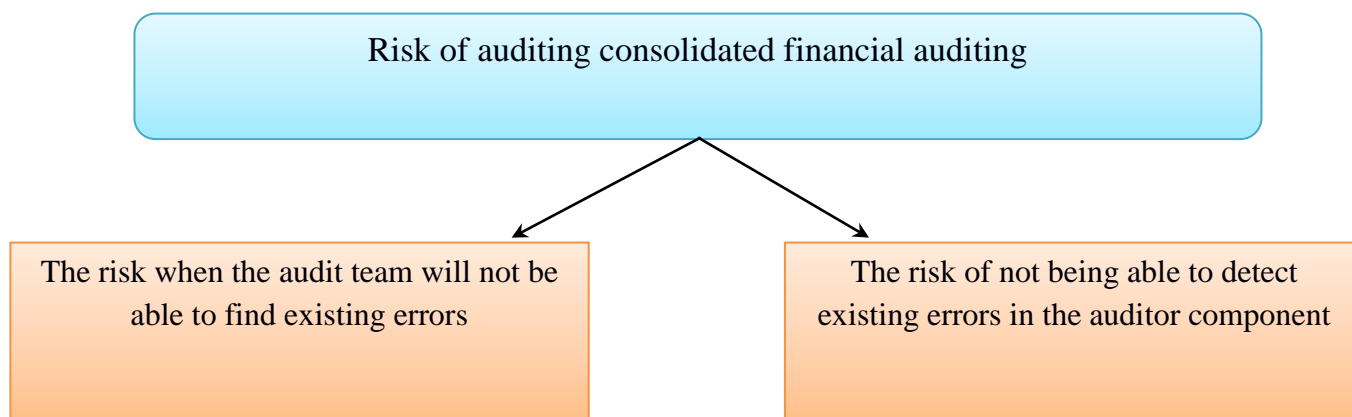


Figure 1. Auditing risk on the use of the results of other audit work¹

In this process, it is advisable to have access to the working papers of other auditors, as well as to receive written explanatory letters on all issues. In some cases, if the entities preparing the consolidated financial statements are located abroad or the timeframe for the audit is too limited, the chief auditor is required to express his or her opinion only on the basis of the use of their report without participating in the work of other auditors. In such cases, it should clearly state this information in its report, indicating the enterprises and organizations surveyed by other auditors, as well as their weight in the report of the group of related organizations.

At the time, it is possible that the group of interrelated companies is pursuing a comprehensive accounting policy, as if they were operating in a multi-industry group or segment.

In our opinion, the head of the group of related organizations should cover this issue in the following

¹ Prepared by the author

way:

1. Give orders to a group of subsidiaries to prepare report based on a single accounting policy applied to the report of the entire group;
2. Give orders to provide a summary of detailed explanations of the organization's accounting policies to the management of the affiliated company and make important adjustments for the consolidated financial statements.

In order to prepare a consolidated financial report, the auditor must verify the accuracy of the corrections and financial statements made to the hijab from the group of related organizations. Auditor has the right to require the chief auditor of the affiliated organization to confirm that the work on the financial information has been corrected by another auditor, if the work has been carried out by another auditor.

Mistakes that affect the accuracy and reliability of the consolidated financial statements in verifying the performance of a group of related entities must be analyzed and evaluated during the audit.

The following can be added to the list of financial errors that occur during the audit of the consolidated financial statements (Figure 2).

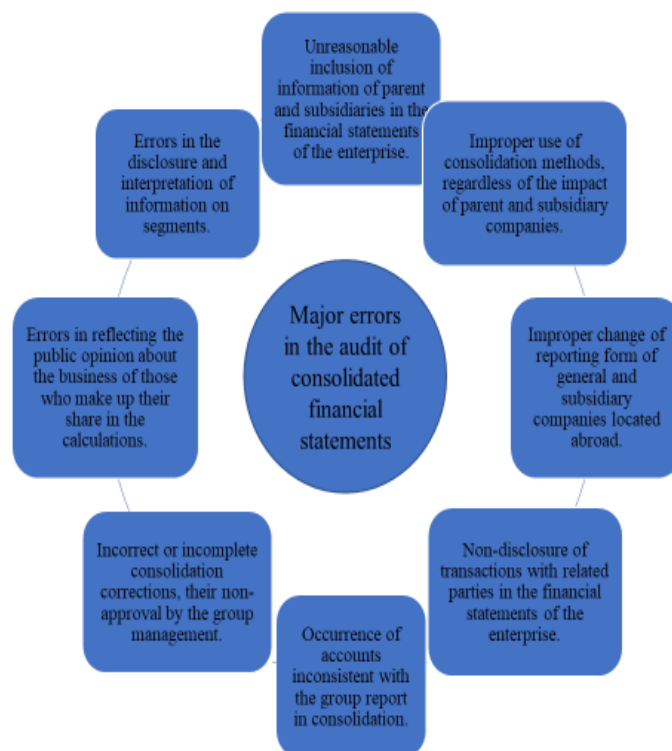


Figure 2. Errors arise during the audit of consolidated financial statements²

In order to verify the correctness of the consolidated financial statements, the auditor should pay special attention to the correctness of the transactions with the parent and subsidiary companies, the accuracy of the statements made by the affiliates, and the permission given by the head of the group of related companies and explain it in the statements.

Consolidated financial statements analyze the financial statements of the parent company and its subsidiaries to determine the nature and financial aspects of the transaction, analyze the purpose of the transaction, compare the amount of money relating to each transaction and obtain explanation and permission to each sum of transaction and compare with other economic subject's accounting statement.

The stages of the audit of the consolidated financial statements determine the sequence of work to be performed by auditors by identifying and assessing the risk of material misstatement, applying significant

² Prepared by the author

audit procedures and final steps [9].

In order to ensure the completeness of the information provided in the consolidated financial statements and the disclosure of the information in the consolidated financial statements, it is recommended to obtain a written confirmation from the enterprises of the affiliated organizations.

The final step in the audit is to bring the identified errors to the one system, as well as summarizing and presenting the audit results in the audit report on the reliability of the accounting report in the consolidated financial statements.

Conclusion

In our opinion, the implementation of the results of auditing the consolidated financial statements and the final part of the contractual relationship with the client include the following steps:

- getting familiar with the results of the audit service of the group of organizations connected each other;
- elimination of shortcomings in the preparation and submission of consolidated financial statements of the group of related organizations, as well as the development of proposals and recommendations for improving the internal audit system in the group of related organizations and its divisions;
- Compilation of an audit report and its submission to the head of the group of related organizations;
- Signing the act of acceptance of the completed work and the implementation of the final accounting report between the customer and the contractor.

Unless a serious defect is found in the financial statements, the auditor should explain these fact on the auditor's report accurately and completely.

In order not to be misunderstood, the form of the conclusion might be changed, the shortcomings that can arise must be agreed upon, and the inclusion of the conclusion must be explained and based on facts.

Thus, during auditing the consolidated financial statements, it is necessary to cover all stages of the audit and ensure compliance with the requirements set by the International Auditing Standards.

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