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ANALYTICAL MEASURES OF EVALUATING AUDITORS QUALITY PERFORMANCE

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ABSTRACT: *This paper analyzes analytical procedures in auditing, including theoretical and practical aspects, as well as analytical procedures of income and expenses. The aim of this paper has been to determine the essence and the purpose of analytical procedures in auditing. The paper states that analytical procedures in auditing enable the auditor to understand specific features of activity of a business entity – the audit client, areas of potential risk, audit risk and materiality level; to detect the presence of distortions in financial reporting; to analyze the client's financial condition; to estimate the probability of its continuous activities; to identify the need for additional audit procedures; and to develop recommendations on how to improve the client's financial condition, which is important in contemporary circumstances of the development of the Iraqi economy. The paper also provides the conclusion that solving the problem of efficiency of analytical procedures can be enhanced by using modern information technologies and systems.*

KEYWORDS: Audit, Analytical Procedures**,** Audit Evidences, Audit of Revenue, Expenditure.

INTRODUCTION

In modern conditions, the development of the world economy increases the importance of analytical procedures as varieties of independent audit evidence as to whether the compiled financial statements of a business entity in all significant aspects comply with the defined conceptual framework for financial reporting, which proves the relevance of the research topic. The aim is to define the essence and the purpose of analytical procedures in auditing. The use of analytical procedures in auditing was studied by authors such as A.V. Bodyuk, V.S. Rudnitsky, N.I. Dorosh, Ya.A. Goncharuk and others. Thus, Ya.A. Goncharuk and V.S. Rudnitsky suggest applying analytical procedures not only at the initial and final stages of the audit, but also while collecting audit evidence. A.V. Bodyuk agrees with them in the monograph "Methodological and regulatory aspects of auditing a business activity." N.I. Dorosh carefully describes the use of analytical procedures at the planning stage and defines the essence of analytical procedures as an actual quality check in the monograph "Audit: methodology and organization." Nonetheless, the essence and the purpose of analytical procedures in auditing currently require further study.

However, currently available global guidelines and special scientific literature, describing methodology and organization of audit of revenue and expenditure, first of all, focus on the auditor's confirmation of revenue and expenditure data and the processes of their formation, while ignoring implementation of analytical procedures of audit [1,2]. This limits both the functional significance of audit activity and demand for such kind of works.

Analytical Procedures in Auditing: Theoretical and Practical Aspects

The audit is carried out on the basis of Iraq's Law "On audit activity" and international auditing standards, securing confidence and ethics. In accordance with the international auditing standards, the objective of the audit of financial reporting is to provide opportunities for the expression of the auditor's opinion on the compliance of prepared financial statements with certain requirements applied thereto. To express such an opinion, the auditor needs to collect audit evidence, including such type of the latter as analytical procedures. Analytical procedures as a type of audit evidence can be used in the audit assuming that they are objective and ensure such level of confidence that one can rely on the results obtained through these analytical procedures. ISA 520 "Analytical procedures" defines analytical procedures as audit procedures that suggest analysis of important financial indicators and trends with further study of deviations and inter-relations that contradict other relevant information or deviate from those expected. The nature and the purpose of analytical procedures are defined in the ISA 520.

Analytical procedures include comparison of financial information of a business entity with the information of previous years subject to comparison; with planned company's calculations (e.g. budgets) or the auditor's forecast (e.g. stock assessment), as well as with relevant industry information. Analytical procedures also include the study of the relationship between.

A - Elements of financial information.

B - Financial information and relevant non-financial information (e.g., proceeds from the sale of products and the number of units of product sold, etc.). Analytical procedures may be used in the analysis of consolidated reporting of a business entity and reporting of individual structural units. The auditor independently chooses the verification procedure, methods and levels of their use. When performing analytical procedures, the auditor can use a variety of methods, such as "reading" of balance sheet, variable analysis, comparison, regression analysis, ratio analysis, etc. ISA 520 recommends the use of analytical procedures.

i. When planning the audit.

ii. As the procedures per se, where their use may be more efficient or productive than the use of other audit procedures.

iii. At the final stage of the audit.

When planning the audit, the purpose of analytical procedures is to study the activities of a business entity and areas of potential risk; to assess audit risk and materiality level, and to determine the nature, timing and size of other audit procedures, etc. Information base comprises the constituent documents, decisions of the meeting of shareholders, auditor's report and opinion for the previous year, etc.

The purpose of conducting analytical procedures as audit procedures is essentially checking actual availability of material misstatement in reporting. For implementation of analytical procedures at this stage, the accounting, planned and unplanned data are used. In the process of conducting analytical procedures per se, the auditor may draw a conclusion on the actual status and the prospects of the financial standing of a business entity and estimate the probability of its continuous activities. At the final stage of audit, analytical procedures are used to assess and analyze the results of the check; to write a report and prepare proposals for the management of a business entity; to compile an audit opinion; as well as to draw up a

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certificate of completion. In case the auditor, at the final stage of the audit, concludes that the audit evidences are insufficient for the purpose of expressing an opinion on the conformity of the compiled financial statements of a business entity in all material respects with conceptual framework for financial reporting, the auditor may undertake additional audit procedures to obtain the necessary qualification information.

Analytical Procedures of Income and Expenses

Managing income and expenses in a competitive environment with unstable parameters of impact of internal and external factors of their formation involves an objective, impartial and systematic assessment of opportunities, feasibility and effectiveness of their expected or actual size. Despite the fact that such evaluations are carried out within the framework of management accounting, diversity of assessments in corporate or national interests and protection of business interests require systematic analysis by the structures of internal and external audit. This need stems from the fact that at higher levels of management and owners, more than two-thirds of the participants in the management process have no professional knowledge on management accounting and are forced to use the services of independent and competent auditors. Moreover, management accounting and planning professionals work within regulated authority and limitation of access to confidential information, especially when it comes to the recognition of final financial result. So the systematic implementation of analytical procedures of audit of income and expenses may be a significant stepping stone in making management decisions concerning the size, structure and balance of income and expenses, both by activity and in terms of product mix, works performed or services rendered. Analytical procedures in audit activities are clearly defined by respective international and national standards and regulations of external and internal audit. The particularity of analytical procedures determines.

1- Recognition of expediency regarding the completeness of the formation of income in accordance with market conditions and economic potential of a business entity.

2- Feasibility of the structure of income generation activity.

3- Intensity and quality of income generation in accordance with a changing external environment.

4- Rationalization of expenditures and fullness of the use of a favorable environment.

5- Distinction between the impact of objective and subjective factors in the formation of revenues and expenditures.

6- Measurement of business activity and creative management by responsibility areas, etc.

Although this not an exhaustive list of assumptions, it affects the formation of audit program and sequence of analytical procedures. When implementing economic procedures in auditing revenues and expenditures, one should distinguish them at two levels.

i. First-level procedures relate to the analysis of information resources, from the display of data in primary documents in the consolidated financial indicators and statistical reporting;

ii. Second-level procedures are associated with evaluations and diagnosis of value and change of the income and expenses relative to their management parameters (planning, regulation, adjustments, etc.).

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The content of analytical procedures in auditing revenues and expenses may be submitted in the following groups.

a) Data analysis of linkages between income and expenditure in various accounting registers (synthetic and analytical accounting), reporting forms and other sources of information.

b) Comparative analysis of income and expenses for the purposes of evaluation of quantitative and qualitative changes, expected and unexpected deviations, trends and patterns, possible impacts and challenges.

c) Forecasting future state of an economic system depending on expected revenues and expenses.

d) Analytical procedures for the recognition of appropriateness and effectiveness.

The most significant in revenue audit is to examine the feasibility of structural changes in the formation of income generation by types of activities. This is associated with maneuvering of cash flows with respect to mobilization of equity and debt capital. Such couplings often use the return on turnover of operating, investing or financing activities for each economic project. However, this approach does not provide exhaustive fund-raising performance characteristics for the growth of business income. It should be borne in mind that the methodological tools of analytical procedures are significantly different at different stages of the audit. Thus, during the planning stage of the audit, the comparative analysis is popular, which allows determining the nature, extent and timing of the audit. At the stage of confirmation of the information regarding the reports and promising projects, the purpose of analytical procedures is to obtain audit evidences. Therefore, methods of factor economic analysis and methods of economic cybernetics are more often used here. At the final stage of the audit, the evidence obtained is usually evaluated to give confidence in the implementation of the objectives of the management. The procedures of comparative analysis, ratings, etc. are of priority importance at this stage. However, questionable is the position of authors, who restrict the area of application of analytical procedures, particularly in income and expenses audit [3]. Referring to the requirement of credibility of evidence and judgment in the audit, they limit the analytical procedures only by the area of "standard operations that do not change for a long period" , sampling of individual information resources for greater guarantee of authenticity in case where there are partial and consolidated data, etc. Noteworthy, the provision of confidence in the management of income and expenditure under these conditions is questionable. However, from all the findings of auditors in Russia, more than 90% are positive without any reservations.

Analysis of income and expenses is especially mobile, it involves continuous monitoring of internal and external environment, taking into account specific activity of business entities and developing a balanced strategy and flexible tactics of production, marketing, supply chain and other activities. The complexity of analytical procedures in such audit is determined by the search for application of analytical techniques that would give an opportunity to provide unbiased characteristic of actions of subjective and objective factors of changes in income and expenses; to accurately reflect the functional relationship; and to predict not only their absolute and relative changes, but also to assess the impact on financial and economic conditions of the enterprise as a whole. Efficiency of the use of analytical procedures in the audit of income and expenditures to a great extent depends on the choice of relevant indicators, algorithms of their relationship with the internal structure and the formation of final result, sequence analysis, etc.

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When applying analytical procedures, it is necessary to take into account the risk of providing full and accurate information following the results of the analysis as a part of audit risk of no detection. The risk of analytical procedures is determined by non-compliance with the logic of analytical procedures of factor modeling of changes in income and expenditures, unreliability and poor-quality characteristics of information resources of analysis, incompetence of the auditors, etc., which makes it impossible to provide conclusive evidence pursuant to the audit programmer.

The auditor's confidence in the results of analytical procedures depends primarily on the truthfulness of the obtained results of the analysis of income and expenses, the precision of estimates of reserves and ability to mobilize them, subjective judgments regarding the actions and processes that are not parameter. Levels of risk of analytical procedures are most often divided into three groups [4].

The first group includes non-quantifiable procedures, which make it possible to draw conclusions about completeness, validity and accuracy of the established relationship and calculations.

However, these data are very subjective, with a complete lack of assurance (concerning material flows conjuncture, wage-to-product ratio, transparency of benefits, etc.). The second group includes simple quantitative procedures used in analyzing ratios, time series, and rating assessments. These are usually a structural analysis of income and expenditure, analysis of dynamics and elasticity of changes, comparative competitive analysis. The risk of such analytical procedures is minimum for due accuracy. The third group comprises complex analytical procedures that involve the use of economic and mathematics methods and models, statistical models and behavior patterns. These procedures allow ensuring more confidence for the auditor, but due to their labor intensity, they are used very rarely.

The importance of applying analytical procedures in the audit of income and expenses stems from the fact that almost 40% of errors in accounting are manifested during implementation of analytical procedures. Describing the analytical procedures in the audit of income and expenses, we should note that they do not limit or replace the content of the integrated economic cost analysis of activities, cost of production, incomes and financial results of operating, investing and financing activities, as they have completely different targets.

According to the ISA requirements, the application of analytical procedures is stipulated by relationship and codependency of indicators of income and expenses. Estimation of these linkages ensures completeness of audit evidences, accuracy of the data, which are reflected in accounting and reporting. Methodical techniques of analysis may not be clearly defined according to specific situations, but their mandatory set should be included in each stage of the audit. Use of modern information technologies and systems may contribute to addressing the issues of cost-effectiveness of analytical procedures.

CONCLUSION

Analytical procedures in auditing allow the auditor to understand specific features of activities of a business entity – the audit's client, areas of potential risk, audit risk and materiality level; to detect the presence of distortions in financial reporting; to analyze the client's financial condition; to estimate the probability of its continuous activities; to identify the need for

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additional audit procedures; and to develop recommendations as to how to improve the client's financial condition, which is important in modern conditions of the development of the Iraqi economy. In the estimates of the feasibility and effectiveness of expenditure, as well as in the recognition of revenue by type of activity, it is important not only to confirm the completeness and accuracy of the information of accounting and reporting on the basis of relevant audit procedures, but also to widespread the use of analytical procedures that not only help meet the challenges of assessing credibility, but also provide impartial information about economic interests behind this issue.

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