

AUDIT OF FINANCIAL REPORTS, BASED ON INTERNATIONAL ACCOUNTING STANDARDS

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ABSTRACT

In this article are given main notion about international standard of financial reporting, order of the auditing on the base of IFRS, scheduling the report of the auditor, auditor conclusions and are given analysis of reporting based on the auditor procedures. At the audit of financial reporting are taken into account international standard to financial reporting 29 "Financial reporting in hyperinflationary economies".

JEL CLASSIFICATION & KEYWORDS

■ M40 ■ Financial Statements ■ Balance Sheet ■ Statement of the Financial Results ■ Cash Flow Statements and Notes Thereto ■ National Accounting Standards ■ IAS ■ IFRS ■ Auditor's Report ■

INTRODUCTION

The most important thing in the market economy, as the President of Uzbekistan mentioned, is to create a good climate for foreign investors and activate foreign economic activity.

Accordingly, a lot of companies with participation of foreign capital have been establishing lately. So, under these circumstances there is a need for proper organization of business activity of joint ventures and companies with foreign investments.

New forms of businesses in foreign activity of Uzbekistan result in occurrence of new problems. Selection of a partner in the international market, on which the future collaboration depends, is one of the problems. The methods of efficiency analysis of enterprises applied abroad are different from the ones in Uzbekistan.

New economic relations linked with gradual transfer of the economy to the usage of market mechanisms, create new problems in organization and methodology of accounting and audit.

Development of market economy does not tolerate insularity of national economy, but in opposite, it assumes free cross-board movement of goods, capital and workforce. Broad international relations, including expanding foreign investments into the economy of Uzbekistan, challenge and require improvement of the accounting and audit systems. Adequate organisation of accounting system of foreign investments and audit of financial reports according to international standards are of a crucial importance nowadays.

This issue is getting complicated due to expansion of accounting reports users' group, both within and outside of the country, strengthening of worldwide integration process (establishment of joint ventures, access to international financial centers, such as stock exchanges, international banks, funds, etc.), necessity of free movement of capital, workforce, currency among the countries.

THE PRACTICE OF INTERNATIONAL ACCOUNTING STANDARDS

Various approaches in accounting and reporting necessitates development of general accounting principles to simplify an international business communication. Therefore, under such circumstances it is important to develop a unified accounting principle, which reflect the strengthening globalization of world economy and financial markets.

To achieve these purposes International Accounting Standards Committee - (IASC) was founded on 29 June 1973 with an agreement of accountants of Australia, Canada, France, Germany, Japan, Mexico, Netherlands, United Kingdom, Ireland and USA. At present there are 142 members from 103 countries [1].

Before the establishment of IASC there were many differences in reporting forms and contents of the published reports. This committee have studied drafts of and already published accounting standards and developed international accounting standards (IAS) to be used worldwide. One of the main targets of this committee is to harmonize, as much as possible, the accounting standards and accounting policy in difference countries.

During the development of new standards and revision of existing ones, IASC concentrates on the main problems. IASC does not adopt detailed standards, which would make them difficult in application.

Standards published by IASC are constantly revised to coup with current developments and changes.

Published IAS do not reject the national requirements to the presentation of financial reporting.

As of today IASC has developed 41 international accounting standards and IFRS has developed 12 international finance reporting standards [2].

Existing differences in presentation of financial reports in some countries resulted from the national peculiarities in legislation and standards do not create barriers in decision making and estimate judgments. Majority of countries with market oriented economy accept the main objectives and general concept of financial reports stipulated by International Accounting Standards, since they comply with requirements of multinational corporations and international financial markets.

The practice of developed and CIS countries demonstrates that the majority of countries while developing their national standards (norms of accounting, trade and human rights legislation) consider the recommendations of International Accounting Standards.

IAS have been developed and recommended for application on a step by step basis during for more than 20 years. These standards are being revised even at present, new standards are being developed to meet the current situation. An

experience shows that certain countries have adapted international accounting standards to meet the country specifics and developed their own national standards.

The system of accounting that comply with international standards, not only would strengthen the independence of companies in choosing the forms and methods of accounting, but also increases their responsibilities on reliability issues of financial reports, increasing the importance of auditor's report on published statements. Auditor's report confirms that information given in the accounts can be used for financial decision making. Although each of the elements of financial reports has its independent sense and informative value, all of them aim to provide external users with reliable and accurate financial information for decision making. This information would be vital for management decisions, investment and financial activities.

The reports prepared in accordance with international accounting standards provide users with sufficient and reliable information about financial and economic activities of the company, simplifies an access to the international capital markets and decreases investment costs, functions as base for well-thought decisions. They gained more importance after signing an agreement in 1995 between IASC and ISCO (International Securities Commissions Organization) confirming that shares of the companies, whose financial reports are prepared in accordance with accounting standards approved by ISCO will be listed at the international stock exchanges. Therefore, current international accounting standards not only summarise an accounting experience and presentation of financial reports, but also actively impacts on the development of national accounting and reporting systems [3].

Changing of accounting reports according to requirements of international standards is becoming vital lately. This is stipulated by development of world economy, requiring the knowledge of adequate communication language between companies, operating in the international market. From the other hand, restructuring of the accounting system in Uzbekistan requires profound understanding of the substance of international standards and the opportunity of their application in practice. Therefore, we can say, that the attraction of foreign investors, accustomed to rely on information contained in the reports, prepared in accordance with generally accepted principles and confirmed by auditors, that can be used in strategic and tactic decisions requires development of legislative base, change of accounting methodology, adequate staff training and retraining.

It is necessary to solve another problem. The problem faced of foreign companies, joint ventures. Since companies with foreign investments, operating in the Uzbek market, should change their local financial reports, firstly, for the purposes of consolidation with the accounts of their parent companies, secondly, companies interested in collaboration with foreign investments, thirdly, companies eager to work in international markets. In addition, with development of market relations of Uzbek organizations, including ones operating in internal market, the need in reliable financial information about their own activity is coming up, which could be supplied by reports transformed in accordance with international standards.

At present, two ways of transformation are used in compliance with international standards. The first is the inflationary approach, the second is the currency approach.

The inflationary approach is based on international standard 29 " Financial reporting in hyperinflationary economies", where financial statements should be presented in monetary units, which take into account inflation, i.e. measurement units current at the balance sheet date. For this purpose, the accounts are restated using general price index, which reflect the changes of general purchasing power. Thus, the reports compiled in Uzbek Soums, should be adjusted for general price index, translated into foreign currency at a rate prevailing at the balance sheet date and reclassified accordingly. In addition, some other items, that do not comply with the international standards, must be adjusted and corrected (e.g. depreciation of fixed and intangible assets).

The main problem associated with use of this approach is finding and application of real general price index. Currency approach is also used for translation of the accounts. Its use is also recommended by IAS 29 (item 17), which suggests to make estimates based on exchange rate movements, if reliable general price indices are not available. This assumes application of "Effect of exchange rates movements" for translation of the accounts.

This standard defines the following rules for selection of exchange rates for restatement of various items in the financial statements:

- monetary items are restated using the rate current at the balance sheet date;
- non-monetary items, recorded at the historic value, are restated using the rate current at the acquisition date (this rate is also known as historic one);
- non-monetary items, recorded at the fair market value, are restated using the rate current at the date of identification of the fair market value.

Thus, in the translation process Soum amounts are converted into foreign currency using various exchange rates. Difference is called "translation difference" or "general exchange rate difference" and is classified as item denominated in foreign currency, and reclassified in accordance with rules, recommended by international standards. In addition, certain items which do not comply with international standards are reclassified.

With the development of the market economy in the Republic of Uzbekistan attention of the users to the accounting information and financial statements strengthens. True presentation of economic and financial position of the company, along with its financial results, is the main task of the accounting statements.

Information contained in the financial statements requires confirmation of the auditors. This is associated with the 3 problems:

1. Confirmation of fairness of the financial statements;
2. Role of the auditor's report in the financial statements;
3. Accuracy of the financial statements, confirmed by the auditor's report.

Confirmation of the financial statements' accuracy offers very broad opportunities for selection of methodological techniques for valuation of assets and liabilities and registration of economic transactions.

Criteria for ensuring accuracy of the accounting information are selected by the individual owners, however, foreign partners require auditor's conclusion, which should either confirm or disclaim reasonableness of the above criteria.

Although owners take individual approaches to accounting methodology auditor's report enables various users of the financial statements to rely on the statements.

In accordance with the accounting legislation financial statements comprise of the following:

- balance sheet;
- statement of the financial results;
- cash flow statements and notes thereto.

Financial statements present financial information of the company for the accounting period in a systemized manner. Financial statements should include disclosures of the significant items of assets, liabilities, capital and financial results.

National accounting standards have been developed based on the international accounting standards

Ministry of Finance of the Republic of Uzbekistan has developed national accounting standards based on the international ones and methodological base of the accounting is being designed, which is consistent with internationally accepted systems. At present, number of national standards were approved and implemented into the practice.

Chief accountants of the enterprises and firms should insistently aspire for understanding of new national accounting standards of the Republic of Uzbekistan. To our opinion, these are absolutely new legislative documents different from habitual resolutions and instructions. Companies can determine forms of accounting based on the particular circumstances and its economic and commercial interests. Hence, companies can independently determine its accounting policy in accordance with current legislation on accounting and financial reporting.

National standard on "Conceptual basis for preparation and presentation of financial statements" [4] was developed and approved, which is very helpful for preparation of auditors' report.

One of the main functions of the audit is to ensure accuracy the balance sheet, income statement and cash flow statement.

Auditors also ensure completeness of the information presentation and are allowed to request for any explanations and clarifications. They carry out activity in accordance with auditing standards and accounting principles.

Auditors' report is the most important documents of the audit work. This report is an official document, signed and stamped, and containing information about the compliance of the financial statements and other documents of the company with accounting and financial reporting requirements.

If the financial statements of the company do not meet these requirements then auditor can not issue a standard opinion.

It is worth noting that the financial statements should ensure disclosure of the most significant asset, capital, liability and profit and loss items.

To our opinion, financial statements should not include any items, which are not relevant to the company in the current year (unless there were no relevant data in the previous year).

Items of the balance sheet and other statements should be disclosed based on significance and relevance for the evaluation of the financial position and results of the

company's activity. This means that items in the assets and liabilities and economic transactions should be given separately if unawareness of those may disable users to assess the financial position of the company and its financial results. Items in the assets and liabilities, and economic transactions can be summarised in the balance sheet or statement of the financial results unless they are individually significant for the users' estimates. However, they should be disclosed in the notes.

For example, net book value of the fixed assets in the balance sheet of the company "NUR" [5] are as follows:

	2009	2008
Net fixed assets (Thousand Soums)	1546,6	1200,0

However, auditor should review movements in the groups and types of the fixed assets. Because it is necessary for justification of the amounts given in the financial statements.

#	Description	In thousand Soum	
		2009	2008
1	Historic value	Soum 000's	
	1. Building		
	Opening balance	1205	970
	Additions	385	235
	Disposals	-421	0
	Closing balance	1169	1205
	2. Plant and equipment		
	Opening balance	150	80
	Additions	82	70
	Disposals	-48	0
Closing balance	184	150	
3. Motor vehicles	Additions	410	0
2	Accumulated depreciation on the straight-line basis		
	Opening balance	-155	-120
	Additions	-345.8	-35
	Disposals	284.4	0
	Closing balance	-216.4	-155

Source: Author's calculations

From the above table it can be noted that the fixed assets in the company "NUR" are accounted for in the three groups. In addition, depreciation on the fixed assets is charged on the straight-line basis, which is in compliance with the Tax Code of the Republic of Uzbekistan.

CONCLUSION

In general, auditors should make all relevant disclosures in the financial statements of the audited company. If there are discrepancies between the financial statements and accounting information, then reasons are identified and auditor advises the company on improvement of the financial position of the company. Management letter is prepared for the above purposes. This letter contain errors and omissions noted, and recommendations for corrections.

Development of the audit of the financial statements in the Republic of Uzbekistan requires immediate solution of the following issues:

1. Development and implementation of conceptual basis of auditing activity in the Republic of Uzbekistan, in particular this should include Law about audit activity, basis of audit and its types, rights and obligations of the

auditor, licensing of the audit activity, Chamber of auditors and its tasks;

2. Development of auditing standards and norms considering international experience and peculiarities of the national accounting standards;
3. Development of the recommendations on generally accepted forms of audit opinion, report and audit programs;
4. Development of audit methodic, including financial, operating, internal and external.

Uzbekistan as a sovereign state should become a member of intergovernmental and international Professional accounting and audit organizations and take an active part in development of international accounting standards and generally accepted audit principles. This will enable us to agree our accounting standards and audit procedures with countries – members of the international organizations. This will facilitate to further improvement of mutual understanding between the countries and accounting and audit specialists.

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