

Financial Audit as a Tool for Management Control

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Introduction.

Financial audit has long been one of the basic ways how to check the management of organizations, what has an impact on public finances in the field of taxation. Therefore, the audit and its procedures are permanently in the center of interest of the management of state tax policy, as well as, is the verification of management and especially its reporting in the organizations.

In this article we are evaluating the management in selected organizations via performed audits.

1. Characteristic of the audit and its detailed specification.

The word audit comes from the Latin origin, and its original meaning was listening. However, today, it is known as the independent verification. Audit has existed for several centuries, however, its characteristics is constantly changing with the grow of it, bringing out new and more concise definitions that characterize its basis.¹We know several definitions of the audit, and thus let's describe some of them. However, we will focus to the closer definition of the audit, namely financial audit, which is the main topic of this work.

The audit deals with learning and observing of the facts, with the data collection, evaluation, and also with drawing the conclusions coming out of the examined facts.²

2. Control of the management

A financial audit also serves as a tool for the control of the management. In checking the economic results, the auditor uses the accounting. There is a mutual relationship between the accounting and the auditing. The accounting provides information for the audit of the financial statement and the audit is also a prevention for accounting.

Economic result is defined as the result of the activity of the accounting entity during the financial period. The expenses and revenues serve for the calculation of the economic result. Economic outturn is determined as the difference between revenues and expenses. If the costs are higher than revenues, then the result of the operation is called a loss, and if the returns are higher than the costs, then the result of the operation is called a profit. Economic outturn is recognized in profit and lost account, which describes in detail, what is the origin of the expenses and revenues. Another important document, when checking the financial statement, is the balance sheet, that is directly related to the income statement as the economic result of the current period, which includes its own capital.³The following section describes how, the auditor audits the economic management of the individual expense and revenue items in the income statement, and also the auditing of the individual items in the balance sheet.

¹KAREŠ LADISLAV. 2015. *Teória auditu*. s. 25.

²MADĚRA FRANTIŠEK. 2014. *Audit a audítorstvo*. s. 9.

³ŠTANGOVÁ N. – HAJDÚCHOVÁ E. *Účtovníctvo*. s. 156-158.

2.1 Profit and loss account.

Cost control – audit of the cost control is based on the supporting documents, and their basis the auditor verifies their accuracy. The aim of the cost control is to identify the inaccuracy, which results in the overstatement of the costs.⁴

The costs of consumed materials and the sold goods are controlled as follows:

a/ The auditor selects samples of items, relating to purchase of goods, that are accounted in expense accounts and checks whether it is charged at the time of sale,

- each item is checked in the book of incoming invoices,
- received invoices are compared with source documentation,
- checks if all prices and discounts are in accordance with the prices and terms for granting discounts,
- verifies the received credit notes, and checks whether they are properly accounted.

b/ The control of rental costs and other services:

- the auditor checks whether the amounts paid for the rent are in accordance with the lease and checks whether the rent, which is paid irregularly is accrued.

c/ The control of the personal costs:

- the auditor selects a sample of personnel costs from the accounts, and compares it with the entries in the payroll record
- chooses and supervises the staff employment documents and the payment assessment,
- verifies records on payment for specified period and verifies whether the salary was really paid, and whether there are multiple readings,
- verifies the accuracy and legitimacy of deductions and determines the accuracy of the conversion of non-taxable amounts,

- calculates the share of health and social insurance,
- verifies the remuneration of company management and ensures, whether it is not higher than they have been approved.

d/ Inspection of the costs of the repairs and the maintenance:

- reviews the procedures used by the client in accounting and reviews the procedures of the classification of the costs of the repairs and the maintenance, and at the same time, the auditor verifies whether they are the costs that appreciate technically the fixed assets.

e/ Cost control, when selling securities:

- the auditor checks the sales based on contracts and correspondence, compares costs to the sales of the securities and verifies the tax implications.

f/ Checking the extra costs:

- verifies, whether there are no costs associated with the ordinary activities, and also examines the tax implications.

g/ Checking the interest of the expenses:

- verifies whether there is a common interest on loans.

Based on these procedures, the auditor should gain the confidence that individual expense in profit and loss account represent the true image.⁵

Control of revenues – the purpose of the control of the revenues is to determine whether they were not understated. When checking the revenues, the auditor performs the following procedures:

a/ Checking the revenues for own services and products, the auditor:

- checks the expenditures and delivery notes based on the sample sales, that were chosen from the source documentation,

⁵KAREŠ LADISLAV. 2014. *Auditorské postupy*. s. 87-88.

⁴Tamtiež.s. 86.
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- checks, whether the realised procedures are realised by the authorised entity,
- compares the sales invoices with the source documentation,
- checks whether the prices and discounts are in accordance with the price list,
- verifies the sales invoices with a book of invoices issued,
- verifies the credit notes and the accuracy of their accounting,

b/ Checking the changes in internal inventory, the auditor:

- verifies whether the calculated, or actual costs are not understated,
- verifies the increases and decreases in inventories with supporting documentation.

c/ Activation control, the auditor:

- verifies all of the activated items of goods and materials, and verifies whether these items are not understated.

d/ Checking the incomes from the sale of the securities, the auditor:

- verifies whether the sale of the securities was not understated and checks it with the supporting documentation.

The auditor should obtain reasonable assurance to the accuracy of data in the statement of the profit and loss, when providing these controls of the individual items of income.⁶

3. Audit performance

In Slovakia we have a legislation of the audit activity, which is represented by the Act No. 423/2015 as amended, on statutory audits. This law is the basic legal act for the auditors and regulates:

regulates the activities and status of the auditors and auditing companies,

sets the assumptions and the conditions under which the audit may be performed, regulates the competencies and the establishment of the Audit Supervision Office.⁷

Each audit provides a certain level of risk for auditors. The auditors will consider the risk, and according to the risk they decide whether they will accept the contract. From the perspective of the procedures of the auditor, we can talk about audit procedures, and both in terms of time and objectives as follows:

- before concluding the contract of the auditor with the client (by verified organization),
- related to the complex knowledge of client,
- related to the planing of the audit,
- related to the own performed audit,
- related to the completion of the audit and the auditor's report handover.

Knowing the client closely relates to the procedures before the conclusion of the audit. It is important to obtain sufficient information about clients and about his credibility. All of the information that we have about the company are stated below. This also includes a detailed description of the company and all of the information about the entity.

From this perspective, we performed controlling of the management in 30 audits, and it is needed to say, that in each audit there are different problematic parts, that have impact on the profit of the organization.

Although the audit does not deal directly with detailed control of the individual items, which have been recognized in the accounts, only with a substantial amount, so at the beginning of the audit, the auditor calculates the significance of the audit (which means, from what amounts the auditor will control the cases).

To illustrate this, there are mentioned two organizations with a detailed report of their costs

⁶KAREŠ LADISLAV. 2014. *Auditorské postupy*. s. 83-85. 619

⁷MADĚRA FRANTIŠEK. 2014. *Audit a auditorstvo*. s. 20.

and benefits, that indicate, that there are some problem areas in the control of management.

Table 1: Revenue items

Revenues	Organization no.1		Organization no. 2	
	2014 (€)	2015 (€)	2014 (€)	2015 (€)
Business revenues	8 401 653	8 711 241	16 876 925	17 167 759
Revenues from sales of services	5 758 525	6 036 542	1 300 901	1 048 277
Sales of products, goods and services, Type A	5 675 000	5 957 000	10 812 468	10 744 103
Sales of products, goods and services, Type B	83 525	79 542	1 090 901	998 879
Activation	353 470	400 194	1 139 544	1 467 593
Sales from the long sales assets	357 184	13 910	715 723	765 337
Other revenues from economic activity	1 932 474	2 260 595	1 779 744	1 985 852
Subsidies for acquisition of fixed assets	1 912 377	2 094 336	0	0
Contractual fines and penalties	320	0	0	0
Income of written-off receivables	609	145	0	0
Others	19 168	166 114	0	0
Financial income	45 643	6 475	8 103	4 569
Interest income	45 643	6 473	3 535	178
Other income	0	2	4 568	4 391

Source: own processing

Table 2: Expense items

Expenses	Organization no.1		Organization no. 2	
	2014 (€)	2015 (€)	2014 (€)	2015 (€)
Costs of economic activities	7 845 077	8 190 759	16 582 217	16 851 737
Material and energy consumption	55 050	41 977	1 232 543	951 512
Services	216 164	278 211	1 169 709	1 218 724
Costs of the financial statements	4 500	4 500	5800	5800
Repair and maintenance	29 052	17 820	0	0
Fare	55 979	53 161	426 980	430 322
Trainings, seminars	39 321	44 018	96 500	97 265
Rent	10 950	12 624	14 630	17 210
Advertising costs, advertising	11 148	10 976	10 500	9 870
Legal and economic advice	33 028	103 142	42 765	43 816
Telecommunication services, internet	14 536	13 260	550 874	590 791
Representation expenses	8 050	9 760	27 460	29 450
Computing work supplies	9 600	8 950	0	0
Personal expenses	858 483	909 487	3 971 769	3 910 966
Labor costs	559 127	597 557	2 845 967	2 829 386
Remuneration of board	36 646	36 042	0	0
Social insurance expenses	226 189	235 889	0	0

Social expenses	36 521	39 999	1 125 802	1 081 580
Taxes and fees	21 977	20 835	68 108	54 810
Depreciation and adjusting entries on long term assets	6 255 126	6 395 352	1 915 426	2 139 555
Net book value of fixed assets and sold material	328 048	40 633	0	0
Provisions for receivables	0	1 278	31 739	42 542
Other operating expenses	110 229	502 986	1 385 988	1 553 433
Other damages	892	0	13 569	22 326
Presents	0	700		
Creation and accounting of the provision (judicial proceeding)	36 530	102 930	47 351	58 566
Insurance	66 143	66 751	130 769	146 626
Amortization of unfinished investition	0	331 262	0	0
Other	6 664	332 605	1 112 499	1 226 625
Financial expenses	14 881	13 712	200 069	255 485
Interest expenses	9 414	9 897	153 782	154 969
Foreign exchange losses	449	7	8 862	7 000

Source: own processing

Evaluation.

Auditors proceeded in all cases under the rules, at certain stages. From the table presented above, as well as from the supervised audits of the other organizations, we can generalize these problems in management:

- late collection of receivables and higher unpaid number of receivables from previous years,
- the high costs of fares, legal and economic advices, the high costs of judicial cases),
- high amortization,
- low sales compared to the costs,
- high loans,
- high overdue payables.

Conclusion.

The above mentioned results indicate that the audit is an irreplaceable element in the control of management in state, and also points out the problematic parts, which should be dealt with by individual organizations, because the important responsibilities of these organizations to the state are coming out. These obligations are mainly: paying taxes, such as a tax an corporate income

tax, value added tax, motor vehicle tax.The auditor, besides proper accounting, verifies the accuracy of the results of the mentioned taxes.

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