

**Financial and Banking Services Market**

Iryna HOLYASH,  
Nataliya HALUSHKA

**AUDIT OF PROGNOSTICATED  
FINANCIAL INFORMATION:  
PROBLEMS AND PERSPECTIVES  
OF DEVELOPMENT**

**Abstract**

The paper studies theoretical issues and practical application of prognosticated financial information audit. The problems of that audit arrangement are considered, and the advantages of its introduction as well as the perspectives for its development are accentuated.

**Key words:**

Financial statement, audit of prognosticated financial information, project, forecast, analytical procedures, modelling.

**JEL:** M42.

---

© Iryna Holyash, Nataliya Halushka, 2009.

Holyash Iryna, Candidate of Economic Sciences, Ternopil National Economic University, Ukraine.  
Halushka Nataliya, Post-Graduate Student, Kyiv V. Hetman National Economic University, Ukraine.

## **Introduction**

One of the most urgent problems of the development of national enterprises in modern conditions is to ensure their functioning efficiency. Meeting this problem needs the resolution of the series of the principal issues, including the following: attraction of investments into the production process, improvement of competitive capacities of the manufactured products, avoidance of the risks of production and sales activity, provision of sustained functioning of the enterprise, etc. We think, that those issues should be studied not only from the view of management and marketing, but also from the view of audit, that enables to detect and check internal reserves of improvement of financial indices of the economic agents' activities.

At the moment, the audit results do not always meet the needs of enterprises, since they are directed at the research of reliability of financial statement, and mainly they are of retrospective character. At the same time, in order to improve the efficiency of the enterprise's development, the objective comprehensive evaluation of the perspective development of these enterprises is needed, which meets the requirements of the information users, i.e. investors, creditors, shareholders, public bodies, the third persons, etc. It enabled the necessity of auditing the prognosticated financial information, the development of which is rather ignored in national theory and practice at the moment.

## **Setting the Task**

The audit development is the issue of concern of nowadays economic literature. In this respect great contribution has been made by H. Bahiyev, M. Bilukha, L. Budnyk, A. Klementyev, A. Kuzminskiy, K. Radchenko, and other economic scientists, whose researches refer to certain areas of strategic audit, but the checking of the prognosticated financial information is paid rather scarce attention.

Taking into account great interest to the audit of prognosticated financial information, we consider that theoretical and organizational basics and directions of practical application of that kind of audit need further researches and profound study. Therefore, the objective of this paper is to detect the problems of audit arrangement of the prognosticated financial information, and formation of the authors' vision for the perspectives of its development.

## Outcomes

The audit arrangement of prognosticated financial information is an important factor of the organization of a planned system of development for business management with the aim of its financial recovery, increase of profitability, improvement of market attractiveness, attraction of investment projects, etc.

The audit of prognosticated financial information is a comprehensive auditing research for financial and economic activity of an enterprise with respect to continuous search of adequate economic decisions under changes occurring in future both in external and in internal environments of the economic agent.

It is worth noting, that the main principles and recommendations for auditing the prognosticated financial information are depicted in MCA 810 «Check up of Prognosticated Financial Data».

In appliance with MCA 810, the prognosticated financial information is the information on future financial positions, financial results, money flows of the economic agent, either on certain areas of the agent's financial and economic activity, and that information is based on the analysis of the probable events to occur in future.

That information is rather subjective in its essence, since it is designed on the basis of the analysis of the events that could probably arise in future, as well as on the probable steps and actions of the client in case of the occurred events. Therefore, the development of that information requires great practice and skills of an auditor.

The audit of prognosticated financial information is an integral part of the system of business management, while its basis is prognosticated financial information. Following from the above, we suggest that the given kind of audit should be viewed as a system of scientifically substantiated probable speculations on the basic and alternative structural changes occurring in assets and liabilities, conditioned by the effective enterprise's capital utilization in future.

The prognosticated financial information can be represented as a forecast, a project or both in combination. At that, the forecast is the perspective financial information with reference to future actions which, in the client's opinion, could occur, as well as respective actions of managers. The project is the perspective information developed on the basis of hypothetic assessment of future events and measures taken by the client's managers which could occur in future [3, p. 189].

Depending upon the purpose of preparation, the prognosticated financial information can be prepared like certain indices, either like a traditionally made financial statement. At that, the perspective indices could be presented as follows:

- assessment of the volume of required capital investments;

- assessment of a new product introduction;
- assessment of a long-term property rent;
- forecast of purposeful utilization of funds, received from sales of long-term debt liabilities;
- prognosticated budget;
- future volumes of production;
- future volumes of realization.

Typical forms of financial statement containing the prognosticated information could be the following:

- forecast statement of balance;
- forecast statement of financial results;
- forecast statement of money flows;
- forecast statement of owned capital.

The auditor's task that checks up the prognosticated financial information consists in arguing the following:

- the assessment method the client applied was reliable and the best;
- the assertion of hypothetical statement is based on true information;
- financial information of perspective character is properly prepared;
- all essential statements take into account the data of prior financial statement [1: 143].

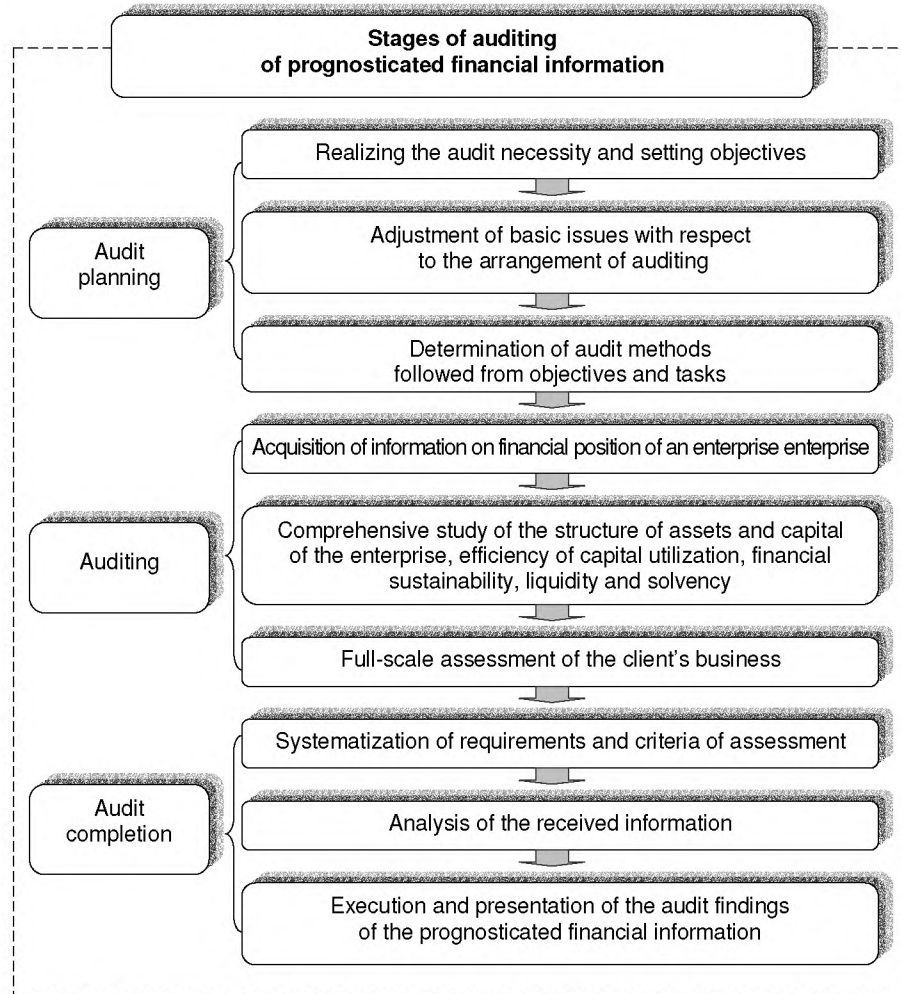
While checking up the prognosticated financial information the auditor should apply the procedures allowed for MCA 530 «Analytical Procedures». The auditor should apply those analytical procedures in the process of auditing the prognosticated financial information to get the perspective assessment of the most significant indices and ratios, to get information on available deviations, to detect the tendencies of financial and economic activity of the enterprise, to provide the scientifically grounded recommendations respectively increase of efficient utilization of its potential.

There are good reasons to audit the prognosticated financial information by means of modelling, since the latter allows showing the perspective financial position depending on unlimited number of factors. So, the audit adequacy of the prognosticated financial information depends on the procedures and logic of making the model of checking, which is useful to combine into stages.

Following from the above, we offer the model of audit succession of the prognosticated financial information consisting of several stages that are shown in fig. 1.

Figure 1.

**Model of audit succession of the prognosticated financial information**



Labouring the information presented in fig. 1, we will specify the peculiarities of each stage. In particular, in audit planning stage there the necessity of auditing the prognosticated financial information is realized, likewise the principal issues of audit arrangement are agreed. In addition, in this stage the main lines of the prognosticated data are determined.

The second stage provides for a comprehensive analysis of the financial state of an enterprise. That analysis is an integral part of the prognosticated financial information auditing, since it allows to increase the veracity of the prognostication and to detect the major factors of negative effect produced on the prognosticated assessment. The auditing on that stage should be based on the prior study of the client's business. It is worth noting, that the client's business study depending on the branch and individual particular characteristics of the enterprise varies from the viewpoint of its more or less detailed specification. The full-scale auditing of the enterprise, in our opinion, should include the following:

- assessment of business standing on the market and its capacity to adapt to the conditions of economic conjuncture;
- assessment of financial standing of the enterprise;
- assessment of internal production efficiency;
- assessment of investment policy and effectiveness of resources attraction for capital investments.

We will specify the peculiarities of each line of auditing.

The objective of the assessment of business standing on the market and its capacity to adapt to the conditions of economic conjuncture is to check the effectiveness of the enterprise's market strategy, meaning how optimally well the buying and selling policy of the enterprise adapts to changes of external economic environment. With this aim in view the prior computations of the offered managerial action effects produced on financial results are made, and the probable effect of those actions are estimated.

The assessment of financial standing is made to determine the optimal value of financial reserves, which on the one side, are sufficient for the enterprise's solvency, thus minimizing the losses of financial risk, and on the other side, are not overstated, that is, it does not divert the excess turnover means of the enterprise from current economic activity.

The assessment of inter-business efficiency is made for auditing the position and use of the enterprise's resources. The result of the assessment is the development of managerial actions, directed at increasing of the production efficiency, and also the computation of prognosticated effect of those actions implications.

In the process of assessing the investment policy and effectiveness of attracting resources for capital investments, the optimal investment policy of the enterprise, and the effectiveness of financing and utilization of capital investments is analysed, as well as the rationality of means of production distribution between the current activity and capital investment is determined, the financial risks rate and effectiveness of the greatest investment projects is evaluated, also the optimality of the selected strategy of attraction funds for financing the investment activity is substantiated, etc.

The third stage is the final one for auditing the prognosticated financial information. It is the stage when the additional documentation to be submitted to the company (client) is discussed and the auditor's findings are developed. The latter usually expresses the average certainty with respect to the prognosticated financial information, since the received evidences are often of empiric character.

The auditor's findings on the prognosticated financial information should include the auditor's opinion on the following:

- application of assumptions checked by the auditor;
- right preparation of information on the basis of applied assumptions;
- adequacy of provided information;
- possibility for application of prognosticated financial information in the objectives set by the agent;
- recommendations for limited use and dissemination of prognosticated financial information.

If for some reasons the auditor can not carry out the required procedures, he has to refuse from expressing his own opinion in the findings on the results of checking the prognosticated financial information, and give his reasons which had caused the failure in meeting the whole volume of work.

The presented technology for auditing the prognosticated financial information applied according to the determined stages is a significant element of the arrangement of that checking and it serves a basis for determination of possibilities for future sustained functioning of the enterprise.

## Conclusions

The substantiation of theoretical aspects and stages of arranging the audit of prognosticated financial information enabled to make certain conclusions, specifically the following:

1. With the development of market economy, and the emerging of businesses of different organisational and legal modes and property forms, the traditional audit has not met the requirements of enterprises since it usually comes down to independent expertise of financial statements and other information on financial and economic activity of an enterprise.

2. Taking into account the increased interest in the problems of the audit development of the prognosticated financial information, we think that the theoretical and organisational principles and directions for practical application of this type of audit needs further researches and profound study.

3. The audit application of prognosticated financial information in Ukrainian enterprises will allow to better meet the needs of the information users, including proprietors, investors, creditors, shareholders, state bodies, third persons, etc., who are interested in the long-term strategic development of the enterprise in order to increase its competitiveness and improve its market attractiveness.

4. The audit of prognosticated financial information is an integral element of the business management system, while its basis is prognosticated financial information. Taking it into account, we suggest that this audit should be viewed as a system of scientifically grounded probable speculations on basic and alternative structural changes in assets and liabilities, conditioned by the efficiency of the enterprise's capital utilization in future.

5. The audit of prognosticated financial information should be based on the application of analytical procedures. The analytical procedures in the course of auditing the prognosticated financial information should be applied for the perspective assessment of the most critical figures and ratios, getting information on current deviations, detecting the trends of financial and economic development of the enterprise, providing of scientifically grounded recommendations as for increase of efficiency of its potential use.

The prognosticated financial information is good to be audited through modelling, since the latter allows reflecting the perspective financial position depending on the unlimited number of factors.

6. The audit faithfulness of the prognosticated financial information depends upon the procedure and logic of the check model design. The audit of the prognosticated financial information should be arranged according to the set technological stages, but at that, the taken by the auditor tasks should be taken into account, as well as the analytical procedures applied in the course of auditing and the specification of the auditor's findings should be regarded. We have offered the succession model of the prognosticated financial information auditing, which provides for the collection of the most critical information on the financial and economic business activity, and also its application for the development of concrete business objectives and strategies, likewise the determination of the opportunities for the sustained functioning of the enterprise in future.

### **Bibliography**

1. Будник Л. Теоретико-методологічні основи розвитку стратегічного аудиту / Л. Будник, І. Голяш // Галицький економічний вісник. – 2007. – № 1 (12). – С. 139–144.
2. Давидов Г. М. Аудит: Навч. посіб. / Г. М. Давидов. – [2-е вид. перероб. і доп.]. – К. : Знання, КОО, 2001. – 363 с.



3. Даньків Й. Я. Стандартизація обліку і аудиту: Навч. посіб. / Й. Я. Даньків, М. Р. Лучко, М. Я. Остап'юк – К. : Знання, 2004. – 310 с.
4. Клементьева А. Ю. Системный аспект прогнозирования финансового состояния предприятия / А. Ю. Клементьева // Труды 4-ой международной конференции студентов и молодых ученых «Управление развитием социально-экономических систем: глобализация, предпринимательство, устойчивый экономический рост». Часть 1. – Донецк: ДонНУ, 2003. – С. 107–110.
5. Монтгомери Р. Аудит / Р. Монтгомери; [пер. с англ.]. – М. : ЮНИТИ, 1997. – 542 с.
6. Радченко К. І. Аудит стратегічних управлінських рішень, прогнозів та проєктів / К. І. Радченко – Львів : Вид-во ЛКА, 2001. – 388 с.

The article was received on November 12, 2009.