

## РОЗДІЛ 8. БУХГАЛТЕРСЬКИЙ ОБЛІК, АНАЛІЗ ТА АУДИТ

## FEATURES OF THE AUDIT OF IMPROVEMENT COSTS FIXED ASSETS AT THE ENTERPRISE

## ОСОБЛИВОСТІ АУДИТУ ВИТРАТ НА ПОЛІПШЕННЯ ОСНОВНИХ ЗАСОБІВ НА ПІДПРИЄМСТВІ

*This article outlines the features of the audit of costs for the improvement of fixed assets at the enterprise. One of the important tasks facing the accounting department is to provide information about expenses on improvement of fixed assets for the purpose of effective management of production and financial activities of the company. It is investigated that the main task of asset audit is the collection and processing of reliable information about assets and the formation of audit opinions on this basis. It was found that in the process of organizing an audit, the internal audit of the company becomes important. It is noted that during the audit of assets an important role in the work of the auditor is played by the formation of working documents that the auditor uses in planning, preparing and conducting inspections, summarizing their data. The list of expenses for improvement of fixed assets for the basic enterprise is covered and outlined the directions of improving the accounting, analysis and audit of costs for the improvement of fixed assets.*

**Key words:** accounting, audit, expenses for improving fixed assets, audit opinion, audit conclusion.

*У статті висвітлено особливості аудиту витрат на поліпшення основних засобів на підприємстві. Забезпеченість підприємства основними засобами є необхідною умовою для здійснення господарської діяльності, а також є одним із найважливіших факторів підвищення ефективності виробництва. Відмінною рисою основних засобів є їхнє багатократне використання в процесі виробництва, зберігання початкового зовнішнього вигляду протягом тривалого періоду. Під впливом виробничого процесу і зовнішнього середовища вони зношуються поступово і переносять свою початкову вартість на витрати виробництва протягом нормативного терміну експлуатації шляхом нарахування зносу (амортизації) згідно встановлених норм. Одним із важливих завдань, які стоять перед бухгалтерським обліком, є надання інформації про витрати на поліпшення основних засобів з метою ефективного управління виробничо-фінансовою діяльністю підприємства. Виходячи з вимог чинного законодавства, метою аудиту витрат на поліпшення основних засобів на підприємстві є висловлення аудитором думки про те, чи відповідає фінансова інформація щодо формування витрат на поліпшення основних засобів на підприємстві в усіх суттєвих аспектах нормативним документам, які регламентують порядок її підготовки і надання користувачам. Досліджено, що основним завданням аудиту активів є збирання та обробка достовірної інформації про активи і формування на цій основі аудиторських висновків. З'ясовано, що в процесі організації аудиторської перевірки важливого значення набуває внутрішній аудит підприємства. Зазначено, що під час аудиту активів важливу роль в роботі аудитора відіграє формування робочих документів, які аудитор використовує під час планування, підготовки та проведення перевірок, узагальнення їх даних. Висвітлено перелік витрат на поліпшення основних засобів для базового підприємства. Означено, що результат аудиторської перевірки оформляється двома підсумковими документами, які складає аудитор: звіт про результати аудиторської перевірки та аудиторський висновок. Окреслено напрямки покращення ведення обліку, аналізу та аудиту витрат на поліпшення основних засобів.*

**Ключові слова:** бухгалтерський облік, аудит, витрати на поліпшення основних засобів, аудиторська перевірка, аудиторський висновок.

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**Lobodzynska Tetiana**

Ph.D., Associate Professor,  
Associate Professor  
of Economic Cybernetics  
National Technical University of Ukraine  
«Igor Sikorsky Kyiv Polytechnic Institute»

**Udovytska Eugenia**

Ph.D., Associate Professor,  
Associate Professor  
of Economic Cybernetics  
National Technical University of Ukraine  
«Igor Sikorsky Kyiv Polytechnic Institute»

**Berezhnyi Illia**

Student  
Taras Shevchenko National University  
of Kyiv

**Formulation of the problem.** The provision of the enterprise with fixed assets is a necessary condition for economic activity, and is also one of the most important factors in improving production efficiency. A distinctive feature of fixed assets is their repeated use in the production process, preservation of the original appearance for a long period. Under the influence of the production process and the external environment, they wear out gradually and transfer their initial cost to the cost of production during the standard service life by accruing depreciation (amortization) in accordance with established norms.

One of the important tasks facing the accounting department is to provide information about the cost of improving the fixed assets for effective management

of production and financial activities of the company. However, the quality of such information and the objectivity of its presentation in reporting have recently lost their usefulness to users. The main reason for this situation is the weak methodological development of regulations governing the cost of fixed assets, unregulated tax legislation, their constant changes and rapid adaptation of National Accounting Regulations to International Financial Accounting Standards.

Economic transformations are aimed at reforming the economic mechanism, a special place in which is the organization of accounting and control of the availability, movement and technical condition of fixed assets. In addition, some aspects of their accounting

and control of national standards directly at the enterprises, are insufficiently covered in the economic literature.

Thus, the study of accounting, analysis and audit of costs for the improvement of fixed assets in the enterprise is relevant.

**Analysis of recent research and publications.**

Ukraine's transition to the principles and methods of accounting and compilation of financial statements in accordance with the International Accounting Standards led to significant changes in the order of accounting of fixed assets.

The primary issues that characterize the procedure for organization of accounting and control of fixed assets were considered in detail by ukrainian and foreign economists. Significant contribution to the development of the theoretical foundations and methodological approaches to the problem of accounting and analysis of costs for repairs and improvements of basic equipment were made by the leading economists: A. V. Alexeyeva, M. T. Bilukha, M. I. Bondar, F. F. Butinets, S. F. Golov, A. P. Grinko, M. V. Kuzhelnny, V. G. Linnik, L. G. Lovinska, R. J. Ovcharik, V. F. Paliy, M. S. Palyukh, S. F. Pokropivny, V. V. Sopko, V. G. Shvets and others. However, some issues are insufficiently studied and require careful research and scientifically sound recommendations, as the method of accounting in general and, in particular, fixed assets has changed significantly.

**Statement of work.** The purpose of the work is to study the accounting and highlight the features of the audit of the cost of improving fixed assets at the enterprise.

**Presentation of the main material of the study.**

The market economy and the large number of legally separate economic entities, in which the interests of many stakeholders intersect, have necessitated independent financial control. According to the Law

of Ukraine "About the audit of financial statements and audit" [1], the entrepreneur has the right to carry out independent control over its financial and economic activities on a commercial contractual basis for an appropriate fee. This type of external control is called an audit. Audit – is an inspection of public accounting statements, accounting records, primary documents and other information about financial and business activities of economic entities for the purpose of determining the reliability of their accounts, its completeness and compliance with the current legislation and established standards. The Law, in addition, defines the legal basis for the organization and conduct of auditing in Ukraine, which is regulated by International Organization of Supreme Audit Institutions (INTOSAI) [2], which since 2015 are mandatory for Ukrainian auditors (Fig. 1).

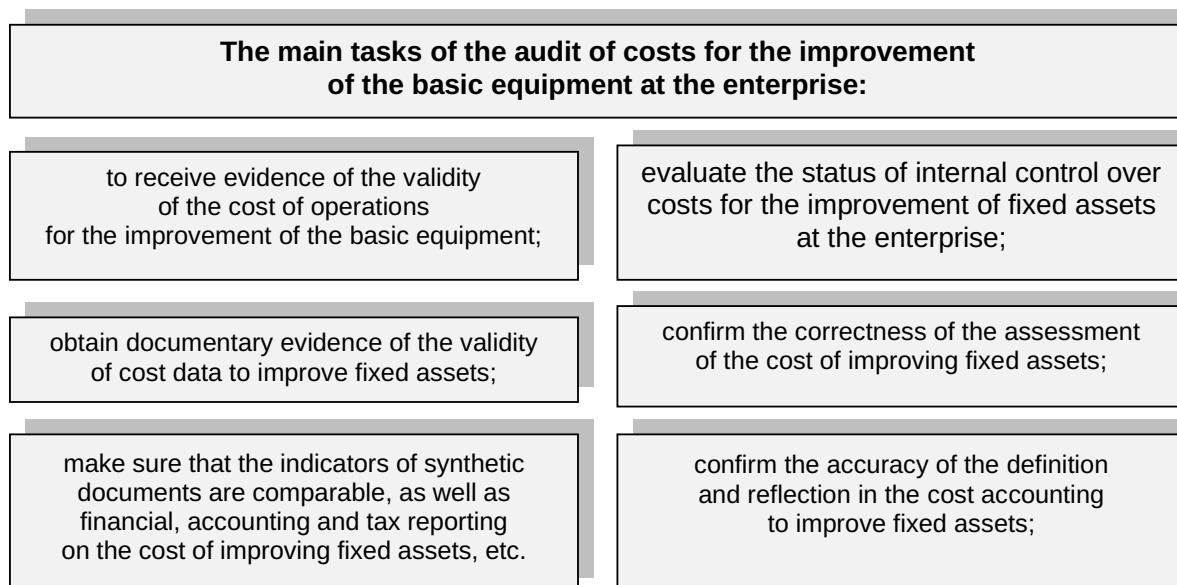
Based on the requirements of current legislation, the purpose of the audit of costs to improve fixed assets at the enterprise is to express the auditor's opinion on whether financial information on the formation of costs for the improvement of fixed assets in all material respects. It should be noted that the organization of the audit of costs for improvement of the basic facilities is one of the important areas of control, as an effective tool for managing the financial results of the enterprise as a whole.

In order to achieve the main goal of the audit, as well as to satisfy the needs of users in obtaining complete, truthful and uninterrupted information about expenses on improvement of the main assets at the enterprise, the auditor needs to perform the following tasks (Fig. 2)

Proceeding from the set tasks of the auditor's revision of the formation of costs for the improvement of fixed assets, it should be noted that during the organization of the indicated audit, the auditor must collect the auditor's evidence, which testify to the distortion of information in the primary documents and



Figure 1. The structure of regulatory and legislative audit regulation in Ukraine



**Figure 2. The task of the audit of costs for the improvement of the main assets at the enterprise**

financial statements of the company to accumulate information about expenses for the improvement of fixed assets. In other words, audit evidence is information obtained by the auditor to form an opinion on which the preparation of the audit opinion and report is based. The auditor should obtain an amount of audit evidence that would enable the necessary conclusions to be drawn, using which the overall audit opinion will be prepared. Audit evidence is obtained through a proper combination of tests of control systems (Fig. 3) and verification procedures. They consist of the primary documents and accounts underlying the financial statements, as well as supporting information from other sources provided by the sufficiency and propriety criteria, which are interrelated and relate to audit evidence obtained from both testing control systems and during the implementation of the validation procedures.

Sufficiency is a measure of the amount of audit evidence, relevance is a measure of their quality and reliability and consistency with a particular assurance. The auditor relies on audit evidence that is not only sufficient but also convincing.

In addition, the auditor seeks audit evidence from different sources of information and of a different nature to confirm the same assertion.

The main sources of information when obtaining audit evidence on the formation of costs for the improvement of fixed assets at the enterprise are: primary documents (acts of work performed (services provided), information on defects, limit-intake cards, dimensional maps, invoices for spare parts, cards accounting of fixed assets, acts on the write-off of spare parts, orders, directives of the head of the enterprise, etc.; accounting policy of the enterprise (order on accounting policy); accounting registers (information, journals); business reports; legislative

and regulatory documents on the formation and writing-off of expenses for the improvement of fixed assets, materials of previous audits, etc.

It should be noted that one of the most important stages of the audit of the cost of improving fixed assets at the enterprise is the planning of the audit and the development of its overall strategy, which is carried out at the initial stage of the audit. The auditor is required to clearly anticipate, monitor and account for the processes of his activity in order to ensure the most effective procedures at each stage of the work.

During the audit of the cost of improving fixed assets an important role in the work of the auditor plays the formation of working documents – the auditor's records made during the planning, preparation and conduct of inspections, summarizing their data, and documented information obtained during the audit client, third parties or oral communications documented by the auditor through testing.

The essence of working documents, their content, form, ownership and storage are set out in ISA 230 "Audit documentation". The main purpose of working documents is: development of an audit plan; confirmation of the implementation of the inspection plan; systematization of information collected in the process of verification; organization of operational management of the inspection process; creating a basis for determining the effectiveness of the work performed by each auditor; assessment of the adequacy of current audit methods used in accordance with current economic legislation. According to ISA 230 "Audit documentation", the auditor is obliged to keep documentation on cases related to decision-making based on the results of audit procedures, which will later form the basis of the audit opinion. Depending on the scope of the client's work, the auditor should gather evidence to support

or disprove the assertion that the financial statements objectively, fully and accurately reflect the client's financial condition, and that the business transactions incurred to improve the cost of fixed assets are legal and appropriate.

The work documentation includes information that in the auditor's opinion is important for proper performance of the audit and is intended to support the conclusions and suggestions in the audit report. During the planning and performance of the audit, the work documentation helps to better perform the audit and control the process of its implementation. The working documentation registers the results of audit examinations performed to confirm the taken audit decisions.

The conducted research testifies to the fact that during the audit of operations on accounting for expenses on improvements in fixed assets at the inspected company, the auditor, based on the primary documents and data of analytical and synthetic accounting of fixed assets, focused on the following key issues:

- timeliness and correctness of documenting and reflecting expenses for the improvement of fixed assets in the accounting registers;
- correctness of calculation of the amount of costs written off for repair of the main assets into property, as well as displaying this data on the synthetic accounting registers;
- correctness of writing off costs for repair of the main assets.

Study of operations related to capital investments (expenses for improvement of fixed assets) is conducted on the basis of the approved title lists, quotations, technical documentation and signed contracts with enterprises. Auditors will assess the legality and validity of expenditures on capital investments, whether they comply with current approved technical documentation and sources of financing. Establish cases of understatement of the cost due to various shortcomings and lowering the quality of work, examining the status of accounting for capital contributions and the correctness of reporting on them. Auditors pay attention to possible violations, including:

- accidental loss of fixed assets as a result of the unsatisfactory state of analytical accounting and inaccurate accounting on a monthly basis;
- use of fixed assets by the management for their own purposes under the guise of temporary use when there is no appropriate internal control at the company, as well as possible further write-offs;
- replacement of new parts of fixed assets by obsolete ones that were in operation and written off, but not written off;
- writing off fixed assets according to acts that have not been executed in accordance with the current normative acts;

- recording in the accounting records of the reacquisition of components, parts after liquidation of fixed assets;

- decrease in the initial value of main assets subject to liquidation;

- increase in the initial cost of main asset items at the expense of their inclusion into the cost of expenses related to other business operations;

- lowering of the primary cost of fixed assets or some of their parts;

- use of fixed assets not for their intended purpose;

- failure to calculate depreciation in the amount and periods of presence and operation of the main assets;

- lack of inventory of capital costs of leased fixed assets;

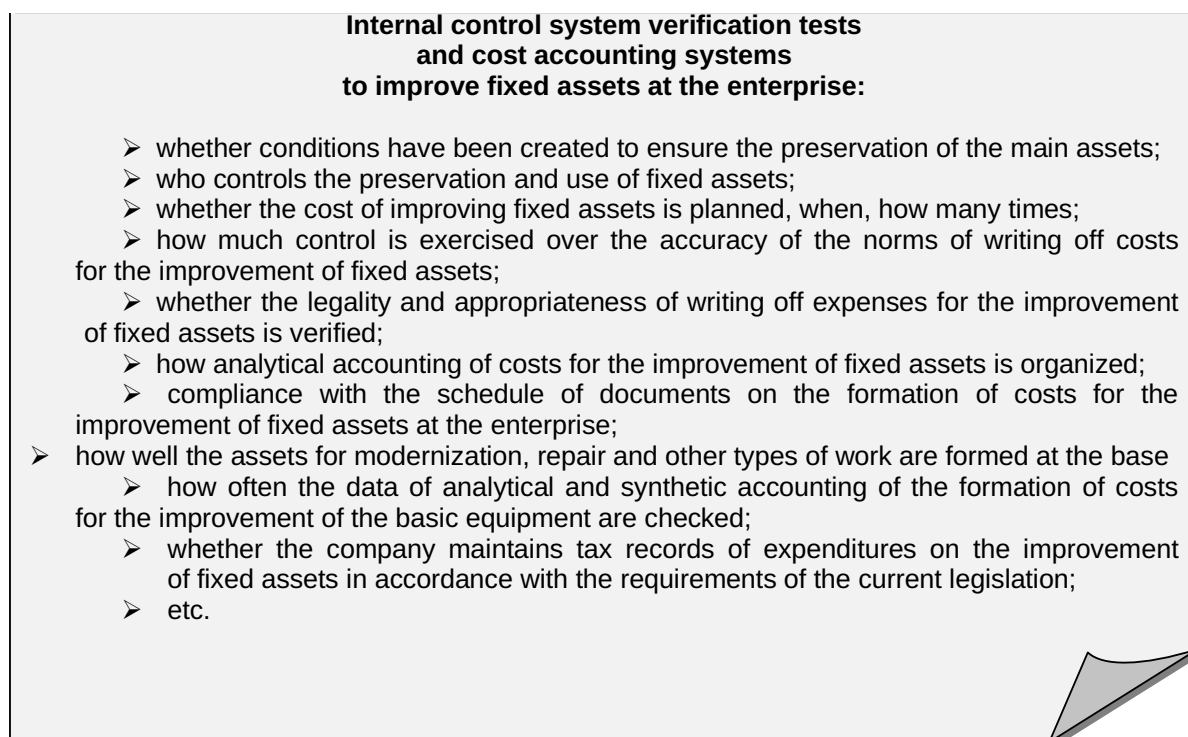
- during the inventory not much attention is paid to studying the availability of documents on fixed assets and their conformity to passports. This list is far from being complete and can be supplemented during the audit process.

At the end of the audit, the auditor prepares two final documents: the report on the results of the audit and the auditor's opinion.

For the users of public financial statements the auditor issues a clear opinion on the audited financial statements, compliance of the statements in all essential aspects with the Regulations on the procedure of preparation of financial statements and accounting principles, provided by the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" [3] and the National Accounting Regulation (Standard) 1 "General requirements for financial accounting" [4]. The procedure for compilation of the report is regulated by ISA 700 "Formation of opinion and issuance of a report on financial accounting", ISA 800 "Special Considerations – audits of financial accounting, compiled in accordance with the conceptual framework of the audit of special purpose".

Auditor's report on the results of the audit – is a documentary reflection by the auditor of revealed failures, discrepancies and deviations from the law and established standards for conducting business activities, bookkeeping and accounting reporting, as well as the auditor's assessment of the accounting system and reliability of reporting as of a certain date. Information contained in the audit report must be more detailed, reliable and competent, as well as independent, objective and truthful. The audit report shall be prepared in a confidential form, intended for the auditor, and its contents shall not be made public.

Auditor's opinion is an official document certified by the signature and seal of the auditor (audit firm), which is drawn up in the prescribed manner based on the results of the audit and contains conclusions on the completeness and compliance with applicable law and accounting standards for financial and economic



**Figure 3. Typical tests of internal control system and accounting system of expenditures on improvement of fixed assets at the enterprise**

activities. The content of this document depends on the specific circumstances and the results of the audit. Therefore, the form of the auditor's report may be supplementary.

Summarizing of the results of theoretical and practical research provide an opportunity to say that the results of the audit of operations for the formation of costs for the improvement of fixed assets are the following errors:

- 1) missing primary documents, on the basis of which the cost of fixed assets of the company was increased at the expense of their improvement (modernization, modification, etc.);
- 2) errors in calculating depreciation for fixed assets including expenses for their improvement;
- 3) incorrect assessment and re-assessment of modified (upgraded) fixed assets, etc.

Thus, during the audit of expenses for improvement of the basic facilities and formation of the audit opinion at the basic enterprise, the auditor should pay special attention to the formation of expenses for:

- a) modification and modernization of fixed assets in order to prolong their useful life or increase their production capacity;
- b) replacement of certain parts of equipment to improve the quality of products (works, services);
- c) implementation of a more efficient technological process, which will reduce the first estimated production costs;
- d) construction of buildings, which will increase the number of places (area) of buildings, the volume and

quality of work (services) performed or the conditions of their implementation.

Moreover, it is necessary to pay attention to the fact that to improve the organization of the audit of repairs, modernization and reconstruction of basic facilities at the enterprise is advisable:

- to strengthen control over material costs at all stages of repair works and works on modernization
- a– to determine the actual consumption of materials for repair by inventory method (by recalculation by the fact);
- to exercise operational control over the material costs of repair work by obtaining daily information about their expenditure, using the data of primary documents, comparing the actual expenditure and expenditure according to standards; control over the implementation of the cost plan of works.

**Conclusions from the study.** On the basis of the conducted research we can make the following conclusions: It was found that the main task of the audit of assets is collection and processing of reliable information about the assets and formation of audit conclusions on this basis. Among the basic principles of the audit of assets can be distinguished the following: universality, generality, accuracy, transparency, scientific rigor, consistency, efficiency, publicity. Audit of assets is performed in accordance with auditing standards, which formulated the same basic requirements for the quality of the audit, which ensures that when they are met, the level of assurance of the results of the audit review. It was found that in

the process of organizing an audit, the internal audit of the company becomes important. Internal audit solves the following tasks for the client: examines the asset control system, checks the compliance of current control with the company's policy, analyzes risk and bankruptcy situations, uses know-how to increase profits and efficiency of new technology and takes other measures to promote enterprise development in financial business. The organization of internal audit of the company is proposed to be carried out with the help of an internal auditor in accordance with the schedule (plan) of internal audits. It is noted that during the audit of assets an important role in the auditor's work is played by the formation of working documents, which the auditor uses during the planning, preparation and performance of audits, summarizing their data. The work documentation includes information which in the auditor's opinion is important for proper performance of the audit, and which should confirm the findings and propositions in the auditor's opinion. As practice shows, working documentation of the auditor is presented in the form of standard forms and tables on paper or filled out on electronic media. It is noted that the result of the audit is formalized by two summary documents drawn up by the auditor: a report on the results of the audit and an

auditor's opinion, which is formed in accordance with the established procedure following the results of the audit and contains a statement on the validity of the financial statements, completeness and compliance with the current legislation and established standards for financial and business accounting. Defined the directions of enhancing the accounting, analysis and audit of costs for the improvement of fixed assets.

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