

ALIGNING FINANCIAL RESULTS' AUDIT WITH INTERNATIONAL STANDARDS IN UZBEKISTAN: COMPARATIVE AND COMPATIBILITY ANALYSIS

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Abstract

Income statement reflects the real and timely financial condition of a firm for the particular period. Financial strength, stability and profitability are determined by analysing the income statement and obtained financial results. Auditing practice of consolidated statement of comprehensive income, therefore, is seen as a central tool in making any important decision. International Financial Reporting Standards (IFRS) are used to ensure the commonness and comparability in financial results' analysis. In this paper applicability of international standards to traditional auditing practice of financial results' statement under IFRS principles were studied by compatibility and comparative analysis, and found that auditors support the adoption of IFRS in comprehensive income statement audit.

Keywords: Statement of financial results, Statement of comprehensive income, Audit, IFRS, Uzbekistan

INTRODUCTION

To enhance the degree of confidence in the financial statements, a qualified external party (an auditor) is engaged to examine the financial statements, including related disclosures produced by management, to give their professional opinion on whether they fairly reflect, in all material respects, the company's financial performance over a given period (an income statement) and financial position as of a particular date (PwC, 2012). Financial performance of a company reflects the entire scene of financial stance of an enterprise in auditing process. Whole financial history and overall financial profile are assessed in terms of sustainability and viability in harsh

conditions. For the very reason, in international practice, auditor's final assessment is seen as the key indicator of enterprises' real value and investment worthiness. Obtained financial results, illustrated in income statement, highlights not only efficiency, profitability and liquidity of an enterprise, but also quality and ability of finance and decision making team in coping with market hazards and selecting appropriate financial targets in a complicated business environment. Therefore, financial results audit gains an inherent importance in building a sustainable future with a solid market and financial base.

Despite commonly recognized importance of financial results audit as a powerful tool of corporate development, it differs across countries due to structural differences and advancement levels of business environments. However, worldwide economic integration and globalized trade and investment linkages necessitate policymaking actions in order to ensure commonness and comparability attributes in financial reporting and auditing practices. Consequently, generally accepted accounting and financial reporting standards were launched to regulate accounting and auditing systems, their methods and procedures. Namely, International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS) played the key role in bridging the structural gap in different accounting systems of individual economies. Although all economies supported the common pattern, only some of them adopted these standards full-fledged and they are limited with adopting some key elements. Another group of economies, especially post-communist countries, chose gradual adoption in consistent with economic transition process.

Uzbekistan is a progressively growing transition economy with a gradually reforming accounting and auditing systems. Rapid business sector growth and expansion of free economic activity required the revision of Soviet-style outdated accounting and auditing practices, as it was fully based of the principles of absolute public ownership and prohibition of private business. After Soviet dissolution, Uzbekistan opted market economy and launched gradual adoption strategy of international accounting and auditing practices. Admittedly, significant differences exist in particular aspects of accounting and auditing methods and procedures, though Uzbekistan adopted core principles of accounting and auditing. The most striking difference can be seen in financial statement and its auditing process. Especially income statement audit (in traditional practice income statement is called financial results statement) differs both in structure and elements. Therefore, auditors often face difficulties and complexity in interpreting finding into international criterion. This article examines the relevance of alignment with IFRS principles in auditing consolidated statement of comprehensive income and studies the attitudes of auditors towards this trend.

LITERATURE REVIEW

Financial statement's audit is a deeply studies area of accounting and audit in spite of its pure practical character. In line with researchers, international auditing companies, especially Big Four, regularly publishes research and survey results to improve the awareness of business rounds and accounting practitioners. Even though these publications have a promotional character, they are an effective instrument of global benchmarking and exchange of best practices in accounting and auditing activity. However, a very limited number of researchers and auditing service companies studied the auditing particular type of statements, namely income statement or financial results statement.

METHODOLOGY

We conducted comparative analysis of consolidated statement of comprehensive income (IFRS) and statement of financial results (NAS) by identifying key distinguishing features in structure and elements by means of comparison table. As for compatibility analysis, we apply two complex methods to examine the evaluations of 24 auditors from top-10 auditing firms, licensed by Ministry of Finance in order to know how alignment of national practices with international ones would be compatible in the opinion of practitioners. Auditors were selected by seniority and experience in working with NAS and IFRS based financial reports. Cronbach's alpha and Guttman's scale models will be used to assess the compatibility level of financial results auditing on the bases of international standards. We specify the general and standardized Cronbach's alpha model as follows:

$$\alpha = \frac{K}{K-1} \left(1 - \frac{\sum_{i=1}^K \sigma_{Y_i}^2}{\sigma_X^2} \right)$$

Where, $X = Y_1 + Y_2 + \dots + Y_K$, K – sum of components, σ_X^2 – variance of scores, $\sigma_{Y_i}^2$ – variance of component i respondent.

$$\alpha_{standardized} = \frac{K\bar{r}}{(1 + (K-1)\bar{r})}$$

Where, \bar{r} – mean of $\frac{K(K-1)}{2}$ non-redundant correlation coefficients.

After selecting the appropriate models, we specify questionnaire to know respondents' opinion with 4 questions:

Q1. Reporting and auditing practices are different and confusing in IFRS and NAS

Q2. Reports set in NAS ensures clearer insight into profitability and investment worthiness

Q3. Audit findings of consolidated statement of comprehensive income (financial results' statement) is more effective in making management decisions, if it was made under IFRS principles

Q4. Audit findings of consolidated statement of comprehensive income (financial results' statement) is more effective in making investment decisions, if it was made under IFRS principles

Table 1. Scaled criteria used ranging from 1 to 5 for each answer

Opinion	Score
Strongly agree	5
Agree	4
Neutral	3
Disagree	2
Strongly disagree	1

In Guttman scale we use cumulative method to test respondents' attitude towards the compatibility of IFRS-base income statement auditing. We divide each question's gained score from responses into possible maximum score and calculate.

ANALYSIS AND RESULTS

In analysing a scale's alpha coefficient, it should be kept in mind that a high alpha is both a function of the covariance among items and the number of items in the analysis. Therefore, a high alpha coefficient doesn't mean a positive or reliable set of items. If number of items is increased, alpha coefficient simply increases too. Because highly correlated items produces a high alpha coefficient. So we applied our specified model to the responses of total 24 auditors and before moving the analytical part, we conducted correlation and covariance tests to examine the interrelations (Table 2 and Table 3).

Table 1. Correlation matrix of responses

Variables	Q1	Q2	Q3	Q4
Q1	1	0,266	0,276	0,271
Q2	0,266	1	-0,349	-0,157
Q3	0,276	-0,349	1	0,759
Q4	0,271	-0,157	0,759	1

Correlation matrix shows that there is a strong relationship (0.759) between Q4 and Q3. Indeed, auditors agree that IFRS based audit findings help to management and investment decision-making. Relationship among Q1 and Q2, Q3, Q4 is positive but weak enough with correlation coefficients 0.266, 0.276 and 0.271 respectively. In contrast, relationships between Q2 and Q3, Q2 and Q4 are negative by rejecting the correlation with -0.349 and -0.157 coefficients.

Table 2. Covariance matrix of responses

Variables	Q1	Q2	Q3	Q4
Q1	0,86775362	0,178	0,212	0,252
Q2	0,178	0,51449275	-0,207	-0,112
Q3	0,212	-0,207	0,67934783	0,625
Q4	0,252	-0,112	0,625	0,99818841

Although covariance matrix cannot be used for assessing the strength of linear relationship, it can confirm at least positivity, neutrality or negativity. But we can have an insight into the matrix from standpoint of strength of positions. Among 24 respondents, most of them agreed with the opinion proposed in Q1 (0.8677), since they were nearly neutral or could not have a common attitude towards Q2 (0.5145). Auditors supported the opinion in Q3 with (0.6793) and strongly agreed with the opinion in Q4 (0.9981).

Cronbach's alpha model indicates the level of sympathy towards the key opinion expressed in the questionnaire. In this research, we attempted to examine the attitude of auditors towards the aligning financial results' statement audit with IFRS based principles and conducted Cronbach's alpha analysis (Table 4).

Table 4. Cronbach's alpha analysis

Cronbach's alpha	Standardized Cronbach's Alpha
0,510	0,463

Results indicate that responses were mixed in terms of support or rejection of IFRS adoption. Cronbach's alpha coefficient is far from showing a common attitudinal preference with 0.510. If we take the small values (any exceeding coefficient over 0.5) into account, there is an insignificant number of supporters.

In Guttman scale, we examined the opinion of auditors' opinions with two positions only. So we divided the responses into agree (yes) and disagree (no) groups and tested the attitudes as shown in Table 5.

Table 5. Guttman scale analysis

Guttman L1	Guttman L2	Guttman L3	Guttman L4	Guttman L5	Guttman L6
0,382	0,635	0,510	0,728	0,662	0,660

Guttman scale test presented mixed but precisely identifying results. Considering the unidimensional character and deterministic attributes, we interpret the provided six coefficients. If coefficient is over 0.85, it is considered that opinion is positively accepted. But the largest coefficient in Table 5 is 0.728, below than 0.85 but higher than 0.510. The final conclusion drawn from these tested models is that auditors support alignment of IFRS based auditing practices in financial results audit.

CONCLUSION

Structural differences in accounting system call for the distinguishing practices in audit. Economic integration and business multinationalization process requires the commonness, comparability and corporate similarity of enterprises. Therefore, key motive of business and investing activities- profit, its structure and sources have to be well determined and analysed before making any efforts. Income statement (or statement of financial results) provides this information, while audit reveals the weaknesses and strength of profit base, its legality and sustainability. It alignment with international standards is vital measure to create a favourable business environment further. Our studies showed that findings of income statement audit have a significant impact on management and investment decision making processes. Moreover, responded auditors supported the adoption of core elements of IFRS in traditional financial reporting practices to ensure commonness and comparability. Considering the attitudinal survey in this article, we propose following recommendations:

1. In national standards costs are classified by recognition only. It is recommended to classify incurred costs in terms of character and recognition method when preparing report based on international standards. Costs may be grouped into amortization, wages, transportation expenses by character, while by recognition costs may be categorized as net cost, administrative costs, sales cost. These two approaches enable the auditor to measure the share of expense groups with clearer results. Classification of costs by character is considered an important tool, as classification by recognition provides additional insights.
2. Latest trends in corporate financial reporting show that reporting practices are regularly improved deriving from analytical capabilities because of following driving factors: (a)

companies want to find new funding sources through increasing the analytical depth of financial reports; (b) financial reports with analytical information may reduce the expenses related with attracting additional capital. It is proposed to adopt relevant elements of international standards related to in-depth analysis of income, stability indicators and financial strength.

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