



PAPER ID: 10A18F



## DIGITAL AUDIT AS A FACTOR OF BUSINESS EFFICIENCY

Nikita Vladimirovich Rahmatullin<sup>a</sup>, Gulshat Talgatovna Guzelbaeva<sup>a\*</sup>

<sup>a</sup> *Institute of Management, Economics and Finance Kazan Federal University, Kazan, RUSSIA.*

### ARTICLE INFO

*Article history:*

Received 11 March 2019  
Received in revised form 24 July 2019  
Accepted 08 August 2019  
Available online 30 September 2019

*Keywords:*

IT-Audit; eAudit;  
Financial Statements;  
Market Economy;  
Audit Services;  
Auditing Activity;  
Macroeconomics;  
Russian business audit.

### ABSTRACT

This article deals with the essence of digital auditing as a factor in business efficiency, as well as the relevance of conducting an audit of organizations and the provision of various services related to an audit to the latter. The article also uses excerpts from the Federal Law of the Russian Federation No. 307-F3 dated December 30, 2008 "On Auditing Activity", provides the audit feature as a control function and its main difference from direct control, reveals the importance of auditing as an economic category on macro- and microeconomic level, a list of audit services. Also, this article reveals the main types of audits used nowadays in different commercial companies (financial/investment audit, industrial audit, personnel audit, PR-audit, environmental audit) and provides characteristics to each of them. The last thing provided by the article is the main features of audit perception in the Russian Federation and the way the auditing profession develops in Russia.

**Disciplinary:** Multidisciplinary (Information Technology, Economic Management, Law).

© 2019 INT TRANS J ENG MANAG SCI TECH.

## 1. INTRODUCTION

Currently, the development of entrepreneurship and business is accompanied by an increasing role of accounting information in the areas of management, control, and analysis. The globalization of the economy, the creation of transnational corporations with a multitude of divisions, often scattered throughout the country, and even around the world, significantly strengthened the business needs for independent auditors. In addition, as government intervention in the economy grew and the tax system became more complex, companies began to need independent specialists who were able to verify the organization's accounting and tax reporting in order to identify errors and distortions and prevent sanctions from government bodies. Therefore, auditing today is the most vital type of service that economic entities around the world use.

Efficiency audit increasingly becomes a part of the company's daily life because the procedures

are able to point out where the funds are spent and whether it brought the desired result.[1]

The use of performance indicators makes possible for us to track the patterns of connections between specific types of costs and achievement of goals. However, it should be noted that it is necessary, to begin with an efficiency audit for the “back office” processes, as they carry a greater threat to the costs. For example, if a company has 5 accountants and a chief accountant from a total of 50 employees, 5 accountants it’s not very effective. At the same time having analyzed the costs they generate you can get confused, as they may significantly exceed the costs that are generated with the front lines of business. Costs of “back office” consist of salary plus taxes, additional benefits, training, penalties, consultants, the cost of subscriptions to specialized publications, recruiting, adaptation and control, etc.[2-4]. The audit should start with an internal audit [11]. The quality of account information will affect the investment by giving attention to auditor expertise in industry [13].

Moreover, such back-office processes as accounting and logistics, demand very professionally trained specialists and continuous monitoring to meet the highest standards in order to minimize risks and financial losses in the future. The efficiency audit can identify business processes that consume more resources than bring value to the business.[5]

Studying the different business models and analyzing the business process optimization practices, you will undoubtedly need to get acquainted with Paul Harmon matrix that tells you how to manage business processes effectively. The Matrix is a strategic nature for the company taking into account the importance of the process and takes into account the complexity of the process itself.

## **2. METHOD**

The main research methods used in this article include analysis, synthesis, and induction. Information used in this study is from the Russian Government policy document, Russia Federal Law and Regulation, research articles and authors’ experiences.

## **3. RESULT AND DISCUSSION**

An audit is an independent review and expression of an opinion on a company's financial statements in the form of a written audit report [1]. Conducting an audit, even in cases where it is not mandatory, is undoubtedly important. Under the conditions of the market, enterprises, credit institutions, other economic entities enter into contractual relations on the use of property, monetary funds, and the conduct of commercial transactions.

The credibility of this relationship must be supported by the ability to obtain and use financial information from all participants in transactions [2]. Owners are unable to verify for themselves that all operations of an enterprise are numerous and often very complex, legitimate and correctly reflected in the statements, as they usually do not have access to accounting records and relevant experience, and therefore need the services of auditors [3].

From an economic point of view, the audit is a special organizational form of control, which is one of the management functions. The economic essence of auditing activity is revealed through its accounting and control functions and is reflected in confirming the fact of the accuracy of reports on

the audit of the economic and financial activities of the audited entity, providing advice on management issues in order to improve the efficiency of the management system of an economic entity. Audit activities include two groups of legal and actual actions: the audit itself and the audit-related services [4].

In the Federal Law of the Russian Federation dated December 30, 2008, N 307-F3 “On Auditing”, the following definition is given: auditing activities — carrying out audit and rendering services related to auditing, performed by audit organizations and individual auditors [5].

The term “audit” is much broader than such concepts as revision and control. The peculiarity of the audit as one of the forms of control is that the audit provides not only validation of financial indicators, but also, taking into account the needs of today's client, develops proposals for optimizing business operations that will allow rational spending of funds, which should ultimately lead to improved financial results of the organization [6].

During the audit of financial statements, sufficient and relevant audit evidence should be obtained to enable the audit organization to draw conclusions with reasonable confidence regarding:

- The compliance of the accounting records of the economic entity with the documents and the requirements of the regulatory acts governing the accounting and preparation of financial statements in the Russian Federation;

- The compliance of the financial statements of the economic entity with the information available to the audit organization on the activities of the economic entity [7].

The opinion of the audit organization on the reliability of accounting reporting can contribute to great confidence in this reporting from the side of users interested in information about the economic entity. The auditor must confirm the accuracy of the published financial statements, which will allow users to rely on the fact that the information risk is small. Reducing the risk of inaccurate information in reporting — one of the main objectives of the audit [8].

At the macroeconomic level, an audit is an element of the market infrastructure, the need for its functioning is determined by the following circumstances:

- financial statements are used to make decisions by its interested users, including the management, participants, and owners of the property of an economic entity, real and potential investors, employees and customers, authorities and the public in general;

#### **4. POTENTIAL PROBLEMS WITH FINANCIAL STATEMENT**

For financial statement, relevant potential problems include

- financial statements may be subject to distortion due to a number of factors, in particular, the use of estimated values and the possibility of ambiguous interpretation of the facts of economic life, in addition, the reliability of financial statements is not automatically provided due to the possible bias of its compilers;

- the degree of reliability of financial statements, as a rule, cannot be independently evaluated by the majority of interested users because of the difficulty of access to accounting and other information, as well as the large number and complexity of business transactions reflected in the

financial statements of an economic entity [9].

An audit, in accordance with the aforementioned law, does not replace the state control over the reliability of financial reporting carried out in accordance with the legislation of the Russian Federation by authorized state bodies [10]. According to the same law, an auditor is a natural person who has received an auditor qualification certificate and is a member of one of the self-regulating organizations of auditors.

#### **4.1 AUDITING SERVICES**

In addition to the direct audit, auditing also includes various auditing services, which include:

- Formulation, restoration, and maintenance of accounting, preparation of financial statements, accounting advice;
- tax consultation, statement, restoration and conducting tax accounting, drawing up tax calculations and declarations;
- Analysis of financial and economic activities of organizations and individual entrepreneurs, economic and financial consulting;
- Management consulting, including those related to the reorganization of organizations or their privatization;
- Legal assistance in areas related to audit activities, including legal advice, representation of interests of the principal in civil and administrative proceedings, in tax and customs legal relations, in state authorities and local governments;
- Automation of accounting and the introduction of information technology;
- Appraisal activity;
- Development and analysis of investment projects, drawing up business plans;
- conducting research and experimental work in areas related to auditing, and disseminating their results, including on paper and electronic media;
- Training in areas related to auditing activities [12].

#### **4.2 TYPES OF AUDITING SERVICES**

Currently, the audit has been divided into several types: financial / investment audit, industrial audit, personnel audit, PR-audit, environmental audit [2].

Financial audit — this is an audit in the classical sense, that is, verification of financial statements and expression of opinion about its reliability. Closely adjacent to it is an investment audit — a conclusion on the targeted and efficient use of investment resources and an audit of professional participants in investment activities (exchanges, investment, and construction companies). Also close to the financial audit is adjacent to the audit and inventory activities. Depending on whether an audit of a company's reporting is conducted by an independent auditor or its own employees, it is customary to distinguish between an independent (audit in the classic sense) and internal audit.

## 5. EFFECTIVE IN WHAT SENS?

### 5.1 INDUSTRIAL AND TECHNICAL AUDITS

The industrial audit is a more complex phenomenon, as it includes elements of financial (in terms of forming the cost of products, confirmation of the reasonableness of tariffs for services — for example, housing and communal services) and a purely technical audit. The technical audit is understood by independent experts to check the production organization system, the quality control and management system, the technical and technological solutions used, as well as to check the technical condition of machines, equipment, machinery, buildings and structures, engineering communications, systems and networks, as well as technical and design checks. documentation expressing opinions on the validity of the applied technical/technological solutions, production management methods and compliance with the technical state of engineering complex systems and equipment to the requirements of regulatory acts.

### 5.2 DIGITAL AUDITS

The modern audit also includes a set of measures for the audit of the information technology environment of the enterprise — IT-audit of systems and services. Inspection activities are closely related to industrial audit — that is, technical supervision activities (production, construction, assembly, commissioning) of technically complex products that have so-called hidden work (works that cannot be seen and accepted for future quality, for example, foundation work) and activities for the independent acceptance of technically complex products (ships, turbines, technological systems) and confirmation of the achievement of design parameters, as well as the acceptance of consignments of goods with confirmation of their properties, quantity and quality. The types of industrial audits are energy audit, the audit of operating costs and confirmation of tariffs (used mainly to justify prices for natural and other monopolies products) and other types of special audits.

### 5.3 PERSONNEL AUDIT

Personnel audit is the definition, assessment of the personal potential of employees and the compliance of employees with the corporate culture and values of the company. In the course of this audit, the level of compliance of an employee with his position is established, personal qualities are assessed, and a comprehensive description of employees is given.

### 5.4 INCREASED FINANCIAL AND MANAGEMENT EFFICIENCY

The purpose of PR-audit is to verify the fulfillment of project objectives, to analyze the efficiency of spending the funds allocated for the project. In the course of the audit, techniques such as counting the number of messages, evaluating media types, evaluating materials for several components, statistical processing of motives are used. Along with the methods listed above, sociological surveys and point studies of representatives of the target audience of the project can be applied.

An environmental audit of an enterprise is a comprehensive and independent assessment of compliance with requirements, including the requirements of existing international standards, regulations and regulatory documents in the field of environmental safety, environmental management and environmental protection, as well as the preparation of appropriate recommendations for improving the activities of enterprises and organizations in the environmental

field.

## 5.5 RUSSIAN AUDIT PERCEPTION

It is urgent also to mention the features of audit perception in Russia. The specifics of audit perception in Russia, in addition to the Soviet past and the small age of the profession, are also determined by the fact that the separation of business owners from the operational management of business occurred mainly in large public companies. In many other enterprises, the owners continue to lead, therefore there is no conflict “hired manager — shareholder”, which is traditionally the “engine” of an independent audit of financial statements. As a result, owner-managers do not need an audit of financial statements. Mostly, they need some adjacent services, for example, tax audit. Taking into account such clients' needs, auditors (mainly from the third group) build audits accordingly, even if they are called audits: most of the time is spent analyzing the tax liabilities and risks of clients, and insignificant — to provide formal signs of an audit of financial statements. Understanding this kind of audit, many Russian banks, when considering loan applications from clients, require that they submit not audited financial statements, but management reports according to their standards. Thus, the demand for an audit of financial statements by banks, which, it would seem, should stimulate the market, is not explicitly expressed. As a result, to this day the most interested party in the audit is the auditors themselves. This largely explains such phenomena as the “omnivorous” auditors, price dumping, characteristic of the third group of auditors. This also partly explains the way (from top to bottom) that the financial audit has so far made its way: the state (not without the participation of lobbyists from the profession) has established and several times revised the cases when the audit is mandatory for companies, thus non-market demand for profession services [8].

## 6. OVERALL OUTCOME

Based on the conducted investigation through this study we figured out that, the economic system of a country depends to a large extent on management decisions in economic units. Obviously, these decisions have a decisive role in the amount of economic revenue and productivity of designated activities and the optimal use of productive and non-profit production and service facilities in the country. So, in principle, shareholders or their representatives always want to know whether executives have made the right decisions. And have they been able to make the most of the available facilities? Have the institutions increased efficiency and compliance with economic benefits?

In today's economic environment with multiple systems and dimensions, organizational management increasingly emphasizes the economic cost-effectiveness, efficiency, and effectiveness of organizational operations. A performance audit is used as a tool for this evaluation.

### 6.1 UNDER COMPETITIVE SITUATION

In competitive environments, it is imperative that managers use the performance appraisal process to steer matters in the right direction as they move toward the goals and strategies of the organization in an informed manner. Due to the rapid changes and increase in the competitiveness of companies and organizations in today's world, the degree of performance of a single work component of an organization and its aggregate can be very important and can be used as a measure

of the success of an organization for managers. Able to evaluate the status of the organization's strategic plans and evaluate the performance of its work components and to improve and improve their effectiveness and efficiency. The expansion of competition has led senior management in many new organizations to focus on maintaining and maintaining a good market position. Managers have found that many of the organizational systems that are expected to be useful for performing operations move in the opposite direction to the goals of the organization and cause lag.

## **6.2 PERFORMANCE AUDITING**

Performance auditing is a useful tool for refining these systems and guiding the organization toward its goals. In our country, most of the economic resources are managed by the government and the quality of its management has a major impact on the fate of the nation. Public sector managers must be accountable to the people and their representatives and provide the tools for this accountability based on credible information. The nature of the public sector requires that in this section, performance auditing is required in addition to examining financial statements and commenting on the principles and principles of financial auditing. Therefore, auditors need to evaluate the quality of management decisions while utilizing the services of experts in various fields and present their corrective conclusions and suggestions for improving management.

## **6.3 MANAGEMENT ENHANCEMENT VIA AUDIT**

Given the importance of improving management improvement in organizations, especially in the public sector, it is imperative for managers to put in place comprehensive management control systems and review them for continuous evaluation of efficiency, cost-effectiveness, and effectiveness. In this regard, management auditors similar to financial auditors can play an important and valuable role in improving and strengthening these systems. As a result, favorable public sector accounting is created when the planning and operation of organs are based on clearly articulated goals and expected outcomes, so performance audit clearly demonstrates the economic cost-effectiveness, efficiency, and effectiveness of all large and small organizations.

Management is defined as the knowledge of the efficient and efficient use of resources to achieve the goals of the organization, and these resources usually include the capital, labor, and resources available to the organization. A manager must plan, organize, and control the operations of the organization in order to achieve the best interests of the organization. In today's world, responsible and pioneering managers are always striving to ensure the proper oversight and objective evaluation of their tasks to remain strong and dominant in the issues ahead and to do their job properly and in a timely manner. Therefore, they should never hesitate to use the services of experts outside their organization to identify problems and provide solutions to achieve greater success by using these services.

In recent years, the focus of many audits in the public and private sectors has undergone changes, and since financial statements alone do not meet management information needs, managers in the public and private sectors are seeking more information to evaluate and judge the They are concerned with the quality of operations and operational improvements. As a result, the need for performance auditing techniques to evaluate the effectiveness, efficiency, and cost-effectiveness of operations has increased dramatically.

## 6.4 DIGITAL AUDIT HELPING BUSINESS

A review of the reasons for the increasing demand for performance audit services shows that the following two issues have provided a good context for conducting this audit:

- Directing managers to pay more attention to economic efficiency, efficiency, and effectiveness in economic units;

- Improve the experience of independent auditors in identifying and finding the facts in digital financial auditing and management consulting and providing necessary guidance to managers.

## 7. CONCLUSION

With the development of a market economy, increasing competition and deepening of economic relations, organizations will increasingly be interested in conducting their audits. Improving the efficiency of audit services in the Russian Federation will be facilitated by the improvement of the regulatory framework for auditing, as well as the training of highly qualified professional auditing personnel. Currently, the number of auditors and audit organizations has reached a number that is able to create competition between auditors.

Consequently, economic entities have the opportunity to choose a more qualified partner, which in turn will contribute to improving the efficiency of economic entities, as well as the overall social production of the country.

## 8. DATA AND MATERIAL AVAILABILITY

This study already includes all the information about this study.

## 9. ACKNOWLEDGEMENT

The work is performed according to the Russian Government Program of Competitive Growth of Kazan Federal University.

## 10. REFERENCES

- [1] Audit. Short course. Training manual. – M.: Okey-book, (2014). – 126 c. – ISBN 978-5-409-00586-3.
- [2] Audit. Theory and practice. Textbook/N.A. Kazakova. – M.: Uwrite, (2014). — 400 c. — ISBN 978-5-9916—3287-4.
- [3] Dmitrieva I.M. Accounting and auditing. Training manual. – M.: Uwrite, (2014). — 306 c. — ISBN 978-5-9916—2817-4.
- [4] Erofeeva V.A. Audit. Training manual. – M.: Uwrite, (2014). - 640 c. – ISBN 978-5-9916—1592-1.
- [5] Federal Law “On Auditing” dated December 30, (2008). No. 307-Φ3 — URL: [http://www.consultant.ru/document/cons\\_doc\\_LAW\\_83311/](http://www.consultant.ru/document/cons_doc_LAW_83311/)
- [6] Karagod, V.S. (2014). Audit. Theory and practice. Textbook – M.: Uwrite. – 672 c. — ISBN 978-5-9916—1792-5.
- [7] Abbott, L.J., Gunny, K., & Pollard, T. (2017). The impact of litigation risk on auditor pricing behavior: Evidence from reverse mergers. *Contemporary Accounting Research*, 34(2): 1103-1127.
- [8] Canning, M., Gendron, Y. & O'Dwyer, B. (2018). Research forum on auditing in a changing environment. *Auditing: A Journal of Practice & Theory*, 37(2): 163.



- [9] Dai, J., Yunsen, W., & Vaarhelyi, M.A. (2017). Blockchain: An emerging solution for fraud prevention. *The CPA Journal* (June): 12-14.
- [10] Kachelmeier, S.J. (2018). Testing auditor-client interactions without letting auditors and clients fully interact: Comments on Bennett and Hatfield (2018). *Accounting, Organizations and Society* (68-69): 58-62.
- [11] Harisova, F. I., & Mukhametzyanova, L. Z. (2018). Construction of a Model for Internal Audit via Economic and Mathematical Methods. *International Transaction Journal of Engineering Management & Applied Sciences & Technologies*, 9(5), 385-392.
- [12] Raphae, J. (2017). Rethinking the audit. *Journal of Accountancy* (April): 28-32.
- [13] Moradi, M., Jafari, S. M., Ehteshamnejad, E., & Asadi, A. (2019). Multi-Criteria Statistical-Based Analysis on the Effect of Accounting Information Quality on Efficiency of Investment by Emphasizing Upon Auditor Specialty in Industry in Accepted Corporations in Tehran Stock Exchange. *International Transaction Journal of Engineering Management & Applied Sciences & Technologies*, 10(8), 1105-1114.
- 



**Nikita Vladimirovich Rahmatullin** is an undergraduate student at Kazan Federal University, Kazan, Russia. He is interested in Enterprise Audits.



**Gulshat Talgatovna Guzelbaeva** is an Associate Professor at the Department of Corporate Finance Management, Institute of Management, Economics and Finance, Kazan Federal University. She is a Candidate of Economic Sciences. She has a higher education from Kazan Institute of Finance and Economics. Her research interests are Financial Management and Audits.