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## ORGANIZATIONAL AND METHODOLOGICAL ASPECTS OF AUDIT OF INTEGRATED REPORTING OF ENTERPRISE

### ABSTRACT

The article presents a new solution to a scientific and applied problem, which consists in the development, design and substantiation of organizational guidelines and recommendations for designing the audit of integrated reporting of the enterprise.

The expediency of creating an internal audit service at enterprises is substantiated, and the functions of the service are defined. Its establishment must consider the size and category of enterprise, legal form of business, organizational structure of the enterprise, the needs of management personnel and the level of automation of accounting and control procedures. The stages of the audit development (confirmatory; system-oriented; risk-based audit) are defined. The principles of modeling the audit system in the structure of the information service of the enterprise are proposed. Based on the defined stages and principles, proposals for the design of the organizational and methodological structure of the audit of integrated reporting of the enterprise are made. Methodological approaches to the audit of integrated reporting have been substantiated. Proposals for assessing audit risks at different stages of entrepreneurial activity are given. The article substantiates the methodological basis of the audit of integrated reporting of the enterprise using modern information and communication technologies. Scientific and methodological recommendations for assessing the state of information security of the enterprise have been developed. The proposals and recommendations presented in the complex provide strengthening of control and analytical functions of management using the latest auditing systems.

### KEYWORDS

audit, accounting, integrated reporting, information technology, development, quality assessment, accounting, and analytical support.

### INTRODUCTION

In modern conditions of economic management, the audit is recognized as an effective tool of control and management of economic security of the enterprise. Development of audit in Ukraine is associated with evolutionary changes in the economy, society, and the political system. A necessity of audit doesn't arise spontaneously. Various users of information, which directly and indirectly regulate the activities of the enterprise are interested in its results.

The implementation of the integrated reporting audit into the control practice in Ukraine is just beginning. There is a lack of both scientific developments on this issue and a general lack of understanding of internal audit by senior management and owners.

Audit of integrated reporting as one of the most important elements of market infrastructure and a form of independent financial control is in a state of evolutionary changes under the influence of economic globalization. The process of formation and development of environmental audit at the enterprises of Ukraine is at the stage of transition from confirmatory audit to system-oriented and in fact to the practical activities of internal audit subjects, focused on assessment of accounting and internal control systems of enterprises.

Today, the definition of audit as a systematic process of obtaining, research, and evaluation of objective data about research to find out the level of their compliance with the established criteria and to report the results to interested parties has been widely recognized [5, p. 153]. The concept of audit is broader than the concept of supervision and control, as it includes not only checking the reliability of financial indicators, but also the development of applications to improve economic activity to rationalize costs and optimize profits on a legal basis [11, p. 8 - 9]. This is even more valid for the system of internal audit which, besides tasks typical for audit, is called to provide services on expert planning and consulting for the purpose of prevention of irrational expenses occurrence.

**The object of the research:** the process of designing the audit of integrated reporting of the enterprise.

**The research aim:** substantiation of organizational provisions and development of methodological recommendations for designing the audit of integrated reporting of the enterprise.

**Methods of the research:** in the process of research and development of scientific recommendations the set of general scientific and special methodological techniques and methods of knowledge of the process of designing the audit of integrated reporting of the enterprise have been applied. In particular: methods of observation, formalization, scientific abstraction, analysis and synthesis, induction and deduction; comparison, graphic method (in studying the current status of audits in the enterprises of Ukraine and Kharkiv region), method of expert evaluations and control questions (in the study of the results of the audit of integrated accounting of the enterprise).

The issues of organization of audits are considered in the works of leading scientists:

Agafonova L. and Agafonova O. [1], Chukurna O. [2], Dorosh N. [3], Havrylenko N. [4], Nestorenko T. [7], Otenda A. [8], Podolsky V. Shcherbakova N. and Komissarov V. [11], Polishchuk O. [12], Redko O. [14] and others. However, several issues related to the organizational and methodological support of the audit of an enterprise's integrated reporting using information technologies have not been covered comprehensively enough, and they need further scientific development.

### Organizational and methodological aspects of audit of integrated reporting of enterprise

In the economic literature, there are different approaches to the definition of concepts and classification of types of audit, which, in our opinion, don't consider the current state of development of this type of control and are limited only to confirming the reliability of financial information. But nowadays the needs of information users are much broader. This is confirmed by the ratification of the regulations of the International Auditing Practice Group 1000 – 100 and the widespread introduction and use of computer technologies. Among others, the functions of the internal audit service include verification, evaluation and monitoring of the adequacy and effectiveness of accounting systems and internal controls [6, p. 42].

Therefore, we developed our own classification of audit types, which corresponds to business requirements and has the following form (tab. 1).

Table 1. Classification of Integrated Reporting Audit

№ s/n	Classification groups	Types of Audit
1	1 According to the stages of audit	1. Preliminary 2. Current 3. Further
2	2 In relation to the business entity	1. External 2. Internal 3. IT-audit
3	By sources	1. Actual 2. Documentary
4	Regarding legal requirements	1. Mandatory 2. Initiative 3. Pre-investment
5	By purpose	1. Audit of financial statements 2. Tax 3. Compliance audit 4. Price 5. Managerial (production) audit 6. Audit of Economic Activities 7. Special audits (environmental, operational, etc.). 8. Express audit
6	According to audit methods	1. Manual 2. Computer-based

In modern conditions due to the influence of a few factors, the interest of hotel enterprises in obtaining a professional internal auditor's opinion on the reliability of accounting information and compliance of financial statements with the requirements of SSAP and IFRS has increased significantly (Fig. 1).

The accounting provides the completeness, reliability and timeliness of information obtained, which is used by the management system. It produces information necessary for management about the state of objects, which are used in the process of planning, control, and analysis.

The main advantage of accounting information is the presence of three components: temporal, qualitative and quantitative, which allow to form information support for internal audit and ensure the formation of an objective management decision (Fig. 2).

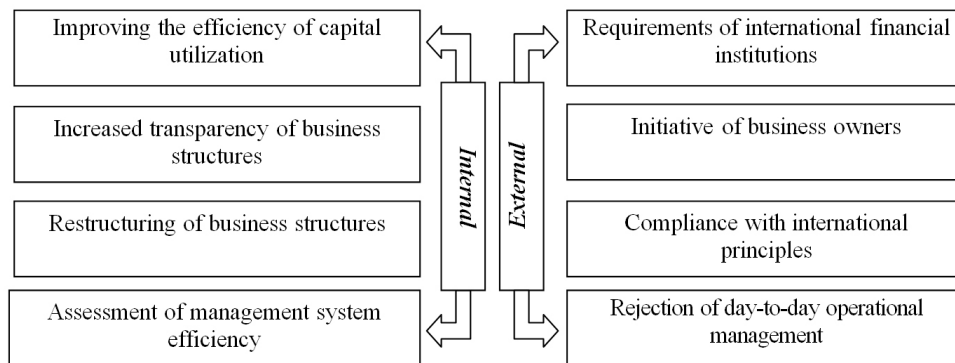


Figure 1. The main demand factors for integrated accounting audit services

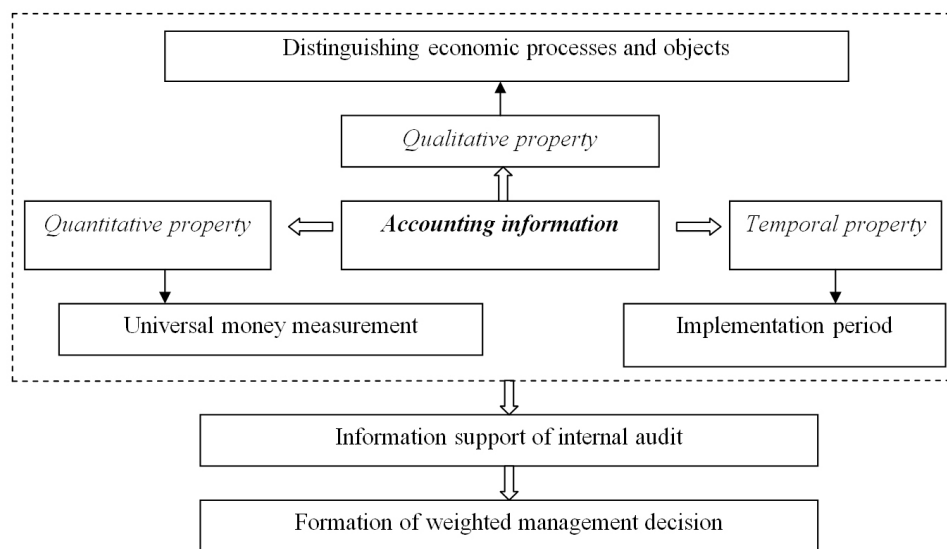


Figure 2. Information support for internal audit of integrated reporting

As a result of the mass introduction of modern information and communication technologies into management practice, the issue of automation of accounting applies more widely. Absolutely impartial question arose not only in the automation of individual control subsystems, but rather in the comprehensive automation of all enterprise management processes. Through this approach, it has become necessary to create systems that integrate the functions of accounting, operational and technical and statistical accounting based on a single data bank [13, p. 18].

Other important components of information support of the audit quality, creating the ground for its effective implementation, are the characteristics of accounting information - timeliness and essence. Each of them is estimated subjectively by the users of information because the information can be presented in different variants, it doesn't decrease the level of reliability and necessity for the needs of internal audit (Fig.3).

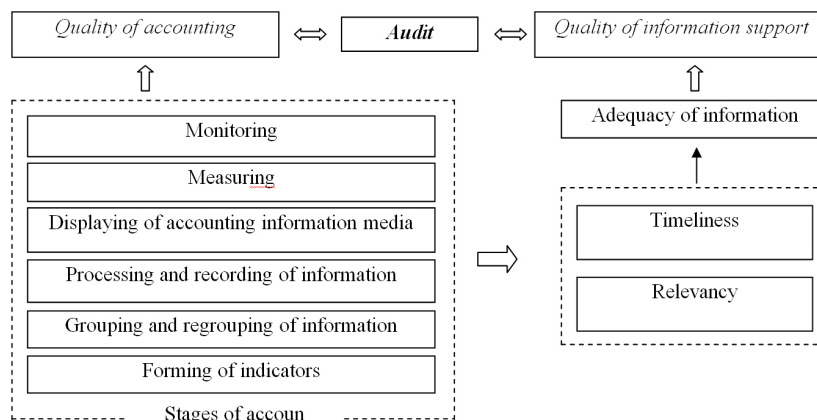


Figure 3. Information support for audit of integrated reporting

The basis of quality assurance of audit information includes the stages of accounting (preparation, keeping, summarizing of information), which are the basis of determining the quality of accounting in the information support of audit. At each stage, users of information are guaranteed to obtain data, which determine further direction of activity of the enterprise by means of evaluation of the existing condition, control, and formation of tactical and strategic management decisions. In this process, accounting provides not only informational, control and analytical functions, but also performs a communication function, i.e. transfer of information to management authorities for making management decisions.

The accounting system must generate information that satisfies the needs of a wide range of interested users. The quality of accounting depends on the quality of all stages of accounting. Each stage should provide the formation of such information data, apart from the actual include planned, normative, estimated indicators. Entities to assess the quality of the accounting process in the context of its stages are shown in Table 2.

Table 2. Entities to assess the quality of the accounting process as organizational unit

Stage of the accounting process	Characteristics	Entities to assess the quality of the accounting process
Initial	Initial observation (assistance in the fact of economic activity); measuring in natural and in value terms; display on recording media - primary documents.	1.Data, information on facts of economic activity 2. Primary documents 3. Movement of initial information carriers.
Current	Processing and registration of information in accounting registers, as well as its grouping and regrouping to form useful information, that is such information that can satisfy the needs of users.	1. Data, information, indicators of current accounting 2. Accounting registers, documents compiled at this stage 3. Movement of current information carriers to form information resources about the needs of users.
Final	A set of operations for the formation of indicators, reflecting information about the results of production, financial and economic activities for a certain period (month, quarter, half-year, year)	1. Data, information, indicators of final accounting (planning, rationing, finance data, etc.) 2. Reporting forms 3. Movement of output media to ensure the formation of information data on the results of work and development

M. Heydes formulates the system of internal audit in the field of financial control as the analysis of indicators of financial statements of a business entity to express an independent opinion on its reliability in all material aspects and compliance with the criteria set by the users [5, p. 153]. Such position is rather limited. The objectives of internal audit are much broader than the objectives of external audit, provides flexibility to internal auditors to satisfy the needs of the enterprise [1, p. 42].

Enterprises differ in the amount, focus and scope of internal audit research. It gives the basis for internal audit classification, due to the diversity of financial and economic activities of the enterprise. When designing the organizational and methodological structure of internal audit at the food industry enterprises, it is appropriate to use the following stages of audit development:

1. Confirming audit (represents the verification and confirmation of the compliance of the financial statements with the requirements of SSAP and its reliability).
2. System-based audit (represents analysis of efficiency of the internal control system).
3. Risk-based audit (conducted in relation to audited objects, where audit risk is higher, at the same time shortening the auditing period of areas with acceptable risks). According to ISA 610 „Review of internal audit activity”, possibilities and the purpose of internal audit service activity have a very wide spectrum, many directions depending on the size and structure of the enterprise, and requirements of its managerial personnel, as well [15, p. 371]. Therefore, the following influencing factors should be investigated before establishing and function of an internal audit service for integrated reporting in enterprises:
  - size and category;
  - legal organizational form of economic activity;
  - organizational structure of enterprise;
  - needs of management personnel;
  - level of automation of accounting and control procedures.

The analysis carried out at the enterprises of Kharkiv region showed that the developed organizational and functional structure of internal audit service is inherent in five- and four-star hotel and restaurant complexes (tab. 3).

Table 3. Analysis of internal audit system of hotel enterprises in Kharkiv region

State of internal audit system	Hotel level (number of stars)			
	5	4	3	No stars
Internal audit functions are not performed	-	3	-	5
Creation of an internal audit system is planned	-	5	-	1
Some internal audit functions are performed on management initiative	-	-	-	1
Some internal audit functions are outsourced	-	-	1	-
Internal auditor's position is created within accounting service structure	-	1	-	-
Internal audit system is under control of management	-	-	-	1
Independent internal audit system	2	-	-	-
Total	2	9	1	8

As we can see, most enterprises of the hotel industry in the Kharkiv region do not have internal audit system in their structure. Those, possessing such a system, entrust internal audit services with the task of confirming the reliability of financial statements of the enterprise, leaving unattended its transformation to international standards and other issues to improve the efficiency of accounting work and management in general.

The results of the analysis of tendencies of hotel industry development in Ukraine show that a significant part of enterprises of hotel industry are public and private joint-stock companies, for which the financial reporting based on IFRS since 01.01.2012 is compiled. It is mandatory, or customary according to Article 12 of the updated Law of Ukraine „On Accounting and Reporting in Ukraine” and paragraph 1 of the Letter of the National Bank of Ukraine, the Ministry of Finance and the State Statistics Service of Ukraine from 07.12.2011 [10].

The study of the management needs of business entities allowed proposing the relationship between the levels of internal audit system and types of enterprises (Fig. 4).

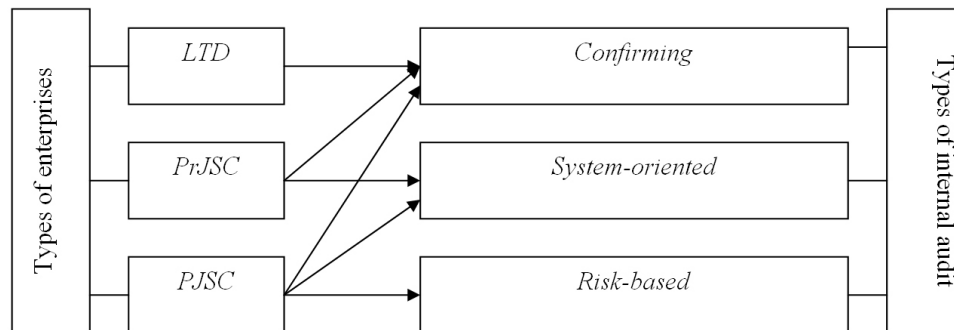


Figure 4. Connection between types of enterprises and types of integrated reporting audit

Initially, large enterprises with different types of activities, with a complex branched structure and many territorially remote branches, subsidiaries and affiliates need to form an internal audit department. Work of specialists of internal audit department in this direction consists in unification and standardization of accounting processes for rational formation of financial reporting [8, p. 50]. One of the activities of internal auditors is the formulation of conclusions and development of recommendations, which should help to reduce costs and improve the efficiency of the enterprise. Internal audit cannot be considered as completed until the audit recommendations are implemented and the identified deviations are eliminated. The company's management staff may accept or deny such a proposal, since the company's accounts are subject to mandatory audit. Table 4 shows the distinguishing features between internal and external audit, which allows evaluating the feasibility of forming an internal audit service [9, p. 48].

Table 4. Distinguishing features between internal and external audit

Characteristic	Internal audit	External audit
Audit objective	To assure managers that assets are used efficiently	To be able to express an opinion that the financial statements are compiled in accordance with the established requirements
Scope of verification	Analysis of all processes	Selective verification
Frequency and rate	Operate in constant contact with the accounting department and other economic services	Operate on a one-time basis, usually at the end of the reporting year
Service user	Aimed at satisfying the interests of management staff	Aimed at satisfying the interests of information users, such as customers, owners of corporate rights, etc.
Auditing entity	Enterprise staff	Independent auditing company
Regulation	International internal audit standards, internal company regulations	International internal audit standards, current legislation
Results of their usage	Auditing report and recommendations to improve operational efficiency are used in management	auditor's report, used to obtain assurance on the reliability of financial statement
Format of the report	Directly determined by the head of internal audit in coordination with the management staff	Depending on the type of services is determined by International Standards on Auditing
Scope of enterprise	Ongoing operational consulting on the management and economic policy of a particular enterprise	Development of general trends, analysis of their impact on production and financial activities of the enterprise

## Discussion

Thus, the need for mandatory external audit does not exclude the need to create an internal audit service. It is necessary to identify internal reserves of the company, to determine the priority areas of its development, risk assessment and management based on the use of knowledge and experience of its specialists, to ensure the improvement of financial stability and competitiveness of the company. Internal audit unit does not replace external audit, audit group, security service, accounting, or financial department, it closely cooperates with them [14, p. 447].

Analysis of the accounting policies content of business entities indicates that most hotels in the Kharkiv region entrust the performance of internal audit and control functions to the chief accountant. This practice does not meet the requirements of the management system of hotel enterprises and does not contribute to the creation of conditions for proper control over the formation of financial results and the preparation of reporting on the segments of the enterprise. The lack of an independent internal audit department in the hotel enterprise leads to distortion of information on the formation of the cost of hotel services, respectively, to the incorrect determination of the financial results of the activities of individual units by the accounting service. This causes an excessively high risk of incorrect distribution of cash flows by the financial department of the enterprise. Therefore, in accordance with the defined priorities of internal audit in the field of hotel services, the components of its conceptual model and the relationship with such elements of information service of enterprises as accounting and financial services were highlighted.



To provide a more detailed framework for the internal audit system depending on the purpose of the audit, on the content of the studied issues and the composition of information used to analyze revenues and expenses by segments, it is proposed to distinguish between financial and management audit [10, p. 5].

In the proposed model, the functions of management audit of integrated reporting are assigned to accounting personnel, responsible for recording and control of business operations on the ground of their implementation, in the segments. The information formed in the management audit system is processed by the financial audit system, provides information support for the tasks of the financial department.

### **Conclusions**

Following the recommendations and conclusions of the internal audit system of integrated reporting, the financial department makes budget formation of cash flows of enterprise on segments and organizes managing influence to improve the service quality.

One of the important issues that arise before the internal auditor is a preliminary determination of the size of the audit risk, the value of which directly affects the number of audit procedures, the size of the audit sample and the labor costs associated with the conduct of the audit. In addition, extensive use of information technology in the organization and accounting of the hotel services significantly affects the size of the audit risk, adding the information risk to its traditional components. Therefore, while developing a general internal audit strategy, it is advisable to highlight the areas of the company's activities, the implementation of which is associated with a high audit risk and requires more attention in the internal audit system.

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## ORGANIZACYJNE I METODOLOGICZNE ASPEKTY AUDYTU SPRAWOZDAWCZOŚCI ZINTEGROWANEJ PRZEDSIĘBIORCZOŚCI

### STRESZCZENIE

W artykule przedstawiono nowe rozwiązanie problemu naukowego i stosowanego, polegające na opracowaniu, opracowaniu i uzasadnieniu przepisów organizacyjno-metodycznych oraz zaleceń dotyczących projektowania audytu sprawozdawczości zintegrowanej przedsiębiorstwa. Uzasadniono celowość tworzenia usługi audytu wewnętrznego w przedsiębiorstwach i określono jej funkcje. Zwraca się uwagę, że jego tworzenie powinno uwzględniać: wielkość i kategorię przedsiębiorstwa, formę organizacyjno-prawną zarządzania, strukturę organizacyjną przedsiębiorstwa, potrzeby kadry zarządzającej oraz stopień automatyzacji procedur księgowych i kontrolnych. Określone są etapy rozwoju audytu (potwierdzające, systemowe, oparte na ryzyku). Przedstawiono zasady modelowania systemu audytu w strukturze serwisu informacyjnego przedsiębiorstwa. W oparciu o określone etapy i zasady zaproponowano zaprojektowanie struktury organizacyjnej i metodycznej audytu raportowania zintegrowanego przedsiębiorstwa. Podejścia metodyczne do badania sprawozdawczości zintegrowanej są uzasadnione. Przedstawiono propozycje oceny ryzyka audytu na różnych etapach działalności gospodarczej. Uzasadnione są podstawy metodyczne prowadzenia audytu zintegrowanej sprawozdawczości przedsiębiorstwa z wykorzystaniem nowoczesnych technologii informacyjno-komunikacyjnych. Opracowano zalecenia naukowe i metodyczne do oceny stanu bezpieczeństwa informacji przedsiębiorstwa. Przekazywane propozycje i rekomendacje w kompleksie zapewniają wzmocnienie funkcji kontrolnych i analitycznych z wykorzystaniem najnowszych systemów audytu.

### SŁOWA KLUCZOWE

audyt, księgowość, sprawozdawczość zintegrowana, technologie informacyjne, rozwój, ocena jakości, wsparcie księgowe i analityczne



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