

BUSINESS CONTINUITY AUDIT ASSESSMENT: ACCOUNTING AND ANALYTICAL ASPECT

EVALUACIÓN DE AUDITORÍA DE CONTINUIDAD DE NEGOCIO: ASPECTO CONTABLE Y ANALÍTICO

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ABSTRACT

The financial stability of commercial organizations in the conditions of crisis phenomena demonstrated by the market economy is decreased. This increases the urgency in search and application of the most effective models developed for audit and diagnostics of economic activity of economic subjects. This study is dedicated to the analysis of business continuity audit assessment, especially accounting, and analytical aspects. To meet the study's aim, an interview with employees of several departments of the refinery is conducted. Besides, general scientific methods, including descriptive and observational, are employed. Given the results, the business continuity assessment is less subjective than a management interview designed to confirm or deny the intention to continue operations uninterrupted for the foreseeable future.

Keywords: audit; business continuity; accounting and analytical information; control procedures.

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RESUMEN

La estabilidad financiera de las organizaciones comerciales en las condiciones de los fenómenos de crisis demostrados por la economía de mercado se ve disminuida. Esto aumenta la urgencia en la búsqueda y aplicación de los modelos más efectivos desarrollados para la auditoría y diagnóstico de la actividad económica de los sujetos económicos. Este estudio está dedicado al análisis de la evaluación de la auditoría de continuidad del negocio, especialmente en los aspectos contables y analíticos. Para cumplir con el objetivo del estudio, se realiza una entrevista a empleados de varios departamentos de la refinería. Además, se emplean métodos científicos generales, incluidos los descriptivos y observacionales. Dados los resultados, la evaluación de la continuidad del negocio es menos subjetiva que una entrevista con la gerencia diseñada para confirmar o negar la intención de continuar las operaciones sin interrupciones en el futuro previsible.

Palabras clave: auditoría; continuidad del negocio; información contable y analítica; procedimientos de control.

INTRODUCTION

At the moment there is a whole layer of scientific literature developed by both domestic and foreign authors engaged in the study of business continuity. The works developed by Russian economists are devoted to the search for analytical parameters that will fully meet the requirements of ISA 570 and accurately reflect the risks of uncertainty. Miloslavskaya et al. (2013), Eltweri et al. (2020), and Kazakova et al. (2020), and others proposed their models of risk assessment. They consider ISA 570 in close connection with ISA 520 "Analytical Procedures".

The point of view expressed by domestic academician economists is true, but it does not fully take into account the realities of the current situation in the world. We consider necessary to prevent continuity of audited entity's activity based on risk-oriented approach. In accordance with it, the presence of positive dynamics concerning creditworthiness and solvency of a firm does not yet indicate the absence of its "rudiments" of business continuity. It is necessary to take into account the whole set of aggressors in both the external environment and in the internal environment.

A similar approach is shared by representatives of the Italian auditing school (Vlachos, 2018) believing that the basis of research is the analysis of financial reporting items. At the same time, non-financial indicators necessary in assessing the business continuity risks are to a greater extent studied (Spremić et al., 2013; Von Roessing, 2002). They offer to consider such factors as market environment changes, management characteristics, industry characteristics, ownership form.

BIÅ et al. (2020) devoted one of his works to the development of a step-by-step audit program in relation to business continuity.

International Standard ISA 570 (revised) "Business Continuity" fixes a list of indirect negative signs indicating a threat to the financial condition of an enterprise.

On the basis of this list there is usually built an audit; its methodology and tools are developed individually by the auditor, taking into account the needs of a particular audited entity. At the moment,

there are no more precise universal guidelines at the regulatory and legislative level regulating the process of auditing the business continuity. Nevertheless, standard audit procedures such as tests, interviews, comparisons and inventories are also relevant for this type of audit. The set of guidelines contained in ISA 570 and standard audit procedures allow for a qualitative assessment of the business continuity of a commercial organization, but cannot fully make an assessment of business continuity as a whole.

METHODOLOGY

From an accounting perspective, bankruptcy is the final stage of the going concern assumption. This principle is fundamental in spite of the fact that it is an assumption and not a direct requirement of a regulatory act.

The Financial Accounting Standards Board (FASB) issued an addendum to the Standard No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Go Concurrently, effective since December 16, 2016. The addendum provides a list of qualitative and quantitative information that should be disclosed to provide assurance on an economic entity's ability to cover its liabilities within one year after the date of issuance of financial statements:

- Company's financial condition at the time of valuation, and its liquid sources: available liquid funds and access to credit sources);
- Indirect and direct liabilities already existing or assumed within one year after the date of formation of the financial statements;
- Cash flows used to carry out company's operations to meet liabilities, banking transactions, etc.;
- Other negative conditions and events in the context of the previous three points, which may affect the company's ability to meet its liabilities.
- The addendum discloses a number of negative factors that may raise doubts about the stability of the organization:
- Negative financial trends: negative cash flows from operating activities, working capital deficit, operating losses;
- Non-compliance with covenants under loan agreements, refusal of commercial credit from suppliers, overdue dividends from sale of existing assets;
- Individual internal causes formed spontaneously and affecting current operations: personnel strike; dependence of the company's success on a particular project
- Changes in legislation, litigation, disputes, overdue or revoked licenses, loss of a key customer or supplier, loss of uninsured property due to an accident.

Ways to develop business continuity audits lie precisely in the symbiosis of prospective and retrospective assessments of a commercial organization. Relying on the data of past periods and evaluating the dynamics of profit, the auditor can predict the financial result of future periods and assess tax costs (Borodyanskaya & Andreeva, 2021). By conducting a prospective analysis, which involves checking the indicators of Business Plans and long-term contracts, a specialist concludes that the organization intends to continue its activities uninterrupted.

Let's consider a specific example of how the proposed model for audit assessment of business continuity proposed by the authors, works.

Auditors have assessed the amount of profit being obtained by LLC Ilsky Oil Refinery (Limited liability Company "Ilsky Oil Refinery") and have made sure that there was no threat of bankruptcy and any grounds for termination of activities. Further, by applying analytical procedures, such events of financial nature as negative value of net assets and existence of negative cash flows were excluded by them. The operations of LLC Ilsky Oil Refinery are highly liquid.

At the preparatory stage, it was decided to conduct interviews with employees of several departments of the refinery. In the course of interviewing the personnel service, we received information on the planned expansion of the staff in the form of creating the Construction Directorate; this indicates that there is no intention of "Ilsky Oil Refinery" LLC to terminate its activities.

RESULTS

According to the recommendations of ISA 570, it is necessary to check the presence of significant lawsuits presented to the enterprise (Babicheva et al., 2018).

1. The audited entity is a defendant in two cases (Amanzholova et al., 2020; Taran et al., 2020):
2. DorSvetStroy LLC (plaintiff) applied to the Arbitration Court of Krasnodar Territory with a statement of claim to Ilsky Oil Refinery LLC (defendant) to recover 248,000 roubles in debt, 2,610 roubles in interest, as well as court costs on payment of state duty in the amount of 7,960 roubles and court costs of 50,000 roubles. Ilsky Oil Refinery LLC on the court decision paid to DorSvetStroy LLC 250,068.93 roubles, including 248,000 roubles in arrears, 2068.93 roubles in interest, as well as court expenses on payment of the state duty of 7,994.37 roubles and court costs of 49,890 roubles.
3. The North-Caucasian Department of the Federal Service for Environmental, Technological and Nuclear Supervision applied to the Arbitration Court with a statement to bring Ilsky Oil Refinery LLC to administrative responsibility for execution of prescription for violation of town-planning legislation when relocating its automated gas distribution station facility outside the territory of the refinery. Based on the Court's decision, Ilsky Oil Refinery LLC was brought to administrative responsibility and paid a penalty in the amount of 50,000 roubles.
4. In other lawsuits for 2019, Ilsky Oil Refinery LLC acts as a plaintiff. These lawsuits were aimed at collecting overdue accounts receivable not exceeding 200,000 roubles.

The arbitration cases presented above and the expenses incurred by the plant in connection with them can be considered insignificant for the turnover of this enterprise. In addition, an interview was conducted with the plant's lawyers, which also confirmed the absence of any significant lawsuits.

In addition, a contract with the main contractor for construction work at the plant site was requested from legal services. This contract expired in October 2020. The agreement for the expansion of the Ilsky Oil Refinery LLC with the Ministry of Energy until 2024 was also analysed. The presence of long-term contracts indicates that there is no intention to cease operations.

Compliance with legal requirements to the size of the charter capital and the size of shares of the Company's participants was checked by inspecting the Charter of Ilsky Oil Refinery LLC and checking this constituent document for formal signs. The fact of payment of the charter capital was established by comparing the accounting data on the Account 75 and the Certificate of payment of the charter capital. Also the data of the Credit balance of Account 80 "Share capital" was compared with the amount of capital fixed in the Charter of the Company.

Compliance with the current requirements of the Tax Code can be assessed by comparing the tax returns on water tax, income tax, property tax, and data on tax payments by credit of Account 51 "Current accounts" in correspondence with Account 68 "Settlements with the budget on taxes and levies" (by type of tax).

The forthcoming changes in the tax legislation concerning the reduction of export duties and the increase in the mineral extraction tax can be tracked in the future by comparing the tax and accounting data in the tax return for the payment of excise taxes and on the credit side of Account 68.03 "Excise Taxes".

Artificial understatement of revenue or, on the contrary, overstatement of expenses may serve as grounds for auditors to apply to Rosfinmonitoring in order to inform this service of a violation of legislation in terms of legalization and laundering of proceeds.

Inventory reconciliation was conducted to confirm the completeness and timeliness of the reflection of receivables and payables. These balance sheet items are directly related to income and expense accounts.

Accounts receivable of Ilsky Oil Refinery LLC for 2019 amounted to 2,334,471 thousand roubles net of intragroup liabilities. The main part of the accounts receivable structure are liabilities for which the deadline for final settlement specified in the contract has not yet expired (Fig. 1).



Figure 1. Accounts receivable structure

According to the overdue accounts in "1C: Accounting", the amount of overdue accounts receivable as of December 31, 2019 was 54,682.54 thousand roubles. However, under the terms of contracts for sale of goods and services, which were concluded for a certain period, the maturity of the obligation expires later, as the services are fully completed or goods are shipped (mainly related to the supply of oil raw materials and repair work under construction contracts).

According to the diagram below (fig.2), the main accounts payable amounts are accounts payable to suppliers and contractors. These accounts payable are not overdue. Based on the results of the audit of primary documentation forms and statements in terms of accounts receivable and payable, we can conclude that Ilsky Oil Refinery LLC follows a conservative way, reducing its indebtedness to buyers on received advances faster than they pay for shipped products.



Figure 2. Accounts payable structure

The inventory of accounts receivable and payable confirmed its accuracy. The existing indebtedness is not significant for the continuity of operations of Ilsky Oil Refinery LLC, but the audit performed made it possible to determine the most urgent liabilities and to control the term of their fulfilment or write-off of debts.

The main contracts in the structure of accounts payable are the contracts for the supply of materials and purchase of goods to be used for repair work. This is indicative of the company's active efforts to maintain its fixed assets in proper condition. Also, the actual inspection with a visit to the plant was carried out; it confirmed the presence of all stocks identified during the analysis of accounting data, and fixed assets. All fixed assets of the company are in working condition; the plant carries out its productive activities. There is no preservation of facilities. Construction and repair works are underway.

An analysis of account 51 "Current Accounts" data as of the current date and an interview with the Treasury Department revealed the availability of cash and deposits. This demonstrates the plant's ability to settle all of its most urgent obligations when necessary. It also confirmed that there were no suspicious contributions to extremism and terrorism-related organizations.

The accounting department in its interview reported the company's intention to switch to IFRS in the next accounting year, which also indicates that there are no threats to the continuity of operations. The audit of business continuity involves an assessment of compliance with anti-corruption laws. Below there are the methodological recommendations for this stage of the audit:

- To become familiar with the management bodies of the audited entity;
- To test the controls in terms of compliance with the anti-money laundering legislation;
- To ensure the confidentiality of information, which the auditor is obliged to pass to Rosfinmonitoring, if necessary;
- To test the controls with regard to bribery of officials;
- To check the details of transactions in substance with respect to the details specified in the requirement of anti-money laundering legislation. Compare the data of accounting, reporting, and primary documents;
- To ask management to provide additional evidence in turn.

The financial results of Ilsky Oil Refinery LLC were audited as part of the business continuity assessment. The sources of information were the Statement of financial results, Balance Sheet on

sub-account 90.01.1 "Revenue" of Account 90 "Sales" and sub-account 90.03 of Account 90 "Sales", as well as the consignment notes. These accounts reflect all real transactions for the sale of services, which is the main type of activity. In this case normative and arithmetic checks of authenticity of income and expenses reflected in accounting are execution of requirements and recommendations of anticorruption legislation being in force in the Russian Federation. Illegally obtained income is a basis for criminal and administrative responsibility punishable by a fine in some cases lead to the revocation of the license as a measure of extreme supervisory response. The application of these measures has a direct impact on the continuity of a legal entity.

Let's compare the accounting data with the information on revenues reflected in the Statement of financial results for 2019 (table 1):

Table 1. Data on revenue sources

NOMENCLATURE GROUPS	AMOUNT, ROUBLES	VAT, ROUBLES	SOURCE
AGENCY FEE	309 669,89	47 237,78	
RENT OF FIXED ASSETS	13 899 819,93	2 120 311,27	
COMMISSION FEE	2 445 427,74	373 031,35	
CONSTRUCTION AND INSTALLATION OPERATIONS	147 861,00	22 555,07	90.01.1 account summary report
PROCESSING SERVICES	4 783 785 917,00	729 730 055,11	
FIRE PROTECTION AND WATER TREATMENT SERVICES	54 030,00	8 241,87	
DRAINAGE AND LOADING SERVICES	5 129 532,16	782 470,98	
TOTAL	4 805 772 257,72	733 083 903,43	

The main item of revenue of Ilsky Oil Refinery LLC is the provision of oil refining services. It amounts to 99.5% of the total revenue received during the period. Each transaction to receive payment for services rendered was supported by an act of rendering services with reference to the respective agreement with the counterparty. This information is detailed in the 2019 Subaccount 90.01.1 "Revenue" Card of Account 90 "Sales".

Thus, the revenue from the main activity of Ilsky Oil Refinery LLC reflected in the accounting and reporting is recorded accurately and in accordance with the legislative and regulatory requirements of the Russian Federation.

Further, a comparative check of other income of Ilsky Oil Refinery LLC was carried out on the basis of the data of turnover balance sheet 91.01 "Other income" and the Statement of financial results. The 91.01 Account shows interest receivable on loans to Ilsky Oil Refinery LLC, which also corresponds to the data in the Statement of Financial Results. Income received from other activities amounted to RUR 25,299.28 thousand, net of interest of RUR 2,575.87 thousand, and VAT of RUR 671.59 thousand from the sale of property rights to service facilities.

Also, during the audit of Ilsky Oil Refinery LLC, the Budgeting and Business Planning Department was asked for a Business Plan for 2019, according to which the company will be active in production and sales activities and carry out an investment program. For the next year, monthly profits are planned. Thus, this audit confirmed the correctness and legality of the formation of the financial result from

ordinary activities (oil refining services) and from other activities, the correctness of the formation and accounting of net profit, compliance of primary documents in accordance with the requirements of legislative and regulatory acts of the Russian Federation, including in terms of legalization of income (Aleksandrova et al., 2018).

The audit of business continuity is a mandatory part of inspections, but the current standards regulating it do not offer a specific list of actions. The internal control service carried out an audit of business continuity at the researched enterprise, relying mainly on the data of retrospective analysis, and not considering the influence of external factors such as legal requirements. The internal control service did not conduct interviews with plant management and the departments, which plan financial and natural indicators for the next year. It also did not take into account long-term contracts, the existence of which indicates the plant's intention to carry out its activities continuously.

CONCLUSION

ISA 570 "Business Continuity" ignores the importance of assessing forward-looking data, so auditors are invited to take into account business planning indicators as part of the business continuity audit, as they directly reflect the decisions of the management and owners of the economic entity to continue its economic activity in the foreseeable future.

For this purpose, a set of basic scenario conditions has been compiled, which compares the financial and natural indicators of 2019 and their planned values for 2020. This will allow to see the expected dynamics of activity. In this case, the business continuity assessment is less subjective than a management interview designed to confirm or deny the intention to continue operations uninterrupted for the foreseeable future. This will help auditors to operate with specific numerical data in drawing conclusions about the results of the audit (Table 2).

Table 2. Summary of scenario conditions of Ilsky Oil Refinery LLC

INDICATOR	2019	2020 (PLAN)	DEVIATION, +/-
NATURAL INDICATORS			
PROCESSING VOLUMES	2 892,79	2 963,59	70,8
SALES VOLUMES	2 892,79	2 963,59	70,8
AVERAGE CRUDE OIL PRICE	28 741	27 705	-1 036
FINANCIAL RESOURCES			
PROFIT	291 191	1 024 544	733 353
DEPRECIATION	794 196	789 348	4 848
INVESTMENT PROGRAM	1 621 284	2 149 026	527 742
WAGE INDEXATION	0%	10%	10
MANPOWER			
NUMBER OF EMPLOYEES	759	864	105
WAGE INDEXATION	0%	10%	10

The set of scenario conditions was prepared on the basis of the following methodological

recommendations on the assessment of prospective data, which can be used as a clarification to the list of financial events of a negative nature in ISA 570 "Business Continuity", as this standard does not offer specific algorithms for actions to assess the events of future periods:

- Outputs of finished goods and sales volumes should be estimated. This will make it possible to draw a conclusion about the expected revenue in the coming year;
- It is recommended to compare all data with similar data for the past periods in order to reveal the dynamics of activity;
- It is necessary to estimate the expected cost of oil raw materials (or any other, in the case of production enterprises), which will allow to forecast the increase or decrease in costs and how these changes will affect the financial condition;
- Evaluate the expected financial resources to be distributed, i.e., net income and depreciation;
- Check the availability of the investment program: assess the planned amounts; areas of investment activity; the feasibility and effectiveness of projects, at the expense of which funds are planned to invest (own or borrowed), for what work will require the assistance of contractors. Availability of investments in the planning period indicates the organization's intention to continue its activities continuously;
- Check the planned changes in the staff of the organisation. If an expansion is expected, the auditee has the intention to continue operations in the next period;
- The planned indexation of wages or bonuses indicates the availability of resources to increase the payroll;
- If it is desired to get a more complete picture of the future period and to identify other threats to business continuity, it is possible to estimate a number of macroeconomic indicators, such as rates of taxes and dues, changes in tax law, customs duties on oil products (as in this case), exchange rates, tariffs for services of natural monopolies (price indices for energy, heat and water supply services, fuel, cargo transportation, etc.)

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