

A NEW APPROACH TO THE AUDITING AND EVALUATION OF FINANCIAL STATEMENTS*

In the business world, it is very important to have reliable information on a company's financial state and performance indicators. The most important data about a company are presented in the financial statements. To ensure the objectivity of information presented in them, it is required that they should be prepared in compliance with the national or international standards of accounting and financial accountability. Enterprises whose shares are listed on the Stock Exchange Market and large companies' annual financial statements must be audited by an independent auditor.

The auditor's conclusion verifies the information presented in financial statements, its reliability and at the same time contributes a lot to maintaining the economic stability in the country. Not only business people, but also society have great interest in auditing. Therefore, the auditors' activities are strictly regulated and supervised.

All auditing companies have to follow international standards. Auditors representing any country of the EU, in the process of auditing financial statements must follow all required procedures.

In the European Union countries, auditors are properly qualified, and auditing

the companies after registration have to follow the directive passed in 2006 by the European Parliament and Council.

Auditing is an object of active scientific research. Lithuania and many foreign countries can be proud of numerous books and scientific articles on the organization and performance of auditing. All articles investigate the problems of auditing activities. However, the objectivity of the auditor's conclusions depends not only on his/her performance, but also on the classification of information under auditing and its presentation in financial statements. However, such type of scientific research is not common in some countries of the world. That is why the monograph *"Auditing and Analysis of Financial Statements: Procedures, Methodology and Evaluation"* by Prof. Habil. Dr. Jonas Mackevičius, published in 2009 by the TEV publishing House, is a very significant event. The monograph investigates three main problems faced by auditors while auditing financial statements: presenting information in financial statements, the auditing of financial statements, and evaluation of data presented in financial statements.

The first part of the monograph investigates the information presented in financial statements, attention being focused on the preparation and presentation of financial

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statements and regulations of international and national auditing. The European Union directives that regulate the preparation and presentation of financial statements and consolidated financial statements undergo serious studies; much attention is paid to the international auditing standards, international quality control standards, international assurance standards and other most important international regulations. The interpretation of these international regulations is of great theoretical and practical significance because the new wording of the 2008 Financial Accounting of enterprises of the Republic of Lithuania, Company group consolidated financial statements and audit laws requires that the above-mentioned international regulations must be implemented. Such steps would enable bookkeepers to run an adequate book-keeping accountancy, prepare financial statements, thus the internal and external auditors will be able to produce well-grounded auditing of financial statements and evaluate a company's financial state, cash flows and performance results.

The author, while investigating financial accountability and presenting information, stresses the necessity to develop the definition of financial accountability and indicate its main goal, i.e. to satisfy the information needs of potential customers.

The monograph stresses the fact that nowadays financial accountability does not present full information which might be needed by a client in order to make certain decisions. It lacks non-financial information which sometimes a client needs: e.g., consumer loyalty, contacts with a customer, business experience, employee satisfaction,

production quality, innovations, new technologies, labour resources, etc. (p. 20–21). This information could be very important while making certain decisions. Moreover, financial statements provide historical information. Today, in the dynamic business conditions, such information may become outdated. This conclusion presented by the author helps to evaluate and define future investigations and the ways to develop the process of financial accountability.

Financial accountability has to comply with many important requirements. Financial accountability must be prepared in compliance with the new wording of the Financial Accountability Law passed in the Republic of Lithuania, in which the business accounting or international accounting standards are defined and the accounting policy chosen by a company must be followed. The author stresses that the information presented in the financial statement must be properly classified and grouped. Each similar group of articles in financial statements must be presented separately. Articles that are not similar must be differentiated.

While investigating the quality characteristics of financial statements, Prof. J. Mackevičius pays attention to six most important criteria such as understanding, importance, reliability, comparison, effectiveness, sufficiency, and their importance is substantiated by the author.

Financial statements are produced in order to satisfy the customer's information needs. The book indicates the information that every financial statement depicts. Cash flow statements, the statement of the company's capital changes, the purpose of annual reports presented by the manage-

ment and the whole presented information are of great importance. The cash flow statement informs about such important issues as whether the company has cash enough to pay out dividends, to repay the loan, to engage in financial and investment activities. The company's capital changes statement indicates an increase or decrease of economic gain in a financial year and presents other changes not depicted in the Income statement. The annual report must provide an overview of the company's performance and development, description of the most important risk factors the company faces, environmental and personnel issues, information about branches and subsidiaries, most important post balance sheet events, information about research, the main shareholders, board member authorization; explanation of the factors that influence the company's financial state and performance results.

For the first time, an explicit review and preparation of financial statements, their presentation and regulations in the international and national auditing are presented. International accounting standards, international standards of financial accountability connected with preparing financial statements, the EU directives and regulations in applying international accounting standards, book-keeping procedures, enterprises' financial accountability, company group laws, business accountability standards undergo a thorough examination.

Audit regulation undergoes a comprehensive examination. International auditing standards, international quality control standards, international review standards, international assurance standards, interna-

tional closely related service standards, the code of ethics of professional book-keepers, Directive of 2006 of the European Parliament and Council, other EU documents closely related with audit regulation and law on auditing of the Republic of Lithuania are reviewed.

A total evaluation of all these documents will be very helpful in understanding the requirements that are significant to financial statements and auditing.

The second part of the monograph evaluates the auditing of financial statements. Prof. J. Mackevičius, while overviews the works of Lithuanian and foreign authors, international task assurance standards, international review standards, international closely related service standards, expresses his view on the audit methodology, and presents some rational proposals. The aim of auditing, financial statements, the place of auditing in the whole audit system, professional competence of the auditor and participation of other people in auditing undergo an interesting interpretation. While evaluating the risk, the auditor investigates the state of internal control.

The author stresses that many company managers do not pay due attention to the system of internal control, some of them fail to understand its essence, identifying it with internal auditing (p. 139). Furthermore, Prof. J. Mackevičius presents many valuable ideas concerning the principles of creating a system of internal auditing, its stages and evaluation. However, the monograph lacks argumentation why the problem is analysed from the internal control point of view.

The process of auditing is analysed comprehensively and consistently, starting with

audit planning and up to the main articles of financial statements, other operations and event auditing, the auditor's conclusions and the audit quality control system. Although there are many articles published on these issues, the monograph by Prof. J. Mackevičius seems to be most consistent and innovative. The author has compiled a model structure of an auditing plan (p. 158) which will help less experienced auditors in compiling their own individual plan.

Very useful and scientifically based are proposals on collecting audit evidence. The author distinguishes five main stages of collecting audit evidence (p. 171) and continues, in great detail, to examine audit evidence collection applying different sources, emphasising its materiality, resources and audit risk while applying statistical and non-statistical methods of selection.

Much attention is paid to the importance of disclosing fraud while auditing. Cases of fraud are quite a few and different. It is suggested to use fraud tree theory in which all frauds are divided into five groups. The

book offers a new structure of the fraud tree. The monograph could be more valuable, if the fraud tree structure were more expanded, because nowadays the number of frauds is increasing and the problem is very urgent.

The third part of the monograph presents the methodology of how to analyse financial statements, which covers the analysis of a company's financial state, performance results, cash flow, going concerns and development. It is quite a new approach to classifying and analysing financial data.

However, the monograph lacks information on the methodology of the analysis of intangible and financial assets.

The above-mentioned shortcomings are not very significant and do not diminish the scientific novelty and practical value of the monograph.

Prof. J. Mackevičius' monograph "*Auditing and Analysis of Financial Statements: Procedures, Methodology and Estimation*" is a great contribution to developing the science of auditing.

Prof. Habil. Dr. Vaclovas LAKIS