

СУЧАСНІ МЕТОДИ ОБЛІКУ, АУДИТУ ТА ОПОДАТКУВАННЯ

DOI: <http://dx.doi.org/10.30970/ves.2024.66.0.6607>

UDC 65.012.8
JEL M41; M42

ACCOUNTING AND INTERNAL AUDIT IN THE FINANCIAL REPORTING MANAGEMENT SYSTEM OF INSTITUTIONS

Olha Hryhoriv, Volodymyr Trokhanovskyi, Yurii Havadzyn

*Vasyl Stefanyk Precarpathian National University,
57, Shevchenko Str., Ivano-Frankivsk, Ukraine, 76018,
e-mail: olha.hryhoriv@pnu.edu.ua; <https://orcid.org/0000-0001-8945-6124>
e-mail: volodymyr.trokhanovskyi@pnu.edu.ua; <https://orcid.org/0009-0001-6656-5130>
e-mail: yurii.havadzyn.18@pnu.edu.ua; <https://orcid.org/0009-0002-7639-0562>*

Abstract. *The purpose of the article is to provide an in-depth review of the state of accounting systems and internal audits in the financial reporting management system of institutions. The article identifies key issues and opportunities for their improvement. Additionally, strategies aimed at optimizing financial management and ensuring compliance with regulatory requirements have been developed.*

The research methodology includes the use of general scientific methods such as comparison, grouping, synthesis, and analysis. The analysis of current challenges and market needs highlights the necessity of introducing modern approaches and innovations in accounting processes to improve the transparency, accuracy, and reliability of financial statements. Special attention is given to improving the skills of accounting personnel to ensure effective utilization of the latest technologies and methods.

The main results of the research emphasize the importance of a strategic approach to accounting and internal audit, considering not only current but also future business needs in the context of globalization, rapid technological development, and integration into the European society. Specifically, the conclusions of the article focus on the importance of independence and regular risk assessment in internal audit, as well as risks related to financial reporting management and professional development of staff.

Important aspects also include the implementation of integrated and automated accounting systems, active use of modern technologies such as artificial intelligence and blockchain for automating and securing accounting information. The research findings contribute to enhancing the quality and reliability of financial management amidst constant changes in legislation and the economic environment.

Keywords: *financial reporting, accounting, internal audit, management system, institution.*

Statement of the problem. In the context of modern requirements for the management of financial resources of institutions, the organization of accounting and internal audit becomes extremely important. However, in practice, several problems impede the achievement of optimal results. Among them, insufficient automation and standardization of accounting processes can lead to errors in financial statements and complicate internal audits. Complicating matters, accounting and auditing requirements are constantly evolving due to rapid technological and legislative changes, making it difficult to comply with standards and requiring constant updating of approaches. Due to the diversity of ownership forms and financial reporting rules, institutions need to find a balance between generally accepted standards and specific internal accounting needs.

To address these problems, it is necessary to conduct a detailed analysis of the state of accounting and internal audit in institutions, identify the main challenges, and implement improvement strategies that will ensure the quality and reliability of financial reporting and effective financial management of the institution.

Analysis of the latest research and publications. In light of the growing complexity of business processes and constant changes in the financial environment, the analysis of recent research and publications is becoming an important aspect of developing accounting and internal audit strategies in the financial reporting management system of institutions.

Accounting and internal audit in the financial reporting management system of institutions are covered in the works of prominent economists, among which it is worth noting the works of L. Sas, [1] who emphasizes the importance of implementing international financial reporting standards (IFRS) in Ukraine to ensure transparency and comparability of financial information of Ukrainian enterprises. The main focus is on the need to adapt the accounting system to IFRS to increase the confidence of international investors and partners, as well as for effective integration into the global economic space. However, O. Lubenchenko and M. Vasyliuk [2] focus on the organizational aspects of the audit of financial statements in Ukraine, including key processes for internal audit, requirements for independence and competence of auditors, as well as approaches to documenting and identifying inconsistencies. The authors emphasize the importance of improving auditing to increase confidence in financial statements. E. Vasil and S. Denutz-Octavian [3] focus on internal audit, which assesses the reliability of data and financial information, as well as the efficiency of operations and transactions. It plays a key role in maintaining the regularity and legality of financial and business transactions, preventing and detecting fraud and errors, and ensuring the reliability of financial statements.

The influence of accounting information systems, internal audit, and corporate culture on the falsification of financial statements and sustainable development activities of companies was studied by S. Mulaney [4].

A study conducted by Musaib Ashraf [5] from the University of Michigan analyses the impact of automation on financial reporting, especially on the internal control environment of companies. The results indicate that the use of automation technologies can improve the quality of financial reporting by reducing the number of material weaknesses in internal control.

At the same time, T. Poleva and A. Druzhina [6] consider financial statements as a key element of the accounting and management system of an enterprise. This information plays a central role in management decision-making, allowing for prospective analysis of activities to optimise the financial condition of the company.

These scholars have made a significant contribution to the development of this topic, but due to rapid changes in the economic environment and changes in regulatory documents, the issue of accounting and internal audit in the financial reporting management system remains important today.

However, it should be noted that most scientific works mainly cover the issues of internal audit, excluding the organization of accounting in the institution, which gives impetus to further research on this issue.

Objective. The purpose of the study is to analyze the current state of the accounting and internal audit system in institutions to identify problematic aspects and opportunities for improvement.

Summary of the main research material. The effectiveness of management decision-making in institutions is largely determined by the level of quality, reliability, comprehensiveness, and impartiality of available information about the internal situation in the institution and changes in the external environment. Reliable financial reporting plays an important role in this.

The information presented in the company's financial statements plays a key role in developing strategies and actions aimed at ensuring business sustainability in a competitive environment, avoiding bankruptcy and financial failure, achieving superiority over competitors, increasing the company's economic potential, optimizing profits and reducing losses, and ensuring profitability [6].

Errors and inaccuracies in the financial statements may lead to incorrect management decisions, which may result in a decrease in the entity's efficiency and profitability.

An analysis of the scientific literature shows that researchers consider financial reporting to be an important social tool that facilitates the adoption of high-quality management decisions, which in turn affects the state economy. There are proposals to integrate financial reporting into the general system of economic information or to develop a specialised theory of business reporting that would ensure transparency of the information space useful for management decision-making by various stakeholders.

The informational role of financial statements plays a key role in the functioning of a market economy. According to the Ukrainian legislation, in particular, the Law "On Accounting and Financial Reporting in Ukraine", which defines the essence and main purpose of the concept of financial statements as: "...it is a statement prepared based on accounting data to meet the needs of certain users" [7]. This position is reflected both in NPAS 1 [8] and in scientific research in this area.

Financial reporting, as an important element of the system for ensuring the management and decision-making process by users, is harmoniously combined with the main classical management functions: planning, control, financing, organisation, and motivation. In the planning process, financial reporting data is used to substantiate the goals and directions

of work, creating basic and modeling planned indicators of the institution's financial and economic activities. At the stage of organising its work, it influences the process of collecting primary data on facts about financial and economic activities, methods, and procedures for processing them in the accounting system. It defines the tasks, processes, and requirements for information of the accounting process. Financial reporting is also a means of stimulating and ensuring financial management policy. It is used to monitor, evaluate the results achieved and take appropriate corrective actions, control, analyse, etc.

The primary objective of users of financial statements is to obtain reliable information about the state of affairs of an entity and, on that basis, to make informed and effective decisions about the entity's activities. Those decisions will ultimately affect the operation of any entity, reflecting the link between the process of preparing and presenting financial statements for users' decisions.

In the context of a market economy, financial statements are prepared to make informed decisions, the purpose of which is to provide users with comprehensive, reliable and objective information about the financial position of the institution, the results of its operations and changes in cash flows. Management accounting is the result of the accounting process, the data of which are collected and used in the institution for making management decisions. The division of accounting into financial and management accounting is necessary in market conditions due to the fundamental differences in the purpose of accounting in command and market economies.

Accounting in an institution's financial reporting management system is the process of collecting, classifying, analysing, and interpreting financial information to prepare financial statements. This system includes various procedures and methods aimed at ensuring the accuracy, reliability, and timeliness of financial statements. Accounting includes maintaining journals, registers, and calculations, as well as conducting internal audits of financial information to verify its compliance with standards and regulations. The main purpose of accounting in the financial reporting management system is to provide information that will help management manage the institution's financial resources effectively and make informed decisions.

The problem of accounting in the financial reporting management system of institutions is that existing methods and approaches often do not meet the modern requirements of effective management. One of the main problems is the lack of integrated systems that would ensure automated and holistic accounting of financial information. This leads to data discrepancies, errors in information processing, and wasted time on manual processes.

An additional problem is the insufficient use of modern technologies, such as cloud services, artificial intelligence (hereinafter referred to as AI), or blockchain, which can greatly facilitate and improve the accuracy of financial information accounting.

There are several ways to address these issues. First, is the introduction of integrated and automated accounting systems that will ensure fast and accurate financial reporting. Secondly, it is necessary to actively use modern technologies, such as artificial intelligence or blockchain, to automate and protect accounting information. In addition, it is important to ensure ongoing training and development of staff so that they can effectively use new technologies and methods in accounting (Table 1).

Table 1

**An integrated approach to improving the financial reporting management system
of institutions using modern technologies**

Aspect	Problem.	Impact on the institution	Technologies to solve	Specific solution steps	Expected result
Systems integration	Lack of integrated accounting systems	Data discrepancies, errors	Cloud services	Implementation of cloud-based accounting systems	Single database, reduced errors
Automation of accounting	Insufficient automation of information processing	Time spent on manual processes	AI	Development and implementation of AI algorithms	Increase the speed and accuracy of accounting
Data security	Vulnerability of accounting information	Risk of unauthorized access	Blockchain	Application of blockchain technologies for data protection	Account security and integrity
Use of technology	Insufficient use of modern technologies	Lagging in management efficiency	Cloud services, AI, blockchain	Training staff to use new technologies	Improving overall management efficiency
Staff training	Low level of staff awareness of technology	Inefficient use of systems	Online courses, webinars	Organising regular training sessions for staff	Improving staff skills and efficiency

Source: developed by the authors

In general, solving accounting problems in the financial reporting management system of institutions requires a comprehensive approach that focuses on the use of modern technologies, process optimization and staff training.

Artificial intelligence and automation are only just beginning to enter the field of accounting and finance. However, these technologies are becoming increasingly sophisticated, and the tools and systems that support accounting are evolving at a rapid pace. Accountants who refuse to adapt to these changes will find it difficult to compete with colleagues who take advantage of the speed and cost savings, as well as the insights provided by AI. Although AI cannot completely replace humans, it has already made their lives easier by improving work, leisure, and daily life [9].

Musaib Ashraf notes that while automation generally improves the quality of financial reporting, there is a potential negative side effect in the form of reduced control over the financial report, which can lead to more serious internal control issues when they arise [5].

Reporting is only one of the key components of effective management of an institution's financial and economic activities. However, to ensure its reliability and compliance with standards, it is necessary to implement an internal audit system. Internal audit is aimed at reviewing and evaluating internal control procedures and risk management systems to ensure compliance with legislation and internal standards, as well as to promote the efficient use of the institution's resources.

The audit of financial statements is mandatory for business entities by the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" [7]. According to this law, the following types of companies are required to disclose their financial statements in full, together with the auditor's report: «companies of general public interest (except for large companies that are not issuers of securities); public joint stock companies; natural monopolies in the national market and companies engaged in the extraction of minerals of national importance; large companies that are not issuers of securities; medium-sized companies; other financial institutions that are micro-enterprises.»

The expansion of the list of entities subject to the statutory audit of financial statements and the deepening understanding of the ability of any entity to engage in an internal audit demonstrates the interest of users in obtaining high-quality and objective information about the financial position, results of operations, cash flows, and capital. Such circumstances impose a significant responsibility on audit entities. The Law of Ukraine "On the Audit of Financial Statements and Auditing Activities" [10] requires new measures to organize the audit of financial statements.

In today's environment, where competition and the needs of information users are constantly growing, internal audit is of particular importance. It not only helps to ensure the reliability and objectivity of financial statements but also contributes to the timely identification and elimination of possible internal shortcomings and errors. This approach increases stakeholder confidence and helps to strengthen the institution's market position.

The internal audit department at the enterprise, by the assigned functional tasks for the preparation of financial statements, assists in managing the most complex or voluminous aspects of accounting; provides supervision over the execution of financial transactions, protection of financial and material assets of the company; participates in the inventory process [11], which in turn ensures the reliability of information in the preparation of financial statements.

To perform an internal audit of financial statements, it is necessary to have high-quality human resources that understand the specifics of the institution's activities and can effectively apply audit methods and techniques. In addition, it is important to have clearly defined internal control procedures and policies that allow for the effective identification, assessment, and mitigation of risks.

The problem with internal audit in the financial reporting management system of institutions is that existing approaches often do not meet the requirements of the modern business and economic environment. One of the main problems is the lack of independence of internal auditors, which can lead to conflicts of interest and limit the effectiveness of their work. In addition, there is not always sufficient risk assessment and prioritization of the audit, which can lead to the overlooking of potential problems.

An additional challenge is limited access to the resources and technology required to conduct a quality internal audit. Many institutions face insufficient funding or a lack of qualified staff in the internal audit department.

One possible solution is to improve the independence of internal auditors by establishing an independent internal audit department that has direct access to management and is free from conflicts of interest. In addition, it is important to regularly assess risks and priorities audits to make the most efficient use of resources. Training and development of the internal audit staff is also an important element of addressing this issue, as qualified staff ensures that the audit is conducted in a quality manner and that potential risks are identified.

An additional strategy to address the internal audit challenge may be the introduction of modern technologies and analytical tools. The use of automated data analytics systems and audit software can greatly facilitate the process of identifying deficiencies and anomalies in financial statements. For example, the use of machine learning algorithms to analyse large amounts of data can help identify relationships and anomalies.

In addition, ensuring transparency and openness in internal audit can improve its effectiveness. Audit results must be made available to all stakeholders, which helps to identify and resolve problems at an early stage. It is also important to regularly review and update internal audit procedures to reflect changes in legislation, standards and technological innovations. This will help keep internal audit at a high level of efficiency and in line with best practices.

Thus, internal audit of financial statements is not only a tool for ensuring compliance with standards and legislation, but also a key element of strategic management aimed at increasing stakeholder confidence and ensuring the sustainable and promising development of the institution.

Conclusions and Prospects for Further Research. It should be emphasized that to improve the quality and reliability of financial reporting, it is necessary to improve the accounting and internal audit systems of institutions. Particular attention should be paid to the need to adapt to rapid changes in the technological and legislative environment. It is important to create balanced systems that combine classical accounting principles and innovative solutions to ensure the reliability and efficiency of financial reporting management. The introduction of modern technologies, such as cloud accounting systems, AI, and blockchain, will give impetus to improving the accuracy and transparency of accounting. It is important to note the importance of independence and regular risk assessment in internal audit, as well as staff development. Prospects for further research may include analysing the impact of integrating financial reporting into the overall economic information system and developing a theory of business reporting that promotes transparency of the information space for making quality management decisions.

References

1. Sas I. et al. (2023). International Financial Reporting Standards (IFRS) in the accounting system of Ukraine. *Financial and credit activity problems of theory and practice*. Vol. 1, no.48. P.78–90.

2. Лубенченко, О. Е., Василюк, М. М. (2019). Організаційні засади аудиту фінансової звітності в Україні. *Статистика України*. № 2. С. 92–97. Doi: 10.31767/su.2(85)2019.02.10. [in Ukrainian].
3. Vasile E. et al. (2019). Internal Auditing & Risk Management. *Internal Auditing & Risk Management Year XIV*, No 2(54). Available at SSRN: <https://ssrn.com/abstract=3433245> or <http://dx.doi.org/10.2139/ssrn.3433245> (date of access: 24.03.2024).
4. Mulyani, S. (2019). Influence of accounting information systems and internal audit on fraudulent financial reporting. *Opción*, Maracaibo. No 21. P. 323–328.
5. Ashraf, M. (2024). Does automation improve financial reporting? Evidence from internal controls. *Review of Accounting Studies, Forthcoming*. URL: <http://dx.doi.org/10.2139/ssrn.4709274> (date of access: 24.03.2024).
6. Польова, Т. В., Дружина, А. В. (2019). Фінансова звітність як елемент системи управління підприємством. *Ефективна економіка*. № 11. doi: 10.32702/2307-2105-2019.11.89 (date of access: 24.03.2024). [in Ukrainian].
7. Про бухгалтерський облік та фінансову звітність в Україні: Закон України від 16.07.1999 р. № 996-xiv. (зі змінами і доповненнями). URL: <http://zakon3.rada.gov.ua/laws/show/996-14/page>. (date of access: 24.03.2024). [in Ukrainian].
8. Національне положення (стандарт) бухгалтерського обліку 1 «Загальні вимоги до фінансової звітності»: затв. Наказом Міністерства фінансів України від 07.02.2013 р. № 73. URL: <https://zakon.rada.gov.ua/laws/show/z0336-13#text>. (date of access: 24.03.2024). [in Ukrainian].
9. Бухгалтер 911. Штучний інтелект в бухгалтерському обліку та фінансах. *Бухгалтер 911*. URL: <https://buhgalter911.com/uk/news/news-1049080.html> (date of access: 24.03.2024).
10. Про аудит фінансової звітності та аудиторську діяльність: Закон України від 21.12.2017 р. № 2258-viii. URL: <https://zakon.rada.gov.ua/laws/show/2258-19> (date of access: 24.03.2024). [in Ukrainian].
11. Проскуріна, Н. М., Грибова, Ю.В. (2023). Роль внутрішнього аудиту в забезпеченні достовірності фінансової звітності. *Інноваційна наука: пошук відповідей на виклики сучасності* : матеріали І Міжнародної наукової конференції. Вінниця: ТОВ «УКРЛОГОС Груп». С. 66–67. [in Ukrainian].

БУХГАЛТЕРСЬКИЙ ОБЛІК ТА ВНУТРІШНІЙ АУДИТ У СИСТЕМІ УПРАВЛІННЯ ФІНАНСОВОЮ ЗВІТНІСТЮ УСТАНОВ

Ольга Григорів, Володимир Трохановський, Юрій Гавадзин

*Прикарпатський національний університет імені Василя Стефаника,
76018, м. Івано-Франківськ, вул. Шевченка, 57,
e-mail: olha.hryhoriv@pnu.edu.ua; <https://orcid.org/0000-0001-8945-6124>
e-mail: volodymyr.trokhانovskiy@pnu.edu.ua; <https://orcid.org/0009-0001-6656-5130>
e-mail: yurii.havadzyn.18@pnu.edu.ua; <https://orcid.org/0009-0002-7639-0562>*

Анотація. Метою статті є поглиблений огляд стану бухгалтерського обліку та внутрішнього аудиту у системі управління фінансовою звітністю установ. У статті визначено ключові проблеми та можливості для їхнього вдосконалення.

Методологія дослідження включає використання загальнонаукових методів, таких як порівняння, групування, синтез та аналіз. Аналіз сучасних викликів і потреб ринку підкреслює необхідність впровадження сучасних підходів та інновацій у процесах обліку для підвищення прозорості, точності та надійності фінансових звітів. Особлива увага приділяється підвищенню кваліфікації облікового персоналу для ефективного використання новітніх технологій та методів.

Основні результати дослідження підкреслюють значення стратегічного підходу до обліку і внутрішнього аудиту, враховуючи не тільки поточні, але й майбутні потреби бізнесу в умовах глобалізації, швидкого розвитку технологій та інтеграції в європейське суспільство. Висновки статті зосереджені на важливості незалежності та регулярної оцінки ризиків у внутрішньому аудиті, а також ризиків, пов'язаних з управлінням фінансовою звітністю та підвищенням кваліфікації персоналу.

Важливими аспектами є також впровадження інтегрованих та автоматизованих систем обліку, активне використання сучасних технологій, таких як штучний інтелект та блокчейн, для автоматизації та захисту облікової інформації. Результати дослідження сприяють підвищенню якості та надійності фінансового управління в умовах постійних змін законодавства та економічного середовища.

Ключові слова: фінансова звітність, облік, внутрішній аудит, система управління, установа.

Стаття надійшла до редакції 08.03.2024

Прийнята до друку 25.04.2024