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AUDIT OF ACCOUNTS RECEIVABLE AS AN ESSENTIAL ELEMENT OF ORGANIZATION MANAGEMENT

Theoretical and practical aspects of accounts receivable audit organisation are considered in the article. The essence and the key tasks of the accounts receivable audit are analysed. The methods and the basic stages in inside and outside auditing of accounts receivable are presented in detail. Tests for checking the calculations with buyers and customers of an enterprise are developed.

Keywords: accounts receivable; outside audit; inside audit.

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АУДИТ ДЕБИТОРСЬКОЇ ЗАБОРГОВАНОСТІ ЯК НАЙВАЖЛИВІШИЙ ЕЛЕМЕНТ УПРАВЛІННЯ ОРГАНІЗАЦІЄЮ

У статті розглянуто теоретичні і практичні аспекти організації аудиту дебіторської заборгованості. Досліджено сутність та основні завдання аудиту дебіторської заборгованості. Представлено методіку і виділено основні етапи проведення внутрішнього і зовнішнього аудиту дебіторської заборгованості. Розроблено тести для перевірки розрахунків з покупцями і замовниками на підприємстві.

Ключові слова: дебіторська заборгованість; зовнішній аудит; внутрішній аудит.

Табл. 2. Літ. 12.

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АУДИТ ДЕБИТОРСКОЙ ЗАДОЛЖЕННОСТИ КАК ВАЖНЕЙШИЙ ЭЛЕМЕНТ УПРАВЛЕНИЯ ОРГАНИЗАЦИЕЙ

В статье рассмотрены теоретические и практические аспекты организации аудита дебиторской задолженности. Исследованы сущность и основные задачи аудита дебиторской задолженности. Представлена методика и выделены основные этапы проведения внутреннего и внешнего аудита дебиторской задолженности. Разработаны тесты проверки расчетов с покупателями и заказчиками на предприятии.

Ключевые слова: дебиторская задолженность; внешний аудит; внутренний аудит.

Formulation of the problem. Audit of accounts receivable, in our opinion, holds a special place in management. Audit of accounts receivable is one of the most complex audit issues at the moment, because it is often a source of common, sometimes intentional, mistakes. Companies make regular payments – with buyers for their purchases, with customers – for the work performed and services rendered. Under the conditions of the unstable market economy, as well as economic crisis, the risk of non-payment or late payment of bills increases, leading to the emergence of receivables.

Recent researches and publications analysis. Problems of accounts receivable audit are considered in the scientific works of the following Kazakh and Russian authors: D.O. Ablenov (2008), K.Sh. Dyusembaev (2013), Zh.A. Kevarkova et al. (2013), V.I. Podolsky (2011), A.D. Sheremet and V.P. Suyts (2002). Literature review demonstrates that there is no comprehensive approach to the methodology of accounts receivable audit. Insufficient development of receivables' audit methodology requires its further study.

The purpose of this study is considering the implementation and organization of the accounts receivable audit, developing recommendations on accounts receivable

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management in order to improve company's solvency and minimize the risk of unsettled and doubtful receivables growth.

Key research findings. Present further recommendations on the organization of accounts receivable audit can be widely used in accounting and analytical practice of economic entities and in the activities of audit firms. Scientific novelty of the research lies in the theoretical and methodological development of the accounts receivable audit.

According to the Law of the Republic of Kazakhstan "On Auditing" as of 20.11.1998, #304-I (amended on 16.05.2014, #203-V), audit activity is a business providing financial statements audit and other information related to financial reporting.

Audit is an examination with the aim of expressing an independent opinion on financial statements and other information related to financial statements, in accordance with the Law of the Republic of Kazakhstan (20.11.1998, #304-I).

Audit of accounts receivable is based on the following regulations:

- Law of the Republic of Kazakhstan "On Auditing".
- Law of the Republic of Kazakhstan "On Accounting and Financial Statements".
- Law of the Republic of Kazakhstan "On Joint Stock Company".
- Civil Code of the Republic of Kazakhstan.
- Tax Code of the Republic of Kazakhstan.
- Resolution of the Government of the Republic of Kazakhstan as of 14.10.2011, #1172 "On Approval of Accounting Rules".
- Model plan of accounting records (the order of the Ministry of Finance of the Republic of Kazakhstan as of 23.05.2007, #185).

Sources of information to check are the following:

- accounting policies of the audited entity;
- primary documents on accounts receivable;
- synthetic accounting registers of receivables;
- analytical accounting registers of receivables;
- bookkeeping (financial) accounting.

The main purpose of the accounts receivable audit is to establish the correctness of definitions, as well as their classification from the position of applicable regulations of accounting and taxation. It is also an expression of opinion about the actual receivables balance, increased responsibility for compliance with calculations and payment discipline and improvement of the financial condition of the audited entity.

The objectives of the audit of accounts receivable are as follows:

- inventory (reconciliation) calculations with buyers and customers;
- determination of the correctness of the synthetic and analytical accounting of receivables;
- checking for the lawfulness of allowance use for doubtful accounts.

Any work, in order to be done well and effectively, needs a clear plan. Planning is the primary stage of auditing too, in accordance with the rules (standards) of auditing. Process of audit planning involves 3 steps:

- 1) preparation stage, consisting of studying client's business, its accounting systems and internal control, assessment of materiality and audit risk, making the letter of agreement and concluding the contract for an audit;
- 2) development of the overall audit plan;
- 3) preparation of the audit program.

The overall audit plan includes the types of work and timing. From our perspective, within the plan and the audit program development, the main types of work must be:

- audit of internal accounts receivable;
- audit of external accounts receivable.

The audit program contains both tests of tool controls and audit procedures on the merits. It is a list of auditor's actions for detailed inspections, it describes in a logical sequence the characteristics and the extent of work to be performed and, therefore, is for work that ends with conclusions of the auditor, facilitates the control over the implementation of the work, and organizes the work of auditors in the most efficient way (Dyusembaev, 2013).

A well-known in the US expert in the theory and practice of auditing, J. Robertson (1993) in his monograph "Audit" wrote that audit is the process of reducing the information risk of financial statements to users to an acceptable level.

The authors of the book "Audit Montgomery" argue that audit is a systematic process of objective collecting and evaluating evidence on economic actions and events in order to determine the conformity of these statements with established criteria and later submitting the test results to interested users (Defliz et al., 1997).

In the Law of the Republic of Kazakhstan "On accounting and financial statements" as of 28.02.2007, #234-III (amended as of 10.06.2014, #206-V) it is noted that the content of primary documents and ledgers is the information constituting a trade secret an access to which is granted only to persons authorized by management or an individual entrepreneur, as well as officials of the state bodies in accordance with the legislation of Kazakhstan.

Persons having access to these documents must not disclose any information available to them without the consent of the owner and are not allowed to use it for personal gain. Persons having access to the information constituting a trade secret are responsible for its disclosure in accordance with (Law of the Republic of Kazakhstan, 28.02.2007, 234-III).

Sources of information to check are:

- accounting policies of the audited entity;
- primary documents on accounts receivable;
- synthetic accounting registers of receivables;
- analytical accounting registers of receivables;
- bookkeeping (financial) accounting (Podolsky, 2011).

The conclusions of the auditor on each section of the audit program, documented in working papers is the actual material of the auditor's report (opinion), as well as the basis for the formation of an auditor's independent opinion on the financial statements authenticity of the audited entity.

The receivables' checking program included in the general audit program may be in the form as presented in Table 1.

Audit program includes examining the following accounts:

1250 "Short-term receivables of workers", which is accounted for operations related to the presence and movement of workers' receivables:

- issued in the accountability of money for the purchase of assets, payment of works (services), business trips etc. (1251);

- loans granted to employees and payments for goods purchased on credit (1253);
- as well as calculations of pecuniary damages (loss, theft, damage etc.) caused by workers to the organization (1252).

Table 1. The receivables' audit program, compiled by the author on the basis of (Dyusembaev 2013)

Audit procedure	Sources of information, methods and evaluation criteria
Checking for the conformity of carrying amounts with turnover balance sheet	Balance, turnover balance sheet on accounts for 1210 of subsection "Consumer indebtedness", 1290 "Provision for doubtful requirements", 1250 "Short-term receivables of workers", 1280 "Other short-term receivables", 1610 "Prepaid expenses"
Checking for the correctness of synthetic and analytical accounts receivable	Turnover balance sheet on the above given accounts, statements for prepaid expenses, settlements with buyers and customers, primary documents
Checking for the receivables' state through inventory accounts receivable with debtors	Materials of inventory calculations with buyers, accountable persons, employees and other debtors (acts of inventory and reconciliation of accounts, letters of debtors and others)
Verification of compliance with contractual obligations and the reality of receivables	Contract for supply, logs, deliveries, invoices, warrants, orders
Checking for the validity of provisions for doubtful debts and their correct use	Turnover balance sheet, the data of the analytical account 1210, subsection "Consumer indebtedness", account 1290 "Provisions for doubtful debts", orders of the enterprise head to write off accounts receivable
Validation of settlements with buyers, customers, recording transactions when paying bills	Settlements on account of calculations with buyers and customers, data of the analytical account 1210 of the turnover balance sheet
Checking for timeliness and validity of claims and debtors, control over organization of movements in these cases	Contracts with buyers and customers, letters of claims against debtors etc.
Checking for other receivables	Data on accounts 1250, 1280 of the turnover balance sheet, expense reports, settlement and payroll, claims on losses, theft etc.
Analysis of functions' performance of account receivables, control over supply and payment	Standards of accounting, auditing and internal control, instructions, orders, primary documents, invoices 1210, 1250, 1280 etc.
Analysis of the legality and the reality of timely debt repayment of receivables	Settlements with buyers and customers, the data of the analytical account on the account 1210 of turnover balance sheet
Analysis of the control effectiveness and accounts receivable turnover	Data on the accounts 1250, 1280 of turnover balance sheet, expense reports, materials on claims for losses, theft etc.
Assessment of the management state, reserves, development of recommendations on calculations and decrease in accounts receivable	Analytical calculations and the resulting conclusions and recommendations of the auditor on improvement and receivables control

1260 "Short-term receivables on lease", which contains information on the subject to enter the rent for current lease, as well as the principal amount of lease obligations for admission on financed rent, leasing.

1270 "Short-term remuneration", which is accounted for operations related to the presence and movement of receivables on:

- accrued dividends on shares (participation rights);
- accrued interests on promissory notes received, financed lease, leasing, granted loans, purchase of financial investments, trust management.

1280 "Other short-term receivables", which is accounted for operations related to the presence and movements of other receivables, not mentioned in the notes to the accounts of 1250–1270, for example:

- returns of defective materials;
- amount erroneously debited from bank accounts;
- excessive amounts listed in the budget;
- amount of claims made to suppliers, contractors, transport organizations and other organizations for the identified non-compliance, inventory shortage of excessive losses;
- subject to the receipt rents on current lease;
- principal amount of lease obligations for admission on financed rent, leasing;
- damages from emergency situation (under the insurance contract);
- fines, penalties and forfeits;
- accounts receivable associated with operations of trust management.

1290 "Allowance for doubtful requirements", which reflects the information on the creation and movement of allowance for doubtful requirements.

Other short-term accounts receivable are recorded in the accounts:

1220 "Short-term receivables of subsidiaries".

1230 "Short-term receivables of associated and joint ventures".

1240 "Short-term receivables of branches and structural subdivisions".

In particular, account balance and billings on the account 1251 "Settlements with accountable persons" require careful studies.

Starting the checking, it is necessary to find out:

- whether the unpaid balances are reflected correctly on the relevant balance sheet item;
- limitation of indebtedness;
- reality of reporting entities repayment;
- what measures were taken by top management for timely recovery of debts;
- whether primary supporting documents are correctly and legally completed;
- whether the enterprise head determined the circle of persons with the right to receive money accountability;
- whether the accountable persons were paid in advance in excess of the size or persons not previously reported on the amounts received;
- whether allowed are the expenses payments through reporting entities which could be paid directly from the cash register of the enterprise;
- whether in the expenses from petty cash are recorded a timely manner;
- whether the reasonably incurred costs are shown in advance statements and whether there is the mark of the enterprise head;

- whether the imprest is registered for already dismissed workers.

Audit of external accounts receivable should be carried out on the following accounts:

- 1) 3310 "Short-term payables to suppliers and contractors" (if the organization has issued an advance on delivery);
- 2) 1210 "Short-term receivables from buyers and customers" (in the case of the supply of goods, works and services on subsequent payments);
- 3) 3100 "Tax liabilities" (in the case of overpayment);
- 4) 3210 "Liabilities on social insurance" (in the case of an overpayment when calculating social security);
- 5) 3220 "Liabilities for pensions" (in the case of an overpayment when calculating pensions etc.).

When checking the settlement operations for advances on auditor should establish the reality of outstanding debt prepayments.

Particular attention should be paid by the auditor to doubtful debts on advances, their causes and perpetrators.

When checking the calculations with buyers and customers (through 1210) it is necessary to establish the presence of a made contract with a partner and the lawfulness of material assets on sale, work performed, services rendered, it is also necessary to check the indebtedness of buyers attributed to the account 1210 "Short-term receivables from buyers and customers".

An important issue is to check for completeness and timeliness of payments from buyers. For this purpose, it is necessary to check the quality of the inventory. It is also important to check for the correctness of invoices to buyers and their registration in relevant books, timely filing of penalties to customers for the violation of contract obligations, law and documentation of debt relief for which the statute of limitations had expired, the elucidation of its causes, the receivables for which the statute of limitations has not expired, the legality of debt settlement through a third party (cession contract), the legality of the implementation of non-monetary methods to repay the debt (swap agreements, offset of mutual claims, debt transfer, factoring agreement etc.).

Checking for the calculations using the promissory notes it is important to pay attention to timely and accurate payment of bills. It is also necessary to check for the validity of crediting to the account 1210 "Received advance payments".

Because of the corresponding overpayment of taxes and fees or the formation of the amounts recoverable under the law, for example, in the calculation of VAT on the transactions when calculating social security fund payments, pensions, enterprise accounts for 3100 "Tax liabilities", 3210 "Obligations social insurance", 3220 "Liabilities for pensions" are arising receivables. During the audit of this type of accounts receivable we should check for the correctness of calculations and payment of appropriate taxes and fees, to reconcile a mandatory verification of data relevant authorities.

According to the Article 105 of the Tax Code of the Republic of Kazakhstan (10.12.2008, #99-IV, amended as of 01.01.2014) doubtful claims are the requirements resulting from the sale of goods, works and services to legal entities and individual entrepreneurs and legal entities-non-residents operating in Kazakhstan through an agency, branch, representative office, and not satisfied within 3 years from the date of occurrence of a claim.

According to the paragraph 4 Article 105 of the Tax Code, questionable claims are deductible within the limits of the size of the previously recognized revenue from sales of goods, works and services (The Tax Code of the Republic of Kazakhstan, 10.12.2008, #99-IV, amended as of 01.01.2014).

According to the Article 178 of the Civil Code of the Republic of Kazakhstan, the total limitation period shall be 3 years. Requirements for certain types of legislative acts may establish special limitation periods, reduced or longer than the total period (The Civil Code of the Republic of Kazakhstan, 01.07.1999 #409-I, amended as of 03.07.2014, #227-V).

When conducting the audit of operations on internal and external receivables accounting the following methods and techniques are used:

- 1) inventory;
- 2) conversion;
- 3) confirmation;
- 4) verification of rules' compliance with certain business transactions' accounting;
- 5) oral questioning;
- 6) checking documents;
- 7) follow-up;
- 8) analytical procedure.

The auditor checks the internal control of payment transactions, for this a validation test is conducted. Basing on the test data, the auditor determines how monitoring of settlements with buyers and customers meet the requirements, and how payment transactions record performs its tasks. If it turns out that the probability of missing the error is large, the auditor is required to include in the checking program the questions and areas of accounting, which are not subject to internal control or which have been neglected by the accounting (Table 2).

The main objective of this analysis is to determine the liquidity of receivables. To do this, we should estimate the volume (or level), turnover and quality of receivables. However, before we embark on this, it is appropriate, in our opinion, make a preliminary assessment of the financial condition of the company, because it provides early warning signs of a crisis. Inside audit has a close relationship with other divisions in like the case with outside auditors.

Formulation of these objectives arises from the need for correct assessment of the organization's financial position at the time of disclosure and presentation of financial statements and reporting periods defined by the organization's inside policies (Ablenov, 2008).

According to E.A. Ahrens and J.K. Lobbeck (1995), it's worth distinguishing between the main and specific audit objectives for each balance sheet item. The main objectives of audit are as follows: the general sense of purpose, verification of the correctness, completeness, ownership, valuation, classification, differentiation, arithmetical accuracy, disclosure.

American scientists E.A. Ahrens and J.K. Lobbeck (1995) describe the following audit cycles:

- proceeds of the sale of goods and services;
- payment transaction and merchandising operations;

- organization and remuneration;
- operations with stocks;
- formation of capital and its yield.

Table 2. Audit tests for checking the calculations with buyers and customers at the enterprise, compiled by the author on the basis of (Dyusembaev, 2013)

Testing issues	Yes	No
Is there any agreement between the company and buyers and customers?	+	
Checking with customers are held: - quarterly - at the end of the year	+	
Are inventory calculations held or not?	+	
Are the terms of the debt checked or not?	+	
Are there any acts of reconciliation of accounts?	+	
Is the analysis of acts of accounts reconciliation conducted or not?	+	
Are the causes of non-payment identified and analyzed?	+	
Are schedule of documents on settlement transactions in the accounting records set?	+	
Is there an analytical accounting for each type of payment?	+	
Are records on settlement transactions in the accounting register verified by chief accountant?	+	
Are the company reserves for bad debts created or not?	+	
Are there penalties for non-compliance to buyers for their contractual obligations?	+	
Does an accountant verify prices listed in the accounts with the contract?	+	
Are there facts of the occurrence and recording of receivables not confirmed by primary documents?		+
Are all the violations listed in the act of inventory?		+

Essential meaning for the work of inside auditors have mutual actions with outside auditors. The coordination between them is necessary for ensuring suitable audit coverage and for minimizing the duplication cases. It is necessary here to take into account the fact that the scope of inside audit covers the production and financial issues, and outside auditors aim to obtain an evidentiary material on the reliability of annual financial statements.

Mutual access of inside and outside auditors to audit program allows them increase the effectiveness of audit procedures. Inside auditors are familiar with the audit methodology used by outside auditors. The interaction of outside and inside auditors strengthens mutual trust, and in some cases can reduce the cost of outside audit (Kevarkova et al., 2013).

There are cases where some of the work that the department of inside audit cannot perform, is entrusted to outside auditors. It should be emphasized here that outside and inside auditors often closely cooperate with each other in the interest of business, trusting each other and relying on the results of audits conducted by either side. This allows avoiding the duplication of work. Of course, the relationship of trust, first and foremost, is based on the qualification of auditors.

In those businesses where inside audit is well established, outside auditors can completely rely on its data, i.e. there is no special need to remove the remnants of

stocks weighing, measuring and counting, if a solid inventory was carried out, and one could verify it via careful study and inventory lists.

Inside auditors as facilitators can perform the work for outside auditors in connection with the annual audit of financial statements.

The head of the inside audit department can evaluate the impact and effectiveness of outside auditors, discuss with them the presented by them materials at the request of top management. These materials may be related to significant control weaknesses, errors and violations, illegal acts, problems with subdivision heads' decisions and financial statements, significant adjustments, disagreements between leaders, difficulties encountered during auditing.

Coordination of auditors' efforts suggests periodic business meetings, as well as coordination of the planned audit activities of inside and outside auditors in order to minimize duplications.

Important moments in the coordination of inside and outside auditors' activity are mutual access to programs of audits and documentation. This helps outside auditors verify the accuracy and soundness of the conclusions by inside auditors.

Inside audit aims to assess the current system of control of the company and the efficiency of manufacturing, marketing, sales, finance etc. Outside audit serves primarily the interests of company's customers in the broadest sense – suppliers, customers, creditors, tax authorities. And inside audit serves the interests of managers. An effective system of inside audit can reduce the costs for outside audit, although it can not completely replace it (Sheremet and Suyts, 2002).

From the above said we can draw the following **conclusions**:

1. Working together allows auditors ensure a clear understanding of methods, techniques and terminology of audit.

2. It is necessary to ensure that the methods, techniques and terminology of outside auditors are clear for inside auditors in an amount sufficient to coordinate inside and outside audits.

3. It is important to evaluate the accuracy of the outside auditors' work to ensure the effectiveness of communication in achieving goals.

4. In turn, high-quality and reliable information of inside auditors should enhance the credibility of outside auditors.

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