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FORMATION AND COMPLIANCE ASSESSMENT CONTROL SYSTEM OF FINANCIAL STATEMENT CLOSING PROCESS IN ENERGY BUSINESS

This article discusses the possibility of applying for domestic power plants - public joint stock company with some potential to enter international financial markets, financial reporting under Sarbanes-Oxley law (SOX). According to this law for joint stock companies created a new regime of control and regulation of financial activities and undergo significant changes in the management and disclosure. The article contains a description of the main stages of the formation and implementation of assessment in the management process of drafting internal financial reporting and its prospects for the use of domestic energy companies. There are seven main control stages of Financial Statement Closing Process in energy business. These stages divide for two largest logical groups (evaluating the control and evaluating review control) with goal to determine evaluation of the effectiveness of the control. Application of SOX will also help streamline the work of financial services, simplify the management and financial resources flow and external audit procedures.

Keywords: Sarbanes-Oxley law, International Financial Reporting Standards, International Accounting Standards, Financial Statement Closing Process, Evaluation the control, Financial Statement in energy business.

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ФОРМИРОВАНИЕ И СОБЛЮДЕНИЕ СИСТЕМЫ ОЦЕНКИ УПРАВЛЕНИЯ ПРОЦЕССАМИ СОСТАВЛЕНИЯ ВНУТРЕННЕЙ ФИНАНСОВОЙ ОТЧЕТНОСТИ В ЭНЕРГЕТИКЕ

В статье рассматриваются возможности применения на отечественных энергетических предприятиях – публичных акционерных обществах, имеющих определенный потенциал выхода на международные финансовые рынки, системы финансовой отчетности по закону Сарбейнза-Оксли (англ. Sarbanes-Oxley Act, SOX). Статья содержит характеристику основных этапов формирования и внедрения системы оценки в области управления процессами составления внутренней финансовой отчетности, описание перспектив и основных выгод от ее применения для отечественных энергетических предприятий.

Ключевые слова: закон Сарбейнза-Оксли, международные стандарты финансовой отчетности, международные стандарты бухгалтерского учета, система управления финансовой отчетностью, оценка управления, финансовая отчетность в энергетике.

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ФОРМУВАННЯ ТА ДОТРИМАННЯ СИСТЕМИ ОЦІНКИ УПРАВЛІННЯ ПРОЦЕСАМИ СКЛАДАННЯ ВНУТРІШНЬОЇ ФІНАНСОВОЇ ЗВІТНОСТІ В ЕНЕРГЕТИЦІ

У статті розглядаються можливості застосування на вітчизняних енергетичних підприємствах – публічних акціонерних товариствах, що мають певний потенціал щодо виходу на міжнародні фінансові ринки, системи фінансової звітності згідно із законом Сарбейнза-Окслі (англ. Sarbanes-Oxley Act, SOX). Стаття містить характеристику основних етапів формування і запровадження системи оцінки у сфері

управління процесами складання внутрішньої фінансової звітності, опис перспектив та основних вигод від її застосування для вітчизняних енергетичних підприємств.

Ключові слова: закон Сарбейнза-Окслі, міжнародні стандарти фінансової звітності, міжнародні стандарти бухгалтерського обліку, система управління фінансовою звітністю, оцінка управління, фінансова звітність в енергетиці.

Introduction. Financial reporting requirements come from a variety of sources and are both complex, and ever-changing. Regulatory scrutiny has never been higher-especially as a result of the Sarbanes-Oxley Act (SOX) in the United States and International Financial Reporting Standards (IFRS 2005) in Europe.

Today, world community work due to Sarbanes-Oxley Act (SOX), referral to the protection of the rights of investors [1,2]. Sarbanes-Oxley Act applies to all (for non-American too) companies, whose stocks are presented at American stock market from June 2005. Nowadays, applying SOX is world-wide practice. A lot of companies, particularly Ukrainian, accept SOX for increasing of investment attractiveness and for business opportunity at international market. A SOX is a new method for risk prevention, which produce a few very important requirements for internal control procedures, organization of business processes, particularly for management accounting and budgeting.

Nowadays, the growing numbers of large Ukrainian companies come out to international markets. Thus, State Enterprise “NEK “Ukrenergo” provided an auction about Ukraine access to intergovernmental electric mains for electrical power export in year 2014 [3]. In this case, in national energy companies come into being necessity to keep accounting, complete the financial statements, to provide valuation, audit and assurance according to international prescriptions and rules.

International Financial Reporting Standards and International Accounting Standards (jointly IFRS) is a most acceptable prescriptions and rules for Ukraine. IFRS 1 fixed general ratios for preparation of reporting only (some main accounts, statement names, general economic logic of statements, etc.), but doesn't fixed standard reporting form and full list of accounts, as it is due to Ukrainian standards P(S)BU. Company can to add a few new significant accounts to statements according to occupation and nature of business. Due to this fact and according to IFRS 1, Financial Statement Closing Process has a creative character and is a main accounting procedure in a company's financial year.

The financial periods closing process (from end of the period to documents assignment), consolidation and transformation of financial statements in most cases aren't well matched and often require manual intervention. Special relevance of these processes for acquiring Ukrainian companies entering to international markets.

Problem statement. The goal of the article consists in an adaptation of control processes of Financial Statement Closing Process for the activity of the enterprises in the energy market conditions.

Make a point, SOX applying to legislation, which has to regulate finance services work, transparency of banking operations and independence of supervisors. Particularly noteworthy are the following provisions of the SOX Act.

Chapter 302 requiring from chief operating and chief financial officers to include owning reports to the audit protocols for verifies the correctness of the information contained therein. It was made for hold managers responsible for information provided.

Chapter 404 requiring from every Public Joint Stock Companies to include “internal” reports to year statements. This system fixed management responsibility for performance procedures of internal control and budgeting. Too, rules include valuation of internal control procedures from management side. In that time, departments, which realizing internal control, must to include in Company's Year Report their valuation of management work according to corporative control standards. This chapter of SOX Act is a most elaborate in application due to the fact that early, most of PJSC has to managing of financial flows without detail reporting. Companies must to include internal control systems, to evaluate their sensibilities, to determine ways to test their effectiveness.

Chapter 409 limits the time for prepare reporting and require including to reporting package information about changes in business according to determining list of items. List of this items, presumptive, within some time will increasing, but almost all of them reflect the events and information that cannot be reflected by the majority of systems (ERR for example).

Main results of the research. The accounting closing process enables businesses to verify the accuracy of performance data and ensure conformity with specific regulatory guidelines. These include generally accepted accounting principles, or GAAP, and international financial reporting standards, or IFRS. U.S. Securities and Exchange Commission directives also dictate how companies must go about closing their books and preparing financial statements.

The Financial Statement Close Process (FSCP) has two fundamental purposes:

- 1) to ensure all financial transactions were posted properly and
- 2) that financials were reported accurately.

Checklists for the process exist with 120+ detail items which cover a number of areas including receivables, payables, inventory, etc.

With the typical public filing having grown from 10-15 pages to up to 75 the effort required to manage and mitigate risks have risen dramatically.

Let us consider the Financial Statement Closing Process in energy business with corresponding responsible bodies. Control stages are present at table 1.

For more understanding stages of Financial Statement Closing Process we have examined above listed control stages in all for our opinion details. We have to divide stages for two largest logical groups (evaluating the control and evaluating review control) with goal to determine evaluation of the effectiveness of the control.

The main stages of evaluation for controls 1 – 7 are represented graphically in Figure 1.

As we can see evaluating the control provides the same procedures at all seven stages. But basic components of evaluating review control at different stages have its peculiarities.

Controls 1, 5, 6 are performed by Chief Accountant.

Table 1

Control stages of Financial Statement Closing Process in energy business

Stage	Essence	Responsible body
Control 1	The Closing Entries Pack is reviewed in detail in combination with a review of a reconciliation file (Statutory with Group reporting pack).	Chief Financial Officer
Control 2	Trial balance is compared with previous month to review all new amendments to the chart of accounts	Chief Accountant
Control 3	After procedure of General Ledger accounts closure is finalized Chief Accountant locks the accounting period in General Ledger in accounting system to prevent subsequent postings.	Chief Accountant
Control 4	The subledgers are reconciled in accounting system to the general ledger and reviewed by the Chief Accountant	Chief Accountant
Control 5	Financial reporting pack including input files is reviewed by the CFO prior to sending it for further review on the group level	Chief Financial Officer
Control 6	Semi-annual validation checklist signed and dated as evidence of review by CFO	Chief Financial Officer
Control 7	The General Ledger is reviewed on a monthly basis	Chief Accountant

For controls 1, 5 at the stage “Evaluation the control” we have evaluated whether the data subjected to the control is complete and reliable with such action:

1. Group Reporting Pack is prepared by Deputy of CFO in some file and approved by CFO.

2. Report contains consolidated data for company.

3. To confirm the completeness and accuracy of data presented in this report: to trace data per Group Reporting Pack to Reconciliation Report (Statutory with IFRS) and Standalone Statutory Report.

For controls 2, 3, 4, 7 at the stage "Evaluation the control" we have evaluated whether the data subjected to the control is complete and reliable with such action:

1. To ensure that the accountant have no rights to make amendments to the closed period: to try to add a new fixed asset in the closed period, enter all necessary attributes, but the system must interrupted our actions by warning message "You have no rights for making amendments in closed period".

2. To obtain from IT department a report indicating the status of all periods, and verify that all periods are closed.

For controls 6 at the stage "Evaluation the control" we have evaluated whether the data subjected to the control is complete and reliable with such action:

1. To inquire the CFO how the Semi-annual validation checklist is completed and how this covers that all commitments and contingencies are identified.

2. Checklist must prepare automatically, when deputy CFO uploads financial statements via DCT into Hyperion.

3. Checklist is the list of questions with answers of closed type (e.g.: Balance sheet totals agree - Yes). CFO verifies that there are no errors.

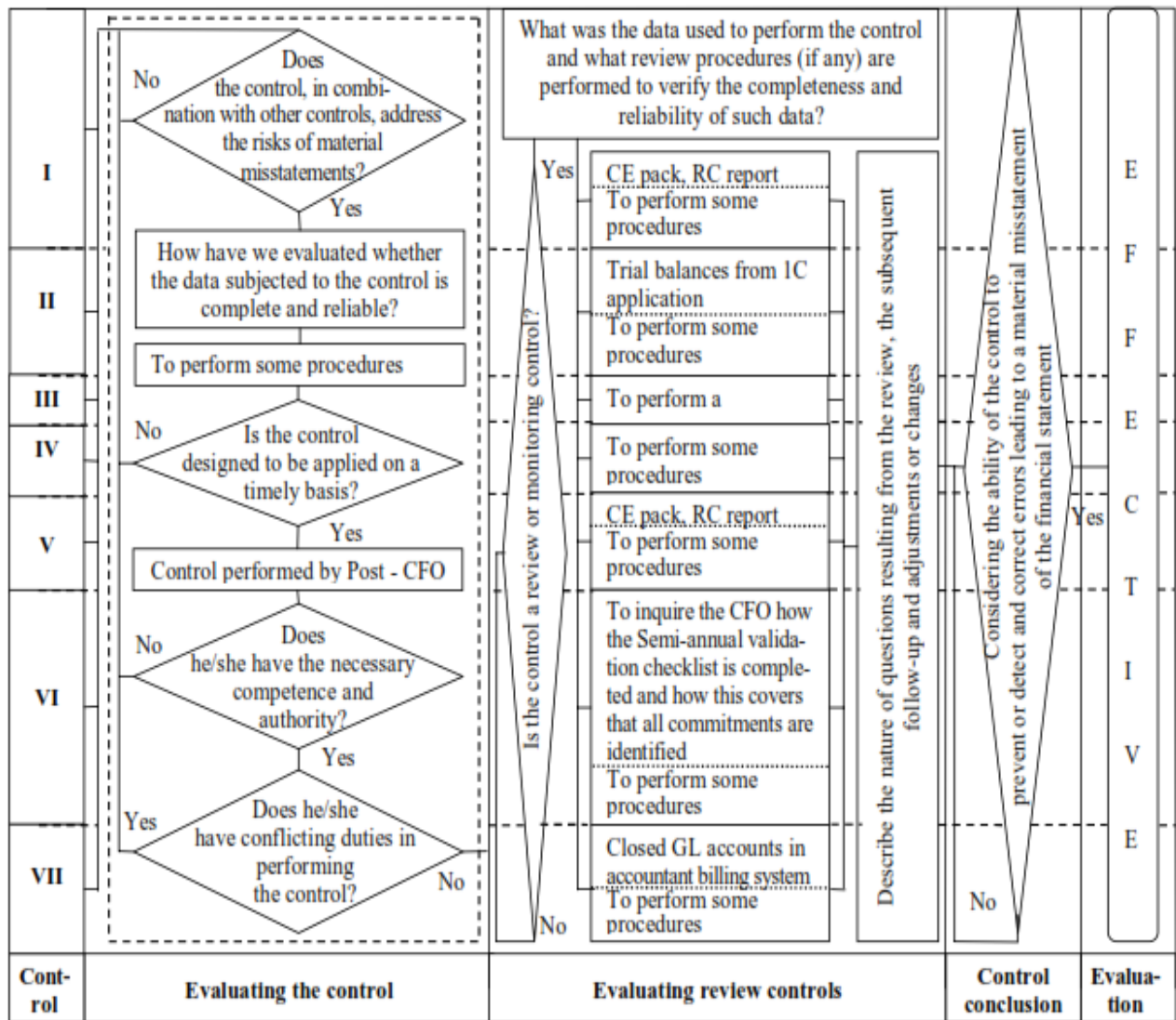


Fig. 1. Basic elements of control logical groups of Financial Statement Closing Process Similarly the data used to perform the control for control 6 is performed.

Controls 1, 5, 6 are performed by CFO, controls 2, 3, 4, 7 performed by Chief Accountant.

The stage “Evaluating review control” provides some components.

As indicated at fig. 1 the data used to perform the control for controls 1, 5 (The Closing Entries (hereafter – CE) Pack is reviewed in detail in combination with a review of a reconciliation file (Statutory with Group reporting pack)) are CE pack, reconciliation report.

And so the following procedures have performed:

1. Group Reporting Pack is prepared by Deputy of CFO and approved by CFO.
2. Report contains consolidated data.
3. To confirm the completeness and accuracy of data presented in this report: to trace data per Group Reporting Pack to Reconciliation Report (Statutory with IFRS) and Standalone Statutory Report. No differences must be identified.

The data used to perform the control for control 2, 4, 7 includes the following procedures:

1. To ensure that the accountant have no rights to make amendments to the closed period: to tried to add a new fixed asset in the closed period, entered all necessary attributes,

but the system interrupted our actions by warning message “You have no rights for making amendments in closed period”.

2. To obtain from IT department a report indicating the status of all periods, and verified that all periods are closed.

Then to describing the nature of questions resulting from the review, the subsequent follow-up and adjustments or changes Chief Accountant compares Trial balance to the one of the previous period: he / she review all accounts line by line to check that no new accounts appeared. If there is a necessity to create a new account, the CA prepares a special memo to CFO with reasoning of it.

The natures of questions resulting from the review, the subsequent follow-up and adjustments or changes are different for controls 1 – 7:

1) for control 1: the CFO reconciles totals, traces the amounts to the calculations while the review of reconciliation file CFO checks IFRS adjustments for reasonability and observes calculations;

2) for control 2: Chief Accountant compares Trial balance to the one of the previous period: he / she review all accounts line by line to check that no new accounts appeared. If there is a necessity to create a new account, the CA prepares a special memo to CFO with reasoning of it:

3) for control 4: Chief Accountant reconciles the amount in GL to subledgers of relevant accounts to check that the amounts in GL are correct;

4) for control 5: during the review the CFO traces amount in fin pack to CE packs of each entity of the group. He may also require deputy CFO for explanations of consolidation adjustments;

5) for control 6: the checklist is automatically prepared while creating financial reporting pack. The deputy CFO checks that all answers are correct and only then transfers the checklist to CFO for his review;

6) for control 7: the Chief accountant checks all accounts for reasonability, compares amounts to the previous period and in case of necessity requires functional accountant to comment on changes.

For control 3, unfortunately, no data has available.

Control conclusion for all stages provides an evaluation the ability of the control to prevent or detect and correct errors leading to a material misstatement of the financial statement as it is reflected at fig. 1.

Conclusion. There are many software products to help with the close process. But, despite the fact that companies may have spent millions of dollars on sophisticated Enterprise Resource planning (ERP) systems, the use of Microsoft Office products throughout the process is still prevalent [4].

A correct trial balance clears the way for accurate, complete financial statements. These include a statement of financial position, a statement of profit and loss, a statement of shareholders' equity and a statement of cash flows. Due to this, a light control system of financial statement closing process opening up new vistas in Ukrainian energy business, first of all for companies, who plan to become full players in the international market.

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