

Improving the Collection Process of Evidence in the Bank Loans Auditing

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Abstract: In this article were researched the theoretical foundations of the organization of bank loan audits. As a result of the conducted research, proposals were developed to improve the evidence collection process in the audit of bank loans.

Keywords: bank, bank loans, audit, international standards of audit, evidence, audit risk, audit report.

INTRODUCTION

The banking system plays an important role in the progress and development of the country's economy. In order to ensure stability of activity and continuity of the supply process, commercial banks provide loans to business entities on a fixed payment basis. Business entities are obliged to make targeted use of bank loans, pay interest and principal payments to the commercial bank on time. However, in practice, there are many cases of fraud related to the illegal use of bank loans. That is why it is necessary to pay special attention to the issues of correct implementation of the audit of bank loans, collection of evidence during the inspection process, the state of loan security, assessment of creditworthiness, documentation and summarization of audit results.

LITERATURE ANALYSIS

Economists have conducted research on the organization and conduct of bank loan accounting and their audit.

B.F.Filip said that “on the very complex background of the interdependencies that characterize the conduct of the multitude of economic and financial processes and relationships, in modern society, amplified in the context of globalization, is taking shape also the important role of bank credit, especially, as funding resource, with priority, of the economic activities, but also as a mediator, of the available funds become inactive, into the economic circuit, on various time periods” [1].

Jose M. Berrospide and Rochelle M. Edge concluded that “the effect of changes in bank capital on the extension of bank credit is a key determinant of the linkage between financial conditions and real activity” [2].

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Romanian economists say that “in the financial services industry, the assets, respectively loans are generating most of the interest income and expenses together with commissions’ income” [3].

According to the report prepared by Pricewaterhouse Coopers: “IAS 39 includes amended guidance for the classification and measurement of financial assets by introducing a fair value through other comprehensive income category for certain debt instruments. It also contains a new impairment model which will result in earlier recognition of losses. No changes were introduced for the classification and measurement of financial liabilities, except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss” [4].

A group of economists came to the following conclusion: “regarding the audit opinion expressed in audit report, loan officers give no importance to an unqualified audit report if they receive other financial information that is unfavorable towards the client requesting credit, or they are prepared to change a previously favourable attitude when faced with adverse opinions expressed by the auditors” [5].

However, the directions for improving the audit of bank loans have not been clarified in the conducted studies.

ANALYSIS AND RESULTS

The purpose of the audit of bank loans is to make sure that the calculations of bank loans are reflected in financial statements in a timely, correct and complete manner based on the requirements of regulatory legal documents. In this process, the auditor examines and evaluates whether the bank loans were legally obtained in the enterprise being audited, whether there is a possibility of repayment, whether the loan funds owned by the enterprise are being used for the purposes agreed with commercial banks without violating the law, as well as the possibility of timely repayment of the loan amount and interest calculated on the loan. .

During the audit of bank loans, the auditor's tasks include, in addition to making sure that the amount of bank loans and interest on them reflected in the balance sheet is correct, as well as checking and evaluating the quality of the internal control system, which should ensure that these elements are reliable and correctly reflected in the financial statements. . Because the organization of reasonable internal control over bank loans creates an opportunity to strengthen settlement and contractual discipline, to ensure the timely implementation of bank loan settlements, to ensure high turnover of assets, and thus to improve the financial condition of the enterprise.

In order to conduct a quality audit of bank loans, the following should be checked:

verification of authenticity and documentation of bank loans;

determining the validity of loans and borrowings;

purposeful use of loan funds and their full and timely return (for what purposes the loan funds were used, how loans and debt arrears are being repaid, the existence of extended debt);

assessment of outstanding loan balances and interest payments on them (accounting of interest on loans, property valuation and the effect of interest on the formation of financial results, etc.);

verification of synthetic and analytical accounting for bank loans (application of accounts that take into account bank loans, reflection of transactions of receiving and returning loan funds, compliance with the principles of formation of financial results).

The following sources of information are used during the audit of bank loans and debts:

regulatory documents regulating bank loans and borrowing issues, accounting and taxation;

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contracts and initial documents on formalization and accounting of bank loans and debt transactions.

In practice, the auditor may find that the term of some loans has been extended one or more times. In such cases, the auditor should give an opinion about the possibility of repaying the loans on time and the size of the losses.

The auditor should also pay attention to the issues of ensuring the repayment of loans. Guarantee, letter of guarantee, pledge of securities, goods and other property are the main types of credit security. Of these, pledge agreements are widespread. In this case, it is necessary to check the following: the authenticity of the mortgage agreement, whether it is superficial, how clearly the mortgaged properties are specified in it, etc.

The auditor checks in which accounts the interest sums for the use of loans are reflected or from which sources - financial results or other sources - they are covered.

In order for the auditor to be sure of the correctness of the indicators in the financial statements of economic entities during the verification of bank loans, it is necessary to verify the sequence of audit actions. The documents that should be checked in the audit of bank loans are shown in Figure 1.

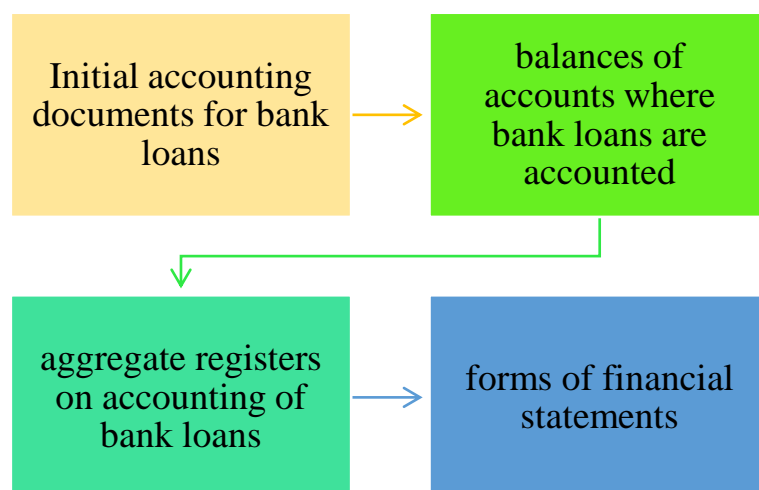


Figure 1. Documents to be checked in the audit of bank loans¹

In the practice of enterprises, there are cases of making mistakes in the evaluation of properties purchased with borrowed funds. Violations of valuation principles identified by the auditor occur when interest for loans taken to provide capital funds is added to the purchase price of long-term assets (fixed assets and intangible assets) after these items have been accepted into the balance sheet.

The auditor should take these circumstances into account when assessing the sufficiency of the evidence collected. A preliminary assessment of the risk of major errors and detailed audit plans should also be considered. If such cases are identified and taken into account at the planning stage, then the auditor must assess the adequacy of the collected evidence and the appropriateness of the planned and additional audit activities.

The need to improve the collection of evidence in the audit of bank loans is that in the process of modernization of production, new equipment, technologies, as well as computer programs are being updated, progressive changes such as electronic signature are being implemented, and the audit process needs to be carried out accordingly.

¹ Made by authors.

During the audit, it is necessary to ensure that the necessary actions are performed and, as a result, the auditor obtains sufficient and necessary audit evidence. Auditor:

examines information about the client, the external environment and the conditions affecting the activity of the audited organization, the internal control system;

takes the necessary information from various sources and examines turnovers and balances according to accounting charts;

evaluates the completeness of disclosure of information in financial statements.

Based on one information base, similar actions are performed according to national standards and international standards.

Based on the received audit evidence, the auditor assesses the impact of uncorrected errors on the reliability of financial statements and forms an opinion on the reliability of the statement, which is presented in the form of an audit opinion. One of the main requirements that must be followed in the preparation of working documents is the detailed documentation of audit actions and received audit evidence.

CONCLUSION

1. The use of bank loans is a necessary reality for enterprise activity. However, the amount of bank loans exceeding the norm poses a great risk to the company's activity. In particular, the increase in unpaid loan interest has a negative impact on the company's activity. In our opinion, effective use of bank loans and timely payment of principal and interest payments on them is desirable.

2. During the audit of bank loans, one of the tasks of the auditor is to make sure that the amount of bank loans and interest on them reflected in the accounting balance is correct. Because the correct disclosure of information in financial reports regarding bank loans provides an opportunity to ensure the reliability of financial reports.

3. Evaluation of the internal control system for bank loans is necessary for the correct allocation of time for the examination of bank loans and the correct determination of the scope of the examination. It is by evaluating the internal control system that the client's business audit program can be properly defined.

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