

USING OF ECONOMIC ANALYSIS METHODS IN THE AUDIT OF PRIVATE CAPITAL

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ABSTRACT:

This article scientifically addresses the use of economic analysis methods in conducting private equity audits. Conclusions were made using case studies in the coverage of the topic. Also, based on foreign experience, the proposal to publish the main financial ratios in tabular form in accordance with the requirements of IFRS when publishing financial statements of enterprises in the open press.

Keywords: private capital, audit, economic analysis, method, accounting report, financial report, audit report, ROEcoefficient.

1. INTRODUCTION:

Auditing in our country is developing and improving year by year. The legal framework for auditing is also being improved and strengthened. A clear example of this is the adoption of the Law of the Republic of Uzbekistan "On Auditing" O'RQ-677, signed on February 25, 2021. This law is a legal document that meets international standards for the organization of auditing in our country. In this law, Article 3 recognizes "audit activity - business activity of audit organizations to provide audit services" [1]. Foreign experience shows that an audit cannot be imagined without analysis.

The use of economic analysis methods in modern auditing is becoming increasingly important. The use of methods of economic analysis is used at all stages of the audit.

2. REFERENCES REVIEW:

Modern auditing is inconceivable without economic analysis. That is why we use the opinions of scientists of this field.

A.D.Sheremet (2019) explained the essence of auditing in the digital economy: "Improving accounting, analysis and auditing is improving the tools of the digital economy in our industry." A.D. Sheremet also pointed out that there are a number of problems in the development of auditing in the modern economy. The first problem is the nature of the audit. The audit should not be limited to stating the reliability of the financial statements, but should analyze the data that assess the effectiveness of the business. The second problem is the formation of an audit of the reliability of consolidated reports. Auditing the reliability of consolidated statements is different from traditional auditing of financial statements. The third problem is the system of sustainable growth indicators and their impact on business efficiency. The fourth problem is the problems associated with the analysis and evaluation of indicators that characterize the sustainable growth of enterprises. The fifth problem is the implementation of international auditing standards. The sixth challenge is the reproduction, training, and retraining of auditors.[2]

According to K.K.Perminova's opinion (2016), the relationship between audit and economic analysis is as follows:

- 1) Accounting report and analysis of the relationship between natural indicators;
- 2) Compare real data with the data of the past;

- 3) Analysis of changes in accounting data of the past;
- 4) Analyze the origins of various differences.[3]

O.S. Potapova (2015) emphasized using of specific ratios in the economic analysis of financial statements during the audit process.[4]

The method of comparison should be used when the entity's activities in the previous period do not differ from those in the period under review. If no significant differences are identified during the analysis, the auditor is limited to analytical activities. If not, the auditor will perform additional audits.

According to L.A.Chelmakina's views (2018), the use of economic analysis methods is expanding at the current stage of development of audit, which in turn leads to an increase in the quality of audit results. The primary purpose of an audit is giving auditors an independent opinion on the reliability of the financial statements. In this case, the quality of the audit cannot be ensured without the use of financial analysis methods. The relevance of financial analysis to auditing is that the audit opinion is based on the results of the financial analysis.[5]

Russian economists Y.E.Yegorova and D.N.Zezyulin (2010) commented on the use of economic analysis methods in conducting audits: Various methods of analysis have been widely used by the audit team of the auditing company to study the reliability of the reports. They used the methods of comparison, modeling, regression and correlation analysis to analyze intellectual data. Research shows that 40% of audit staff can use economic analysis methods, while 8% can use analytical methods in all areas of audit.[6]

In his book, *The Theory of Economic Analysis* (2021), M.K.Pardaev states the connection between audit and analysis: "Audit and economic analysis are inextricably linked

in the management system. If economic analysis methods are used to produce an audit opinion, then audit data is also used in the economic analysis process." [7]

D.G.Galchin (2016) expressed the following views on the relationship between audit and economic analysis: audit is inseparable from analysis, the audit is carried out analytical procedures.[8]

When conducting an audit of private capital, auditors analyze its profitability. In international practice, the Dupont equation is widely used in the analysis of the return on private capital. What is the economic significance of the Dupont equation?

The Dupont Equation (2021) (DuPont model, DuPont formula, DuPont analysis) is an indicator of capital return expressed in terms of production efficiency, asset utilization efficiency and financial efficiency. The Dupont formula (20,200) was first used by Dupont in 1920. [9]

According to N.Y.Tryassina and N.A.Tryassina (2016), it is expedient to use the Dupont model in the analysis of the return on private capital and assets. [10]

M.P.Eshov (2019) stated the following on this indicator: "Return on equity" (ROE) is an indicator of net profit of the enterprise in comparison with its own capital. This is the most important financial indicator of efficiency for any investor, business owner, and shows how effectively the invested capital is used. A similar indicator, in contrast to the return on assets, describes the efficiency of using the part of the enterprise that belongs to the owners, rather than the total capital (or assets) of the organization. Return on equity is:

$$ROE = \text{Net profit} / \text{average annual share capital} * 100\%.$$
 [11]

According to V.J. Danov (2021), the return on equity (ROE) of private capital indicates the effective use of funds invested in

the enterprise and is calculated using the following formula:

$$\text{Private equity return (ROE)} = \frac{\text{Net profit}}{\text{Private equity}} \cdot [12]$$

From the above, it is clear that the rate of return on equity (ROE) is an important indicator for business.

3. RESEARCH METHODOLOGY:

The definitions and opinions of economists on the use of methods of economic analysis in the audit of private capital are summarized. During the audit of private capital, the issues of analysis of the return on equity (ROE) of private capital were studied scientifically. Literature review, data grouping and comparison methods were used to cover the topic.

4. ANALYTICAL RESULTS:

In international practice, in order to evaluate business and determine the return on equity, financial statements prepared on the basis of IFRS are calculated and analyzed by EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) and ROE. using the calculation of this indicator in the audit process to assess the financial condition of the business entity and the efficiency of its capital.

The term "EBITDA" is the initials of the words "Earnings Before Interest, Taxes, Depreciation and Amortization" and refers to the amount of profit before deducting interest, taxes, depreciation and amortization.

Based on the data of the company of LUKOIL for 2015-2019, we conducted an analysis of EBITDA and private capital return - ROE (Table 1).

This table is based on LUKOIL's 2015-2019 financial statements: balance sheet, statement of financial performance and statement of equity. The return on equity (ROE) shown in

the table in 2019 decreased by 13.2% compared to 2015 and 2016..

1-Table Private equity return of the company of LUKOIL for 2015-2019 - Analysis of ROE [13]

Financial performance	2019	2018	2017	2016	2015
EBIT	135 201 710	135 026 444	81 458 777	93 979 959	120 080 519
Sales profitability	15.6%	16%	12.6%	16.1%	16.8%
Private equity return (ROE)	18%	19%	12%	14%	19%
Return on assets (ROA)	13.2%	14%	9.7%	11.5%	15%

This means that the efficiency of private capital use is relatively low.

Resolution of the Cabinet of Ministers of the Republic of Uzbekistan dated December 9, 2020 "On measures to further improve the system of performance evaluation of the executive body of state-owned enterprises" 775 reflected in the decision. The resolution reads: in the course of the audit, the calculation of the indicator "EBITDA".[14]

Performance Indicators:

No	Indicators	Detection procedure
	A	D
1.	Earnings Before Interest, Taxes (EBIT - Earnings Before Interest, Taxes)*	EBIT = income - expenses + taxes + interest payments on loans = I-E+T+PL
2.	Earnings Before Interest, Taxes, Depreciation & Amortization)*	EBITDA = income - expenses + tax payments + interest payments on loans + amortization expenses = I-X=E+T+PL+AE.
3.	Return on Capital Employed (ROCE - Return on Capital Employed)*	ROCE = Net profit / average annual borrowed capital *100%.
4.	Return on Equity (ROE)*	ROE = Net profit / average annual share capital *100%.

In our opinion, EBITDA can be calculated using the following formula:

$$\text{EBITDA} = \text{income} - \text{expenses} + \text{tax payments} + \text{interest payments on loans} + \text{amortization expenses} = \text{I-E+TP+PL+AE}; (1)$$

here:

I – income;

E – Expenses;

TP-Tax payments;

PL- Interest payment on loans;

AE- Amortization expenses.

In the process of audit, one or another method of economic analysis is used to calculate the indicators of profitability.

5.CONCLUSION:

The use of economic analysis methods in the audit process is convenient for auditors and is widely used in audit planning, conducting audits and formulating audit opinions.

Among other indicators in determining the effectiveness of equity in the audit of private capital, the rate of return on equity (ROE) is an important indicator for business. Based on the experience of foreign countries, ie the experience of the Russian Federation, we propose to publish the main financial ratios in tabular form in accordance with the requirements of IFRS when publishing the financial statements of enterprises in the open press.

We believe that this will ensure the implementation of the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan dated December 9, 2020 No 775 "On measures to further improve the system of performance evaluation of the executive body of state-owned enterprises."

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