

Methodological approaches to information support of audit of intangible assets

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Abstract: *The article considers the essence of intangible assets, discloses methodological approaches to information support of the audit of intangible assets, which auditors apply in the current practice of providing audit services. The approach to the creation of internal and external accounts with regard to the provision of information on intangible assets of the enterprise is defined. The current method of auditing intangible assets has been critically evaluated and improvements have been proposed to ensure that intangible assets are reliably and objectively certified as an accounting item.*

Keywords: *audit, intangible assets, intellectual property, methodological approaches, accounting, assets.*

JEL codes: M40, M42

1 Introduction

In the context of sustainable development, an increasing number of Ukrainian enterprises are involved in the development and introduction of intangible assets as assets of economic activity. The existence of intangible assets within the resources of economic entities provides a guarantee for increasing the market value of the enterprise, investment attractiveness and protection of their intellectual property rights. The regulatory framework for the accounting treatment of intangible assets is broad enough to include, in addition to national regulations, international accounting and financial reporting standards that provide the legal basis for auditing. However, in order to deal effectively with intangible assets, a number of theoretical and regulatory aspects should be specified and clarified. It should be noted that, compared to foreign companies, intangible assets occupy a small share in the balance sheet of domestic enterprises. The market of intangible assets in Ukraine is insufficiently formed, hampering the active developed economy of enterprises. The specificity of intangible assets requires particular methodological approaches and certain audit procedures.

2 Methodology and Data

Theoretical and methodological aspects of the research are based on scientific developments of domestic and foreign economists. In the course of the study, statistical data from the State statistics of Ukraine, materials from monographic publications and own practical experience were used. The solution of the set tasks is achieved on the basis of application of general scientific methods (system analysis, generalization); specific methods of scientific research (economic-statistical).

3 Results and Discussion

Providing users with all levels of objective, operational and analytical information on intangible assets is a prerequisite for the effective implementation of intangible asset

audits. Information management influences the outcome of completion of verification, audit procedures, analysis, and opinion on the status and reliability of intangible asset accounting.

In recent years, in Ukraine, the tendencies of transition of audit entities that belong to so-called small and medium-sized practices from mandatory and proactive audits to the provision of other audit services (related services, agreed procedures and other services) are continuing. Such a change in the structure of audit activity inevitably raises issues related to the definition of the principles of providing such services, organizational and methodological aspects of their implementation in relation to quality. Relatively short period of existence of audit in comparison to the world's history is one of the reasons of insufficient theoretical and scientific substantiation of the concept of "quality of audit services". Such criteria, in accordance with the Regulations on the national practice of quality control of audit services 1 Organization of auditing firms and auditors of the quality control system of audit services, passed by Audit Chamber of Ukraine in 2007 particular include:

1. the nature of the audit service and the degree to which it attracts the attention of society;
2. identification of unusual circumstances and risks of audit services;
3. the existence of legislative or regulatory requirements on the mandatory implementation of quality control of specific audit services.

The quality control of the task must be checked for the following tasks:

- a) the tasks of compulsory audit;
- b) other tasks in the audit and review of financial statements;
- c) the tasks of assurance;
- d) the tasks of the accompanying services. Antoniuk, O., Chyzhevskaya, L., Semenishyna, N. (2019).

An intangible asset is an object of accounting and has a direct and material impact on the performance of an enterprise. Business in developed countries has tended to increase the share of intangible assets in total assets. Thus, one can conclude that it is important and necessary to correctly construct the accounting treatment of intangible assets, since the investment of a significant amount in intellectual property by an enterprise must yield the maximum economic benefits. Fedorova, I. (2017).

At present, innovative approaches to accounting, analysis, auditing and management are needed for the successful use of intangible assets. This requires an in-depth understanding of their economic nature, meaning, common approaches to identification, recognition and valuation, amortization policies, the development of a science-based classification that should contain an exhaustive list of rights, and the improvement of accounting and analytical process and management needs. Yasyshena, V. (2020).

The complexity of an object is determined by the size of the enterprise, the volume of production, the organizational structure of production, the features of the output, etc. From an audit perspective, this topic is important because the complexity of the subject matter determines the amount, nature and timing of the work, methodological approaches to the organization of the audit. Gordienko, N., Kharlamova, A., Mizik, Y., Konoplina O. (2017).

The difficulty of accounting for intangible assets is that they cover different types of assets. As various intangible assets exist and continue to be developed and there are some differences in economic, legal, accounting and valuation approaches to understanding them. There is a significant gap between the accounting methodology of intangible assets and the modern requirements of the economy. This makes it necessary to study the substance and clarify the concept of intangible assets in order to create a common methodological approach. Yasyshena, V. (2020).

At the planning stage, the auditor should choose an audit approach (risk-oriented, systemic or supportive), based on a given level of materiality, presented and disclosed in the notes to the financial statements of intangible assets. Already at this stage, a preliminary assessment of significant distortions should be made, which, in the specific circumstances of the subject matter of the audit (approaches to selection of accounting estimates, recognition, period of operation), will make it possible to identify the most vulnerable accounting areas, requiring detailed examination through substantive procedures. Sizonenko, O., Zavgorodnya N. (2013).

A defined objective is for the auditor to perform the tasks of ascertaining, namely, the legality of the enterprise's accounting treatment of intangible assets; the reliability of intangible assets reported in the financial statements. When auditing intangible assets in enterprises, the auditor should use evidentiary sources such as primary records; synthetic accounting records; inventory records; related Main Book accounts; Statement of Financial Position (Balance) Profit and Loss Statement (Statement of Financial Performance); Statement of Cash Flows; Notes to the Financial Statements; Prior Period Financial Statements; Working Papers and Report of the Previous Auditor; Amortization payments; accounting policy order; legal documents, etc. Bearing in mind the purpose of the intangible asset audit and its specific characteristics, also guided by the uniform requirements of the auditing practice established by the International Standards on Auditing, and taking into account the experience of the audit, the audit process can identify the main stages: overdoses, planning, implementation of audit procedures, obtaining evidence, consolidation and documentation of audit results. Manukhina, M. (2014).

In turn, the size of an enterprise and the industry in which it operates have a significant impact on the volume and detail of reports, including internal (management) reports, on transactions involving intangible assets of an enterprise. The larger the enterprise, the greater the volume and detail of intangible asset disclosures. In this area, two factors directly affect reporting, namely, the nature of the business model and industry-specific features of the willingness to disclose intangible assets of an enterprise. In addition, the form and content of reports will also depend on the users of such information. This is why two approaches can be distinguished for internal and external reporting with respect to disclosure of intangible assets of an enterprise (table. 1).

Table 1 Approaches to internal and external accounting for disclosure of intangible assets of an enterprise

External reporting	Internal reporting
Approaches to formation related to:	
valuation of the entire business unit and its intangible assets	in general, the definition, measurement and identification of constituent intangibles
Purpose of reporting:	
providing information on the main facilities that generate enterprise value	management of number of components of intangible assets
Reporting users:	
External	Internal
The nature of the reporting information:	
the information provided is general for all intangible assets in the enterprise	the information is detailed in some items of intangible assets
Method of reporting:	
Information on the total monetary value of intangible assets and their individual components, as well as information on the real value of the enterprise	information on specific types, components and values of intangible assets
Principles of indicator production (content of reporting):	
produced at the national level, comparable to other companies' reporting, industry indicators	internally defined reporting indicators, which are derived from the management needs of a particular enterprise

Source: Fedorova, I. (2020)

One well-known approach to controlling the efficiency of intangible assets in an enterprise is the concept of «Auditing Intellectual Capital» proposed by Annie Brooking, an American researcher. Specifically, by auditing intellectual capital, an author means examining the intangible assets of a company, documenting their current status and, if possible, calculating their value. It also analyses the education of employees of the enterprise, and conducts various tests to determine the potential of each employee to benefit economically from the enterprise in the future. The implementation of A. Brooking's Intellectual Capital Audit concept involves the following steps: 1. Description of possible transformations, objectives, fields of activity and limitations; 2. Determination of optimal asset parameters; 3. Establishing of high potential values - optimum values, the achievement of which is the main purpose of the use of a specific intangible asset in the business of an enterprise; 4. Choice of audit method - provides for the selection of an appropriate audit method (for selected dimensions of intangible asset 5. Direct auditing based on the chosen method for a specific intangible asset 6. Documentation of value (ability to deliver economic benefits) in the knowledge base of intellectual capital. Chugrii, N. (2017).

The audit of intangible assets has its own features. For example, the auditor should keep in mind that intangible assets are only tested in the monetary measure on the basis of primary documents. The physical inventory of this type of asset begins with the determination of the correctness of the amounts assigned to account 12 of the Intangible Asset to the composition of intangible asset. The next step is to verify the validity of their registration and the existence of documents on the basis of which acquired property rights are recorded. During the audit process, it is necessary to check documentation in which the item of intangible assets is described, depicted or otherwise recorded on tangible media. The main criterion at this stage of the audit is the possibility of identifying the object and establishing its presence in the enterprise's documentation. It is necessary to verify the existence of documents confirming the right to use them, as well as the correctness and timeliness of the presentation of intangible assets on the balance sheet of the enterprise. Yaroshenko, A. (2015).

In practice, the methodology for auditing intangible assets in enterprises is deficient and does not fully ensure the completeness and interrelationship of all phases of their audit, so it is advisable to propose a new approach for auditing intangible assets, which provides a sequence of audit steps for:

1. Audit of the accounting policy for the recognition of intangible assets
2. Verification of intangible assets
3. Audit of the compliance of financial reporting indicators with synthetic and analytical accounting of intangible assets
4. Audit of intangible asset receipts
5. Audit of amortization of intangible assets
6. Audit of disposal of intangible assets
7. Audit of related and right-to-use transactions of intangible assets.

Proposed updated sequence of steps for the verification of the existence and movement of assets and methodology for the audit of intangible assets and related transactions, clarification of the order of audit procedures improve and systematize the audit results of intangible assets and facilitate the audit of their existence and movement. Therefore, an audit of intangible assets warns against problems related to specificity and the lack of a properly developed audit methodology. The above steps of the intangible asset audit methodology, through the identification of methodological tools and procedures in the verification process, can provide a comprehensive view of intangible asset transactions.

Conclusions

A critical review of the approaches to auditing intangible assets and their performance reveals that existing approaches are not sufficiently used in practice in auditing. Therefore, in the current environment, it is necessary for domestic enterprises to develop an effective method of auditing intangible assets, which will aim at obtaining the highest level of complete and reliable information on intangible assets and their efficiency of use, which will take into account the specificities of the national accounting system and the auditing assets of domestic scientists. However, there are a number of different problems in the process of gathering information. For example, there is a lack of all necessary documentation of intangible assets, an incorrect accounting policy for intangible assets, or a section on the maintenance of intangible assets, attempts to hide certain documentation from auditors, etc. Thus, in order to avoid problematic situations in the collection of intangible information, there is a need for improved auditing of intangible assets and properly applied methodological approaches to informing the auditing of intangible assets.

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