

INVENTORY AUDIT: THE KEY TO SUCCESSFUL RISK MANAGEMENT AND BUSINESS REPUTATION STRENGTHENING

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Abstract. *Relevance. The organization of inventory audit and its improvement is always relevant for all business entities. Business structures without proper audit are not able to objectively assess the current situation and timely make managerial decisions, especially in the current realities against the background of crisis phenomena caused by military actions in Ukraine. In connection with external threats, it is necessary to use such a method of inventory audit, which will allow assessing possible risks, both internal and external, to take into account their consequences and, if possible, to minimize the negative impact on the business reputation of the enterprise. Methods of research. The methodological basis of the study is the dialectical method and the systematic approach to the knowledge of the essence of methods and criteria for assessing the auditor of inventory operations. Results. As a result of the application of the inductive method, the criteria for assessing risks in carrying out operations with stocks are specified to confirm the reliability of the information display in the company's reporting. The assessment of risks is provided, the main business processes associated with the movement of stocks are allocated, and the risks inherent to each of them. The method of risk assessment during inventory audit planning is proposed.*

Keywords: *Audit, stocks, risk, planning, business processes, risk management, business reputation.*

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Introduction

Stock-based business transactions are transactions with an increased level of risk due, as a rule, to a significant amount of transactions carried out and, accordingly, a large array of primary accounting documentation; significant probability of loss, theft, etc. Errors in inventory accounting lead to significant distortions of accounting statements to reflect the valuation of assets, the cost of finished products, accounts payable to suppliers, profits, etc. In addition, inventory audit as an expression of the auditor's opinion on the reliability of accounting data, the state of accounting, as well as the effectiveness of the use and storage of stocks allows to form evidence of accurate reflection in the accounting (financial) reporting of data on the availability and movement of stocks, which contributes to strengthening the business reputation of the enterprise (IAASB HB 2018). Therefore, the development of a methodology for auditing stocks, taking into account risk management and improving the business reputation of the enterprise is relevant.

The research of the theory and practice of inventory audit, is carried out by domestic scientists, in particular O. M. Bondarenko, O. M. Bunda, T. I. Vityuk, Y. p. Kostetska, L. O. Rudenko and others. However, the issue of the inventory audit methodology, taking this into account the requirements of risk management and improving the business reputation of the enterprise, requires in-depth research, especially in the context of the military and post-war economy. In connection with the above, the purpose of this study is to substantiate the methodological aspects of inventory audit at the enterprise to implement the risk management strategy and improve business reputation.

The information base of the research is the international standards of auditing, the main provisions of scientific works of leading scientists, personal research of the author. The dialectical method and systematic approach to the disclosure of methodological aspects of inventory audit, various general scientific methods (analysis, synthesis, induction, deduction, comparison, that is). The study of assertions (criteria) for assessing the risks of inventory operations is also based on methods of observation, description and generalization. We are inclined to believe that it is impossible to develop a universal method of audit of stocks. The algorithm of verification depends on different factors and

conditions. However, the determining factors are professional skills, competence and experience of the auditor in assessing the risks of inventory transactions.

Basic content

The transformation of the business environment opens up new opportunities for the development of enterprises, while resources, including reserves, play an important role in choosing the optimal path of such development. At the same time, the current political and economic realities put before business the tasks related to strengthening the security of its own assets. Thus, during the military operations in Ukraine, the economic activity of enterprises is subject to significant risks – from the impossibility of carrying out any activities in the zone of increased military danger to problems with logistics and commodity markets. When carrying out operations with stocks during the martial law, there is a high probability of their loss, underreceipt of income or the appearance of additional costs.

Thus, in the current situation, the company needs to have a real idea of the state of its own assets, including stocks, because when making strategic decisions, it should be based on objective and reliable data on their actual presence. In addition, the current situation has significantly affected the process of replenishment of stocks, mostly lengthened and increased its value as a result of logistical complications, the rupture of supply chains, the shortage of some resources in the world market, etc. (Skasko & Kostetskaya 2022).

Thus, the tasks of the effectiveness of control over the use and preservation of stocks are relevant at any time, but now they are much more complicated. It should be noted that the content of these tasks is currently determined, first of all, by the need to ensure the continuity of the production cycle of the enterprise. Non-systematic use of available resources, violation of storage conditions and unsettled procurement process can lead to significant financial costs or even forced production stops due to lack of reserves. These risks can be largely offset if the comprehensive approach to the audit of stocks. Competently conducted inventory audit not only opens up additional opportunities for the development of the enterprise, but also allows to identify those risky areas and "bottlenecks" that in the usual situation were not so obvious (Bondarenko & Rudenko 2022).

As part of the organization of the audit of stocks, it is necessary to work to identify possible risks and analyze them in order to determine the impact and consequences for the enterprise. At the same time, for successful risk management and strengthening of business reputation, it is advisable to allocate business processes related to the movement of stocks in order to determine the appropriate risks. As a result, the control environment and planned audit procedures will be formed, as well as measures will be taken to inform staff and options for assessing the results of control actions and a system for monitoring the effectiveness of internal control (Bunda & Vityuk 2020) will be developed. Without claiming a comprehensive description of the positions identified by this problem, we analyzed the key points associated with risks, which the auditor should pay special attention to during the audit of stocks (Table 1).

Table 1. Risks of business processes of the enterprise and their connection with the content of audit of stocks*

Types of risks	Nature of risk
Risks at the stage of formation of applications for the purchase of stocks and the coordination of their value	<ul style="list-style-type: none"> - errors related to the purchase of excess or insufficient amount of stocks; - overpricing of stocks; - signing a contract with an unreliable partner who does not fulfill his obligations on time, etc.
Risks at the stage of receipt and capitalization of stocks at the enterprise	<ul style="list-style-type: none"> - supply of assortment that differs from the declared one, without notifying the buyer; - supply of stocks of deliberately low quality; - inventory during transportation or loading and unloading due to the fault of the transport company or the supplier company; - errors in warehouse accounting; - capitalization of stocks without recalculation and review and subsequent (after signing the supplier's acceptance documents) identification of shortages due to the fault of the supplier or negligence of the personnel of the enterprise itself, etc.

Risks at the stage of internal movement of stocks	- errors in the paperwork between the warehouse and other departments of the enterprise; - late transfer of stocks on demand; - the movement is not documented, etc.
Risks at the stage of stock disposal for reasons not related to the production process and core activities	- theft; - damage due to hostilities, natural disasters, etc.; - write-off of stocks that were not taken into account in their stock composition, etc.
Risks at the stage of finished product release and its transfer to the warehouse	- violations in the consumption of stocks in accordance with established standards; - release of stocks made from unaccounted raw materials and materials; - stock transfer is not documented, etc.
Risks at the stage of inventory sale	- violations in the formation of the selling value of stocks or when selling them to the side; - inventory sales are not documented, etc.
Risks associated with the reflection of the described business processes in the accounting	- there are no documents confirming the implementation of such operations; - documents are drawn up in violation of the requirements of legislative acts or do not correspond to the internal administrative documents of the enterprise, the documents are signed by persons who are not authorized to do so; - the accounting reflects operations that do not correspond to real facts; - do not comply with the rules and regulations established by the accounting policy of the enterprise, etc.

*Source: Compiled independently

At the same time, there is not a complete list of problematic issues and risks arising from the audit of stocks in enterprises. But, even on the basis of this list, it is obvious that it is necessary to provide a significant number of audit procedures that would allow not only to identify risks, but also to prevent some of them.

In addition, procedures aimed at identifying and minimizing external and internal risks should be identified. For example, external risks will be associated with the suppliers of stocks and transport companies, other of the above risks can be attributed to internal ones. These characteristics should be followed by a list and the required number of procedures to identify and minimize such risks.

It should be noted that it is easier to develop and take this into account a sufficient number of control procedures to identify internal risks, since the control environment and problem areas within the enterprise are known.

In our opinion, an important role is also played by the risk assessment methodology in the development of the audit planning procedure. As an example, we propose the following methodology for assessing risk factors when planning an audit of stocks, which are only a general recommendation and are not exhaustive (Table 2).

Table 2. Risk assessment methodology in the planning of inventory audit (conditional figures)*

Risk factors	Yes	No
External risks		
Is there a significant dependence of the enterprise on one supplier?	0**	5
Are stocks using the enterprise in limited quantity (shortage) in the market?	0	5
Are there any problems with logistics (delivery of stocks)?	0	5
Are there any cases of concluding agreements with unscrupulous suppliers?	0	5
Is it difficult for a non-professional to identify or estimate the stocks of an enterprise?	0	5
Are there any cases of stock damage during transportation or loading-unloading due to the fault of the transport company or the supplier company?	5	0
Other factors (give an appropriate assessment)	0	0
Internal risks		
Are the conditions for the safety of stocks provided?	0	5

Are the facts of theft (damage) of stocks often recorded?	0	5
Does the company make a significant part of its purchases of stocks for cash?	0	5
Is there a division of responsibilities between the persons who keep records and those responsible for the safety of assets?	5	0
Are accountants competent in carrying out their accounting and reporting functions?	0	10
Is there a dominant figure in the enterprise (for example, the owner) whose orders can override the provisions of the internal control of operations with stocks?	5	0
Is there any data from the experience of past years or the current period that the accounting documentation for inventory accounting is maintained in accordance with the law?	0	5
Did the audit of the computer system reveal any deficiencies in control procedures or loss of control analysis functions with respect to stocks?	5	0
Are there any time limits to conducting an inventory audit?	0	5
Is this customer new?	10	0
Is the relationship with the client characterized by willingness to cooperate?	0	5
Other factors (give an appropriate assessment)	0	0
Other moments		
Total estimation	30	65
Risk assessment	35***	

**Source: Compiled independently*

*** The score for each question should be zero, five or ten points. The total estimate will give some idea of the risk of a significant error.*

****As an approximate reference point, you can use the following indicators:*

- 25 points or less - low risk

-25-40 points is a moderate risk

- more than 40 pounds is a high risk.

In assessing the risks of displaying the movement of stocks at the planning stage, the use of a quality method is preferable, since it allows you to assess the risk without preliminary calculations. Among the possible types of qualitative assessments, we consider it expedient to use the attributive and apply to risk assessment the following conditional concepts: "high", "moderate" and "low".

Conclusions

Thus, in this study developed and theoretically grounded elements of the methodical apparatus of audit of stocks as a key to successful risk management and strengthening of business reputation of the enterprise. The method of risk assessment during inventory audit planning is proposed. The purpose of the recommendations is to provide the auditor with a general scheme in which he can prepare his documentation in the implementation of the audit of stocks. The results of the study are appropriate to use for the development of internal standards of audit, methodology and methodological recommendations for auditors, as well as accountants in the formation of accounting policy of the enterprise.

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