

УДК 657.6

JEL M41

Нападовська Ірина Віталіївна, старший викладач кафедри економічного аналізу Одеського національного економічного університету

Нападовская Ирина Витальевна, старший преподаватель кафедры экономического анализа Одесского национального экономического университета

Napadovska Iryna Vitaliyivna, teacher of Economic Analysis chair, Odessa National Economic University

Коверда Анатолій Васильович, к. е. н., доцент кафедри економічного аналізу Одеського національного економічного університету.

Коверда Анатолий Васильевич, к. э. н., доцент кафедры экономического анализа Одесского национального экономического университета

Koverda Anatoliy Vasylyovych,

ОЦІНЮВАННЯ ВАРТОСТІ ПОТЕНЦІЙНИХ ОБ'ЄКТІВ ІНВЕСТИВАННЯ ЯК СКЛАДОВА АУДИТОРСЬКИХ ПОСЛУГ

ОЦЕНИВАНИЯ СТОИМОСТИ ПОТЕНЦИАЛЬНЫХ ОБЪЕКТОВ ИНВЕСТИРОВАНИЯ КАК СОСТАВНАЯ ЧАСТЬ АУДИТОРСКИХ УСЛУГ

VALUATION OF POTENTIAL INVESTMENT OBJECTS AS A COMPONENT OF AUDIT SERVICES

Анотація: Розглянуто питання методології оцінювання вартості потенційних об'єктів інвестування. Запропоновано вдосконалити методичний інструментарій аудиту вартості через залучення норм Міжнародних стандартів аудиту в практику оцінювання.

Аннотация: рассмотрены вопросы методологии оценивания стоимости потенциальных объектов инвестирования. Предложено усовершенствовать методический инструментарий аудита стоимости путем включения в практику оценивания норм Международных стандартов аудита.

Abstract: Questions of potential investment objects' valuation methodology are studied. Improving of methodic instruments of value audit are proposed through using of norms of International Auditing Standards in practice of valuation.

Ключові слова: оцінювання потенційних об'єктів інвестування, аудит вартості, надання впевненості, облікові оцінки, подальші події, безперервність.

Ключевые слова: оценивание потенциальных объектов инвестирования, аудит стоимости, предоставление уверенности, учетные оценки, дальнейшие события, непрерывность.

Key words: potential investment objects' valuation, audit of value, grant of confidence, accounting values, future events, continuity.

Statement of the problem

In the conditions of the outflow of investments, caused by a political crisis in Ukraine, that spread industrial and non-commercial sphere, the problem of creation of favorable investment climate gains importance. One of its pre-conditions is provision of potential investors with reliable and clear information about value and investment attractiveness of the enterprises. During the crisis phase of economic cycle most objects are underestimated. It gives a possibility of the high-profitable money investing. That explains importance of research of problem of the value of potential objects of investing and methods of its determination

The enterprises of cable industry provide not only the increase of GDP of our country but also development of information technologies. The orientation of national economy to the European markets requires the technological updating of production for support of the products' competitiveness. It in turn requires the evaluation of investment attractiveness and value of potential objects of investing for investors, grant of confidence in reliability and authenticity of prognosis data. It may be provided by audit in the context of concomitant auditor's services on the basis of complex analysis of the external and internal enterprise environment and the reasonable evaluation methods. In this connection the special value is acquired by an analysis and improvement of existent methodology of evaluation. This confirms actuality of theme. There is certain problem field, development of that can give new scientific results, important for the economy of Ukraine.

Analysis of recent research and publications

Research of questions of audit methodology was carried out in works of such scientists, as N. S. Barabash, M. M. Benko, M. T. Bilukha, N. O. Bondarenko, F. F. Butinets, G. M. Davidov, I. K. Drozd, I. W. Zhigley, A. G. Zavgorodniy, S. W. Ivakhnenkov, L. P. Kulakovska, M. W. Koryagin, W. F. Maximova, Y. W. Mnykh, M. O. Nikonovych, O. A. Petryk, J. W. Picha, A. Pshenychna, W. J. Savchenko, W. W. Sopko, B.F. Usach, L. M. Chernelevskiy. An audit of enterprise value is wider compared with the traditional audit, which creates is basis. It takes into account not only information of the financial reports but also data of economic analysis of environment and markets of sale, prognosis information, that supply the list of proofs.

Doing justice to scientific works of predecessors, it must be noticed that some questions of evaluation of potential objects of investing remained unrevealed or debatable. It is true for theoretical principles and methodology of enterprise evaluation, improvement of methodic instruments of complex analysis as the main element of auditor's investigation and proofs research, enrichment of auditor's instruments with recommendations of the International Standards of Auditing (farther the ISA), that will improve the quality of auditors' services and information reliability for potential investors.

The aim of the article is deepening of methodical principles of audit in the context of the evaluation of potential objects of investing.

The main material of research

For the research of evaluation audit of potential objects of investing at first we should define this concept and the related categories. They are absent both in the legal acts of the Ukrainian Government [1, 2] and scientific literature [4, 5, 6].

The evaluation audit is a grant of the confidence that the value of potential object of investing has been determined correctly through personal evaluation or estimation of investigation results of professional consultant.

The subject of evaluation is the subject, from whose position the evaluation is conducted. It may be a physical or legal person, group of persons, state. A subject may appear both in a concrete and in abstract form. The aims of such subjects are various. In our research we concentrated on the evaluation for the potential investing.

The evaluation object is an enterprise which value is defined by means of analysis and calculations. The object may be presented by the whole enterprise, its separate parts, the complex subdivisions, segments of activity, affiliated companies that can be described as single unit. A term "enterprise as a unit" assumes, that an evaluation object as a phenomenon of reality is complex, unique conglomerate of material and non-material goods (factors of production). The value of such conglomerate in sense of its utility for the evaluation subject follows from the effective combination of production factors.

The component of auditors' activity is the activity, related to the evaluation of potential objects of investing. It supposes a grant of the confidence in relation to the indexes of the historical and prognosis accounting and value to the subject of manage. The task of grant of the confidence, executed by auditors, is the part of greater consulting service in case of enterprise acquisition. It requires to make the investor confident in data of prognosis, conducted by management of the enterprise. Although the procedure standardization provides higher quality of services of auditors, this aspect is not well-regulated. Question of adaptation of the ISA [3] to procedure of value definition has not been examined in professional literature.

The essence of evaluation is the prognosis of future financial benefits for the unlimited period of time. The enterprise evaluation suits the criteria of the use of expert services, as it is the specialized procedure that takes place seldom and at unusual terms. Experts from the different areas of knowledge may carry it out. Nevertheless the guarantees, that the accounting estimates of assets and obligations of the past are correct, as well as verification of object of evaluation, confirmation of prognosis and plan data, necessary for value determination, may be given only by the auditor.

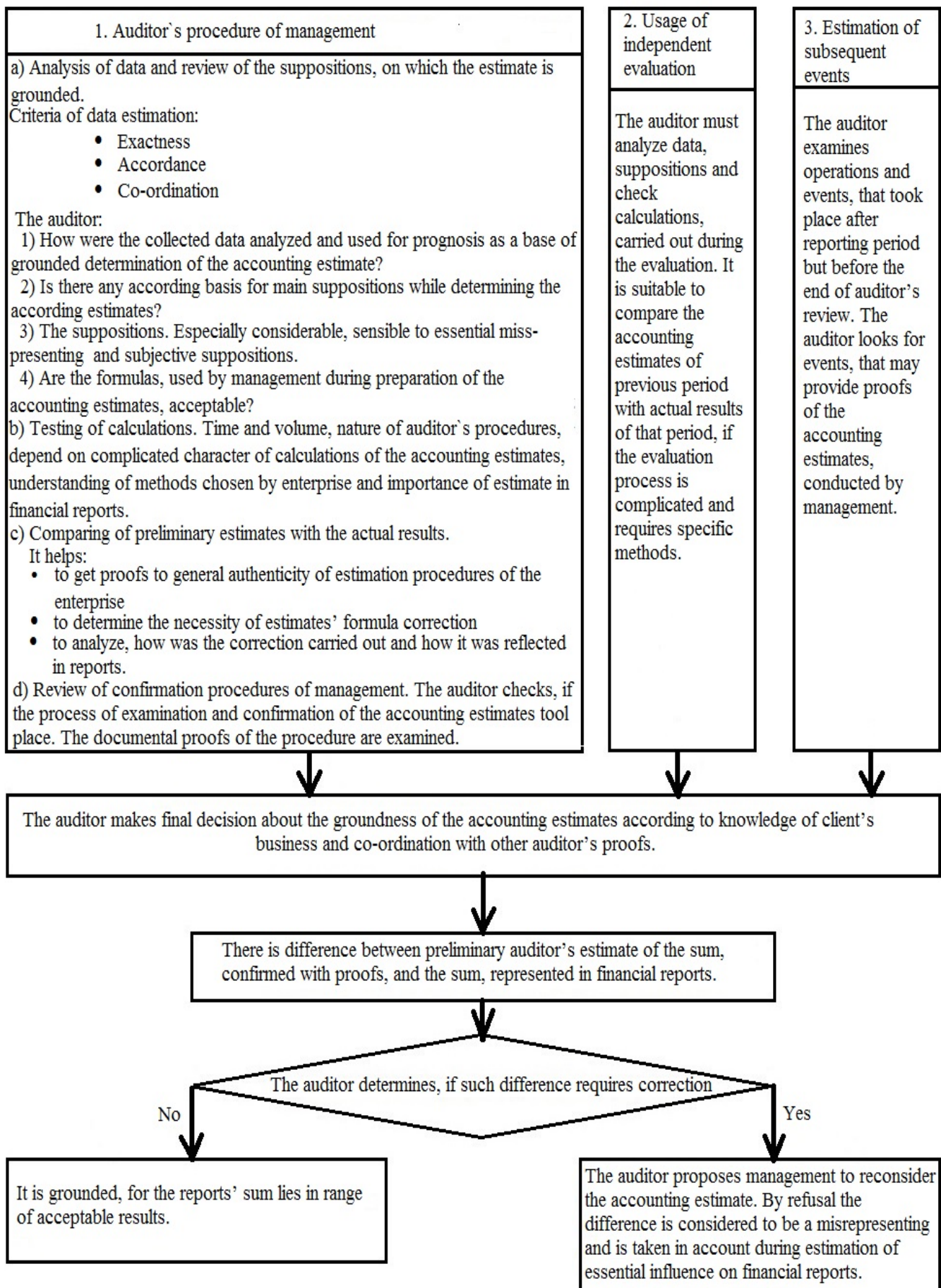
The regulations of auditor's activity and practical non-obvious recommendations on the procedures of evaluation find their reflection in the ISA 540, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures" (farther "The Accounting Estimates") related to them [3, p. 484-529], the ISA 560 the "Subsequent events" [3, p. 559-570] and the ISA 570 "Going concern" [3, p. 573-588].

A value of potential object of investing is a partial case of the accounting estimates, as it suits the criteria of its determination:

- 1) it is the approximate value of money sum;
- 2) it is determined in default of exact estimations;
- 3) it underlies to a high degree of previous evaluation vagueness.

Schematically the procedures of audit, related to verification of the accounting estimates in reply to the risk of substantial misrepresentation according to requirements of the ISA 540 "The Accounting Estimates" [3, p. 484-529], are depicted on Picture 1.

Due to ISA the existence of the published suggestions of prices at the active market are considered to be the best auditors' proof of fair value. The use of price suggestions requires understanding of circumstances, at those the concrete suggestions, that often need further adjustment, were developed. However absence of similar information, complexity of estimation in the consequence of character of the enterprise value and the methodology of its calculation requires an alternative basis of evaluation.



Picture 1. The Order of Auditor's Procedure to Reply the Risk of Essential Misrepresenting of the Accounting Estimates (According to the Principles of the ISA 540 «The Accounting Estimates»)

The aim of value audit coincides with the aim of the accounting estimates: "prognosis of results of one or few operations, events or terms, ..., expression of value of current operation or article of the financial reporting on the basis of terms prevailing on the date of estimation" [3, p. 484]. A difference consists in the large volume of events that must be taken into consideration at evaluation of potential object of investing compared to separate assets and obligations. On the basis of auditor's proofs, to our opinion, the auditor must examine, if the accounting estimate is reasonable or misrepresented. However the vagueness of entrepreneurial activity allows only rough determination of the enterprise value.

If a task of the audit is confirmation of the enterprise value, preliminary appraised by the management of subject of manage, then requirements of the ISA 540 "The Accounting Estimates" [3, p. 486-490] may be applied without modifications (see Picture1). They foresee the realization of procedures in reply to the risk of misrepresenting of essence and testing of the control system of the enterprise. In case of evaluation by the auditor as an expert within the due of diligence procedure, the estimation of the risks grows into the independent search of the corresponding methodology, that takes into account the specific conditions of the enterprise functioning, its industry as the ground of the suppositions.

An idea of value is closely constrained with the certain moment of time and assumes judgment, based on information accessible in the moment of the audit realization. However it experiences the influence of events or terms taking place after the marked date. The evaluation result may change considerably and quickly in the consequence of changes in the environment. For the enterprise value it embraces the formulation of the suppositions on questions, indefinite during the procedure of evaluation. The auditor does not bear responsibility for prognostication of the future terms, operations or events that will have considerable influence on the supposition, if they were known during value determination.

As the evaluation and the suppositions' formulation depend on the future terms, operations and events, the work of auditor must comport with the requirements of the ISA 560 "The Subsequent Events" [3, p. 559-570]. Auditors' procedures on this occasion are represented in the form of algorithm on Picture 2. In the consequence of specifics of the value audit it is improbably, that events that arise before the date of auditor's report will give proofs of the enterprise evaluation, because they show up only during the protracted period. Therefore a greater value is acquired by procedures that belong to the period 2 and 3, marked on a chart.

In the process of value determination the auditor faces three key problems: vagueness of previous evaluation, formulation or estimation of the suppositions and the choice of methodology for evaluating process. Corresponding paragraphs and auxiliary explanatory materials of the ISA 540 "The Accounting Estimates" [3, p. 484-529] is systematized in a table 1.

Table 1

Systematization of the ISA 540 «The Accounting Estimates» According to Needs of the Value Audit.

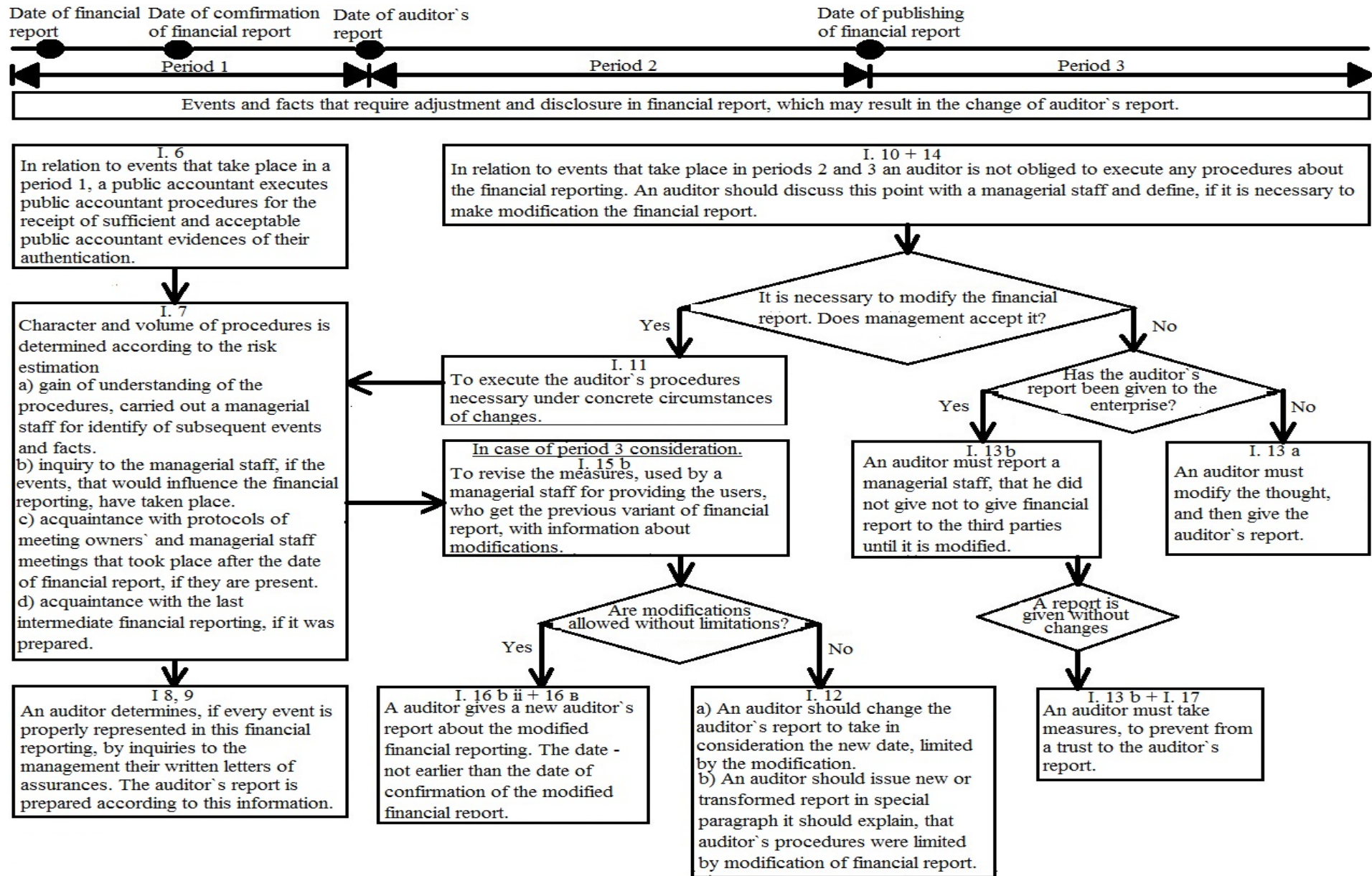
Questions of audit	Paragraph of ISA 540	Auxiliary materials of ISA 540
1) The suppositions	8B iv, 136 ii	Д3, Д22, Д31-36, Д77-83 Д107-110
2) The vagueness	8B vi, 10, 15, 16	Д2-5, Д38, Д45-51, Д83, Д103-106
3) The method and models	8B i, 136 i	Д3, Д22, Д24-26, Д57-58, Д71-76

In some cases the vagueness of the previous evaluation can cause doubts concerning ability of enterprise to continue activity on going concern basis. Then it is necessary to use methodology of liquidating value of the Cost Approach. The recommendations and requirements for the audit are represented in the ISA 570 "Going concern". They are depicted in form of actions algorithm for the auditor on Picture 3.

The suppositions are a significant component of the evaluation process. The important stage is a receipt of understanding or independent development of the suppositions that will be fixed in basis of the accounting estimate of value. We affirm, that they require considerable attention, as the suppositions are pre-condition and basis of the evaluation. The formulated suppositions must be reasonable, relevant, reliable, neutral, clear and complete.

In our opinion, the suppositions form a reliable basis for evaluation, if examining the system of the suppositions and every single supposition separately. They are often interdependent, that is why the auditor must check their contradictions. The supposition may seem reasonable one by one, but to appear groundless in a context of others. For this purpose we advise to find out such questions:

- do the separate suppositions appear reasonable?
- are the suppositions interdependent and successive?
- do the suppositions remain reasonable, if examined in totality?
- do they represent observant market suppositions in a right way?



Picture 2. The System of Auditor's Actions about Information, Representing Subsequent Events (According to Requirements of the ISA 560 «Subsequent events»)

In the terminology of evaluation the suppositions are also named the initial data. The ISA 540 "The Accounting Estimates" [3, p. 499] puts such requirements to their quality:

- 1) the supposition must be appropriate and complete, id est to take into account all appropriate circumstances;
- 2) the supposition must be successive, id est concerted inter se, with the businessplan of subject of manage and its environment;
- 3) the supposition must be confirmed documentarily.

The supposition is considerable, if a reasonable change in its positions substantially will influence the size of the accounting estimate [3, c. 511]. Confirmation of such suppositions is possible by means of strategic analysis and management risks (due diligence).

In the process of construction of the suppositions the auditor examines a source and proofs' authenticity, that ground certain suppositions. In some cases the suppositions are based on the applicable information got from outsourcing (an observant initial data). Those are the "suppositions, that represent the cost of asset, that market participants would set on the basis of the market data, got from sources independent of the enterprise" [3, p. 500]. In the value audit they are rarely met. In other cases the suppositions are more subjective (an unobservant initial data) They require "own judgment of subject of manage to that, what suppositions market participants would use during establishment of cost of asset on the basis of the best accessible information under concrete circumstances" [3, p. 500]. In practice a difference between these categories is not always obvious. Auditor should check them from position of past information and co-ordinates with possibilities of the concrete enterprise. While applying unobservant data, it is necessary to consider authentication of descriptions of market participants appropriate for the accounting estimate, modifications done in the suppositions, to represent an own point of view of the events, and method of taking into account compared operations [3, p. 512].

The suppositions, that build the basis of evaluation of potential objects of investing, represent the expected results of concrete aims and strategies. To be reasonable, such suppositions taken separately and on the whole must be realistic and nonconflicting in relation to:

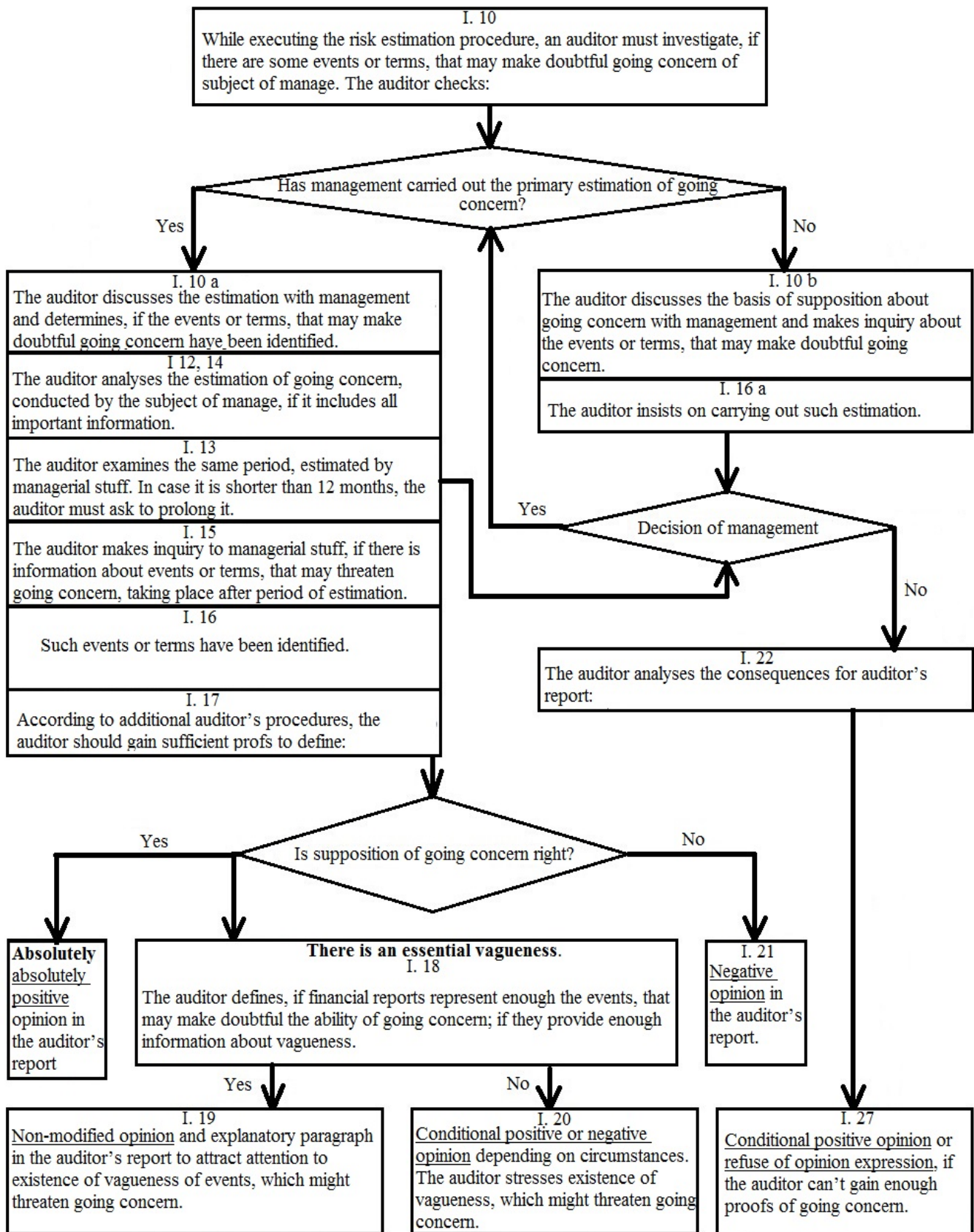
- general economic environment and economic circumstances of subject of manage;
- its plans;
- experience or previous condition within the limits of that historical information, which may stipulate subsequent events;
- if acceptable, risk related to the cash flows, including their possible inconstancy and its influence on the rate of discount;
- the other suppositions.

The suppositions change depending on characteristics of object they were formed for, and used methodology of its evaluation. So, for example, if discounting of future cash flows is used, there are suppositions about the level of cash flows, prognosis period and rates of discounting. The research showed that the auditor faces the problem of choice from a few different suppositions, used by different participants of market. Such situation generates high level of vagueness and strengthens the risks of misrepresenting. The probability of the risks increases in the consequence of not observed initial data. While formulating the suppositions by an expert or managerial staff own judgments are used about that, what suppositions market participants would work out enterprise evaluation on the basis of the best accessible information under concrete circumstances.

The investigation, carried out by the author, proved, that using different methods of the value determination, that belong to one conceptual approach, there are substantial differences in the value of the same object. Each method is grounded on different considerable suppositions, such as different discount rates and length of prognosis period. This fact explains differences, that may not be considered as misrepresenting. It means, the value is sensible to the change of the suppositions. It experiences a high level of vagueness of previous evaluation, that results in higher risks. We propose to examine the range of the values, calculated according to different methods. The final decision should be left for the judgment of the information user.

If it is necessary to choose only one method, the results of the methods critical review allow to recommend for the evaluation of potential objects of investing method of the evaluation according to future benefits (Germany). Firstly, it takes into account the individual attitude of investor toward the risk. Secondly, as the rate of discounting it requires the alternative rates of return on capital, possible for the concrete investor in the moment of realization of evaluation procedure.

The evaluation of the potential object of investing experiences the high level of vagueness in relation to authenticity of previous evaluation. It is related to character of the accounting estimates, the amount of considerable and complex suppositions, high degree of subjectivity of the suppositions and factors used for their formulation, unobserved nature of most data at the market and necessity of the optimal method's choice, that takes in consideration all the peculiar circumstances of the evaluation and specifics of the object.



Picture 3. The Stages of Auditor's Investigation of Going Concern in Future (According to the ISA 570 «Going Concern»)

Except that, the vagueness is the consequence of the prognosis period's length, considerable degree of the vagueness of subsequent events, taking place after the suppositions are formulated or their results and default of objective information at application of subjective factors. During the auditor's check of the value of potential objects of investing, it is worth to estimate the influence of the vagueness of the preliminary evaluation after such criteria:

- ✓ consideration of the alternative suppositions and their results, analysis of sensibility of the value to their changes;
- ✓ founding of certain value of the enterprise, if the analysis specifies the range of result scenarios.

We determined, that all factors, influencing the level of vagueness, are characteristic and significant for the evaluations process of potential object of investing :

- the value depends on judgment in a high degree;
- the value is sensible to the changes in suppositions;
- duration of prognosis period makes data, based on past events, inappropriate for prognoses;
- the expert doesn't usually have access to data of outsources;
- the value depends on the unobserved initial data.

In addition the enterprise value depends directly on the sum and time of the future cash flows. They come as the consequence of indefinite events, that can take place in many years. The verification of accordance of the accounting estimates on a fair value partly depends on auditor's knowledge of nature of entrepreneurial activity, as the enterprise value and the methodology of its determination are complex phenomena. Different judgments about the way of the fair value estimation will result in different conclusions.

The auditor develops the independent fair value estimation, applying the selected methodology for the confirmation of the enterprise value, as in most cases there are no concrete recommendations about the methodology or the alternative methodologies of the evaluation. This fundamental question is left for professional judgment of the auditor. For this purpose one should primary find out the aim of the evaluation; a presence of general recommendations about the acceptable methodology for the industry of enterprise functioning; presence of the information, relevant for the evaluation. Sometimes the research of the differences' reasons may help to determine the acceptability of certain methodology.

The confessed methodologies of the Cost Approach, the Income Approach and the Market Approach may not be called perfect and universal. Sometimes the expert has to modify them to develop the method, that satisfies the necessities of the narrowly specialized enterprises' evaluation. In this case greater risks of substantial misrepresenting exist. The methods of the evaluation may not be characterized as simple and easily applicable or based on data, available for all users. While evaluating due to the Cost Approach, the auditor needs to determine the accounting estimates of assets and obligations that in most cases rarely come true and renovate. There is no active and open market, that provides accessible and reliable information about the costs of actual accounting. In case of methods of the Income Approach the preliminary evaluation assumes judgment, based on the information, accessible on the date of evaluation, that may change in the short interval of time. It requires the suppositions on questions, impossible to define for certain on a distant prospect.

To our opinion, in a certificate about the value of potential object of investing, that is folded on results of the evaluation, it is necessary to perform such information as: information about the suppositions used in the process of evaluation, founding and arguments in behalf on selected conceptual approach and methodology of the value determination, source and consequences of vagueness of the previous evaluation. If different methods were used, the range of the values must be specified as an interval, but not the point value. The performance of such information in a is appropriate for users, because it gives arguments for understanding of the value of the potential object of investing. Thus, the user will have an opportunity to make decision about the act of investing on the basis of complete and convincing data.

Conclusions

Thus, application of the requirements of the ISA in the evaluation process allows to promote the authenticity of the estimations got by the auditor. It positively influences the quality of auditors' services: the objective estimation of important judgments and conclusions reduces risks and improves the users' trust degree to the results of the evaluation. It minimizes the risk of the false administrative decisions investing money in the potential objects.

The methodical tool of auditors' tasks is offered. It includes procedures of grant of confidence of the prognosis information in the process of evaluation of the potential objects of investing. That supposes the list of auditor's procedures of the examination of the going concern principle and the subsequent events, confirmation of the accounting estimates. It allows to give the convincing auditor's proofs of the value of enterprise to the potential investor and to decrease the vagueness of the investment decisions.

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