Developments in the Financial Supply Chain and Its Impact on the Economy

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Abstract— **Although several studies have explored the relationship between the operation and performance of a supply chain (SC), a general SC model cannot deliver the expected financial results at a company-wide level. In this paper, we argue that this cannot guarantee the maximization of a firm's overall value because short-term financial performance metrics do not reflect the risk to businesses and the invested capita. Information asymmetry determines investors to call for auditors' services. Ensuring the reliability of compliance with the requirements of the financial reporting framework based on supply chain management is one of the fundamental factors for ensuring the quality of audit. This paper aims to analyze the influence of the financial reporting framework based on supply chain management on the process of forming the auditor's report. The process of developing financial statements is proceeding along the path of maximum informatization of these statements. Current users requirements are not always met by existing accounting and reporting standards. The capabilities inherent in the fair presentation framework push the boundaries of any standards, allowing the preparer to fill the financial statements with relevant information. Considering the financial statements framework on the part of the auditor, it can be argued that this will have an impact on the audit process. Objectively it consists in obtaining audit evidence and evaluating it. This means that the application of the fair presentation framework by the management of the audited entity will require the auditor to adjust the verification process accordingly, which should address such elements as the quality of audit evidence, the methods of obtaining it, and the auditor's assessment.**

Keywords— *audit, framework, financial statements, International Standards on Auditing (ISAs), audit quality.*

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1. Introduction

The concept of the supply chain (SC), which first appeared in the early 1990s, has been the focus of growing research interest, as the possibility of providing integrated supply chain management (SCM) can reduce the risk of unexpected/undesirable events throughout the network, and can markedly improve profit for all parties involved. Almost all SC optimization and modelling approaches address SCM problems in an isolated manner without analysing the strengths or weaknesses of financial statements. SC managers generally deal with SC decision variables in order to solve problems by identifying the best arrangement of production facilities or distribution centres, the optimum flow of materials, and/or optimum position and levels of an inventory, and other common measures for profit maximization. Information asymmetry determines investors to call for auditors' services. The auditors offer through the audit reports a professional, objective and independent opinion regarding the presentation in financial statements of the true and the fair view in the most significant aspects of the financial position and performance in accordance with accounting framework.

The importance of audit in ensuring the reliability of reporting data is emphasized in many modern studies [1-7]. To date the application of audit is gradually moving beyond confirming the reliability of only the financial statements of companies but also begins to extend to integrated reporting [8-12].

Prior studies primarily investigate factors influencing audit quality from the perspective of auditor independence, including client importance, audit firm tenure, auditor mandatory rotation, fees from audit and non-audit services, auditor demographic characteristics and audit firm size and reputation [13-20].

The Framework for Audit Quality is an integral part of the International Standards on Auditing (ISAs) and defines the key elements of the audit quality assurance process. To ensure the quality of the audit all stakeholders must be involved and the criteria for financial information regarding the user's needs must be taken into account. This information should be relevant, timely and reliable in terms of the quality of financial information for all stakeholders.

In the most General form, it can be argued that the relevance and timeliness are provided by the persons who generate this information. The task of the auditor is to ensure the reliability of information. Of course, the desire to meet all criteria is typical for all participants in the audit process, but each solves its own range of tasks. The auditor's special mission is to ensure the reliability of financial information. Audit is the basis for user’s confidence in the reliability of financial information.

Key elements of the Framework for Audit Quality concept

he results demonstrate the need to continue to strive for better communication within the financial reporting supply chain to determine better what information should be reported. According to the framework for audit quality, one of the conditions that ensure quality audit is the interaction of the audit team with interested parties. Without relieving the auditor's responsibility for the quality of the audit, it is determined that this quality will be higher if there is interaction between all the participants in the process of preparing financial statements.
The audit results in the auditor's opinion about whether the financial statements have been prepared in all material respects in accordance with the applicable framework. This aspect is considered in the context of the definition of «audit quality» (Fig.1).

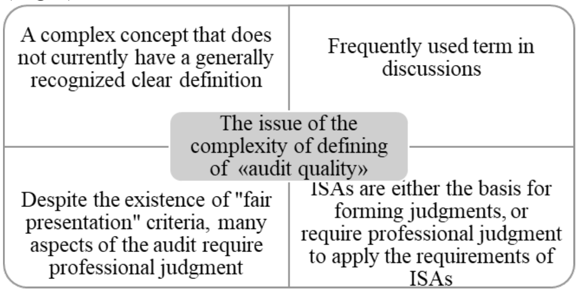

Fig.1: The framework for audit quality: key elements that form the environment to ensure audit quality

The essence of the auditor's opinion is that the financial statements "in all material respects present fairly" or "give a true and fair view" of the entity's financial position at the end of the period, as well as its results and cash flows for the period in accordance with the applicable financial reporting framework based on Supply Chain Management. The "fair presentation framework" has its own criteria which may be regulated by national laws and accounting standards but their practical application in the audit is impossible without the professional judgment of the auditor.
Thus, ensuring the reliability of compliance with the requirements of the financial reporting framework based on Supply Chain Management is one of the fundamental factors for ensuring the quality of audit.

Financial reporting framework based on Supply Chain Management in terms of ISAs

These are the core elements of the entire financial reporting supply chain. The definition of "financial reporting framework" is contained in ISA 200 "Overall objectives of the independent auditor and the conduct of an audit in accordance with International Standards on Auditing" (ISA 200) and ISA 700 "Forming an opinion and reporting on financial statements" (ISA 700). The financial reporting framework based on Supply Chain Management is adopted by management and, if necessary, by those responsible for entity’s corporate governance. Its practical purpose is based on acceptability in view of the nature of the entity and the purpose of preparing financial statements or is required by legal requirements.
The practical purpose is the basis for choosing financial reporting framework based on Supply Chain Management: either the compliance framework or fair presentation framework (Fig.2).

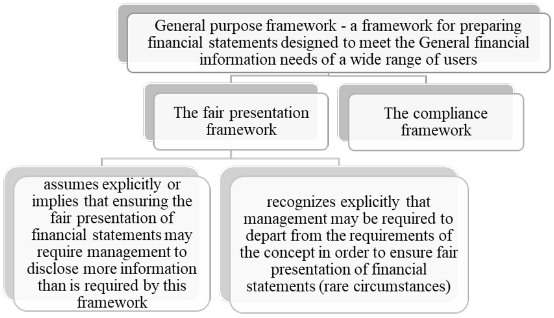

Fig.2: Interrelation of compliance framework and fair presentation framework

The process of preparing financial statements begins with the entity's management choosing the framework according to which it will be prepared. If the selected framework was acceptable to the entity in terms of the nature of the entity and the purpose of preparing financial statements while complying with the requirements of laws or regulations it means that the basis for the preparation of financial statements is based on the compliance framework. If the entity's leadership have the circumstances requiring disclosure in the financial statements information to a larger extent than they did before, or the circumstances were such that there was a need to convey to users of reporting information, the disclosure of which requires deviations from the previously selected concept of training, in this case, there is a need of applying fair presentation framework.
The content of the compliance framework is defined relative to the fair presentation framework using negation in determining the essence of the compliance framework. To consider the essence of concepts it is advisable to transform negation into a practical side of their understanding.
The philosophical dictionary gives several definitions to dialectical negation: the objective process of qualitative updating of a developing object, the reconstruction of an object by the subject, giving the object fundamentally

new properties while preserving some of its previous useful parameters. The philosophical concept of "negation-with-relieving" means the destruction of already obsolete with the preservation and development of all viable, positive.

The study of this concept allows us to draw a conclusion about the primacy of the compliance framework. The fair presentation framework clearly fits into the philosophical concept as the result of negation. This concept is really a qualitative update of the previously existing approach.

Consider the evolution of interrelated definitions of financial statements in the understanding of International Standards on Auditing(Table1).For review International Standards on Auditing were used which were issued in 1999 and 2006 and adopted by the Russian Collegium of Auditors and Chamber of Auditors of the Republic of Kazakhstan [21], as well as International Standards on Auditing, 2016which substituted Russia’s National Standards on Auditing in 2019 [22].

Table1: The definition of financial statements in ISAs

ISAs, issue date	The definition of financial statements
ISAs, 1999 Glossary	Balance sheets, profit and loss statements, statements of changes in financial position (...), notes and other statements, as well as explanatory materials that form part of the financial statements. The basis of preparation is management's statements, whether expressed explicitly or otherwise, that are included in the financial statements and classified into known categories (existence, rights and obligations, origination, completeness, valuation, measurement, presentation and disclosure)
ISAs, 2006 ISA 200	Structuralpresentation of financial information, which usually includes accompanying notes obtained from accounting records and intended to inform about the entity's economic resources or liabilities at a particular date or changes in them over a period of time in accordance with the entity's financial reporting framework based on Supply Chain Management. The term can be applied to a complete set of financial statements, but it can also be applied to separate financial statements, such as the balance sheet or income statement and related notes.
ISAs, 2016 Glossary	Astructured presentation of financial information about past periods, including related notes, intended to inform about the economic resources or liabilities of the entity at a particular time or changes in them for the period in accordance with the financial reportingframework. The related notes usually contain basic accounting policies and other explanatory information. The term "financial statements" usually refers to a complete set of financial statements, as defined by the requirements of the applicable financial reporting framework based on Supply Chain Management, but it can also be used in relation to a separate report in the financial statements.

In the publication of the 1999 ISAs, the financial reporting framework based on Supply Chain Management included only a list of reports included in it. The basis for its preparation was generally accepted statements, compliance with which the management of the audited entity was more or less confirmed by the auditor's opinion. Since 2006 the definition of financial statements has made reference to the basis (concept) of its presentation. This is a crucial point, since the auditor confirms not only the completeness of compliance with certain statements, but also the financial reporting framework based on Supply Chain Management. In 2006, the ISAs include the need to report on the entity's economic resources or liabilities at a specific date or changes in them over a period of time. In the 2019 ISA, an indication of the content of notes is added in the form of basic accounting policies and other explanatory information.

Thus, the "denial-with-withdrawal" is confirmed, the auditor's opinion still applies to the assurance of statements, however, the object of audit is qualitatively expanded. A qualitative change in the definition of financial statements for audit purposes reflects that the auditor's opinion applies to the aggregated approach to financial statements, that is, to the conceptual correctness of the formation of its items.

Continuing the argument in this direction, it is logical to proceed to the emergence of the concepts themselves(Table2).Each concept has its own defining basis, so it is advisable to analyze the dynamics of changes that have occurred in the definition of the basis of presentation of financial statements.

Table2: Basis of presentation of financial statements in ISAs

ISAs, issue date	Basis of presentation of financial statements
ISAs, 1999 ISA700	During the review and evaluation the auditor should determine whether the financial statements have been prepared in accordance with the recognized financial reporting framework based on Supply Chain Management: IFRS, relevant national standards, practices, and other authoritative and comprehensive financial reporting framework based on Supply Chain Managements. It may also be necessary to determine whether financial statements comply with legal requirements.
ISAs, 2006 ISA200	The financial reporting framework based on Supply Chain Management provides context for the auditor's assessment of whether the financial statements are presented fairly, including evaluating the preparation and presentation in accordance with the specific requirements of the applicable financial reporting framework based on Supply Chain Management for certain classes of transactions, account balances and disclosures. Examples of such financial reporting framework based on Supply Chain Managements are: IFRS, IASB, and generally accepted accounting principles.
ISAs, 2016 ISA200	The relevant applicable financial reporting framework based on Supply Chain Management often includes: - or financial reporting standards set by a relevant authorized or recognized standards-setting organization; - either legal or regulatory requirements; - or both of the above

The basis for presentation of financial statements in ISAs is not initially defined as a separate definition. As the definition the conformity to the accepted basis of preparation of financial statements various standards and legal requirements is used. Further, the basis is less strictly defined: the auditor evaluates the fairness of the information presented in the financial statements in accordance with the proposed examples of such bases. Over time, the boundaries of the basis for preparing financial statements become even more blurred, and there is no clear definition of it as part of the financial statements framework. Consequently, the opportunities for forming the financial statements framework in order to achieve maximum flexibility are being expanded. As a result, the framework becomes the most important tool to satisfy the information needs of users of financial statements. The criteria of relevance, timeliness and reliability of financial information are implemented in practice in accordance with the audit quality framework. The desired effect is achieved by all interested parties: the audited entity, users of its reports and the auditor. It is important to note that there is a process of qualitative updating of the developing object, which is considered as the basis for preparing financial statements. At the same time, there is no "discarding of unnecessary, outdated items", which is crucial for further understanding of the financial reporting framework.

Turning to the analysis of the concepts themselves, it is necessary to make a clarification related to the concept of General-purpose financial statements. Initially, the General purpose of financial statements was viewed through the prism of requirements acceptable to a wide range of users. The Glossary of ISAs 2016 defines General purpose financial statements as prepared in accordance with a General purpose framework that is designed to meet the General financial information needs of a wide range of users. The main difference in the approach to defining General purpose financial statements is the integration of the requirements of a wide range of users into the concept. The concept means a system of related and resulting from a different view of certain phenomena. Thus, translating the needs of a wide range of users into a concept systematizes the process of generating financial information, making it subordinate to a single idea(Table3).Let's look at definitions of definitions in several versions of ISAs of different years.

Table3: The development of financial reporting framework based on Supply Chain Management in ISAs

ISAs, issue date	Financial reporting framework based on Supply Chain Management
ISAs,1999	-
ISAs, 2006 ISA 700	In the context of the applicable financial reporting framework based on Supply Chain Management, it is necessary to evaluate: (a) the accounting policies selected and applied are consistent with the applicable financial reporting framework based on Supply Chain Management and are appropriate in the circumstances; (b) estimates made by the entity's management as to whether they are reasonable in the circumstances; (c) information provided in the financial statements, including accounting policies, for relevance, reliability, comparability and clarity; and (d) financial statements for sufficient disclosures to enable users to understand the impact of significant transactions and events on the information in the financial statements. Forming an opinion on whether the financial statements present a fair and fair view or are presented fairly in all material respects in accordance with the applicable financial reporting framework based on Supply Chain Management also includes evaluating the fair presentation of the financial statements.
ISAs, 2016 ISA200	Applicable financial reporting framework based on Supply Chain Management – the financial reporting framework based on Supply Chain Management adopted by management and, where appropriate, those responsible for corporate governance of the entity and used in the preparation of financial statements. The term "fair presentation framework" is used to refer to a financial reporting framework based on Supply Chain Management that provides for compliance with the requirements of this framework: (i) explicitly recognizes or implies that ensuring the fair presentation of financial statements may require management to disclose more information than is required by this concept, or (ii) explicitly recognizes that management may be required to deviate from the requirements of the concept in order to ensure fair presentation of the financial statements. The term "compliance framework" is used to refer to a financial reporting framework based on Supply Chain Management that provides for compliance with the requirements of this concept, but does not contain the statements set out in paragraphs (i) or (ii).

In the 1999 edition of the ISAs the conceptual approach to financial reporting was not considered in principle. Reporting was presented in a set of statements in accordance with the accepted framework for its preparation. In ISA 700 "Report (Opinion) of the independent auditor on the complete set of General purpose financial statements" (ISAs 2006), the objects of the auditor's assessment are specified, with the requirement to determine whether the financial statements meet the requirements of reliability and fairness in all material aspects and representations. The absence of a conceptual approach in determining the basis for preparing financial statements affects the auditor's assessment in accordance with the requirements for compliance with the qualitative characteristics that form the basis of the auditor's opinion.

In 2016 the transition from the basics to the concept of preparing financial statements revealed the possibility of two approaches to its formation. The compliance

framework is a modern expression of this early approach, when ensuring fair presentation of financial statements did not require management to disclose more information than was necessary to comply with the statements, and even more so, a departure from the rules.
However, this is the basis on which the fair presentation framework was formed, since without an initial "classic" assessment of the level of compliance with the statements on which the financial statements were formed. This is inherent in the very essence of the fair presentation framework. Since there are requirements of the concept itself that are objectively related to certain financial reporting requirements, what would be sufficient if the entity's management accepts the compliance framework as the financial reporting framework. The fair presentation framework, therefore, has a name that allows to improve the reliability and the maximum satisfaction of requirements of users of financial statements to expand the boundaries of the concept of disclosure and, if necessary, to retreat from it.

2. Conclusion

Participants in this study recommended that IFAC and its member bodies continue to provide leadership in their dialogue with other stakeholders in the financial reporting supply chain to enhance the usefulness of financial reports. In the end, it can be argued that the compliance framework is embedded into the fair presentation framework and is an integral part of supply chain management. The process of financial reporting development is proceeding along the path of maximum informatization of preparation of financial reporting. Current user's requirements are not always met by existing accounting and reporting standards. The capabilities inherent in the fair presentation framework push the boundaries of any standards, allowing the preparer to fill the financial statements with relevant information.
The fundamental principle of negation allows us to draw a conclusion about the restructuring of the basis of presentation of financial statements, giving it fundamentally new features while preserving its former most important function-the reflection of assertions that are the basis for the formation of financial statements.
Although several studies have explored the relationship between the operation and performance of a supply chain (SC), a general SC model cannot deliver the expected financial results at a company-wide level. When considering the concepts of preparing financial statements by the auditor, it can be argued that this will have an impact on the audit process. Objectively it consists in obtaining audit evidence and evaluating it. This means that the application of the fair presentation framework by the management of the audited entity will require the auditor to adjust the verification process accordingly, which affects such elements as the quality of audit evidence, the methods of obtaining it, and the auditor's assessment in financial supply chain performance for economy improvement.

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