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AUDIT OF FINANCIAL REPORTING AS A TOOL FOR INVESTMENT ATTRACTIVENESS OF AGRICULTURAL BUSINESS ENTERPRISES

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Abstract. Development of financial statements audit as an effective practical tool for the investment attractiveness of agrarian business enterprises requires elaboration of its relevant theoretical positions with a detailed projection on the industry area to specify the content, tasks, information usefulness for investors, owners, and top managers of the enterprise. For this purpose, the role of the financial statements audits as a specific tool for improving the investment attractiveness of agrarian business enterprises is identified. The authors also substantiate the need to deepen its essential understanding, supplementing the audit components with various types of Due Diligence, which will provide users with complete information contained in the financial statements, the reliability of which is confirmed by the auditor. This will also enable a deeper use of analytical information to identify key risks and form an independent and objective opinion on the financial statements of a potential investment target.

Key words: audit, financial statements, agricultural enterprises, investments, agribusiness.

JEL code: M42, Q13

Introduction

The issue of ensuring the quality and content of financial reporting audits has long been and still is relevant. Especially since audit has proven itself as a tool for improving the financial stability and economic growth of enterprises, their investment attractiveness in conditions of increased risks and economic instability. Ukrainian companies, like most foreign ones, operate in an environment of uncertainty caused mainly by Russian aggression against Ukraine. In addition, it is well known that the spread of COVID-19 caused a global crisis in the world economy, the scale of which is still difficult to assess. Accordingly, not only the range of risks and threats has expanded, but those existing before having acquired a new content and manifestation, a different direction, and new trends. In addition, as before, we should not dismiss the industry-specific characteristics of enterprises. After all, the sectoral management system in agribusiness is a key factor in determining the content and quality of services in the field of auditing agricultural enterprises, consulting services for agricultural companies on taxation, investing in agribusiness and others.

The aim of the research is to substantiate the role of financial statements audit as a tool of investment attractiveness of agrarian business enterprises and the development of practical recommendations regarding the directions of its development. In accordance with this goal, the article formulates applied tasks aimed at studying the current practice of auditing of the financial reporting of agricultural enterprises and its substantive rethinking to provide potential investors with complete, reliable, and useful information.

The research methodology is based on general and specific research methods: system analysis; content analysis; abstraction, induction and deduction, analysis and synthesis, observations, formalization, and statistical methods.

Research results and discussion.

Audit companies are interested in developing a quality management system that would be adapted not only to the nature of the firm's activities. The list of services that the audit entity provides to its clients is also a determining factor. It is worth paying attention to the following. Until recently, many agribusiness

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enterprises were not active clients of auditing companies and did not show increased interest in existing auditing activities. For most Ukrainian agricultural enterprises, the audit of financial reporting had an initiative nature, because it is legally mandatory to conduct an audit of financial statements only of those that are subjects of public interest and fall under the provisions of the Law of Ukraine "On the Audit of Financial Reporting and Auditing Activities" in part conducting an annual mandatory audit of financial reporting (The Verkhovna Rada of Ukraine, 2017). In addition, there were unsubstantiated arguments of the owners and top managers of agrarian business enterprises regarding the high cost of the services offered by the auditors.

However, according to the official data of the Audit Public Oversight Body of Ukraine and according to the data of the Report on monitoring the quality of the audit services market and competition, in recent years there has been a decrease in the estimated average cost of performing a mandatory audit task (in particular, for medium-sized enterprises of public interest) and the number of estimated man-hours spent even by the "BIG FOUR" auditing companies, as well as by other network auditing firms in Ukraine (Table 1). In particular, the estimated cost of performing a mandatory audit task by the "Big Four" has decreased by UAH 369,000 (34%) in recent years. There is also a decrease in the time spent on performing a mandatory audit of financial statements by 340 man-hours (26%). Also, there is decrease in the estimated average cost of performing the mandatory audit of financial statements provided by other network audit firms (by 8%) and the estimated average number of man-hours for their implementation by 34% (Table 1).

Table 1

Estimated cost of implementing a mandatory audit of financial reports of medium-sized enterprises of public interest and time spent on its implementation.

Estimated average	**«BIG FOUR» auditing firms**				**Other network audit companies in Ukraine**			
	Years		**Deviation**		**Years**		**Deviation**	
	2019	**2020**	**UAH**	**%**	**2019**	**2020**	**UAH**	**%**
The cost of implementation of the mandatory audit of financial reports, thousand UAH.	1079	710	369	34	260	239	21	8
The number of man-hours spent by the SAA on tasks related to the implementation of the mandatory audit of the financial reports of medium-sized EPI	1315	975	340	26	676	446	230	34

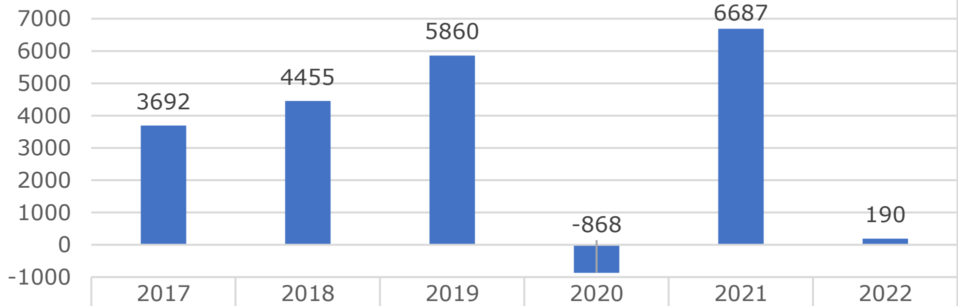
Source: author's calculations based on official data Audit Public Oversight Body of Ukraine (the data for 2021 and 2022 are not publicly available due to the war situation in Ukraine)

Nowadays, the increase in interest, understanding and perception of the need for quality audit has changed significantly and audit is already perceived in a new way, namely, as one of the tools of financial development of the enterprise. The main reasons for this change are: institutional and globalization changes; attractiveness of foreign investors; improvement of access of enterprises to external sources of financing, including grants from international financial organizations, state subsidies etc. Of course, the specified reasons are somewhat offset by Ukrainian military realities.

However, the owners and managers of agricultural enterprises have finally realized that auditors help companies quickly and easily to adapt to rapid changes, strengthen the trust of external investors, and thus increase the value of their business. The benefit of conducting an audit is, firstly necessary for top managers, especially when the request is required from inside, without waiting for initiatives to conduct an audit from owners or even investors. Logical explanation for this assumption is at least the fact that with the help of professional auditors it becomes possible to simplify work and reduce costs and time for making and implementing strategic decisions for the enterprise, to quickly identify the reasons and places where profit and profitability are lost.

The results of the audit of financial reporting in the form of reasonable calculations and, if necessary, documentary evidence become a direct confirmation of the necessity and terms of payback of the planned investments (Gutsalenko L., Wasilewski M., Mulyk T., Marchuk U., Mulyk Ya., 2018). In the presence of an independent auditor's report, which contains not only an opinion on the reliability of these financial reporting indicators, but also evidence of the payback of the necessary investments, the confidence of the investor increases significantly, and his decisions will obviously be in favour of the business entity.

Analysing the data of Fig. 1, it is worth recognizing that, except for 2022, when the full-scale invasion of Russia on the territory of Ukraine began, and 2020, when there was a negative impact of the COVID-19 pandemic and the economic recession in 2020, the volume of foreign direct investment (FDI) was still growing (Advantage Ukraine, 2022). Availability of guarantees regarding the reliability of financial reporting is one of the reasons for accelerating the flow of foreign direct investment (FDI) into the national economy and, in particular, into the agricultural sector.



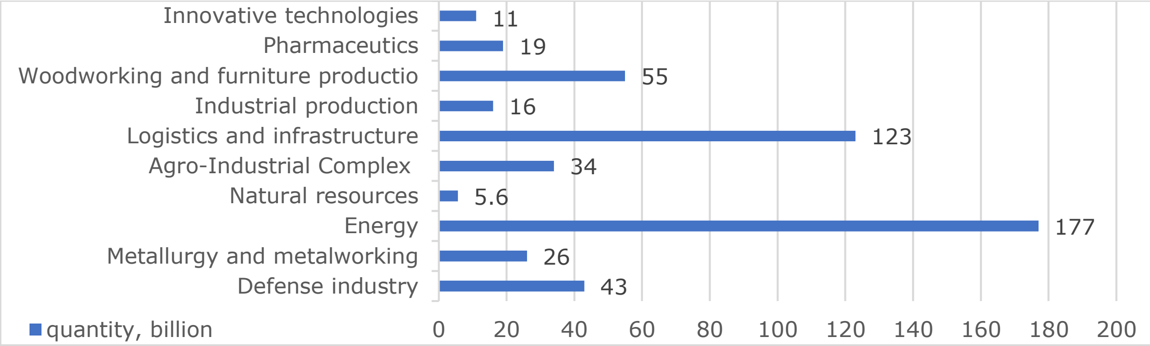
	2017	2018	2019	2020	2021	2022
FDI, million dollars USA	3692	4455	5860	-868	6687	190

Source: created by the authors based on official data of the Ministry of Economy of Ukraine (Advantage Ukraine, 2022)

Fig. 1. **Foreign direct investment (FDI) in Ukraine**

Ukraine has identified industries (within the framework of the investment initiative of the Government of Ukraine "Advantage Ukraine", which created a special platform that collects investment projects and opportunities in 10 industries) that have significant investment potential (Advantage Ukraine, 2022). The agricultural sector is one of them and ranks 5th in terms of investment potential. According to the calculations of the Ukrainian government, the investment potential of the agricultural sector of Ukraine under the current difficult conditions is USD 34 billion (Fig. 2). This is explained by the fact that sectors that create high added value (production of meat, milk and dairy products, horticulture) are interesting for the investors (Advantage Ukraine, 2022), especially since agricultural products are competitive on the world markets.

In this context, the issue of owners and top managers fulfilling their obligations to various groups of information users, including investors, becomes important. It is important to find tools to ensure such guarantees. One of the main tools, in our opinion, is the provision of a qualitative audit of the activities of economic entities as participants in economic relations. So, once again, we focus on the need to audit financial reporting of agribusiness enterprises, regardless of the determination of mandatory conduct at the legislative level. To receive a long-term support from foreign investors and partners in the conditions of economic crisis and wartime, it is especially important for owners and top managers of Ukrainian agribusiness enterprises to ensure their trust in themselves thanks to cooperation with auditing companies.



Source: author's calculations based on official data of attracting foreign investments ADVANTAGE UKRAINE (Ministry of Economy of Ukraine, 2023)

Fig. 2. **The volume of investment potential of Ukrainian industries, billion USD**

Auditors, being aware of the existence of organizational and technological features and their impact on accounting, reporting, taxation, and, therefore, the scope of the audit, are cautious about accepting orders from agribusiness representatives. After all, the financial and economic activity of agro-industrial production enterprises is characterized by certain technologies, processes and terms and is significantly different from business entities of other industries (Homovij S., Tomilova N., Lytvynenko V., 2018). Among the determining factors, there should be mentioned industry conditions (competitive environment, specific relations with counterparties, as well as various technological processes), natural and biological factors, the specificity of intra-economic property and land ownership relations, significant use of human capital in the economic process, which determines the social orientation of agrarian business. Of course, this is an incomplete list of those features that must be considered at the stage of agreeing on the scale of audit process and concluding an agreement with the client company, and later - when applying the procedures for auditing financial statements of agricultural enterprises at all stages of the audit. In this context, the scientist Valery Zhuk rightly notes that only in the so-called "living agrarian economy" does the biological component of the economic process take place, and the technology of building accounting is determined by its components - fertile soil, plants and animals (Zhuk V., Zamula I., Liudvenko D., Popko Y., 2020). hereby the authors would like to note that the methodology of auditing financial statements of agricultural companies is also determined by these components. And therefore, in the field of conducting agricultural business, auditors should especially concentrate on the study and analysis of issues that arise in agricultural producers and the development of special, and perhaps even unique or innovative approaches to solving important strategic and operational problems.

Scientific identification and interpretation of objects of audit of financial statements of agrarian business enterprises and, accordingly, the specificity of the direction of the auditor's tasks are determined by the essence of technological processes of the fields of crop production, animal husbandry, and auxiliary industries. In this context, it is appropriate, once again, to emphasize the need for a proper competence approach to ensure the performance of the task of auditing the financial statements of agricultural enterprises in accordance with the current industry legislative and regulatory requirements, professional standards.

Analysis of the content of the Ukrainian websites of the "BIG 4" world leaders in consulting and auditing services (Price Waterhouse Coopers, Ernst&Young, KPMG, Deloitte Touche Tomatsu) indicates the allocation of services in the field of agrarian business into a separate category, which once again not only confirms the importance and perspective of the agrarian business itself in Ukraine, but also indicates the existence of demand from client enterprises of the agro-industrial sector.

In addition to the audit of financial reporting, there are audit services designed for the unique needs of agricultural enterprises. KPMG specialists offer agricultural companies support in solving various key problems specific to the industry (Agribusiness, 2022):

- fulfilment of reporting requirements and regulatory requirements.
- search and analysis of opportunities to enter the market and increase market share;
- search for opportunities in the field of investment and financing;
- definition of acceptable business management models;
- increasing the efficiency of processing and storage operations;
- response to changes in tax legislation;
- volatility of profitability indicators caused by changes in exchange rates and commodity prices;
- resolving customs issues and issues related to established quotas, as well as maximizing benefits from membership in the World Trade Organization (WTO);
- cost management and control, evaluation of trademarks on a national and international scale;
- support for acquisition operations;
- consultations on issues of control and management at enterprises of all sizes;
- providing advice and support to growing companies.

Table 2

Due Diligence for agricultural enterprises

Due Diligence	**Content, tasks for agricultural enterprises**
Financial	verification of the financial condition of the company, in particular assets and liabilities in terms of their assessment (availability of off-balance sheet liabilities, impairment of stocks: current biological assets, agricultural products, seeds, feed, fertilizers, plant protection products etc.)
Tax	identification of tax risks and an objective assessment of all tax aspects of doing business (taxation of agricultural commodity producers has peculiarities according to Ukrainian legislation)
Legal	analysis of the legal aspects of an agricultural business enterprise (e.g. registration of intellectual property rights, land lease agreements, assessment of the distribution of dividends and the organisation's property, registration of real estate rights, compliance with labour laws, registration of relationships with buyers and customers, suppliers and contractors, creation of an effective system of raid prevention in agribusiness etc.)
Operational	verification of operational activities the level of loading of production capacities, the possibility of changing and/or increasing the types of cultivated agricultural products, crop and animal husbandry, auxiliary productions
Technological	Checking the technological state, the technologies used, and the production capacities of agricultural companies of the agro-holding according to a set of certain criteria, which makes it possible to determine the strengths and weaknesses of the business, assess the development potential of the agricultural company, and check where there are losses of financial resources. Development of proposals for the improvement of technologies used by an agricultural enterprise in various branches of agriculture (for example, in crop production, animal husbandry, storage and processing of agricultural products)

Source: author's construction based on the study of the practice of auditing companies and their own observations

In our opinion, the due diligence procedure should be an integral part of the audit of their financial reporting for agrarian business enterprises, as an investment-attractive one. Usually, Due Diligence is interpreted as an independent review of a company that precedes a merger and acquisition (M&A), joint venture or collaboration (What is technical due diligence (TDD)? 2022). However, in terms of investment interest of agricultural business owners and to stimulate investment activity, it should be considered not just as a mandatory procedure, but as a component of the audit of financial reporting. Moreover, it is highly important for agribusiness enterprises, taking into account the specifics of their activity described above, that comprehensiveness is necessary in conducting Due Diligence, taking into account its directions (Table 2).

We consider it necessary to emphasize the importance of Technological Due Diligence for the audit of financial reporting of agrarian business enterprises, as a component (and not a separate procedure) of such an audit. The sources of obtaining audit evidence are basically the same as in the case of a "pure" audit of financial reporting: accounting data, indicators of various forms of financial, tax, statistical reporting, oral and written information of senior management personnel, company employees, company assets etc. According to the results of Technological Due Diligence, as a rule, specific recommendations are provided for maximizing profits, improving technologies, improving production capacities, purchasing new equipment, or applying innovative technologies. Conducting Technological Due Diligence, whether for a large agricultural holding or for a small farming business, should provide an opportunity to fully understand the situation in which the enterprise is and, if necessary, develop the correct strategy aimed at increasing the efficiency of operations and obtaining additional benefits from implementation (application) of the auditor's proposed strategy. As we suggested above, due diligence should organically be either a part of the methodology or a part of mandatory financial statement audit procedures. After all, the owners and management of an enterprise of any industry, including an agricultural one, with all its risks, are interested not only in the presence of an unmodified opinion in a standardized independent auditor's report. It is important to know all the advantages and disadvantages that can be identified by independent professional auditors, to have a detailed idea of the situation and not only of existing facts and events, but also of possible circumstances or consequences of such circumstances. All this is necessary in order to best protect the interests of the enterprise itself and, in particular, its investors, customers, and employees. This will also make it possible to avoid problems with regulators at various levels (if any), and most importantly - to build and further maintain a proper reputation before investors, who should not have any doubts about the existence of any risks. In this context, we do not support the opinion of individual experts who point to a potential investor as the main initiator of Technological Due Diligence (What is technical due diligence (TDD), 2022). First, the owners and top managers of the company should act as initiators. Their interest is in identifying and quantifying risks or shortcomings that may affect investors' decisions to invest in the development of agribusiness enterprises. And only after eliminating such risks and shortcomings before forming a final judgment about the current situation can the independent auditor's report be handed over to the investor as a basis for consideration and assessment of cooperation prospects.

In addition, the division of the Due Diligence service by its types (Financial, Tax, Legal, Operational, Technological) is relatively conventional. After all, in practice, both internal and external users need reliable and complete information about the real financial state of the enterprise and all risks that may affect its financial state. Due Diligence is aimed at minimizing business risks in all components of the company's activities, which is the object of the audit. And if we talk about investors, it is obvious that they are interested not only in the issues of applied technologies. They expect to receive a full legal analysis of the company's financial and economic activities for a certain period detailing all possible risks. Analytical review and economic analysis of financial information to assess the real financial condition of the enterprise and existing risks will also be of interest to investors. In conditions of economic instability and uncertainty, investors also need an audit assessment and analysis of the most significant items of tax reporting in order to obtain a complete picture and reliable information about the current taxation system, the tax burden and an independent audit assessment of existing and probable tax risks.

Conclusions, proposals, recommendations

The obtained results of research on the substantiation of the role of the audit of financial statements as a tool of investment attractiveness of agrarian business enterprises and the development of practical recommendations regarding the directions of its development give grounds for drawing the following conclusions.

1) The audit of financial reporting must be considered as an important institutional category, which is the basis of information relations, on the basis of which the enterprise ensures the transparency of the business environment and business processes.
2) The audit of financial reporting of agrarian business enterprises is a practical tool in ensuring the investment attractiveness of agricultural enterprises, which requires taking into account the deep essence of the technological processes of the fields of crop production, animal husbandry, and auxiliary production, which determines the specificity of the direction of the auditor's procedures and determines the need for a proper competence approach to ensure the performance of tasks with audit of financial statements of agricultural enterprises in accordance with professional standards and applicable general and industry legislative and regulatory requirements.
3) The need to consider various types of Due Diligence as a component of the audit of financial statements of agribusiness enterprises, focused on investors, in the context of the implementation of the goal and tasks of providing them with reliable and complete information about financial and economic activities, which contain accounting data and financial reporting indicators, is proposed and substantiated, as well as in the context of providing an objective comprehensive analysis of the economic, financial and legal activities of the target business, including the technological level of production, existing and potential risks and threats.

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