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## FORMATION OF CRITERIA OF THE AUDITOR'S TRUST IN THE INDEPENDENT APPRAISER DURING THE AUDIT OF ACCOUNTING ESTIMATES

### ФОРМУВАННЯ КРИТЕРІЇВ ДОВІРИ АУДИТОРА ДО НЕЗАЛЕЖНОГО ОЦІНЮВАЧА ПІД ЧАС АУДИТУ ОБЛІКОВИХ ОЦІНОК

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The involvement of independent experts, whose knowledge is opposite to the field of accounting, is now becoming more common due to increased demand for audit of accounting estimates of assets and liabilities and the auditor's confirmation of information as for the correctness of disclosure of these components of assets and sources of its financing. Independent appraisers determine the fair value of accounting items, thereby forming an accounting estimate based on this type of value, as more reasonable for changes in the external environment of the enterprise. Meanwhile, there are many corporate scandals in the world, regarding the manipulation of fair value measurement results and, for the most part, the «underestimation of the market value» of corporate assets in order to reduce tax charges on transactions with these assets. In this sense, it is actual for auditors to develop criteria, according to which it would be possible to increase the level of confidence in the results of independent appraisers work, and thus to reduce the risk of significant misstatement of information on fair value accounting estimates.

#### The analysis of recent researches and publications

Analysis of research and publications shows, that domestic researchers for almost thirty years (since Ukraine's independence) point to the need to develop criteria for quality control of information, contained in the reports of appraisers and point to the many risks, that create mistrust to users of accounting estimates, determined at fair value, due to the lack of an active market for the value of most objects of accounting and, thus, the formation of the fair value of assets and liabilities of enterprises with significant subjectivity. Among the factors, forming the risk of trust in fair value measurements performed by the independent appraisers Gogol T. [1, p.36] includes: problems of determining the market value of assets, that are not traded in an efficient market, have a limited (specific) scope; the difficulty of obtaining complete information about potential buyers and

*Volchek R.M. Формування критеріїв довіри аудиторів до незалежного оцінювача під час аудиту облікових оцінок. Науково-методична стаття.*

Стаття присвячена проблематиці врахування настанов МСА 620 «Використання роботи експерта аудиторів» під час проведення аудиту публічної фінансової звітності підприємств України. Розроблено методичний інструментарій ідентифікації аудиторських ризиків суттєвого викривлення та невиявлення під час аудиту оцінки активів та зобов'язань підприємства, виконаної незалежним оцінювачем. Надано рекомендації, використання яких дозволить оцінити відповідність цілей незалежного оцінювача цілям аудиторів під час перевірки об'єктивності здійсненої оцінки об'єктів бухгалтерського обліку за умов дотримання сталого розвитку та при наявності ознак порушення принципу безперервності діяльності підприємства.

*Ключові слова:* аудит; оціночна діяльність; критерії довіри; справедлива вартість; аудиторські ризики.

*Volchek R.M. Formation of criteria of the auditor's trust in the independent appraiser during the audit of accounting evaluations. Scientific and methodological article.*

The article is devoted to the issue of taking into account the instructions of ISA 620 "Using the work of an auditor's expert" when auditing the public financial statements of Ukrainian enterprises. Methodological tools have been developed in order to identify audit risks of material misstatement and non-disclosure during the audit of the valuation of assets and liabilities of the enterprise, performed by an independent appraiser. Recommendations are provided, the use of which will allow to value the compliance of the independent appraiser's goals with the auditor's goals when checking the objectivity of the assessment of accounting objects under conditions of sustainable development and in the presence of signs of violation of the principle of business continuity.

*Keywords:* audit; evaluation activity; trust criteria; fair value; audit risks

sellers available on the market; impossibility of reliable forecasting (calculation) of the amount of future economic benefits from owning or using the property in the long run in the conditions of inflation and significant market fluctuations; the problem of determining the direction of the most efficient use of the object in conditions of fluctuations in market demand, the impact of economic, political, legal and social factors on the activities of economic entities.

G.V. Nashkerska [2, p.198] and O. Panchenko [3] points to the following shortcomings made by the independent appraisers, when assessing assets and liabilities for financial accounting purposes: lack of systemic nature and focus on the main purpose of the enterprise activity: obtaining maximum profit with a corresponding increase in equity for each phenomenon or event economic life; excessive fascination with methodological approaches to the evaluation of individual objects without taking into account their interaction in the economic activity of the enterprise, which causes changes in their value. To improve the quality of measurement at the enterprise G.V. Nashkerska proposes to form an evaluation system, that will make possible to provide: valuation of the quality of measurement procedures; the validity of the choice of valuation methods to reflect the real value of financial objects; analysis of the impact of valuation on the financial condition and results of the enterprise's activity. The main criterion for choosing of valuation methods for individual objects, she considers the ability to determine the amount of future economic benefits, that will be generated by the asset (lost liability) when used as intended in the process of their interaction to ensure the main objectives of the enterprise [2, p.199].

I. Suprunova [4, p.188] indicates that despite the differences in methodological approaches in the assessment of accounting objects, which arise from the use of different principles, it is required further scientific research on the harmonization of activities related to economic measurement: accounting, valuation, auditing, banking, which is due to globalization and internationalization of the world economy and provides a common understanding of the basic provisions and methodological approaches to valuation in accounting. Similar opinion is held by S. Polishchuk, A. Chirkin, S. Minin, O. Kononenko [5].

### Unsolved aspects of the problem

The issue formation of the auditor's confidence in the results of the work of the auditor-expert is regulated by the revised ISA 620 "Using the work of an auditor's expert" [5]. The specified international standard of audit forms the generalized criteria concerning conformity of work of the independent appraiser to the purposes of audit. Meanwhile, in our opinion, the problem of developing methodological tools, that would allow to the auditor to identify in advance the risks of significant distortions and uncertainties, not only at the stage of involving an expert in the assessment of property and property rights, but also when the auditor needs substantiate its

own judgment as to the correctness of accounting estimates at fair value.

*The purpose of the study* is to develop tools, that allow to form criteria for the auditor's confidence in the independent appraiser, taking into account differences in the methodology of valuation as a method of accounting and valuation as a procedure for determining the value of property and property rights based on the purpose of valuation.

### The main part

Examining the criteria, that form the auditor's confidence in the independent appraiser in the process of audit of accounting estimate for assets and liabilities, we consider it is appropriate to propose such sequence of operations in order to identify factors, that fabricate the situation, in which it is maximum possible to minimize the uncertainty of the auditor as for quality of valuation of objects of accounting by the independent appraiser, and the formation of grounds for the creation of methodological tools, aimed to reduce the risks of significant distortions and uncertainties in conducting audit procedures of accounting estimates, determined by fair value:

- definition of cases in which the objectives and interests of the auditor and the independent appraiser intersect;
- identification of the factors, on which is based the auditor's degree of confidence in the independent appraiser as a qualified expert. These factors should be basic in the process of developing of auditor's working papers in order to reduce the risk of material misstatement at the planning stage of the audit of accounting estimates;
- formation of requirements under which the auditor can identify the determined fair value of assets and liabilities of the enterprise as one, that meets market conditions;
- establishing of criteria, that will help to the auditor to reduce the risk of uncertainty during verifying the correctness of the fair value of the accounting items calculated by the independent appraiser.

Definition of cases, in which the objectives and interests of the auditor and the independent evaluator intersect.

One of the most important issues, that arises when the auditor verifies the correctness of the independent appraiser's valuation of the fair value of an enterprise's assets and liabilities, is whether the auditor's objectives meet the auditor's objectives in confirming the quality of the financial statements. The complexity of this issue is due to the different principles that guide the auditor and the independent appraiser or the forensic expert in determining the fair value of the asset. Although the regulatory framework for valuation in accordance with IFRS, IAS, Ukrainian Accounting Standards, ISA, International and National Valuation Standards provides guidance, that the choice of each specific item value depends on the objectives of the valuation, but this guidance is implemented by accountants, appraisers and forensic experts. differently due to different legal requirements

for the algorithm of the valuation procedure. In our opinion, in Ukraine there is an even more aggravation of the outlined problem due to the lack of current methodology of asset valuation, which could be guided by the independent appraisers and the forensic experts, and the norms of this methodology could be further harmonized with the requirements for valuation of assets and liabilities, which are put forward by Ukrainian Accounting Standards and IFRS. Thus, to reduce the contradictions between valuation as a method of accounting and valuation as a procedure for determining the value of property and property rights. We believe, that such leveling of the various principles and methods, used by the appraisers and the accountants in determining the fair value of assets and liabilities is provided in IFRS and International Valuation Standards and consists mainly, in almost identical requirements for the

economic interpretation of market value, which for accounting purposes is a kind of fair value of the object of evaluation.

In order to understand the difference in the economic interpretation of the market value of the object of measurement, as the most commonly used type of fair value for accounting purposes, we define it in accordance with IFRS 13 "Fair Value Measurement" and International Valuation Standards – as a model of conditions to bring the valuation results as close as possible to almost the same absolute expression and the National Valuation Standard 1 "General Principles of Valuation of Property and Property Rights" and the Tax Code of Ukraine (this normative act was taken for comparison due to absence in national accounting standards separate standard, which regulates the determination of fair value in Ukraine) (tab.1).

Table 1. Comparative analysis of interpretations of the economic category "market value" in domestic and foreign regulations, governing the valuation of assets and liabilities in accordance with this type of value

Normative acts, that regulate valuation in accordance with positions of accounting and accounting for tax purposes	Normative act, that regulate valuation in accordance with positions of valuation and activity of forensic experts
<i>Paragraph 9 of IFRS 13 "Fair Value Measurement" [7]</i>	<i>International Valuation Standard 104 "Bases of value" [9]</i>
The price, that would have been received in the trade of the asset or paid in a transaction of liabilities within the framework, carried out on regulated market, between market participants at the date of valuation.	The calculated valuated amount of money, for which the assets of liability would be exchanged at the date of valuation between the buyer and the seller due to commercial transaction after proper marketing, provided, that each party acted prudently and without coercion.
<i>p.14.1.219 of the Tax Code of Ukraine [8]</i>	<i>National Standard 1 "General Principles of Property Valuation and Property Rights" [10]</i>
Market price –the price, at which goods (works, services) are transferred to another owner, provided, that the seller wants to transfer such goods (works, services), and the buyer wants to receive them on a voluntary basis, both parties are mutually independent legally and in fact, own sufficient information about such goods (works, services), as well as prices, that have developed in the market of identical (and in their absence– homogeneous) goods (works, services) in comparable economic (commercial) conditions	The cost, at which it is possible to dispose the object of valuation on the market of similar property at the date of valuation under the agreement concluded between the buyer and the seller, after the relevant marketing, provided, that each party acted knowingly, prudently and without coercion.

Source: compiled by autor on materials [7-10].

Data analysis table. 1 shows, that in accordance with IFRS 13 and International Valuation Standard 104, the accountant and the appraiser will ultimately determine the market value as the price of the object of measurement at which the transaction is to take place or has taken place. This fact automatically creates conditions for the auditor to reduce uncertainties during the audit of accounting estimates. The phrase "estimated amount of money" used in International Valuation Standard 104 is interpreted in accordance with paragraph 30.2 of this Standard [9] as the price expressed in money, that can be paid for an asset under a commercial market agreement. Market value is the most probable price that, in prudence, can be obtained at the date of valuation in the market, subject to the conditions contained in the definition of the category "market value" of this Standard. This price is the best affordable, according to clever understandings, for the seller and the most profitable for the buyer. In determining the specified price, in particular, prices are not taken into account,

overstated or understated due to special conditions or circumstances of the agreement, such as atypical form of financing, sale with return the object back for rent, special compensation or concessions provided by either party. Also do not take into account any element of value, available only to a specific owner or buyer [9, p.18].

If we compare the interpretation of the term "market price" according to the Tax Code of Ukraine and "market value" according to IFRS 13 and International Valuation Standard 104, the emphasis is on determining the market value as the transaction price and the logic of determining the market value of an asset or liability as the price at which the transaction is based on the fact, that when determining the «transaction price» all risks are already taken into account, and the manifestation of its manipulation is nullified. Accordingly, the uncertainty is reduced due to the presence of an active market, according to which it is possible to verify the information as for the marketability of the prices specified in the agreement.

When the market value of the object of accounting is determined using information, that is closed and it is impossible to verify in full, because there is no active market for the specified real estate or commodity or intangible asset, in foreign countries there is a database, in which it is possible to verify information on transactions, that have occurred with more or less similar assets, and the auditor can compare the prices quoted under these agreements, and to determine whether there is a significant deviation in the results of valuation performed by the appraiser or the forensic expert from the range of valuations available in the database, thereby significantly reducing audit risks of material misstatement and uncertainty.

A comparison of market value definitions in accordance with the Tax Code of Ukraine and National Standard 1 «General Principles of Property and Property Rights Valuation» (hereinafter –NSA 1) showed, that national valuation standards do not determine the price but the value of property, respectively the appraiser determining the price can not be aware of all the intentions and goals of property owners regarding its future fate, so the appraiser's report in determining the value of assets and liabilities, may not take into account all the risks inherent in the transaction. Accordingly, there is a difference in the methodology of valuation as a method of accounting and valuation as a procedure for determining the value of property and property rights. In addition, the current interpretation in NSA 1 of the «market value» category creates uncertainty for the auditor, as the appraiser will determine the value of assets and liabilities under the agreement between the buyer and the seller, and this value may differ from the amount at which the transaction actually takes place with property and property rights. In order to reduce the risks of manipulating the fair value of assets and liabilities of enterprises, the State Property Fund of Ukraine, as the main regulator of valuation activities in Ukraine, provides for the review of the appraiser's report. Reviewing has the right to do the appraiser, who has at least 2 years of practical experience in appraisal's activity. However, we believe, that for the auditor to reduce uncertainty in the audit procedures for determining the correctness of the valuation of assets or liabilities, this review will not have the status of a document that 100% resolves its doubts about the correctness of the independent appraiser's valuation. Our statement is based on the fact, that the procedure of reviewing the appraiser's report does not foresee recalculation of indicators contained in the appraiser's report, and the main task of the review procedure is to answer the question of whether the appraiser violated the valuation methodology. That is, whether he correctly selected analogous objects when using a comparative approach in the valuation process; whether the appraiser has taken into account the principle of the most efficient use; whether the market value of the object of valuation with VAT and without VAT is indicated in the appraiser's report, etc. Accordingly, the auditor cannot fully trust to such review. Note, that in court, at the request of one of the parties of the agreement

may be assigned a procedure for full recalculation of the value of the object of valuation, but this procedure takes time, which the auditor may not have enough in the process of forming an opinion on the correctness of annual financial statements. It should also be noted, that the appraisers and the forensic experts are usually guided by the same property and property rights appraisal regulations, so all auditor's procedures regarding the correctness of an appraisal, performed by an independent appraiser can be used for a forensic appraisal. The expert's conclusion and the conclusion of expert's examination are not subject to review, so the degree of uncertainty in the calculations of the forensic expert from the auditor's point of view is even greater.

Regarding the lack of legally approved in Ukraine methodology for valuation of assets and liabilities, we note, that existing now elements of uncertainty in the reports of appraisers such as, methodological approaches to the correctness of the discount rate in determining the value of the object of valuation by direct and indirect capitalization etc., due to the fact, that the determination of the components of the value of valuation objects at this time in Ukraine, in our opinion, lacks thorough supervision as for the unity of norms, applied by the independent appraisers and the forensic experts in valuation of the fair value of assets and liabilities of enterprises. In particular, as for valuation carried out by the forensic experts – the forensic experts of expert institutions, such as the Ministry of Justice of Ukraine, the State Border Guard Service, the Ministry of Defense of Ukraine and other expert institutions, use regulations developed in accordance with the guidelines of this expert institution. This factor leads to the fact, that the experts from different expert institutions have different results of valuation of the same objects. Taking into account, that the review of the expert's conclusions and the conclusion of the expert study is not provided for, it is extremely difficult to prove the erroneousness of the valuation results. At present in Ukraine there are two methods of property and property rights valuation, approved by the Cabinet of Ministers of Ukraine and the Ministry of Justice of Ukraine and SPFU "Methodology of Property Valuation" №1891 dated 20.12.2003 [11], and "Methodology of Commodity Examination and Valuation of Wheeled Vehicles" № 142/5/2092 dated 24.11.2003 [12]. However, the Methodology of Property Valuation 1891 is used for the valuation of state property during privatization, and contains general guidelines on the procedure for valuation of this property, and the Methodology of Commodity Examination and Valuation of Wheeled Vehicles 142/5/2092, regulates the procedures for determining the market value of vehicles. In our opinion, there are several highly controversial provisions for determining the value of damages caused to owners of wheeled vehicles, due to the substitution of this type of value as "market" to the valuated, i.e. determined by the algorithm and the availability of initial data. In addition, these regulations only partially regulate valuation procedures in Ukraine and the subordination

of the experts to various expert institutions, and weak State Property Fund of Ukraine regulation of valuation procedures in our country, leads to significant differences in valuation results between data, that can be prepared by an accountant and the independent appraiser. The relationship between the performance of the independent appraisers, experts, accountants and auditors is stipulated by the fact, that in the process of confirming the auditor's quality of financial statements of enterprises, he must have his own vision for calculating the fair value of accounting objects, which in fact the accountant can not do because of absence of open data. It is not a question of the value of accounting objects, which is not significant in relation to the balance sheet currency and valuation of such objects as low-value fast-wearing pieces, tare and packages, certain types of other current assets, etc., which the enterpriser's account department can value independently, indicated the right to carry out such valuation in the order of the accounting policy of the enterprise, and establishing a cost criterion, above which the authorization of the accountant to carry out the valuation as a method of accounting, end. The issue focuses on determining the fair value of fixed assets objects, property rights, etc. when testing them for impairment and transactions. In addition, the auditor

during verifying the correctness of the estimates of accounting objects and disclosure of information about them in the financial statements, may be fully guided by international and national standards of accounting and reporting under conditions of continuity and sustainable development of the enterprise, when in activity of the economic entity there are events, which violate the principle of continuity, so the top priority normative acts, which will help to auditor to make certain the correctness of carried out by the independent appraiser valuation types of assets and liabilities, will be International and National Valuation Standards and other methodologies, governing the determination of the value of assets and liabilities at restricting, rehabilitation, bankruptcy of the enterprise. Of course, when checking the quality of performed accounting estimates, the auditor will need the help of the auditor expert, whose knowledge differs from the field of accounting and auditing. The independent appraiser may be involved as the auditor-expert in the audit of accounting estimates. Therefore, we present aspects, that indicate the relationship between the objectives of the auditor and the independent appraiser in the process of conducting of audit procedures, aimed at confirming the objectivity and reliability of accounting estimates (Fig. 1).

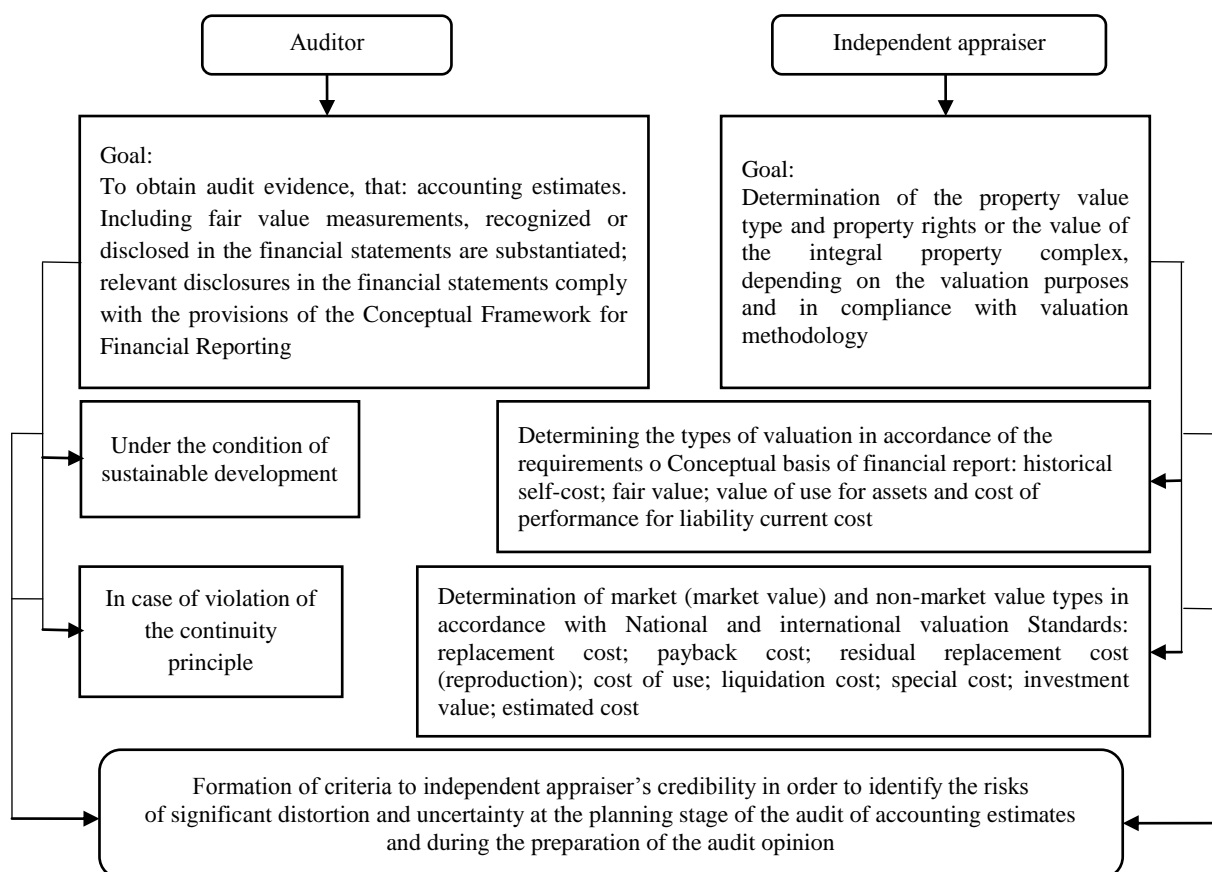


Figure 1. The relationship between the objectives of the auditor and the independent appraiser in the process of accounting estimates auditing

Source: compiled by autor on materials [6, 10].

Identification of the factors, on which is based the auditor's degree of confidence in the independent

appraiser as a qualified expert. The formation of trusted criteria for the auditor to the results of the

work of an independent appraiser is formed based on the general guidelines formulated by ISA 620 "Using the work of an auditor's expert" [6]. According to this normative document, the auditor's goals in forming his own judgment on the candidacy and results of the independent appraiser's work are: to determine whether to use the work of the independent appraiser during the preparation of the auditor's conclusion; to establish, whether the results of the independent appraiser's work meet the auditor's objectives [6].

Achieving of these goals, which the auditor sets for himself when forming his own judgment on the results of the appraiser's work, is based on understanding of several aspects of the qualification of an independent appraiser:

- valuation of the competence, skills and objectivity of the independent appraiser;
- validity of assumptions and methods used by the independent appraiser and their compliance with market conditions in which the researched enterprise operates.

The auditor's valuation of the competence, ability and objectivity of the independent appraiser is based on the recommendations, contained in paragraph 8 A 38 of ISA 500 "Audit Evidence" [13]: acquaintance with the qualification of the independent appraiser, his membership in professional organizations, permission to work, discussions with the appraiser. Of great importance for the auditor in formation of criteria to the independent appraiser's credibility is the subordination of the appraiser to the norms of determining the value of property and property rights, which are set by International and National Valuation Standards and other regulations approved by the State Property Fund of Ukraine. This aspect allows to form the basic factors, that will affect to the identification of the type of audit risk of significant distortions in the results of the appraiser's work.

It is appropriate to identify testing for compliance with the assumptions and methods used by the appraiser, the objectives of financial reporting of the investigated enterprise and its compliance with the used Conceptual basis of financial reporting and individual IFRS or Ukrainian Accounting Standards. The appropriate testing will be based on the interpretations contained in ISA 540 (revised) "Auditing accounting estimates and related disclosures" [14]. Thus, the use of the independent appraiser's assumptions and methods for measuring assets and liabilities, must be thoroughly and objectively described in the appraiser's report. At the same time, in the process of verifying the primary data used by the appraiser, the auditor must conduct testing, aimed at understanding the accuracy and correctness of their selection and assessing their completeness and internal compliance with the objectives of the valuation.

In accordance with A48 ISA 540 [14], issues, that need to be considered when assessing the acceptability of using the results of the independent appraiser's work as audit evidence for a particular assertion, may include: the relevance and validity of the results or conclusions, obtained by him; the

compatibility of these findings with other audit evidence and the adequacy of their reflection in the financial statements.

The results of the work of the independent appraiser can be verified by the auditor by reviewing working papers and the report on the independent appraisal of property values and property rights; analysis of statistical information contained in reliable sources; confirmation of certain aspects of the appraiser's work by third parties who, in the opinion of the auditor, are narrow specialists in certain issues; carrying out by the auditor of analytical procedures and recalculations, which will testify to correctness of the calculations made by the appraiser and conformity of the chosen methods and approaches of valuation to concrete circumstances, in which it was carried out [14].

Given that the involvement of the independent appraiser to prepare data to provide the auditor with his opinion on the correctness of the financial statements of the company, involves the risk of significant misstatement of accounting estimates, we consider it appropriate to provide information, that will help to form criteria, that must be given to the auditor, using the results of the work of an independent appraiser. The information provided will also, in addition to identifying the risks of material misstatement, to reduce the risk of the auditor as for not detecting misstatements in accounting estimates and improve the quality of the auditor's work. According to the information provided by Panchenko O. [3, p.15], there are the following standard comments to independent appraisers, who valued the value of assets for Ukrainian banks in 2018:

- use of comparative (market) approach without valuation of assets by methods of income approach;
- lack of analysis of factors of economic wear and tear and analysis of investment attractiveness of the objects, being compared in different regions, to adjust the cost of analogues;
- insufficient substantiation of adjustment coefficients, reference only to the expert's opinion and not to data sources;
- insufficient justification of the applied discount rate, as a rule, its value was underestimated.
- insufficient substantiation of assumptions about the probable completion of construction for objects of unfinished construction. As a rule, taking into account the optimistic scenario of event development;
- comparison of objects for conservation with working assets;
- subjective nature of taking into account the cost of VAT by analogues in the absence of detailed information about the objects (corporate rights or non-current assets);
- insufficient number of objects of comparison, etc. [3, p.15].

Summarizing the information, provided during the audit of banks' financial statements show, that

independent appraisers mostly used data, that were very difficult for the auditor to verify, as there were no market indicators for valuation of individual properties, and it was violated the methodology of property valuation and property rights in terms of the correctness of the selection of similar objects in terms of valuation the value of assets by a comparative approach. There were also no clear explanations as for limiting the use of the income approach in determining the value of valuation objects, etc. All of the above mentioned indicates the presence of a

significant number of risks of material misstatement of the results of accounting estimates. In this regard, based on the recommendations of ISA 620 [6], ISA 540 [14] and ISA 500 [13] and taking into account the information on the identified deficiencies in the evaluation reports provided by the independent auditors, we have developed a methodological tool in order to identify auditor's risk of material misstatement in the process of generating confidence to the results independent appraiser (Table 2).

Table 2. Criteria for identifying the risk of significant distortion when auditing the accounting estimates of assets and liabilities of enterprises

Factors	Low risk	Average risk	High risk
Availability of professional education in the field of "valuation activities"	Availability of higher economic education and scientific papers on accounting, analysis and audit; availability of valuation tolerances in the following areas: real estate valuation; valuation of machines and equipment; valuation of wheeled vehicles; valuation of integral property complex	Availability of valuation tolerance in the following directions: integral property complex valuation with simultaneous absence of tolerances in the following areas real estate valuation; valuation of machines and equipment; valuation of wheeled vehicles	No assessment tolerance by direction : integral property complex valuation with simultaneous tolerances by areas; real estate assessment; assessment pf machines and equipment: assessment of wheeled vehicles
The appraiser's professionalism	The number of valuations of real estate, machines and equipment $\geq 501$ valuations The number of valuations conducted by integral property complex $\geq 51$ valuations	The number of valuations of real estate, machines and equipment ( $101 \leq x \leq 500$ valuations) The number of valuations conducted by integral property complex is ( $26 \leq x \leq 50$ valuations)	The number of valuations of real estate, machines and equipment $\leq 100$ valuations The number of valuations conducted by integral property complex $\leq 25$ valuations)
No violations in the work of the appraiser	No negative reviews of the independent appraiser's report	Presence of negative reviews of appraisers-reviews, who are subordinated to the State Property Fund of Ukraine	Examination commission of the State Property Fund of Ukraine made a decision to deprive the appraiser, and then he reinstated it
Availability of an assessment of the object of valuation	The "live" review was conducted and in the appraiser's report is indicated the date of the direct review	The inspection was carried out through communication with the owner and the date of the direct inspection was indicated in the appraiser's report	There is no review date in the appraiser's report
Compliance of the appraiser's objectives to the auditor's objectives in disclosing information about accounting estimates in the financial statements	The appraiser's report substantiates the factors, that influenced the determination of the fair value of assets and liabilities based on market and (or) non-marked types of value and discloses methods for determining the discount rate under the income approach	The appraiser's report substantiates the factors on the basis of which the fair value of assets and liabilities is determined, but the auditor has doubts about the correctness of the selection of analogues and compliance of the calculated discount rate with market conditions, which requires additional recalculation of these components by the auditor	The appraiser's report does not substantiate the factors, that influenced on the fair value of assets and liabilities based on market and (or) non-market values

Source: author's own development

The gradation of the risk of significant distortions by the criterion of "appraiser's professionalism" is identified by us as follows: low risk is inherent in the appraiser, who performed more than 500 appraisals of real estate and machinery and equipment and more than 50 appraisals of the whole property complex in two years specified experience, (having indicated

experience, he has the right to review property valuation reports and property rights). High risk is identified when an appraiser is hired, who has performed less than 100 real estate valuations and 25 valuations of integral property complexes. We see the absence of violations in the work of the appraiser in the absence of negative reviews of the report of the

independent appraiser. The presence of an valuation of the object of valuation minimizes the risk of poor valuation and we see it from the mark in the appraiser's report, that he inspected the object of evaluation »live», and the high risk is- the lack of a date of direct inspection in the appraiser's report.

Formation of requirements under which the auditor can identify the determined fair value of assets and liabilities of the enterprise as one that meets market conditions

As far as the results of the work of the independent appraiser must comply to the Conceptual basis of financial reporting and the requirements of Ukrainian Accounting Standards in the case of valuation of assets and liabilities taking into account the principle of business continuity, it will be appropriate to provide to the requirements of IFRS 13 "Fair Value Measurement" in order for the auditor to verify the compliance of the transaction price with the fair value at the initial recognition of the object of evaluation. According to the guidelines of this standard [7], the transaction price should correspond to the fair (market) value of the object of evaluation. This is confirmed by the data, contained in the primary documents and price lists or information in periodicals or specialized websites at the date of valuation. The standard states, that there are cases in which the transaction price may not correspond to the fair (market) value of assets or liabilities. Thus, in accordance with paragraph B4 of IFRS 13 [7], there are conditions, when the transaction price differs from the fair value of the asset or liability. In particular, if it will be established, that one of the parties of the transaction was not coerced during the purchase and sale of the object of evaluation (valuation at market value implies the absence of coercion and awareness of the terms of transactions). It must be found out, if the parties to the agreement are related parties. It must be verified, that the units of measurement of an asset or liability in a transaction differ in determining the fair value. As an example, there is the situation, when during the companies merging, an asset or liability measured at fair value is only one element of the agreement. The agreement may include some undeclared rights and privileges that are measured separately in accordance with individual IAS, and not only in accordance with IFRS 13 [7]. In this regard, the fair value of an individual item may differ from its fair value as part of the cash-generating unit (for example, when a machine or appliance is separately valued and when it is measured as part of a single process line as part of an integral property complex, and when it is defined, that the specified technological line is produced by the individual order and analogues of such line are not present in the market of similar property).

IFRS 13 states, that if the transaction price differs from the fair value, it is necessary to recognize income or expense in profit or loss for the reporting period as the difference between these values. The

result of such an estimate is reflected in the income statement and not in other comprehensive income [7].

Establish criteria in order to help the auditor to reduce the risk of uncertainty in verifying the correctness of the fair value of the accounting items calculated by the independent appraiser

Changes in the fair value of assets and liabilities at the reporting date may be due to various factors and the auditor's task is to determine whether or not the calculations used to disclose the accounting estimates of assets and liabilities in the financial statements are correct. To do this, it can use many audit procedures, such as recalculation, conformity of assessment data used in the assessment, market performance of the enterprise and others. These procedures allow the auditor to reduce the risk of not detecting errors in accounting estimates when making his or her own objective judgment about the quality of the accounting estimates performed. We have proposed the following criteria for identifying of this type of audit risk (Table 3).

In our opinion, that reviewing the appraiser's performance of the independent asset and liability appraisal report will allow the auditor at the initial stage of identifying the risk of non-disclosure to ensure that the value of the valuation was chosen correctly in accordance with the objectives of the appraisal. an independent evaluator in relation to the evaluation. To do this, the evaluator evaluates the principle of the most efficient use of the object of evaluation in accordance with the three limitations in the calculations. Namely, an object can be valued according to its most efficient use, if such use is physically possible, legally prohibited and economically feasible. The answer to these questions will give the auditor confidence, that there are no or no signs of fraud and manipulation of the results of the assessment. Testing of the results of the appraiser's work on the suitability of valuation methods for valuation purposes will establish the validity of using one of the valuation approaches (cost, comparative or revenue) or a combination of these approaches and their methods when determining the selected value of the valuation object.

At present, when the economic situation in Ukraine is unstable, independent appraisers are increasingly trying to use a comparative approach to the valuation of the appraised property in accordance with the conditions of its use and physical condition. The auditor can verify the economic justification of the amount of adjustments by comparing the result of the valuation of assets with the value of a similar valuation object, which is used in more or less identical conditions. This information is contained partially in specialized periodicals and relevant Internet resources.

Note, that in this case it is advisable to take into account, that periodicals on the valuation date contain the price at which the seller wants to sell a similar object of evaluation and, accordingly, not the fact that for such money he actually receives from the buyer.



Table 3. Criteria for identifying the risk of non-detection when auditing the accounting estimates of assets and liabilities of enterprises

Factors	Low risk	Average risk	High risk
According to the auditor's point of view, absence of violation of appraiser methodology of valuation activity and compliance to conceptual basis of financial reporting according to the following criteria: 1. Taking into account the principle of the most efficient use in determining the value of the property	+	+	-
2. Compliance of evaluation methods to the purpose of evaluation	+	+	-
3. Correctness of selection of analogous objects	+	-	+
4. Corresponding of the chosen discount rate to external conditions of functioning of the enterprise	+	-	-

*Source: author's own development*

Therefore, taking into account our practical experience, we note, that the difference between the expected value contained in periodicals and the actual price paid can be up to 10%. However, if an item for which information is not available in an active market is valued, independent appraisers usually use a revenue approach. In order to reduce uncertainty about forecast data, they use the direct capitalization method. This method involves determining the fair value of the object of measurement by dividing the cash flow (namely, net operating income) by the discount rate. Cash flow is usually calculated based on the year in which the asset is valued. Thus, the valuator reduces the uncertainty in estimating cash flows without using forecast data, which in the presence of macroeconomic instability, may be erroneous. However, without the use of forecast information, it is not possible to determine such non-market value of property as investment, so the auditor in this case, it is advisable to apply the guidance of ISA 540 as for the requirements for forecast information.

The establishment of the correctness of the selection of similar objects in the process of valuing the assets of enterprises is checked by the auditor as follows: there should be at least five similar analogues and they should be in approximately the same physical condition as the object of evaluation.

The most difficult part of identifying the risk of uncertainty is to establish the compliance of the selected discount rate with the external conditions of the enterprise. In fact, the auditor must answer the question of whether the market discount rate, which determines the present value of the object of evaluation or not. It is logical in this case, that the chosen discount rate should be not less than the inflation rate set by the National Bank of Ukraine in the year in which the valuation takes place. We believe, that this is the most generalized criterion that indicates the correctness of the choice of discount rate. The answer to the question of whether the discount rate takes into account the types of risks, that

are already taken into account when determining the cash flows that will be generated by the object of valuation during the period for which the valuation takes place (per year, five years or more).

In order to establish the discount rate chosen by an independent appraiser or accountant for the market conditions of the enterprise during the audit of accounting estimates, the auditor may be guided by the following recommendations:

- it is not recommended to take the discount rate of the National Bank of Ukraine, even 120% or double. The reason for this is simple: the opportunity to raise loans at this% is available only to banks for refinancing from the National Bank of Ukraine [15];
- the best options for discount rates: market interest rate, which is used in transactions with similar assets; interest rate on possible loans that can be obtained by a particular company – if it is impossible to choose a market [15].

If the valuation of assets that are significant in the currency of the balance sheet in Ukraine – is the prerogative of an independent appraiser, the measurement of long-term and current liabilities is often done directly by accountants in order to reduce the cost of attracting an independent appraiser. In this case, it will be easier for the auditor to obtain audit evidence that establishes the correctness of the accounting estimates made. Regarding the choice of discount rate, it should be noted, that long-term interest loans are subject to discounting only if the interest rate on the loan under the agreement is lower than the market interest rate. In this case, the discount rate will be defined as the difference between the market interest rate and the loan rate under a particular agreement. If the interest rate on the loan under the agreement is greater than or approximately equal to the market interest rate, it is not necessary to discount such interest loans.

The main thing for the accountant is to justify, that the chosen discount rate is market. Therefore, it is appropriate to include in the accounting policy the

relevant items on the criteria according to which discount rates are selected to determine the present value of various types of long-term liabilities. The benchmark may be the choice of rates according to the website of the National Bank of Ukraine in part of similar maturities of financial and credit instruments. It will also be correct to model the discount rate using a cumulative approach. This approach foresees defining the discount rate as the sum of the risk-free rate and the risk premium. For a risk-free rate, it is advisable to take a rate on domestic government bonds of Ukraine with more or less identical maturity. As a risk premium, it is advisable to resort to analytical indicators that reflect the financial condition of the enterprise, namely: the dynamics of quarterly ratios between periods of collection of receivables and payables, maneuverability of equity or security of the company's own working capital. It will also be expedient to substantiate the materiality of the deviation of the interest rate on long-term interest loans in accordance with the terms of the agreements and the market interest rate. This justification is reflected in the accounting certificate and is also prescribed in separate paragraphs in the Order on the accounting policy of the enterprise.

### Conclusions

Summarizing the results of the study showed, that the formation of criteria for the auditor's confidence in the results of the independent appraiser is to determine whether the goals of the independent appraiser meet the goals of the auditor, which he is guided by when auditing accounting estimates. Significant requirements should also be set for the appraiser's professional education and experience in valuing assets and liabilities. In this regard, we have developed tools to identify the risk of significant distortion of the results of the assessment of accounting objects. In order to reduce the risk of non-disclosure, we consider it is appropriate to

recommend, that auditors compare the results of assessments performed by both an independent appraiser and an accountant with the market value of similar facilities used under more or less identical management conditions. Thus, for comparison, it is advisable to use information on the market value of steadings or investment property that has a similar geographical location to the object of valuation. This will reduce the risk of deviation of the results of the valuation being audited from the market value of similar objects.

All of our proposed criteria for identifying the audit risk of non-disclosure of audit estimates are helpful to the above recommendation: To use the auditor more, if possible, a comparative approach in verifying the results of the valuation performed by an independent appraiser. Regarding the verification of the results of valuation of accounting objects, information about which is available on the active market, and those, that can be measured only with the use of confidential information, then under conditions of continuity, such accounting valuation must meet the requirements of the Conceptual Framework for Financial Reporting and those IFRS and Ukrainian Accounting Standards, which regulate the accounting of a particular object, which is on the balance sheet of the enterprise. If there is evidence of a breach of continuity, the auditor should follow the guidance contained in the National and International Valuation Standards, as they are designed to take into account the objectives of managing the assets and liabilities of the entity that differ from its sustainability objectives. Prospects for further research in the use of the auditor's results of the independent appraiser are seen in the development of statistical models of audit risks of significant distortions and uncertainties using expert criteria for the quality of appraisal results contained in reports on independent appraisal of property and property rights.

### Abstract

The involvement of the auditor by experts to help him form his own unbiased opinion on the quality of the presentation in the financial statements of information about the accounting estimates of assets and liabilities of enterprises is becoming increasingly common at this time. Although the general requirements for the auditor for the independent appraiser or forensic expert are contained in ISA 620 «Using the work of an auditor's expert», the auditor's criteria for qualifying independent appraisers and valuation quality remain unresolved. The information they use in order to determine the fair value of the assets and liabilities of entities and to establish that the independent valuer's objectives are consistent with the auditor's objectives. Therefore, the relevance of our study is beyond doubt.

The purpose of the article is to develop a toolkit, that allows to form the criteria of the auditor's trust in the independent appraiser, taking into account the differences in the methodology of valuation as a method of accounting and valuation as a procedure for determining the value of property and property rights.

Research methods – general scientific.

When the auditor uses the results of the work of the independent appraiser, the auditor's objective is to obtain audit evidence that: the measurement values, including fair value measurements, recognized or disclosed in the financial statements are reasonable; the relevant disclosures in the financial statements comply with the provisions of the Conceptual Framework for Financial Reporting.

The purpose of the independent appraiser is to determine the type of property value and property rights or the value of the whole property complex depending on the objectives of the appraisal and in accordance with the appraisal methodology.

Analysis of data on deficiencies in the work of appraisers identified during the audit of banks' financial statements for 2018 shows, that independent appraisers mostly used data, that was extremely difficult for the auditor to verify because there were no market indicators to assess the value of individual properties. They also violated the methodology of the procedure of valuation of property and property rights in terms of the correctness of the selection of similar objects under the conditions of valuation of assets by a comparative approach. There were no clear explanations for limiting the use of the income approach in determining the value of valuation objects, etc. All of the above mentioned indicates the presence of a significant number of risks of material misstatement of the results of accounting estimates. In this regard, following the recommendations of ISA 620 "Using the work of an auditor's expert", ISA 540 (revised) «Auditing accounting estimates and related disclosures», and ISA 500 "Audit Evidence", and taking into account information on deficiencies identified in the evaluation reports, provided by independent appraisers, we have developed methodological tools, that allow us to identify the audit risk of material misstatement in the process of confidence formation in the results of the work of the independent appraiser on five criteria. Namely: the presence of professional education in the field of «evaluation activities»; professionalism of the appraiser; no violations in the work of the valuator; availability of an inspection of the object of valuation; compliance of the auditor's objectives with the auditor's objectives in disclosing information about accounting estimates in the reporting. The gradation of the risk of significant distortions by the criterion of "appraiser's professionalism" is identified by us as follows: low risk is inherent in the appraiser, who performed more than 500 appraisals of real estate and machinery and equipment and more than 50 appraisals of the whole property complex in two years specified experience,( having indicated experience, he has the right to review property valuation reports and property rights). High risk is identified when an appraiser is hired, who has performed less than 100 real estate valuations and 25 valuations of integral property complexes. We see the absence of violations in the work of the appraiser in the absence of negative reviews of the report of the independent appraiser. The presence of an valuation of the object of valuation minimizes the risk of poor valuation and we see it from the mark in the appraiser's report, that he inspected the object of evaluation »live«, and the high risk is- the lack of a date of direct inspection in the appraiser's report.

Identification of the risk of non-disclosure in the audit of accounting estimates of assets and liabilities of enterprises involves the auditor to establish no violations of the valuation methodology of the appraiser and align the results of its valuation with the Conceptual basis of financial reporting on the following criteria: compliance of evaluation methods with the purpose of valuation; correct selection of analogous objects; compliance of the chosen discount rate with the external conditions of the enterprise.

In our opinion, that reviewing the appraiser's performance of the independent asset and liability appraisal report, will allow the auditor at the initial stage of identifying the risk of non-disclosure to ensure that the value of the valuation was chosen correctly in accordance with the objectives of the appraisal, and the independent appraiser in relation to the evaluation. To do this, the appraiser values the principle of the most efficient use of the object of evaluation in accordance with the three limitations in the calculations. Namely, the object can be valued according to its most efficient use, if such use is physically possible, legally prohibited and economically feasible. The answer to these questions will give the auditor confidence that there are no or no signs of fraud and manipulation of the results of the assessment. Testing the results of the appraiser's work on the suitability of valuation methods for valuation purposes will establish the validity of using one of the valuation approaches (cost, comparative or revenue) or a combination of these approaches and their methods when determining the selected value of the valuation object.

At present, when the economic situation in Ukraine is unstable, independent appraisers are increasingly trying to use a comparative approach to the valuation of the appraised property in accordance with the conditions of its use and physical condition. The auditor can verify the economic justification of the amount of adjustments by comparing the result of the valuation of assets with the value of a similar valuation object, which is used in more or less identical conditions. This information is contained in part in specialized periodicals and relevant Internet resources. Note, that in this case it is advisable to take into account, that periodicals on the valuation date contain the price at which the seller wants to sell a similar object of valuation and, accordingly, not the fact, that for such money he actually receives from the buyer. Therefore, taking into account our practical experience, we note, that the difference between the expected value contained in periodicals and the actual paid price can be up to 10%. However, if an item for which information is not available in an active market is valued, independent appraisers usually use a revenue approach. In order to reduce uncertainty about forecast data, they use the direct capitalization method. This method involves determining the fair value of the object of measurement by dividing the cash flow (namely, net operating income) by the discount rate. Cash flow is usually calculated based on the year in which the asset is valued. Thus, the appraiser reduces uncertainty in estimating cash flows without using forecast data, which in the presence of macroeconomic instability may be erroneous. However, without the use of forecast information it is impossible to determine such a non-market value of property as investment. Therefore, in this case, the auditor should apply the guidance in ISA 540 on the requirements for forecast information.

The establishment of the correctness of the selection of similar objects in the process of valuing the assets of enterprises is checked by the auditor as follows: there should be at least five analogues objects, and they should be in approximately the same physical condition as the object of valuation.

The most difficult part of identifying the risk of uncertainty is to establish the compliance of the selected discount rate with the external conditions of the enterprise. In fact, the auditor must answer the question of whether the discount rate is market, which determines the present value of the object of valuation or not. It is logical in this case that the chosen discount rate should be not less than the inflation rate set by the National Bank of Ukraine in the year in which the valuation takes place. We believe that this is the most generalized criterion that indicates the correctness of the choice of discount rate. The answer to the question of whether the discount rate takes into account the types of risks that are already taken into account in determining the cash flows that will be generated by the object of assessment during the period for which the valuation takes place (per year, five years or more).

In order to establish the discount rate chosen by the independent appraiser or accountant for the market conditions of the enterprise during the audit of accounting estimates, the auditor may be guided by the following recommendations:

- it is not recommended to take the discount rate of the National Bank of Ukraine, even 120% or double. The reason for this is simple: only refinancing banks from the National Bank of Ukraine have the opportunity to raise loans at this %;
- the best options for discount rates: market interest rate, which is used in transactions with analogous assets; interest rate on possible loans, that can be obtained by a particular company –if it is impossible to choose a market.

If the valuation of assets that are significant in the currency of the enterprise's balance sheet in Ukraine is the prerogative of the independent appraiser, the measurement of long-term and current liabilities is often done directly by accountants to reduce the cost of hiring an independent appraiser. Regarding the choice of discount rate, it should be noted, that long-term interest loans are subjected to discounting only if the interest rate on the loan under the agreement is lower, than the market interest rate. In this case, the discount rate will be defined as the difference between the market interest rate and the loan rate under a particular agreement. If the interest rate on the loan under the agreement is greater than or approximately equal to the market interest rate, it is not necessary to discount such interest loans.

The main thing for the accountant is to justify that the chosen discount rate is market. Therefore, it is appropriate to include in the accounting policy the relevant items on the criteria according to which discount rates are selected to determine the present value of various types of long-term liabilities. The benchmark may be the choice of rates according to the website of the National Bank of Ukraine in part of similar maturities of financial and credit instruments. It will also be correct to model the discount rate using a cumulative approach. This approach foresees defining the discount rate as the sum of the risk-free rate and the risk premium. For a risk-free rate, it is advisable to take a rate on domestic government bonds of Ukraine with more or less identical maturity. As a risk premium, it is advisable to resort to analytical indicators that reflect the financial condition of the enterprise, namely: the dynamics of quarterly ratios between periods of collection of receivables and payables, maneuverability of equity or security of the company's own working capital. It will also be expedient to substantiate the materiality of the deviation of the interest rate on long-term interest loans in accordance with the terms of the agreements and the market interest rate. This justification is reflected in the accounting certificate and is also prescribed in separate paragraphs in the Order on the accounting policy of the enterprise.

Summarizing the results of the study showed, that the formation of criteria for the auditor's confidence in the results of the independent appraiser is to determine whether the goals of the independent appraiser meet the goals of the auditor, which he is guided by when auditing accounting estimates. Significant requirements should also be set for the appraiser's professional education and experience in valuing of assets and liabilities. In this regard, we have developed tools to identify the risk of significant distortion of the results of the valuation of accounting objects. In order to reduce the risk of non-disclosure, we consider it appropriate to recommend to auditors to compare the results of assessments performed by both the independent appraiser and the accountant with the market value of similar facilities used under more or less identical management conditions. Thus, for comparison, it is advisable to use information on the market value of steadings or investment property, that has a similar geographical location to the object of valuation. This will reduce the risk of deviation of the results of the valuation being audited from the market value of analogous objects.

All of our proposed criteria for identifying the audit risk of non-disclosure of audit estimates are helpful to the above recommendation: to recommend to the auditor more, if possible, a comparative approach in verifying the results of the valuation performed by the independent appraiser. Regarding the verification of the results of valuation of accounting objects, information about which is available on the active market, and those that can be measured only with the use of confidential information, then under conditions of continuity, such accounting valuation must meet the requirements of the Conceptual Framework for Financial Reporting and those IFRS and Ukrainian Accounting Standards, which regulate the accounting of a particular object, which is on the balance sheet of the enterprise. If there is evidence of a breach of continuity, the auditor should follow the guidance contained in the National and International Valuation Standards, as they are designed to take into account the objectives of managing the assets and liabilities of the enterprise, that differ from its sustainable development objectives. Prospects for further research in the direction of the auditor's use of the results of the independent appraiser are seen in the development of statistical models of audit risks of significant distortions and

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