
Strategic Reporting Methodology and its Reliability Audit

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Abstract:

The paper reveals the significance of business entities' forecasting and strategic reporting. The reporting appears to be an essential source of information for highly efficient strategic management and profits receivable for internal users. Financial activity of Rostov and Krasnodar region's business entities of different incorporations and industries was taken as an object of current research.

Authors developed specific classification of forecasting reporting forms and key performance indicators' framework depending on aims and objectives Authors proved strong need in development of strategic reporting methodology. Reporting drawn up according to the methodology allows generating informational support of analysis and control of business entities core strategies' implementing, including internal and external factors & risks' to increase the capital and firm value.

The paper highlights strategy audit features as well, considered as related services according to the Federal Law on Auditing. Authors provide the term and stages of strategy audit. The research resulted in development of special strategic reporting software "Strategic, capital-value oriented reporting framework", special auditing software "Strategic business entities activity audit" coupled with detailed algorithm description.

Keywords: Forecasting reporting, strategic reporting, audit, key indicators, reporting forms, methodology, model

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1. Introduction

Current conditions of high dynamics at times of economic environment inconstancy and increased competition require strategic planning as basic principle of sustainable, stable, and long-term activity, introducing brand-new corporate management techniques tied indissolubly with improving accounting and analytical framework of business entities. Strategic planning framework allows shareholders and managers determining the areas and rates of development as well as giving the global market trends and finding out spots of increasing the competitiveness i.e. opportunities for prosperous development. Strategic planning process should include the following related functions:

1. Allocation of resources (material, financial, labor, informational etc.);
2. Varied market adaptation;
3. Coordination and regulation. The subject is internal production activities;
4. Organizational changes that performed not as respond to the situation (peculiar to situational management) but as a result of organizational strategic prediction and forecasting.

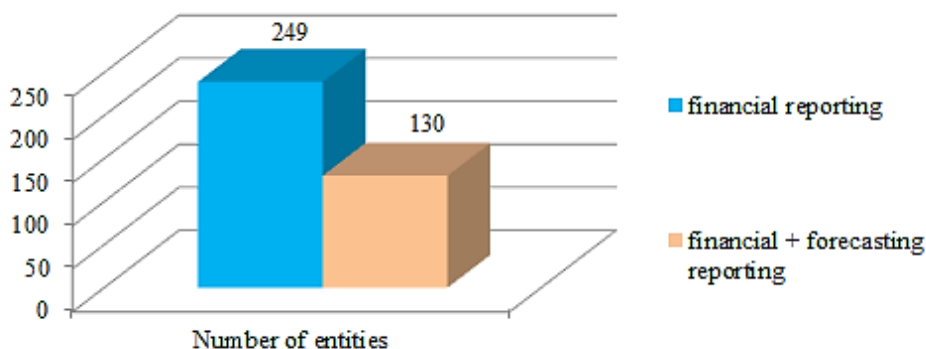
Strategic planning results in the business strategy implementing. It needs to be integral and long term-oriented, improving the forms of business, society, and government cooperation for prosperity reasons (Bulyga, 2014). We consider that it is essential to build the forecasting financial information framework for strategic and tactical decision-making optimization and strategies' results evaluation. We note that unlike the financial accounting that assumes collecting the data from past periods, forecasting financial data is aimed to the future.

Strategic reporting turns to be the specific form of forecasting financial reporting providing managers with strategic information for strategic decision-making for long-term prosperous activity. To increase the reliability of strategic reporting it needs to be audited. Strategic audit is considered as related services according to the Federal Law on Auditing no. 307-FZ of December 30th, 2008. We consider it a strict sense of strategic audit.

The aim of this article is to develop the methodology of generating strategic reporting for business entites as well as building an algorithym of conducting the strategic audit of the reporting that allows achieving goals in solving specified scientific problems.

2. Theoretical, Informational and Empirical, and Methodological Grounds of the Research

The topicality of current research is approved by results of polling of 249 Rostov-on-Don, Rostov & Krasnodar region's business entities of wide range of industries. (Figure 1).

Figure 1. Types of reporting drawn in business entities

The research revealed current trend of applying elements of budgeting, strategic accounting, and drawing up a set of reports' types along with financial accounting. As defined in Federal Rule (Standard) of Audit "Verifying forecasting financial information", forecasting financial information represents key data on future financial standing, results of business activity in common or aspects, entity's money flows, and prepared in a way based on assumption that certain events would take place along with proper measures taken by management.

Russian and foreign scientists like I.N. Bogataya, A.V. Bondarev, M.A. Vakhrushina, D.V. Kurseev, N.T. Labyntsev, T.N. Malkova, S.V. Romanova, O.E. Nikolaeva, S.A. Rasskazova-Nikolaeva, A.I. Samylin, V.P. Suyts, I.V. Sysoeva, N.V. Parushina, N.I. Ponamareva, V.I. Tkach, T.V. Fedorovich, A.D. Sheremet, N.N. Khakhonova, A. Helfert have significantly contributed in research of forecasting financial information.

It's necessary to pay attention to dissimilarity of "forecasting financial information" and "forecasting reporting" terms. Forecasting reporting is inherent to financial forecasting information and represented as a framework of financial and non-financial indicators on company's forecasted financial standing, its outputs, and set of internal and external factors of greatest impact. We consider forecasting financial reporting as a system of both predicted financial, property standing indicators and internal and external factors as well with maximum effect on it.

Moreover, forecasting financial reports include budgets that were drawn up through the budgeting and strategic reporting framework. Forecasting financial reporting is the endpoint with data on predicted financial standing of business entity. Methods and techniques of drawing up the forecasting financial reporting depend on features of this or other company and connected with industry features that affect business processes, activity scale, type of business, lifecycle phase, tax profile, and aims that management pursues (Suryanto, 2016; Hapsoro and Suryanto, 2017; Anikina *et al.*, 2016; Theriou, 2015).

Besides features above, drawing up the accounting and analytical framework of business entity includes informational needs both internal and external forecasting reporting users. The one of the forecasting reporting types in demand is strategic reporting. More than 70% approved the necessity of applying the strategic reporting. As referred to international agency Standard&Poor's and CEFIR (Centre for Economic and Financial Research), the general Russian business transparency index comes to 57,5% (Nesvetaylov, 2011). Such situation is mostly connected with poor quality of information disclosure in financial statements. Strategic data plays an essential role in disclosure of financial statements which refers to the strategic reporting data. Referring to the corporate management principles of OECD (Organization for Economic Cooperation and Development), it's vital to disclosure the information in all significant issues of corporation, including financial standing, performance, property, and management issues (OECD Principles of Corporate Governance, 2015).

The information is of strategic importance for a variety of external users of financial reporting. Now many of major corporations establish the strategic reporting department due to impossibility of reaching the strategic management goals in fast-paced environment and objectives are fulfilled only via traditional decision-making data sources based on financial accounting and technical and operational information. The pattern of strategic information disclosure in financial reporting is defined on the basis of brand new paradigm of corporate governance, assuming both evaluating the business in general and highlighting quality of management processes.

Khorin and Kerimov (2009) consider that strategic reporting should include the following: company value statement, business horizons statement, risk statement, corporate capital balance sheet, P&L statement. The value and confidence in the company could be increased via auditing. In view of that, strategic audit issues are spreading rapidly.

Among Russian and foreign scientists that dip into the problem of tools and techniques of strategic management and audit, we should note Ansoff I., Afanasyev E.V., Bogataya I.N., Bulyga R.P., Grundy T., Gudenitsa O.V., Gusev Yu.V., Donaldson G., Emelyanova I.N., Zhuravlev P.V., Goldstein G.J., Danilochkin N.G., Dikkel K., Johnson G., Kabashkin V.A., Kotler F., Lyubeznov L.N., Markov V.D., Myshov V.A., Odegov Yu.G., Piskunov A.A., Piskunova M.A., Mason R., Melnik M.V., Rouwe A., Scholes K., Strickland A., Thompson A., Hatten K., Khakhonova N.N., Schendell D., Schischova L.V. and others.

Despite the number of scholars in the problem, there is no certain term of strategic audit and its technique. On balance with other authors we concluded that the term could be considered from two points. The narrow point assumes strategic audit to be a related service, as enacted by Federal Law. Broadly, strategic audit is assumed as following: strategic audit is a related service: as an agreed-upon procedure (audit of strategic reporting and its indicators, strategy audit), financial information compila-

tion procedure (strategy development), other services connected with auditing (strategic consulting, strategic planning services, developing recommendations in eliminating strategic gaps), strategic reporting audit according to FRSA 8/2011 “Features of special-drawn reporting audit”. Thus, referring to the terms of strategic audit that became an inherent auditing service transforming from financial reporting to business activity audit (in broad terms).

These are only basic features of strategic audit and need to be complemented. Strategic audit gives floor to the high-quality development strategy providing accelerated adaptation to the environment as well as increasing possibilities of company’s economic growth.

3. Results

After giving the scale of research topicality, describing theoretical, methodological, and empiric aspects, authors concluded with the following. Business entities concentrate on single forecasts depending on aims and objectives. The research highlighted the fact that business entities draw up not all types of forecasts since there is no certain need. Table 1 reveals classification of forecasting reporting forms depending on objectives. Moreover, it includes a set of recommended advanced indicators. After determining the set of forecasting reporting forms, company faces the problem of drawing up variants of reporting.

Table 1. Classification of forecasting reporting forms depending on objectives and aims and its performance indicators

No	Classification criterion	Recommended set of forecasting reporting forms	Advanced forecasting reporting indicators
1.	Drawing up forecasting statements in the managerial accounting framework	Productions costs forecast	Fixed and variable cost level forecasting Costs inflation forecasting
		Gross revenue forecasting statement	Sales forecast; Price level index (PLI); Market share index (MSI); Sales change index (SCI); Market share.
		Gross margin forecasting statement	Predicted sales; Forecasting production cost; Forecasting sales margin; Market share
		Forecasting balance	Forecasting asset value; Forecasting liabilities value ; Forecasting equity value;
2.	Drawing up forecasting statements in the frames of	Working capital forecasting statement	Currency rates; Net assets growth.
		Capital investments&amortization costs	Return on fixed assets

	new business investments	forecasting statement	
		Financial flows forecasting statement	Turnover change index (TCI) ; Financial activity flows forecast; Investment activity flows forecast
3.	Drawing up forecasting statements to evaluate the business performance (managerial accounting is not kept)	Forecasting balance sheet	Index of bringing the product to the customer; Market share
		P&L forecasting statement	Index of bringing the product to the customer; Advertising index; Advertising performance index; Market share ; Sales change index; Return on investment.
4.	Drawing up forecasting statements for company value estimation	Value added forecasting statement	Value added Economic value added (EVA) Market value added (MVA) Stock capital value added (SVA) Management value added (MGVA) NPV (Net Present Value) – net value of product groups and new products
		Capital value forecasting statement	Capital value; Market attractiveness; Market share
		Derivative balance statements	Accreted capital value
5.	Drawing up forecasting statements in the frames of preferred strategy	Derivative strategic balance statements	Strategic standing; New products share (Company's innovation level
		Strategic forms of forecasting reporting (risk statement, business horizons statement)	Product guidance level

In the research authors defined three basic variants of drawing up the forecasting financial reporting:

1. Autonomous one suggests drawing up the forecasting financial reporting according to data of entity's budgets (financial, operational, capital budgets) in the framework of both managerial and strategic accounting established independently. Adjusting records in the process of drawing up the forecasting reporting are not processed.
2. Adjustment one suggests applying the variety of derivative statements that are drawn up using direct balance sheets including internal and external factors and objectives. The variant is applied in the frames of integrated accounting and analytical framework.
3. Combined one assumes drawing up derivative statements based on forecasting balance sheets and drawn up in autonomous managerial accounting framework depending on aims, objectives, and preferred strategy. The key feature is processing adjusting entries applying data of autonomous managerial accounting. Such an ap-

proach suggests processing adjusting entries peculiar to the adjusting variant from the one side, and allows operating of the autonomous managerial and strategic accounting framework where basic forms of forecasting reporting are drawn up, from the other side. Adjusting records herewith are considered as a process of recognizing external environment factors. (Evstafyeva, 2013; Thalassinos and Liapis, 2014; Kuznetsova *et al.*, 2017)

Forms of forecasting financial statements are developed by business entities in the context of their preferred reporting drawing up variant. Internal activity features have major impact on forecasting financial reporting, such as strategic, investment, fund raising, accounting, and dividend policy of the company. Moreover, drawing up the forecasting financial reporting needs applying both internal and external non-accounting informational sources. Both operative (tactical) and strategic reporting that was put into basis of conducting strategic control and decision-making framework. We note that strategic information could be disclosed in traditional accounting reports as note and could include both financial and non-financial information.

Authors developed the methodology of drawing up the strategic reporting that includes 7 stages as following:

1. Estimating key indicators based on accounting data;
2. Recording business activity facts depending on preferred strategy and with micro and macro-environment features and risks taken into account;
3. Drawing up a trial balance and strategic balance statement with further calculating of key indicators;
4. Utilizing zero accounting entries highlighting theoretic realization of assets and debts' extinguishment;
5. Drawing up a trial balance and strategic zero balance statement highlighting theoretic realization of assets and debts' extinguishment;
6. Drawing up master table that includes source balance data, strategic balance statement data, zero strategic balance data, and analysis of current indicators;
7. Drawing up other forecasting strategic reporting forms (risk statement, business prospects statement).

So, well drawn strategic reporting could be easily applied for number of reasons like operational activities control reference, a tool for balance structure affordability level forecasting etc. Moreover, drawing up strategic reporting as an initial element of forecasting financial reporting leads to generating the data on business activity, based on the company value management that allows both improving the financial standing of the company and increasing the company's recognition in the court of shareholders and potential investors. The drawn up strategy reporting should be subject to strategic audit including the following stages:

1. Pre-stage that includes acknowledgement with company's activity and strategic audit preplanning procedures.
2. Defining the subject and scope of strategic audit.

3. Choosing the audit method (full or selective).
4. Strategic audit planning that involves risks and materiality level estimation required for estimating labor expenditures; regulatory-picking, working documents designing, methods of collecting audit evidences development, audit plan & program development.
5. Conducting strategic audit via control or substantive procedures.
6. Closing of audit and presentation of its results. Presenting the audit report to the management. Developing procedures of improving the strategic audit process, financial, strategic accounting, and control framework.

The following sectors could be defined as subject of strategic audit: accounting policies audit, company's development strategy audit, strategic decisions audit, environmental factors audit, strategic gaps audit, property audit, cost audit, money flows audit, revenues audit. Each object corresponds with certain strategic accounting and audit sector, generating accounting and analytical support of certain objects: property, costs, money flows, and revenues. The array could be integrated into accounting and analytical support of strategic decision-making to be a basis of strategic audit of current sectors.

4. Conclusions and recommendations

For now, the level of computer technologies' development directly affects economic aspects of society's life and activities including accounting framework. In the context of accounting automation based on strategic reporting authors developed special software "Strategic reporting, capital value-oriented framework" (patent no. 201161379) that allows generating strategic reporting forms for business entities in the frames of accounting and analytical support for proper decision-making and preferred strategy realization control. The software provides drawing up set of strategic reporting forms that include 4 levels:

1. Value indexes statement drawn up on the basis of source balance sheet;
2. Trial balance drawn up on the basis of strategic accounting transactions, strategic balance statement, capital value statement;
3. Trial balance drawn up on the basis of zero strategic accounting transactions highlighting theoretic realization of assets and debts' extinguishment, zero strategic balance statement, capital value summary statement;
4. Drawing up other strategic forms of strategic reporting (risk statement, business prospects statement).

Applying of the software allows optimizing strategy reporting drawing process, providing prompt corrections, and managing accountant's working time.

For strategic audit process standardization authors recommend applying special software "Strategic business entities' activity audit" (patent no. 2011613179) (Alekseeva, 2015). The software allows conducting strategic audit in 3 blocks:

Block 1 – accounting data processing and key indicators calculating. Each reporting form in this block (balance sheet, R&L statement, money flows statement, statement of changes in equity) corresponds to special document, so that users could enter any data on reporting forms. General and special indicators are calculated through special forms and records.

Block 2 – testing data processing. N number of databases with special test-questions is created for conducting business entities' tests. Each test includes dynamically-adjusted resulting indicators like answer score, maximum score, score summary table.

Block 3 – obtaining final statement. All input data is integrated into the summary "Auditor's strategic audit statement".

Thus, special software tends to optimize and automate strategic audit process including marketing, financial strategy and others.

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