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ANALYSIS OF THE FINANCIAL STABILITY OF AUDIT COMPANIES: FROM REPORTING TO STRATEGIC DECISIONS

АНАЛІЗ ФІНАНСОВОЇ СТІЙКОСТІ АУДИТОРСЬКИХ КОМПАНІЙ: ВІД ЗВІТНОСТІ ДО СТРАТЕГІЧНИХ РІШЕНЬ

The article summarizes the theoretical aspects of analyzing the financial stability of an enterprise, in particular auditing companies, and emphasizes its significant role in achieving success and sustainable development in the business environment. Various approaches to defining the concept of "financial stability of an enterprise" are presented, and influencing factors are identified. The model of analysis of financial stability of an enterprise is considered as the interaction of the management entity to ensure the financial stability of the object through the use of methods, tools, and levers. The most common method of assessing the financial stability of an enterprise, such as ratio analysis, is considered (the essence, calculation methodology, normative values of financial indicators, and adjustments to such normative values for an audit company are presented). Strategic directions for increasing stability are substantiated, in particular through the optimization of the capital structure and improvement of current asset management. The results obtained can be used to make effective management decisions and strategic planning for the development of audit organizations. It has been proven that analysis methods may differ for enterprises of different sizes.

Keywords: *financial stability, analysis model, auditing company, financial stability ratios, liquidity, business activity, ensuring financial stability.*

У цій статті представлено комплексне дослідження фінансової стабільності аудиторських компаній, яке заповнює прогалину між аналізом фінансових звітів та формулюванням стратегічних рішень. Дослідження присвячене багатогранній природі фінансової стабільності в підприємствах, що надають професійні послуги, з особливим акцентом на аудиторських компаніях, шляхом аналізу відносних фінансових коефіцієнтів, таких як автономність, залежність та маневреність капіталу. Використовуючи як теоретичні, так і емпіричні підходи, дослідження оцінює ефективність цих показників у відображенні стійкості компаній в умовах волатильності ринку, змін у регуляторному середовищі та еволюції очікувань клієнтів. Аналіз фінансових звітів виявляє приховані структурні вразливості, зокрема ті, що пов'язані з залежністю від короткострокових зобов'язань, обмеженими резервами ліквідності та оперативною негнучкістю. У статті узагальнено теоретичні аспекти аналізу фінансової стабільності підприємства, зокрема аудиторських компаній, та підкреслено її важливу роль у досягненні успіху та сталому розвитку в бізнес-середовищі. Представлено різні підходи до визначення поняття «фінансова стабільність підприємства» та визначено фактори, що на неї впливають. Модель аналізу фінансової стабільності підприємства розглядається як взаємодія управлінського суб'єкта з метою забезпечення фінансової стабільності об'єкта за допомогою методів, інструментів та важелів. Розглядається найпоширеніший метод оцінки фінансової стабільності підприємства, такий як аналіз коефіцієнтів (представлено суть, методику розрахунку, нормативні значення фінансових показників та коригування таких нормативних значень для аудиторської компанії). Обґрунтовано стратегічні напрямки підвищення стабільності, зокрема, шляхом оптимізації структури капіталу та вдосконалення управління оборотними активами. Отримані результати можуть бути використані для прийняття ефективних управлінських рішень та стратегічного планування розвитку аудиторських організацій. Доведено, що методи аналізу можуть відрізнятися для підприємств різного розміру.

Ключові слова: *фінансова стійкість, модель аналізу, аудиторська компанія, коефіцієнти фінансової стійкості, ліквідність, ділова активність, забезпечення фінансової стійкості.*

Problem statement. Modern economic conditions require entrepreneurs to be able to respond quickly to changes in both the external and internal environments that directly affect the profitability of entrepreneurial activity and are caused by a number of factors. Among them, it is necessary to highlight those that are least dependent on entrepreneurial activity, in particular, socio-economic and political stability in the country, tax, credit, and investment policies of the state, the level of real increase of the population, demographic trends, etc. After February 24, 2022, a significant factor influencing the Ukrainian economy was the military aggression of the Russian Federation, which carries the risk of complete or partial loss of assets, markets, and demand, directly affecting the financial condition of both individual enterprises and the Ukrainian economy as a whole, and for the audit company, it also carries the risk of losing existing and potential clients. Internal factors include the volume and structure of the company's assets and, importantly, the cost and structure of their financing sources, as well as the quality of asset and capital management. The impact of these factors can be assessed on the basis of a comprehensive assessment of the financial condition, professional interpretation of its results, and timely implementation of appropriate measures to strengthen it, which will ultimately contribute to improving business efficiency and expanding business development opportunities. At the same time, the issue of the right choice of tools and approaches to financial analysis of the audit company itself remains relevant.

Analysis of recent research and publications. Numerous scholars have worked on defining the concept of "financial stability." Korobov M.Y. noted that "financial stability is the stable financial condition of an enterprise." [1]. Hrabovetskyi B.E. defined financial stability as reliably guaranteed solvency, balance between own and borrowed funds, independence from market conditions and partners, trust of creditors and investors and the level of dependence on them, and the availability of sufficient profit to ensure self-financing. [2]. According to Marcin V.S., financial stability is the ability of an enterprise to develop steadily while maintaining its financial security in a risky internal and external environment with the aim of maximizing financial results and ensuring expanded reproduction. [3]. Financial stability is much broader than an enterprise's ability to generate and allocate its capital. It also includes the ability to accumulate (and thus be attractive to investors) financial and other resources, establish good relationships with business partners, including investors, rationally allocate and effectively use capital, and the ability to increase it. [4]. The main task of financial stability analysis is to determine the ability of an enterprise to withstand the negative impact of various factors (external, internal, and unpredictable) that affect its financial condition.

The purpose of the article is to analyze the financial stability of auditing companies based on financial reporting indicators in order to identify problem areas and develop strategic approaches to improving their performance.

Presentation of the main research material. Financial stability is defined as the balance between own and borrowed funds, which allows the company to fulfill its financial obligations in a timely manner. [5]. When using financial stability indicators to determine the effectiveness of an enterprise's financial activities, it is necessary to familiarize yourself with the methods used to assess it. Analysis of scientific literature has shown that there are various methods for assessing the financial stability of enterprises. [6]. When assessing the financial stability of an audit company, the first thing to consider is the specific nature of its activities and financial reporting, since financial reporting is the main source for conducting research using the ratio method. The main specific features of an audit company include its field of activity, namely the professional services sector. Companies operating in this sector are typically dependent on human capital, reputation in the services market, stability of orders, customer trust, and specific content of financial statements. It is unusual for audit companies to have a large share of tangible resources. Assets are usually dominated by accounts receivable, cash, and intangible assets such as licenses and software, and less often goodwill. A significant portion of an audit firm's expenses are fixed, so even in difficult periods when the number of orders and, accordingly, revenues may decline, expenses will remain high. The main expenses of an audit firm include staff salaries and training and professional development costs, etc.. Another specific feature of audit companies is that they operate in a strictly regulated environment. Any changes in legislation, increased reporting requirements, or licensing requirements can create difficulties in providing audit services. The activities of such companies also depend heavily on their reputation in the market and among competitors. Based on the example of the Big 4 companies, we can conclude that the structure and organization of such companies are almost identical, as they are regulated by the same laws, use the same technical equipment, and have similar internal processes and pricing policies. The only thing that distinguishes them from each other is the quality of their services and their relationship with clients. These two decisive criteria depend to a large extent on the people who work in the company – their qualifications, ability to adapt to the requirements of legislation, clients, and modern working conditions in Ukraine. Therefore, we would like to emphasize the importance of such a quality indicator as human capital. To sum up, we would like to highlight the main quality indicators that affect the financial stability of an audit company (Fig. 1).

Despite the significant impact of qualitative indicators on the analysis of an enterprise's financial stability, quantitative indicators remain decisive (Fig. 2).

1. Small share of tangible assets, dependence on customer solvency

2. Stability of the customer base

3. Existence of long-term contracts

4. Reputational capital (absence of scandals, methodological errors in auditing, lawsuits)

5. Customer Relationship Management

6. Quality and consistency of human resources

Fig. 1. Qualitative indicators of impact on the financial stability of an audit company

Source: developed by the authors based on [7, 8]

1. Autonomy coefficient

2. Financial stability ratio

3. Financial dependency ratio

4. Financial leverage ratio

5. Equity maneuverability ratio

6. Working capital coverage ratio

7. Availability of own funds

8. Availability of own and long-term funds

9. Availability of common funds

Fig. 2. Quantitative (relative and absolute) indicators of impact on the financial stability of an audit company

Source: prepared by the authors based on [7, 8]

The information needed to calculate quantitative indicators of the impact on the company's financial stability can be found in the financial statements: Statement of Financial Position, Statement of Financial Results, Statement of Cash Flows, Statement of Equity, and Notes to the Annual Financial Statements. Therefore, the reliability and accuracy of financial statements is an important factor in analyzing financial condition..

The autonomy ratio shows how independent a company is from creditors. For an audit company, which often works on a prepayment basis, the normative value is 0.6–0.8. Achieving such values is a sign of stability, as it indicates that the company's activities are financed from its own resources.

The financial stability ratio shows the share of stable sources of financing in the overall asset structure. Since auditing companies usually do not have long-term liabilities, their main support is equity capital. The optimal value of this indicator is >0.6.

The lower the financial dependence ratio, the smaller the share of assets financed by external liabilities. For an audit company, a value of <0.5 is recommended, ideally <0.3, as this reduces solvency risks.

If an audit firm has a low debt level (financial leverage ratio < 0.5), this is positive, as it shows low dependence on external creditors, which is important for the trust of clients and partners.

The equity maneuverability ratio determines the flexibility in the use of equity. It is important for an audit firm to have cash or liquid resources for quick response (e.g., paying taxes, paying salaries in the off-season). The recommended value is 0.6–0.9.

There are few non-current assets (office equipment, furniture) in the service sector, so the working capital ratio may be high. It shows whether the company has sufficient funds to finance its current activities (salaries, rent, etc.). The normative value of this ratio for an audit company is usually high (>0.5).

Tables 1 and 2 above show the calculation algorithm for each indicator and compare the general regulatory values with the regulatory values adjusted for the audit firm.

Improving the financial stability of an audit firm requires a strategic approach, as such a firm operates in the professional services sector, where its key assets are its staff, reputation, and trust. Therefore, strategic directions must take into account both the financial component and operational efficiency, market position, and adaptability to change. The key strategic directions for improving the financial stability of an audit firm are:

Optimization of capital structure;

- Improvement of cost management system;
- Diversification of income sources;
- Investment in human capital;
- Digitization and automation of processes;
- Increasing customer trust and reputation;

Table 1

Relative indicators of financial stability

Indicator	Calculation algorithm	Standard value	Adjusted standard value for audit companies
Autonomy coefficient	Equity / Total assets	>0.5	0.6 – 0.8
Financial stability ratio	(Equity + Long-term liabilities) / Total assets	0.85 – 0.9	>0.6
Financial dependency ratio	Loan capital / Total assets	<0.5	<0.3
Financial leverage ratio	Loan capital / Equity capital	<0.25	<0.5
Equity maneuverability ratio	(Equity – Non-current assets) / Equity	0.4 – 0.6	0.6 – 0.9
Working capital coverage ratio	(Equity – Non-current assets) / Current assets	>0.1	>0.5
Availability of own funds	Equity - Non-current assets	>=0	>=0
Availability of own and long-term funds	Available funds + Long-term liabilities	>=0	>=0
Availability of common funds	Availability of own and long-term funds + Short-term bank loans	>=0	>=0

Source: developed by the authors based on [7, 8]

- Risk management and adaptability.

The financial stability of an enterprise can be restored by:

- reasonably reducing the amount of inventories and expenses;
- accelerating the turnover of capital in current assets, resulting in a relative reduction per unit of revenue;
- replenishing own working capital from internal and external sources [9].

The financial stability of an audit company is not just about balances and ratios. It is a set of strategic decisions that allow the company to remain competitive, adapt to changes, and ensure sustainable growth.

Conclusions. Unfortunately, some companies still ignore the assessment of financial condition based on calculated indicators. Instead, they make decisions intuitively, based on previous experience, without reasonable conclusions about the financial condition and its impact on the company's financial results. Another problem with assessing the financial condition of an enterprise is that the above ratios are not universal. They should be considered only as indicative indicators that can highlight the most painful areas in the enterprise's activities that require detailed analysis.

It is important to understand that the financial stability of an audit company is a complex concept that is influenced by various factors and processes. The higher the stability of an enterprise, the more independent it is from market fluctuations, the more opportunities it has to ensure the development of all areas of activity, the more solvent and creditworthy it is, and therefore the more competitive it is.

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