**Recibido:** Enero 14 de 2021 | **Aceptado:** Junio 2 de **2021**

# Financial auditing and its impact on corporate profitability

## La auditoría financiera y su proyección en la rentabilidad de las empresas

***DOI: https://doi.org/10.21803/adgnosis.10.10.475***



**Monica Citarella Espinoza**
Instructor Servicio Nacional de Aprendizaje -SENA. E-mail: mcitarella@misena.edu.co. ORCID: https://orcid.org/0000-0003-0221-2587. **Eduardo Insignares Blanco**
Professor of Public Accounting, Corporación universitaria Americana. E-mail: einsignares@coruniamericana.edu.co. ORCID: https://orcid.org/0000-0003-1681-2997.

***How to cite this article:***

Citarella, M. & Insignares, E. Financial auditing and its projection in the profitability of companies. *Revista ADGNOSIS, 10*(10). p. 141-149. https://doi.org/10.21803/adgnosis.10.10.475

**Abstract**

Currently, companies plan their activities in which financial auditing is manifested as an instance for companies to maintain a status through regulation, which is evidence that good management is handled in organization. However, many companies present profitability projection problems, since they do not apply an effective financial audit for the optimization of resources and services in terms of obligations, sales income, costs, expenses, operating activities, etc. This causes the companies not to project their profitability in the products, thus decreasing their production. The methodology applied to develop the research is descriptive with qualitative analysis, through which bibliographic reviews were taken as the main instrument. The results obtained indicate that the audit plans and programs have an impact on the projection of the profitability of the financial statements. It should be noted that effective financial auditing makes companies to project themselves at the national and international level and the profitability of these companies is designated by means of management, demonstrating the reliability and stability of the stability of the project that the company undertakes. It is important that companies should have internal auditing units carrying out evaluations in order to timely detect inconsistencies or weaknesses in the Systems.

***Keywords:*** *Financial Audit; Profitability; Projection; Company.*

**Resumen**

Actualmente las empresas planifican s us a ctividades en donde se manifiestan l a a uditoría fi nanciera co mo una instancia para que las empresas mantengan un estatus mediante la reglamentación, lo que evidencia que se maneje una buena gestión en organización. Sin embargo, muchas empresas presentan problemas de proyección de rentabilidad, puesto que no aplican una auditoría financiera e ficaz pa ra la op timización de lo s recursos y servicios en cuanto a obligaciones, ingreso de ventas, costos, gastos, actividades de operación, etc. Esto hace que las empresas no proyecten su rentabilidad en los productos disminuyendo así su producción. La metodología aplicada para desarrollar la investigación es de tipo descriptiva con análisis cualitativos, mediante la cual se tomó como instrumento principal las revisiones bibliográficas. **L**os resultados obtenidos indican que los planes y programas de auditoría repercuten en la proyección de la rentabilidad de los estados financieros. Cabe destacar que la auditoría financiera eficaz hace que las empresas se proyecten a nivel nacional e internacional y la rentabilidad de las mismas se designe mediante la gestión empresarial demostrando la fiabilidad y estabilidad del proyecto que la empresa emprenda. Es importante que las empresas deben contar con unidades de auditoría interna, efectuando evaluaciones con el fin de detectar oportunamente las inconsistencias o debilidades en los sistemas.

***Palabras Clave:*** *Auditoría Financiera; Rentabilidad; Proyección; Empresa.*

## Introduction

Nowadays, companies have found it necessary to plan their future activities in order to make decisions and generate short, medium and long term strategies. It should be noted that the financial audit investigates the financial statements, carried out by the accounting entities, which issue the technical and professional opinion according to the results obtained.

In the same vein, the financial audit practices the information of companies, organizations and institutions when they request it, whose information is based on the Financial Information Regulations and the Financial Information Preparation Manual (1999). All of the above means that the companies manage good management to optimize resources and thus generate tools that are efficient and effective when required by the financial audit.

The existing deficiencies in terms of optimizing the management of organizations, comply with productivity standards, the relationship between profit / cost, objectives and vision, which allows companies to maintain a long-term projection through the profitability of services. For Estupiñan (2004):

Among the options to be highlighted in a financial audit, cash flows should be applied, customer advances should be sought, supplier financing should be sought, accounts receivable should be reduced, the size of purchases and inventories should be controlled, credit renegotiation should be sought, fixed costs should be minimized, variable costs should be estimated and controlled, growth should be slow, and commitments should be fulfilled (p. 10).

The above mentioned by the author requires to point out that there are different options for companies to project their profitability through financial audits, complying with the obligations set forth in the different regulations present in Colombia.

The limitations in the organizations can lead to a series of limitations, among which are the shortcomings in terms of carrying out an organizational plan, the vision of the company, as well as the short, medium and long term objectives, deficiencies in terms of the strategies applied and the lack of values in the company. All these aspects contribute to generate a series of problems, since the reviews and evaluations of resources and activities are not implemented.

According to Villegas and Varela (2001), profitability projection problems arise when information on assets, rights, debts, obligations, sales revenue, costs, expenses, operating activities, investment and financing is not available in the control system that companies have.

For Comptroller General of the State (2017), Financial Audit refers to:

"Consists of the examination of records, vouchers, documents, and other evidence that

The audit is performed by the auditor to express an opinion on the fair presentation of the results of operations, the financial position, changes in the financial position and changes in equity, to determine compliance with legal provisions and to formulate comments, conclusions and recommendations for improving financial management and internal control procedures".

According to Córdoba (2012), this means the following: "To analyze the decisions and actions that have to do with the financial means necessary for the tasks of any given organization, including their achievement, use and control in monetary operations" (p. 3).

In the same vein, it is necessary that the financial audit is developed through a systemic process where recommendations are formulated according to the financial, economic and equity information of the organization. Also, factors such as planning, organization, management, coordination and business control are basic instruments for optimizing the management of the organization.

Financial auditing can effectively contribute to good business management through the evaluation of financial statements and accounting policies of companies; hence the importance of knowledge, understanding and correct application of the results of financial audits, because they contain conclusions, i.e. determinations of the way in which assets and rights, debts and obligations, sales and income, and business costs and expenses are being carried out (Arens et al., 2007).

All of the above allows us to establish the purpose of the research in which we seek to analyze the projection of the profitability of the companies through the financial audit.

## Methodology

In order to carry out this research, a descriptive type of research was developed under a qualitative approach since a description of the subject is made within the applied field, based on analysis and review of indexed articles. The technique to collect the information was carried out through bibliographic reviews.

## Background

The financial audit has its origins in the Middle Ages, an example of this lies in the money lenders who acquired significant importance in trade, they had to hire a trusted person to keep all the records of the loans. This is what happens nowadays, external people are hired to review in detail the records properly and correctly. It was not until 1968 that a quality auditing standard called ASOC -1 was introduced.

Internal Auditors drafted and published new rules for conducting operational audits that are still being studied to this day (Campos, 2012).

In the same vein, in 1981, the U.S. General Accounting Office published for the first time the standards for government audits, a document that was called the Yellow Book because of its design and color. In the mid 80's, the interest in quality audits arose, creating the ISO 9001 Standard, which was the first standard in quality management and has been taken as a requirement for product certification for the export of the same. Nowadays, in the 21st century, the world is in constant changes and updates where companies have to adapt to new technologies and information. For these reasons, ISO quality standards are constantly updated for the certification of products and services (Campos, 2012).

**Financial Audit**

According to Rivas (2015), financial audit is defined as:

> ...the systematic and objective accumulation and examination of evidence, for the purpose of: To express an independent opinion as to whether the audited entity's financial statements present fairly, in all material respects, and in accordance with the Basic Standards of the Integrated Accounting System, its financial position, results of operations, cash flows, changes in shareholders' equity, budgetary execution of resources, budgetary execution of expenses, and changes in the investment-financing account (p.1).

In our opinion, financial auditing behaves as a process through which a final result is generated in the form of a report, where the auditor, from his knowledge in the subject, manages a point of view on the financial situation of the organization, institution or company, carried out through a process called audit evidence. With the financial audit companies exercise quality control of services for the development of the success of the organization. Thus, financial auditing is based on the importance of projecting the profitability of companies because a good development maintains a profitable position of the organization in the market.

**Theories on Financial Auditing**

According to Yarasca (2006):

> The term financial audit is generally used to refer to the examination of the financial statements of companies. Therefore, the main objective of a financial audit is to examine the financial statements as a whole in order to express an opinion as to whether or not they present fairly the financial position and results of operations, as well as cash flows, in conformity with generally accepted accounting principles.

The above, mentioned by the author, means that, by implementing auditing techniques, the results will be satisfactory, since the information that is available in terms of documents and accounting records are part of the foundations established in the financial statements of the organizations. It is necessary to take into account that the role of the auditor goes beyond the accounting records, that is to say, the auditor's knowledge is based on public accounting, and he/she must also have knowledge of auditing standards in terms of planning, field work and preparation of the report. All this focused on international auditing standards and the legal framework in the country where he/she practices his/her profession.

The purpose of every auditor is based on the evaluation of the internal control of the organizations, as well as verifying the accounts of the financial statements. All this as a basis for generating a report where he issues the corresponding opinions on what is happening in the organization. This report is based on an opinion that contains a letter of internal control with respect to what was observed, in addition to the respective recommendations of which the company will apply to carry out the necessary planning in order to correct the deficiencies found within the company.

**Projected Profitability**

Every business plan must contain a profitability projection in order to evaluate and forecast the resulting analysis in the economic and financial part of the company with respect to its operations. Financial projections may vary and generate different scenarios in which the risks that may impact the organization are identified and at the same time strategies are created to strengthen the negative effects (Suma de Todos magazine, n.d.).

This is why profitability projections have different uses, among them are:

- It is essential to assert the reliability and stability of the project, that is, to project the financial statements in companies, especially in SMEs, since this shows that the company complies with the necessary schemes to generate business opportunities, acquiring the necessary resources to generate new projects.

- Generate a partnership process to expand the company through new projects.

- Seeking loans from other state-owned companies or private entities.

**Business Management**

According to Domínguez, (2000) "Business management is an imperative need in the modern economy. No standard remedies, but rationalization projects at all levels of the organization, to increase the productivity and profits of our companies". The above exposed by the author allows to manifest the point of view on the part of the authors knowing that the enterprise management is based on the association of individuals or other people, forming work teams, to obtain the goals proposed in the company. Thus, the organizations count on specialized personnel, forming competent workers, responsive to the needs of the company.

(Rolón and Sánchez, 2018). Therefore, it is important business management is important within organizations as it brings new knowledge to staff to apply within the organization.

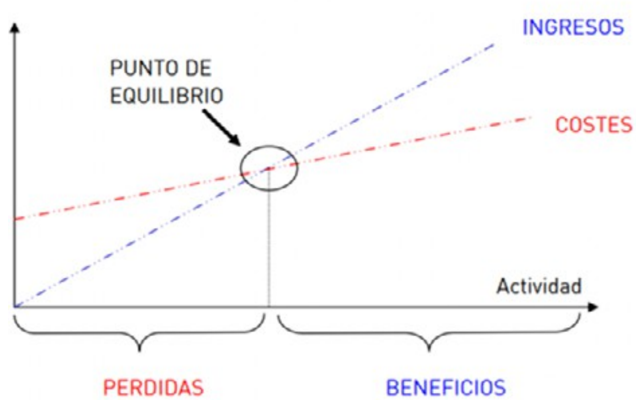
## Results and Discussion

The results of the research correspond to those established in the theoretical references, according to the bibliographic review, it can be seen that the audit plans and programs have an impact on the projection of the profitability of the financial statements. It should be noted that effective financial auditing makes companies project themselves nationally and internationally and their profitability is designated through business management, demonstrating the reliability and stability of the project that the company undertakes.

The financial audit helps to improve companies in the application and execution of the optimization of financial projections that allow to analyze, diagnose and establish recommendations to the companies, complying with the management and organization of the company.

In view of the above, the Suma de Todos Magazine (s/f ) establishes the profitability of companies, which must project their sales to a greater extent, but first they must analyze variable costs, as a fundamental principle to start up a company, the importance of variable costs generates the levels of activities within the organizations.

**Figure 1.**
Variable costs




Source: suma de todos magazine

The evaluation of profitability is carried out by means of the structure of fixed and variable costs, which vary with respect to the business, meaning that for some organizations it is a fixed cost, while for others it is a variable cost. Therefore, the financial audit should look at the cost classification process, as it may be presented differently.

In the same vein, companies can have a break-even point, with costs reaching zero, i.e., they themselves can cover their costs, whether fixed or variable. It should be noted that if the break-even point is below, the company will only have losses, while if it is above the break-even point, profits will be significant. All the above mentioned allows mentioning that the success of the companies is in the financial projection, although it is not easy, it is required to integrate the commercial and financial part, since the success of the investment depends on the dedication and the follow-up on the financial performance of the same.

The importance of financial auditing for the majority of companies is to support the quality of information in the public and private sectors. From this are derived the different types of reports such as management, financial and corporate, where the communication of the members of the companies must be fluent, clear and accurate to maintain good relations.

In view of the above, the projection of the profitability of the companies is evaluated through the financial audit, since the profitability of the product is what makes the business profitable, therefore, the companies must apply the profitability formula as follows:

Ecuación 1. Rentabilidad

$$R = \left(\frac{P - C}{P}\right) * 100$$

Formula de Rentabilidad.

R is the return we want to calculate and we will refer to it in percentage terms.
For example: 10%, 30% 50%.

P is the price at which you are selling the product to your customers.

C is the cost; that is, how much you buy the product you want to sell, or how much it costs you to produce a product if you are a manufacturer.

**Conclusions**

When we talk about business profitability, we are emphasizing the capabilities that companies have, to be able to generate profits in terms of sales, use of resources, in this way organizations must generate sufficient income to maintain themselves, taking into account that in any organization there are expenses which should not be an obstacle when it comes to generating them. That is why organizations must maintain a good profitability.

Thus, the implementation of a financial audit in organizations is necessary to ensure the

This is necessary because all organizations should have internal audit departments, so that evaluations can be carried out, which are those that detect the shortcomings that exist in the company, as well as inconsistencies and weaknesses. It can be mentioned that most companies do not comply with the established parameters, which is attributed to the fact that they do not have programs to carry out an internal audit.

Entities must have a financial management system that allows them to evaluate the financial statements in order to achieve the goals that every company sets, reducing costs and simplifying unnecessary and outdated tasks.

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