Financial auditing at enterprises for control of projects realized with credit fund-raising

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Abstract. The article analyzes methods of conducting financial audit under the construction control of projects implemented with raising credit funds in modern conditions. This work aims to improve the methodological toolkit of construction control when lending projects of the construction of transport infrastructure. The paper considers correlations of various procedures of construction control, financial audit and organizational and technical factors affecting investment and construction projects. The authors presented the logical scheme of the process of lending to legal entities and developed an algorithm of the procedure for conducting a financial audit, allowing to make possible adjustments and the right decision.

1. Introduction

Loan is an important economic tool for commodity and money relations, which facilitates the continuity of the reproduction process, speeds it up in a value form, contributing to the acceleration of the reproduction process. The effectiveness of the influence of credit on the acceleration of social production will depend on the area and value of credit investments, on the selecting of cost-effective facilities and the effectiveness of the credit mechanism, which enables implementing its main principles of urgency, repayment and payment in practice.

Construction lending is one of the most complex types of lending. Construction loans are usually provided for a rather long period (generally from one to two years), involve a complex collateral structure and the availability of a bank on a full-time basis (or among partners), highly qualified specialists in construction, marketing and real estate appraisal.

Since construction companies are risky, special attention should be given to loan collateral. The value of the loan a bank can offer to a developer will depend on the proposed collateral for the loan in case things go bad. Small construction firms usually do not possess large premises or expensive tangible assets. They cannot afford to build several buildings at the same time. This means that the only collateral for construction loans is the cost of land and unfinished construction.

Construction audit is an independent complex expert examination of engineering, technical, financial, and economic components of construction. The construction audit of a facility carries out an integral system study of the value of the facility and analyzes the pricing parameters at all stages of the construction work.

When making a loan, the bank checks if the company has own available working capital and gets acquainted with the most important indicators of economic activity. Issuing a loan, the bank checks its collateral, or, in other words, the availability of inventory in the enterprise, on which it is raised. The audit is carried out according to the accounting records, accounting balances of economic bodies, and
in-kind on-site with verificating the conditions of storage of the valuables to be credited. It does not stop throughout the life of the loan. Providing a loan also allows controlling the targeted use of borrowed funds.

Credit control is an integral system of the functioning of any bank. Lending in commercial banks is not regulated by the state, and banking institutions are liable only to customers. The purpose of credit control is to determine the “safe” amount of a loan, and also to choose the optimal interest rate. Credit control is a system of actions that is used by a credit institution to ensure repayment of outstanding loans. This system implicates a credit policy aimed at protecting the bank from fraudsters or perpetrators.

2. Materials and Methods
Commercial banks should constantly monitor the movement of finance to ensure the normal circulation of the money supply. After the subject has received a loan or capital, the bank starts monitoring the state of the loan funds. This function procedure helps not only to ensure the proper credit procedure, but also to choose a safe method of lending (Figure 1).

![Logical scheme of the process of lending to legal entities](image1)

**Figure 1.** Logical scheme of the process of lending to legal entities

During the credit procedure, the bank should check any activity on the client accounts, and pay special attention to the factors listed in Figure 2.

![Components of credit control](image2)

**Figure 2.** Components of credit control

In case of incomplete fulfillment of credit terms, the debtor must recompense all the losses that the credit organization took and pay pennies, fines and other forfeits.

Due to the forehanded implementation of these control function procedures, commercial banks have:
- Guarantee that the money will be returned on time.
Profit brought by bank investments.
- Relatively safe operations with respect to credits and loans.

Only strict control over the credit process as a whole makes possible to ensure the safety, reliability and profitability of credit operations of commercial banks. This results in two rules that are important for the successful credit activity of any bank:
1) each bank should possess its own effective system for monitoring lending operations,
2) credit control should be carried out by the most qualified and experienced employees of the bank.

The issue of ensuring internal control over the observance of bank instructions and regulations on carrying out credit operations comes first in commercial banks in both economic and legal aspects [1].

Financial supervision of the project implementation is the main element of the construction audit. Financial audit aims to determine the adequacy of funds for construction, as well as the predictive effectiveness of the project. When conducting a financial audit during the implementation of the project, it is necessary to follow the appropriacy of expenses to similar expenses other developers have.

3. Results
The bank should pay special attention to costs, selling prices, the expected profit from the intended projects taking into account that construction works include the construction of a relatively small number of units, the construction and sale of which take a long time, and since construction can be delayed, and the costs can be consequently increased. The bank can agree to grant a loan only if it believes that the construction will be profitable, since the builder will pay interest on the loan at the expense of the profit, which is also necessary for the development of production. In general, the procedure for conducting a financial audit consists of five steps, which are shown in the figure [2].

Stage I involves an analysis of the cash flow during the project implementation. For this purpose the structure of the project financing is given in the context of the following groups: own funds of the project proponent; credit resources provided by the Bank; other sources of financing (with mandatory detailing of these sources).

The reporting period also includes the analysis of the borrowed funds development; the cost analysis of the work executed by the term contractor and defrayed by him, based on agreements and contracts, payment documents, certificates of work performed. There is the analysis of the cost of the acquired equipment, its characteristics and benefits, based on contracts and agreements, payment documents, certificates of work performed [3].

The audit includes the analysis of the compliance of actual schedules of construction and financing of the project agreed by the first report in the context of financing sources (own and borrowed funds). The reasons for the deviations are analyzed, as well as the amount of further financing [4].

The next step is to conduct a cost analysis of the project and estimate documentation for compliance with the average market price rates for the materials and structures used in construction.

Stage II is the next important stage involving monitoring of the targeted use of credit funds. It includes checking the compliance of payments to the purpose of the loan on the basis of information from contracts and agreements submitted by the customer and contractors, payment documents, certificates of work performed on the attached form, monthly reconciliation between the customer and contractors [5,6].
Stage III consists in the analysis of the cost of unplanned additional volumes of construction work that are necessary when these volumes occur: their cost is inspected for compliance with market prices. The analysis of the project-financing schedule is also performed.

Stage IV of the analysis results in the organizational and technical factors affecting the course of the project negatively/positively. There is a need in analysis of financial factors which negatively/positively affect the course of the project implementation according to auditor's opinion (including the forfeits applied to the general contractor for the failure of the contract terms, the increased price of the Project with mentioning causes and funding sources/coverage) [7].

Stage V involves developing proposals and recommendations on optimizing the progress of the project in order to minimize the negative impact of organizational, technical and financial factors of enhancing project efficiency. These recommendations and proposals are based on the analysis of the results of the schedule compliance and on assessing the factors that slow or speed up the implementation of the financing plan.

4. Conclusions
The proposed algorithm provides the bank with the following preferences:

1) Outsourcing works engage highly qualified experts in various areas of construction activities, who are able to study and analyze the project in detail.

2) The engaged construction auditors are independent of the participants in the construction project and act exclusively for the interests of the bank.
3) The Bank does not incur the expenses for construction audit, giving the duty on the order of this service to a potential lender. As a result, the Bank receives objective and comprehensive information making the project completely transparent to the investor.

Implementing the proposed methodological tools can increase the effectiveness of the construction control procedure for the bank, while implementing credit control measures. Forehanded construction audit allows the user handling the audit conclusion to assess the profitability of construction, the quality of the facility, the completion date, make possible adjustments and make the right decision.

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