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ADVANTAGES AND DISADVANTAGES OF THE AUDIT METHOD BASED ON LIFE STAGE ANALYSIS

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Abstract: In contemporary economic conditions, enterprises operate as open socio-economic systems characterized by uneven, stage-based development, making the concept of the enterprise life cycle essential for understanding business dynamics, particularly in small and medium-sized enterprises (SMEs). Life cycle analysis, widely used in management science, enables auditors to assess enterprise activities dynamically by considering changes in structure, business processes, and risk profiles across development stages. Despite its analytical potential, the application of life cycle stage analysis in auditing SMEs remains insufficiently systematized, and its advantages and limitations are not fully articulated within audit methodology. This study aims to examine the applicability of life cycle analysis as an audit method for SMEs and to identify its advantages and disadvantages in comparison with traditional audit approaches. The analysis demonstrates that life cycle-based auditing improves risk assessment accuracy, audit planning quality, understanding of business models, interaction with management, and the predictive value of audit conclusions, while also revealing limitations related to subjectivity, data availability, auditor expertise, and increased labor intensity. The study systematizes the benefits and constraints of life cycle-based auditing and integrates multiple analytical tools for determining enterprise life cycle stages within the audit process. The findings support the use of life cycle analysis as a complementary audit method that enhances audit quality and value for SMEs when applied alongside traditional financial audits, while highlighting the need for auditor training and methodological adaptation to mitigate identified limitations

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1. Introduction

In today's economic conditions, an enterprise is considered an open socio-economic system, the development of which is uneven and step-by-step. One of the main concepts characterizing the dynamics of the development of an organization is the enterprise life cycle.

According to Wikipedia, the life cycle of an organization is a set of development stages that the company undergoes during its existence[1].

The audit method based on the analysis of the life cycle of an enterprise is of great importance in increasing the quality, accuracy and practical usefulness of audits conducted in small and medium-sized businesses. Its importance lies, first of all, in the fact that it allows you to consider the company's activities in dynamics, taking into account the regularities of its development, changes in its structure, business processes and the nature

of risks. This approach provides a more complete understanding of the operating conditions of small and medium-sized businesses and allows the auditor to adapt procedures to the real needs of the enterprise, without being limited to standard universal methods[2].

2. Materials and Methods

To date, a number of foreign scientists have developed and presented a large number of models of the life cycle process. For example:

- I. Adizes - management approach. The management approach considers the life cycle of an enterprise from the perspective of changing management tasks and leadership style.

- L. Greiner – strategic approach. Within the framework of the strategic approach, the life cycle of an enterprise is analyzed from the perspective of changing strategic goals and competitive advantages[3].

- G. Kleiner and A. Prigozhin – systemic approach. The enterprise is considered as a complex socio-economic system, its life cycle is part of the general process of evolution of economic systems. According to this approach, the stages of the life cycle of an enterprise are determined not only by internal factors, but also by interactions with the external environment: the market, the state, institutions and technologies.

- V. Katykalo (and others) – resource-based approach. The resource-based approach links the stages of the enterprise life cycle with the formation, use and renewal of strategic resources and competencies. Representatives of this field emphasize that the sustainable development of the enterprise is possible only if the resource base is updated in a timely manner[4].

3. Results and Discussion

The theory of auditing small and medium-sized enterprises based on the analysis of the stages of the enterprise's life cycle is of great importance, as it allows the auditor to adapt his methods to a specific stage of business development (startup, growth, maturity, decline), to identify the specific risks and opportunities inherent in each stage, which provides a more targeted and effective verification and assessment not only of the reliability of the report, but also of the sustainability of the business in the long term. This approach does not negate the audit of financial statements, but rather, if it is carried out in conjunction with a traditional audit, it complements it, as a result of which the provided audit service becomes even more beneficial for small and medium-sized enterprises. If an audit based on the analysis of the stages of the enterprise's life cycle is offered by an audit organization as a separate type of service, then as a result of this, it becomes possible to obtain information that predicts the future of small and medium-sized enterprises[5].

When comparing this approach with traditional auditing, the following differences can be seen:

Table 1. Comparison of traditional audit methodology with life cycle analysis methodology

Criteria	Traditional audit	Life cycle stages
Transfer purpose	Checking the accuracy of financial statements	audit based on the analysis
Learning object	Financial reporting	Comprehensive assessment of business stability at all stages of development
Period coverage	One reporting period	Finance, ecology, management, social issues

Approach	Retrospective	All stages of the enterprise life cycle
Result	Conclusion on the truthfulness of the financial report	A prediction for the future
Users	Investors, creditors, the state	Recommendations for sustainable enterprise development and risk management

The stage of the life cycle of a small and medium-sized enterprise at the time of the audit can be determined using one or a combination of the methods listed in **Table 2**.

Table- 2. Methods of determining the life cycle stage of the enterprise

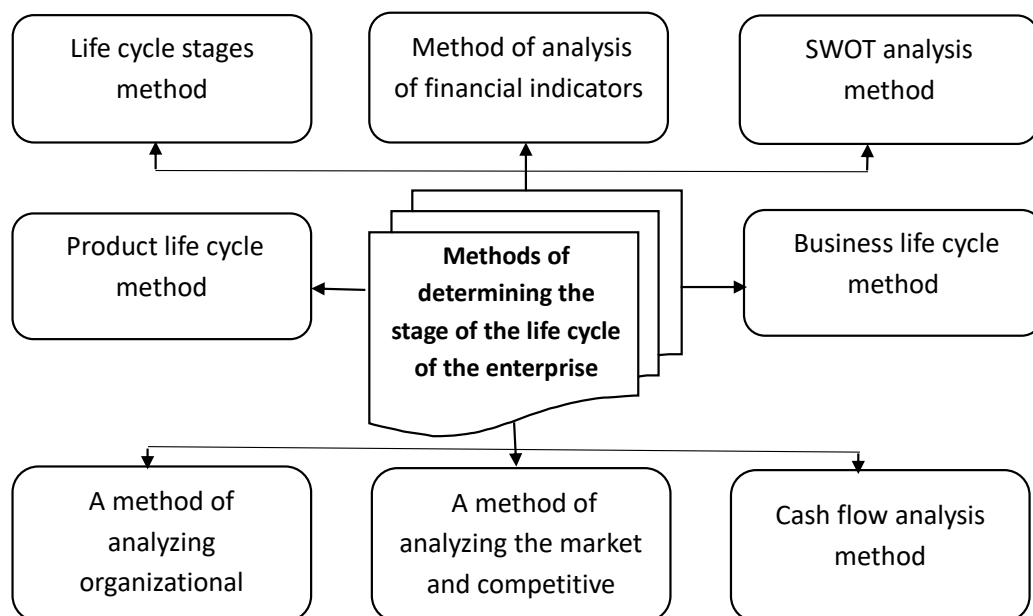


Table 2 presents a systematic overview of the methods used to determine the life cycle stage of an enterprise, particularly small and medium-sized businesses. The table integrates several analytical approaches, including life cycle stage assessment, financial indicator analysis, SWOT analysis, and business life cycle evaluation. Additional methods such as product life cycle analysis, organizational culture assessment, market and competitive analysis, and cash flow analysis complement the framework. Together, these methods provide a comprehensive and multidimensional basis for identifying the enterprise's current development stage, supporting informed audit judgments and strategic decision-making[6].

However, just as each of the audit methods used in practice has its advantages and disadvantages, the life cycle audit method also has its own advantages and disadvantages that auditors should be aware of.

First, let's talk about the advantages of this method. We describe them in the form of a table to summarize our thoughts.

Table 3. Based on the analysis of life cycle stages advantages of audit methodology

Indicators	Manifestation of preference
More accurate risk assessment	This helps to: • correctly assess the nature of risks; • select appropriate audit procedures; • avoid excessive or, conversely, insufficient checks.
Improved audit planning quality	he approach allows for: • better resource allocation, • focusing on the weakest processes, • optimizing time costs.
Deep understanding of the client's business model	The auditor will gain a systematic understanding of: • how a small and medium-sized enterprise makes money, • which processes are most important to it, • what factors affect financial statements at different stages of development. This will improve the quality of the auditor's opinion.
Possibility to adapt audit methods	Different stages require different approaches, and the life cycle approach takes this into account: • in the formation stage - focus mainly on liquidity, transaction documentation, and control; • in the growth stage - study the correctness of income and the responsiveness of management to demand; • in the maturity stage - spend more time on determining the level of efficiency and the risk of stagnation, • in the decline stage - focus on studying the risk of business continuity
Improved interaction with management	To achieve high performance, the auditor can explain:

	• What are the risks specific to the development stage? • How can internal control be improved? • How do financial indicators relate to the life cycle stages?
Ensuring high predictability and increasing reliability of conclusions	This approach creates a logical structure for the analysis: • processes are compared not in abstract terms, but taking into account the usual stages of business development; • considerations acquire practical significance; • conclusions are more stable than personal views.
Opportunity to provide additional valuable recommendations	The auditor can make the following recommendations, taking into account the stage of development of the enterprise: • what is important to optimize right now, • what financial risks are predicted, • how to improve the internal control system. These add value to the audit.
Compliance with modern methods of risk-oriented auditing	Life cycle analysis is one of the risk-based approach tools required by professional standards, which audits • more modern, • better quality, • more in line with international practice level up

Table 3 summarizes the advantages of applying a life cycle-based audit methodology derived from the analysis of enterprise development stages. It demonstrates how this approach enhances audit quality through more accurate risk assessment, improved audit planning, and a deeper understanding of the client's business model. The table highlights benefits such as better resource allocation, focus on critical processes, increased reliability of audit conclusions, and stronger interaction with management. Additionally, the life cycle approach enables auditors to adapt procedures to specific development stages and provide more relevant, value-added recommendations[7].

The disadvantages of the method of auditing small and medium-sized enterprises according to the analysis of life cycle stages, in our opinion, are as follows.

1. Requires experience and high level of qualified judgment from the auditor.

The auditor should clearly determine the stage of development of the small and medium-sized enterprise, but:

- steps may be unclear,
- business development is not always linear,
- different divisions may be at different stages.

This makes the approach subjective and less standardized[8].

2. Not always applicable to companies with their own business model

Some enterprises:

- operate with a stable position in the market,
- have a seasonal or project-based model,
- are dependent on one large customer.

For them, the classic stages of the life cycle may not reflect the real picture.

3. High requirements for analysis and information

The auditor should collect the following additional information related to the activities of the enterprise for analysis:

- strategic plans,
- management reports,
- internal processes[9].

However, in small and medium-sized enterprises, such information is often not available or is not documented.

4. Risk of misinterpretation of the stage

Incorrect classification of the stage of development leads to:

- incorrect assessment of risks,
- incorrect selection of audit procedures,
- decrease in audit quality[10].

5. The audit may increase the labor intensity and cost

- meetings, agreements, consultations with property owners,
- in-depth analysis of business processes,
- study of strategic factors,

increases the auditor's working time, which may lead to objections from small and medium-sized enterprises with limited financial resources regarding the increase in prices[11].

6. The method is focused on the long-term perspective.

However, small and medium-sized enterprises often:

- operate in conditions of high uncertainty,
- are prone to rapid changes,
- frequently change their strategy under the influence of the market.

This reduces the accuracy of future predictions.

7. Limited scientific and practical basis

Unlike traditional risk-based auditing, the method based on life cycle analysis:

- does not have uniform standards that can be applied,
- is used more as an analytical tool,

- is poorly described in national and international standards.

Therefore, its application may not give the same accurate results in all cases.

Most of the above shortcomings are related to the experience and qualifications of auditors. Therefore, in our opinion, the following should be done to reduce the shortcomings that negatively affect the widespread development of this methodology[12].

1. Training and upgrading the skills of auditors

- Invest in basic training of employees on the basics of life cycle analysis of small and medium-sized enterprises so that they understand the main stages and objectives of the analysis.

- Use online courses, webinars or round tables with specialists and consultations to acquire knowledge in this area and consolidate and update it.

- Organize seminars on the procedure and methods of collecting materials for life cycle analysis for specialists from small and medium-sized enterprises, which are regular customers[13].

2. Simplify the methodology and adapt it to the activities of small and medium-sized enterprises

- Use simplified forms of life cycle analysis, which focus not on the entire period of the project, but on the most important stages and impacts.

- Use model documents developed by the audit organization to collect information useful for conducting life cycle analysis.

3. Use specialized programs and services during the audit process to improve the quality of the analysis and increase accuracy

- Use existing open-interface programs for life cycle analysis, which do not require special technical knowledge, and are adapted for small and medium-sized enterprises[14].

- If necessary, contact external consultants with more experience in this area to study and evaluate individual stages of life cycle analysis.

4. Collect and maintain data necessary for life cycle analysis

- Organize systematic collection of data on raw materials, energy consumption, and environmental impact of waste and emissions in small and medium-sized enterprises that are regular customers.

- Maintain regular contact between the audit organization and employees of small and medium-sized enterprises who are responsible for preparing and collecting this data.

- If data collection is difficult, use average statistical data from the industry in which the small and medium-sized enterprises operate.

5. Document the results and demonstrate to clients the benefits of life cycle analysis

- Maintain a detailed report of the audit results and recommendations.

- Provide examples of positive achievements in this area in other similar enterprises, if any, to interest the client in life cycle analysis[15].

6. Implement incremental improvements to the methodology

- Identify the most important areas for improvement based on the audit results,

- Monitor the results achieved in this enterprise and make corrections to the recommended measures if necessary.

- Conduct regular discussions on successes and challenges in this area to maintain interest and commitment among employees of small and medium-sized enterprises that are regular customers.

4. Conclusion

This study demonstrates that applying an audit methodology based on enterprise life cycle stage analysis significantly enhances the quality, relevance, and practical value of audits conducted for small and medium-sized enterprises. The findings show that this approach enables more accurate risk assessment, improves audit planning, deepens auditors' understanding of business models, and facilitates the adaptation of audit procedures to specific stages of enterprise development. At the same time, the analysis identifies important limitations of the method, including its dependence on auditors' professional judgment, increased information requirements, potential subjectivity in determining life cycle stages, and higher labor intensity and costs. The implications of the study suggest that, when combined with traditional audit methods, life cycle-based auditing can serve as an effective complementary tool that supports risk-oriented auditing and aligns with modern international practices, particularly in assessing business sustainability and future prospects. Further research should focus on developing standardized methodological guidelines, simplifying life cycle analysis tools for practical use in small and medium-sized enterprises, and empirically testing digital and automated solutions that could reduce subjectivity and resource intensity while increasing the reliability and scalability of this audit approach.

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