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PERCEPTION OF COMPANY'S FINANCIAL REPORTING AUDIT QUALITY BY CLIENTS AND AUDITORS

ВОСПРИЯТИЕ КАЧЕСТВА АУДИТА ФИНАНСОВОЙ ОТЧЕТНОСТИ ПРЕДПРИЯТИЯ ЗАКАЗЧИКАМИ И АУДИТОРАМИ

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ABSTRACT

AUDIT, AUDITOR, AUDIT QUALITY,
CLIENT, AUDITOR'S OPINION, CEO

It is generally accepted that the audit profession has reached pinnacle heights in enforcing professional standards (International Standards on Auditing; hereinafter – ISAs), Code of Ethics, Regulatory Visits, etc. All this can be explained very simply: as an attempt to protect the public interest. Note that the issues of audit quality in international standards are considered conceptually. That is, the quality of audit as a category, as well as the quality of audit services, are not defined in professional standards (and other regulatory and methodological documents).

Each of the parties to the audit, namely the auditor and the client, considers the audit quality from its point of view.

АННОТАЦИЯ

АУДИТ, АУДИТОР, КАЧЕСТВО АУДИТА,
МНЕНИЕ АУДИТОРА, ДИРЕКТОР

Общепризнано, что аудиторская профессия достигла определенных результатов в обеспечении соблюдения профессиональных стандартов (Международных стандартов аудита; далее – МСА), Кодекса этики, контроля качества аудита регулируемыми и надзорными органами и т. д. И все это объясняется очень просто: попыткой защитить общественные интересы. При этом сам термин «качество аудита» в МСА рассматривается концептуально. То есть качество аудита как категория, так же как и качество аудиторских услуг, не определены в профессиональных стандартах (и в других нормативных правовых актах).

Проведенные автором исследования позволили установить различия в подходах аудиторов и заказчиков ау-

The research carried out by the author made it possible to draw a conclusion about the different approaches of auditors and clients to the quality of audit and find common points of contact in the further convergence of their positions.

дита в отношении качества аудита и найти общие точки соприкосновения в дальнейшем сближении их позиции.

1. Introduction. The ISAs [1–10] disclose the relevant audit characteristics (audit categories or terminology) and their requirements, which should ensure audit quality. However, we must agree that the client has a minimal understanding and is insufficiently informed about the auditor’s assessments of materiality, and audit risk, and methods of collecting audit evidence, and therefore cannot assess the quality of the "production" of the audit service for compliance with audit standards. Consequently, professional standards are primarily intended to assess the audit quality and audit service only from the auditor’s position or regulatory bodies (internal or external to the auditor). At the same time, the degree of satisfaction of both the client and the users of accounting (financial) statements information with the audit results is not taken into account. However, it is the degree of satisfaction of the client and other consumers of financial reporting information that gives the initial assessment of the audit quality.

2. Empirical study. Over the past 15 years, the author of the proposed study, in the course of carrying out professional audit activities, conducted a survey of the opinions of heads of organizations and chief accountants of more than 700 organizations of all forms of ownership and various sectors of the economy (except for banks and insurance entities), as well as fellow auditors (individual entrepreneurs and in the staff of audit firms) on certain issues of their understanding of audit quality.

As a result, the following data were obtained on 7 key audit quality issues:

Table 1 – Answers to the question: Do you have an idea of the audit legislation and the rules of auditing?

Answer	Executives (%)	Chief accountants (%)	Auditors (%)
Yes	1.5	67.2	100.0
No	98.5	32.8	-
	100.0	100.0	100.0

So, the managers are practically not familiar with audit legislation, and the accountants' presentation about this is insufficient.

Table 2 – Answers to the question: Do you know in general what audit documentation is?

Answer	Executives (%)	Chief accountants (%)	Auditors (%)
Yes	1.0	85.5	100.0
No	99.0	14.5	-
	100.0	100.0	100.0

During the audit, accountants provide all the necessary information to form working documents at the request of auditors, but as for the CEO, the term of audit documentation itself is a novelty.

Table 3 – Answers to the question: Do you agree that the auditor's report and written representations of audit results should disclose all significant shortcomings in the company's activities?

Answer	Executives (%)	Chief accountants (%)	Auditors (%)
Yes	15.2	1.3	95.3
No	84.8	98.7	4.7
	100.0	100.0	100.0

Undoubtedly, chief accountants and CEOs are not interested in presenting all the shortcomings in the company's activities in written form. Especially, when the owner or head of the audited entity is ready to take the most severe measures of influence (up to and including dismissal) against executives and chief accountants based on the audit results. Besides, auditors sometimes prefer to bring such information "in the form of verbal communication", which is not a written representation of audit information, with the subsequent provision by the audited entity of data on the adjustments made. The latter is due to the unwillingness to lose the client in the case of presenting such "frank" information about the real state of affairs of the auditing entity (Table 4).

There is no doubt that both the CEO and the chief accountants prefer the unmodified auditor's opinion on the financial statements of the auditee. However, auditors are afraid to express such opinions (fearing possible consequences from the Ministry of Finance of the Republic of Belarus and the Auditor's Chamber in the

form of accusations of insufficient arguments in the working documents for issuing such conclusions), preferring mainly the modified opinion (an adverse opinion) option (Table 5).

Table 4 – Answers to the question: What type of auditor’s opinion on the entity financial reporting suits you (your staff)? (multiple answers are possible)

Answer	Executives (%)	Chief accountants (%)	Auditors (%)
unmodified auditor’s opinion	100.0	100.0	4.4
modified auditor’s opinion (a qualified opinion)	2.0	1.0	95.6
modified auditor’s opinion (an adverse opinion)	0	0	4.7
a disclaimer of auditor’s opinion	0	0	1.5

Table 5 – Answers to the question*: Do you think that the availability of the auditor’s working documentation does not affect the information security of your enterprise?

Answer	Executives (%)	Chief accountants (%)	Auditors (%)
Yes	15.2	1.3	75.3
No	84.8	98.7	24.7
	100.0	100.0	100.0

*The client came to this point of view after a short friendly dialogue of the auditor with the manager and the chief accountant about the need for working documents for the auditor’s and the composition of the information provided for the preparation of such documents by the client.

There is a real possibility of seizure of the working documents of the auditor by various state bodies in accordance with the current legislation in Belarus. Therefore, there is a risk of falling into the “bad hands” of working documents, which leads to great doubts about the reliability of the information security system among auditors from the point of view of executives and chief accountants. And some of the auditors also have similar doubts.

Table 6 – Answers to the question: Do you think that the availability of working documents is the most important tool for defending the auditor’s position in litigation on the quality of audit in economic courts?

Answer	Executives (%)	Chief accountants (%)	Auditors (%)
Auditor’s opinion (type)	100.0	100.0	100.0
Written representations of audit information	92.0	95.0	100.0
Appropriate consultation during the audit	100.0	100.0	100.0
Relevant tax advice	100.0	100.0	100.0
Checking the correctness of tax calculations	100.0	100.0	100.0
Solving some complex problems of business activities (after the reporting period)	100.0	100.0	35.5
Auditor’s documentation	10.0	16.0	100.0

So, most auditors consider the availability of working documentation as their main argument in the event of disputes in economic courts over damage caused to a client by a poor-quality audit, while directors and chief accountants rely on the arguments in disputes (About working documents under ISAs see more in [11]).

Table 7 – Answer to the question: What, in your opinion, characterizes the audit quality to a greater extent? (multiple answers are possible)

Answer	Executives (%)	Chief accountants (%)	Auditors (%)
1	2	3	4
Auditor’s opinion (type)	100.0	100.0	100.0
Written representations of audit information	92.0	95.0	100.0
Appropriate consultation during the audit	100.0	100.0	100.0
Relevant tax advice	100.0	100.0	100.0
Checking the correctness of tax calculations	100.0	100.0	100.0

End of table 7

1	2	3	4
Solving some complex problems of business activities (after the reporting period)	100.0	100.0	35.5
Auditor's documentation	10.0	16.0	100.0

As you can see from Table 7, for CEOs and chief accountants, audit documentation as proof of the audit quality is generally not attractive. They are more interested in the auditor's report, written representations of audit information, etc., professional auditor's services. Well, as for the auditor, the audit documentation is above all.

Conclusions.

General conclusion: The concept of audit quality for the client and the auditor is somewhat different. If the client is interested in the actually performed actions to conduct the audit, embodied in a documentary form (audit report, written representations of audit information), then for the auditor his/her documentation as the basis for justifying the quality of the audit is above all.

Thus, one more additional conclusion can be made that only the client is interested in the fact of the presence of the working documentation of the auditor only from the point of view of the potential for information leakage to other parties, primarily to the Regulatory and law enforcement agencies. Well, for the auditor, working documentation is the hallowed principle, it is something that can be fought off both in economic courts and during external controlling of audit quality by the Ministry of Finance of the Republic of Belarus and the Auditor's Chamber.

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