

New Approaches to the Estimation of the Auditor Organization Activity Quality

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Abstract: The audit activity quality control established in Russia is analyzed. The principal directions in methodology and methods improvement in external and internal quality control considering the audit boundaries expansion, change of targets, which have to be solved in auditor's report, of recent trends in audit service structure, are outlined. On the base of the principal propositions made according to audit examination performed on different levels suggestions for correcting standard and methodic documents regulating the audit activity are substantiated.

Keywords: Audit quality, internal control, external control, kinds and ranges of risks, methods to estimate quality drop risks, control of methodology perfection.

ACTUALITY

When the Russian audit organizations transfer to the direct application of International Standards on Auditing (ISA), when new demands to auditor's report are realized the attention to the quality of audit organizations activity grows (Marder 2017). Leaning on the audit organizations activity estimated by business community, the demands to the targets which have to be solved during examination have experienced a substantial change, the orientation of auditing has been reformed (Bulyga 2015), the structure of services suggested by audit organization has changed (Turbanov 2015), the audit objects and audit evidence used to substantiate auditor conclusions have substantially expanded (Pett and Poritz 2018). The reason is the change and a certain sophistication of organization's reporting, the growing number of organizations presenting consolidated financial statements reports, corporate responsibility reports and integrated reports, where the audit boundaries are substantially expanded. Apart from the pure economic estimation the auditor's report must reflect the auditor's opinion concerning the social and ecological responsibility of the organization. The auditor have to express his opinion according the expediency to invest into these targets thus contributing to the organization sustainability. The auditor has to actively estimate the presented corporative management system including the internal control system in the audited object. The quality of this system determines the trustworthiness of the report presented by the organization and makes it

able to objectively estimate the volume of audit sampling while performing any kind of external control (Ciuhureanu 2016).

The clients extensively ask more completely reflect in auditor's reports the financial state of the organization, which significantly increased the demand for the review engagement service. To make the estimation of organization's account and control, which takes place on the preliminary stage of the audit more objective, it is important to pay attention to the specificity of the object activity to be audited, including the understanding of business processes, possibilities of the further development, strategy, the specificity of production and management organizing structures, which determine internal links, and, accordingly, the demands for the internal control system (ICS) structure and for establishing the account-control processes (Kudlay 2015).

When the audit execute the proof of reports and services accompanying the audit, it has to consider, apart from financial, also the non-financial information characterizing the entity's image, its links with stakeholders, first of all, with clients, owners, organization's managers and collective.

At the same time, the audit organization activity quality proof is especially influenced by new demands to reveal principal risks of the object to be audited. The auditor has to determine the direction which he regards, in most broad sense, as most important for the further management looking for sustainable and successful development. This process is accelerated according to the demands of business community and of other consumers of the audit results. It is connected with the change of services structure and expanded

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use of risk-oriented approach to the organization of recorded processes estimating the internal control systems and the efficiency of the organization (Tysiac 2015).

The idea about control of audit activity quality experiences substantial deviation and requires additional understanding. The issues are precision of standard documents and methodic recommendations regulating the work of audit organizations.

The problem of audit quality estimation are reflected in the works of Russian and foreign scientists: E. Gutzeit, V. Podolski, V. Tchaya, R. Bulyga, A. Savina, J. Lobbeck, U. Montgomery, Adams, F. Deflise, A. Arens

The state of the problem. At present, a system to overlook the audit organizations activity including the internal and external control has been created. The following entities are responsible to execute the external control over the audit activity:

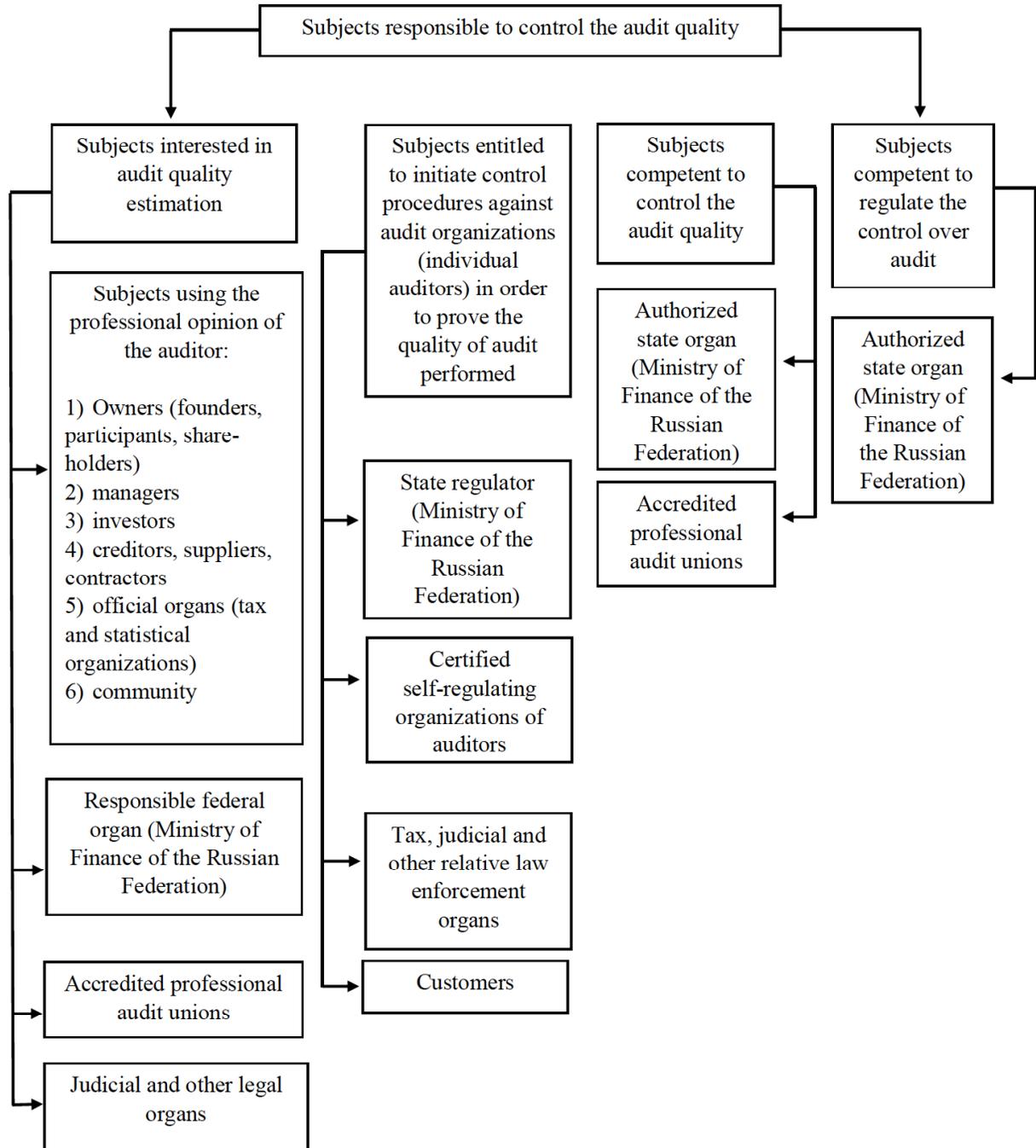


Figure 1: Subjects controlling the audit quality and their league status.

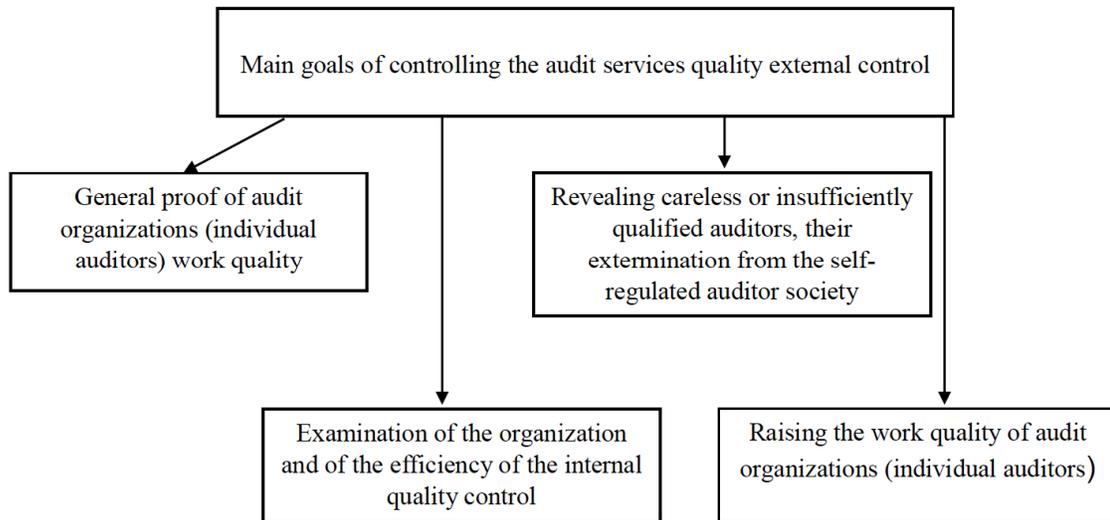


Figure 2: Audit services, quality control goals.

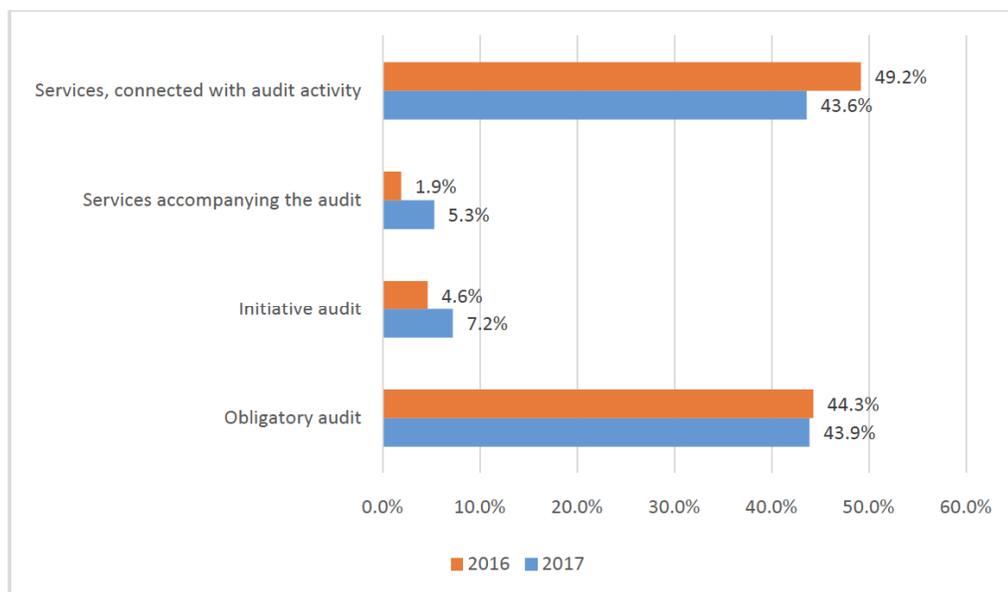
In executing the external control, the following goals are pursued:

When the quality control is carried out the compliance between the audit activity of the company and the demands of the appropriate law is checked: the Federal law "On the audit activity" from December, 12.2008 Nr. 307-FZ, federal rules (standards) of audit activity; rules determining the auditors' and audit organizations's independence which have been approved by the Audit activity Council from September, 20, 2012; ethics codex of auditors, which has been approved March, 22, 2012 (with amendments from June, 27, 2013) etc.

The efficiency of internal quality control is proved:

- acquaintance with internal audit activity standards;
- the correspondence between internal quality standards and federal requirements determining audit activity (Turbanov 2015; Thaya 2014)

One of the external control tasks is the estimation of the internal control system position in the audit organization; the results are considered when compiling the audit plan and program. The principle changes in audit activity control are connected with the mobility of audit services structure, which has changed



Drawing 1: Gain structure in the biggest Russian organizations in 2016 and 2017.

(Data taken from "Russian audit -2018" - Expert RA agency research).

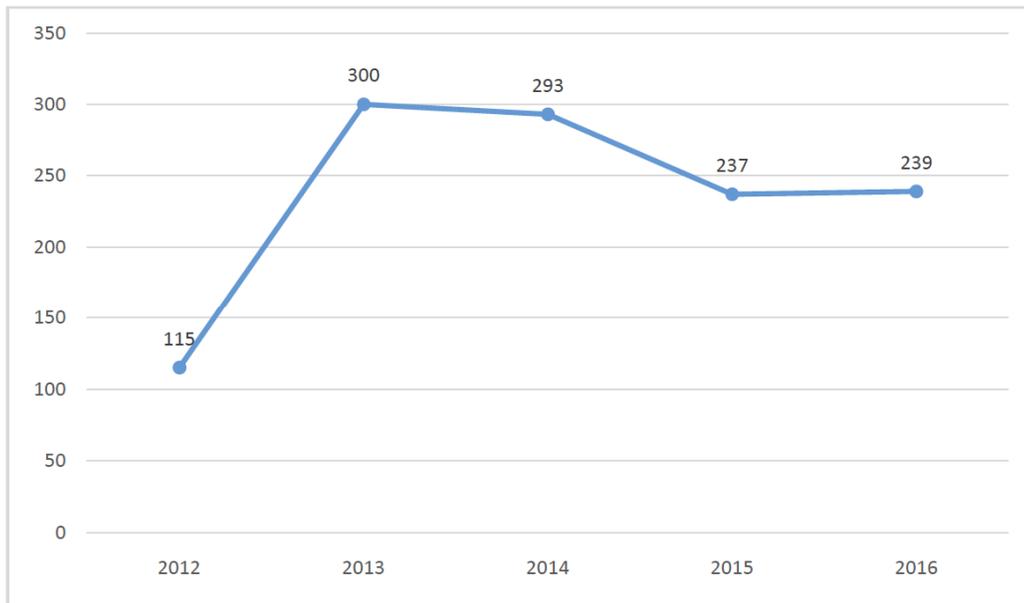
a great deal in the last time: the share of services and other activity connected with audit, initiative audit and other adjusted services has raised thus making more important the role of internal control over audit work quality.

Thus we see now a distinct system of external and internal audit organizations activity quality control. The control is executed by an organ responsible for audit activity regulation (now this organ is represented by the Ministry of Finance of the Russian Federation), Russian Federation Treasury (until 2016 the control

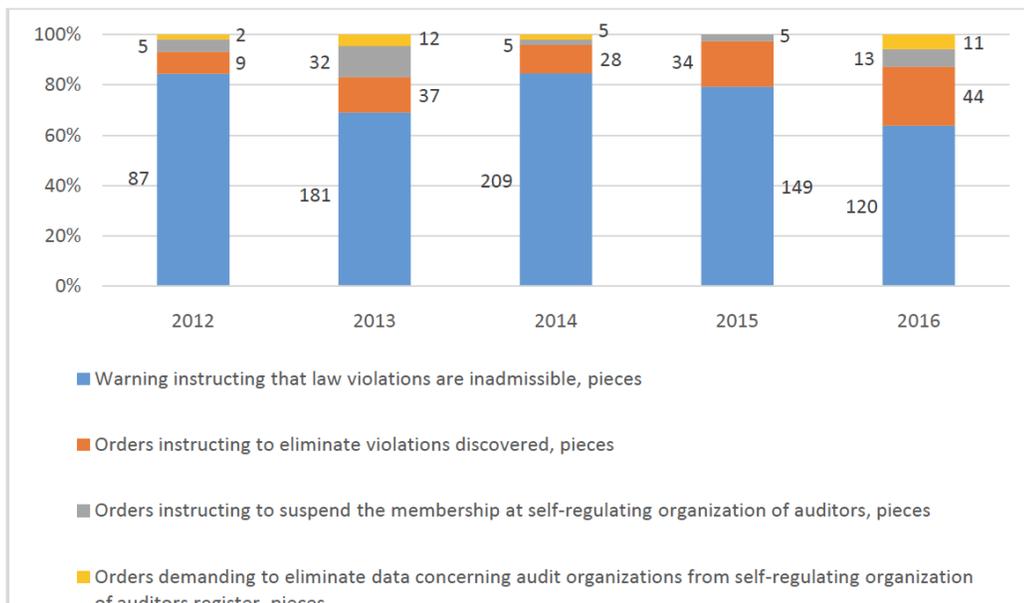
was performed by Rosfinnadzor), certified self-regulating organization of auditors. The system of internal control organized in the audit organization presents the base of control data.

RESEARCH RESULTS

To evaluate the condition and to substantiate the development directions in methodology and methods allowing to control the audit activity quality the quantity, directions, content and results of audit executed recently on different levels are analyzed.



Drawing 2: Number of external examinations executed.



Drawing 3: Results of checks performed.

The analysis of the examination structure has shown that the greatest activity was revealed by the Rosfinnadzor Treasury.

The greatest interest presents the analysis of control results, its content allows to estimate the structure of decisions concerning the impact measures and typical errors detection (Gutzeit 2016).

Basing on the analysis results and audit proof conclusions (see Tables 1 and 2) orders were formulated aiming to improve the audit quality methods and methodology.

Consequently, the research carried out basing on audit activity quality evaluation results allows to put forward suggestions how to make the standard and methodical documents more precise and how to

Table 1: Results of Impact Measures Examinations Carried Out in 2016

Number of orders issued (in % from)	Impact measures
120 warnings (63,8%)	on inadmissibility to break demands of the Federal law "On the audit activity", federal standards of audit activity, rules fixing the independence of auditors and audit organizations, the audit professional ethics codex
44 warnings (23,4%)	Demanding audit organizations to eliminate audit activity violations disclosed as the result of external proof
13 warnings (6,9%)	Suspending the membership of self-regulating organizations of auditors
11 warnings (5,9%)	On the exclusion of self-regulating organizations of auditors from the auditors and audit organizations register

Table 2: Typical Violations Disclosed as the Result of the External Control Carried Out by Self-Regulating Organizations of Auditors

Field	Violation kind
Violation of the Federal law "On the audit activity"	Violation of requirements prescribing the participation of the auditor at the audit activity according his qualification certificate
	Violation of the duty to inform the self-regulating organization of auditors on changes in data contained in the auditors and audit organizations register
	Violations of requirements obligatory for the membership at the self-regulating organization of auditors
Violation of federal standards of audit activity	Violation of demands concerning the form, content, order to sign and to present the auditor's report
	Violation of requirements concerning the service quality system control
	Violation of requirements concerning the work documentation
	Violation of requirements concerning the study of information on related parties, of careless actions, inobservance of standard law acts in the course of the audit
	Violation of requirements connected with receipt of audit evidence
	Violation of requirements of verification regarding the going concern
	Violation of requirements concerning the audit planning
	Violation of requirements concerning the auditor's activity disclosing and estimating subsequent events
	Violation of requirements concerning sampling audit procedures
	Violation of requirements concerning disclosing the information to leaders of the audited organization and to representatives of owners of this organization
Violation of ethics codex, independence rules	Violation of requirements concerning the rotation of the management of the group executing the task
	Performing of actions, which can discredit the audit profession
	Violation of demands concerning disclosing the eventual independence danger

modernize documents and thus to eliminate typical violations and to secure the necessary quality of audit examinations.

Taking into consideration the rising risk-oriented approach to audit examination it becomes principle to strengthen the control medium in the frame of audited objects and its estimation when compiling the plan and program of the audit check. To do so the auditor has to actively use the non-financial information, in particular the data reflected in reports on the corporative management (regulations concerning structure subdivisions and jobs manuals), when working with non-financial information it is necessary to develop the system of the evaluation and analysis methods indices. To reveal risks reflected in the auditor's report it is necessary to classify them, to sort out main factors influencing their origin, to be able to use the risk card and risk matrix, to analyze them before verification, to apply forecast analysis methods, in other words, considering the changes taking place in the audit field it is necessary to further develop the methodology and methods of the audit control.

The broadening of the boundaries of information support for auditing based on the big data, it is essential for the implementation of the setting tasks. On this basis, the auditor gets an opportunity more reasonably distinguish on the threats and risks on which managers of the audited organization should focus. To implement the task of preventive control, i.e. identification of errors that can be corrected during the reporting period, it is necessary to broadly develop an accompanying audit, when correction make online. This is provided on the basis of operational accounting and analysis of business processes.

For determining the priority direction of investment, which allows eliminating «bottlenecks» and reducing the risks. It is necessary to increase attention to strategic audit based on extensive using of functional-value analysis and economic-mathematical methods. At present, all audit firms and self-regulating organizations of auditors work in this direction is carried out in and it is an important element in the digital economy development (Kovalchuk and Stepnov 2017).

CONCLUSIONS

To enhance the audit activity quality and to secure its correspondence with IAS requirements it is necessary to perform the following:

- to define more exactly the structure of audit organization services and the difference between audit and consulting;
- to supplement the methods of audit examination quality internal control with the system of audit examination to check the non-financial reports;
- to develop methods and procedures of the audited organizations risks control (risk classifiers and matrices, defining the permissible boundaries of deviations from indices proving the sustainable activity of audited organizations etc.) in the frame of international, national and internal standards;
- to modernize the audit organizations internal control regulations

CONCLUSION

Considering the transfer to the new auditor's report size it becomes necessary in accordance with IAS requirements to enhance the study of audit examination results for the 2017-2018 period and relative quality results in order to prepare suggestions how to improve the methodology, standard documents and methodological orders when organizing the external and internal quality control on all levels of the audit activity regulation. Appropriate changes in the methods of audit examination quality estimation will substantially further the implementation of demands and fulfillment of expectation of audit organizations services consumers.

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