NEED FOR CHANGES IN THE FINANCIAL AUDIT

This article is dedicated to need for changes in the Financial Audit. As arguments are analyzed the last banking scandal in Bulgaria in 2014, which costs more than 5 percent of country’s Gross Domestic Product. Attention is paid of two problems – the lack of audit of the firms which obtain credits and the auditor’s independence. In conclusion is noted that the stability of the banking system is possible with expanding the objects of the financial audit and changes in the appointment of the registered auditors.

Key words: Financial Audit, Independence of Registered Auditors, Appointment of Registered Auditors, Corporate Commercial Bank – Bulgaria.

The Financial Audit (Audit of Financial Statements) is one of the tools to achieve stability in society. But practice shows that often the biggest frauds are not detected by the auditors. In these cases some authors look the reasons in the auditing and accounting standards, in the compliance with ethical requirements, etc. This approach does not solve the main problems of the audit. The last scandal in the Bulgarian banking system in 2014 can be used to analyze the problems and possible solutions.

The auditors are always blamed for banking scandals. For example, in 2011 the House of Lords (The Upper House of the Parliament of the United Kingdom) said that the auditors of the leading banks have not fulfilled their obligations (Financial Times, 2011). According to the Lords there no appropriate communications between auditors and regulators.

Such accusations also exist in the Bulgarian practice. Auditors are blamed for the banking crisis in the 90s: "The bank auditors also not limit the asymmetry of information. Reports of all closed banks in 1996 just a few months previously are certified by auditors. This raises the questions of moral responsibility of the bank CPAs" (Manchev, 2005, p. 65).

Questions about the quality of the audits are raised in the recent scandal with Corporate Commercial Bank (CCB). On June 20, 2014 the CCB was placed under special supervision by the Management Board of the Bulgarian National Bank. Special supervision is allowed by Art. 115 of the Bulgarian Law of Credit Institutions. Its purpose is to rescue the bank, where there is a danger of insolvency. Latter, November 6, 2014 the bank’s license was revoked. The question is where is the problem?

In the world history there are many cases of establishing serious weaknesses in the audits. After the bankruptcy of the energy corporation Enron, declared on December 3, 2001, it was revoked (temporarily) the license of one of the largest audit firms in the world – Arthur Andersen. In the banking sector there are often only accusations, without proven cases of serious violations in the audits. This is normal because the crisis in this sector is more complex due to many reasons.

In this regard, it is sufficient to point an article that was published in the Bulgarian newspaper "Capital" on March 29, 2013, one year and three months before the scandal with CCB: Too many coincidences. The links between companies credited from CCB are complex tangle of registrations, placed owners, managers, contacts, accountants and auditors (Stoyanov, 2013).

This article claims that 107 companies that are associated with CCB not repay their bank loans. Most of these companies are not audited. Those companies which are object of the independent audit, according to the article are audited by several auditors who are related with the CCB.

To establish whether the allegations are credible is necessary an investigation. But that is not the purpose of this article. So there no need to comment on their reliability. It is important to pay attention to two problems:

- banks can be drained through related companies which are not object of the audit;
- Independent Financial Auditors are not always independent in smaller companies.
Companies that are objects to independent audit are determined by the laws in each country. In this regard, there are two extremes. In the United States since 1933 are required to be audited all public companies. Other enterprises, regardless of their size, are not object to review by the auditor. At the other extreme is Israel, where the audit is mandatory for all entities.

In the most countries of the European Union are audited bigger firms. Usually it is determined by income, assets and staff. It is similar in Bulgaria, where the banks are object of the statutory audit. This is normal because the stability of the banking system is important for the society. But above mentioned allegations for CCB show that only the audit of banks is not a sufficient condition for stability of the banking system. The enterprises which are not audited can drain millions by obtaining loans from banks. The bank’s independent financial auditors cannot identify similar frauds.

With Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC the European Union aims to reduce the number of companies that are audit’s object. The explanation is that it is important “first need to think small”. But sometimes "thinking for small companies" can mean not to think about the citizens. Frauds that results from the lack of an audit are often greater than the costs for auditing.

Introduction of a requirement for audits is not enough to achieve stability. The second problem, with the independence, is also essential.

Today the auditors in Europe, USA and many other countries are chosen by the companies themselves. This problem is not stand out in the USA, where the audit is mandatory only for public companies. They usually have many owners who are interested to appoint an independent by management auditor. But the conditions are different in the smaller economies, such as Bulgarian. In practice, the owner must choose an independent financial auditor to protect the interests of the whole society. This is contrary to economic logic, of human behavior, and the market. The genesis of the problem and its solution implies to make a historical overview of the arising and the development of the audit.

It is known that modern audit arises after corporate scandals in the XIX century. Due detected frauds of managers, the owners began to seek independent auditors to verify the reports. It is reasonable in this case that the auditors must protect the owners which pay for the service. This practice of auditing is called "police theory" because it focuses on the prevention and detection of frauds (Duits, 2012, p. 22).

Later, in the early of XX century, the audit is developed in verifying the correctness and fairness of the financial statements. This happens when it is realized that creditors, lenders, customers, employees, tax authorities also have an interest in the company. So the auditors begin to defend the whole society, because all need reliable information. The price for reliable information, however, is not paid by the society, but only from the company that actually choose the auditor.

This case shows that there is a change in the social environment because factors to search of reliable information are different, but there is no change in the payment for assurance. Many of the problems of modern audit are related to this.

In the early of XX century the audit become a public good. According to Microeconomics theory, the market system cannot create public goods because their nature does not create interest among private producers. But in the practice of auditing this economic theory is not used.

The Stakeholders expected Enron’s auditors to protect society. But it proved that they protect only their personal interests and the interests of the corporation. “Ceteris paribus” this is normal because the auditors receive the compensation by the corporation. That’s why there are many corporate scandals, which in most cases are related to the auditors. The problem stands more in smaller companies where the auditor is selected by one person – the owner or places owners.

The auditor should be appointed by those who have an interest in the entity. With this requirement is possible neutralizing the risk, which is called “risk of the auditor’s business” by
Miroslava Peycheva (Peycheva, 2014, p. 99). Auditors might be chosen by the interested parties. For example, the self-regulating organizations of auditors, such as the Institute of Chartered Public Accountants in Bulgaria, can organize the choosing.

It could be concluded that the stability is not possible without expanding the objects of the financial audit. It is necessary to introduce legal requirements for auditing of firms that receive loans over a certain amount. It is also necessary to take measures to achieve greater independence between auditors and companies.

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MANAGEMENT ACCOUNTING IN KAZAKHSTAN: REALITIES AND PROSPECTS

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УПРАВЛЕНЧЕСКИЙ УЧЕТ В КАЗАХСТАНЕ: РЕАЛИИ И ПЕРСПЕКТИВЫ

The article considers a condition of management accounting in Kazakhstan, some problems in training of specialists in the field of management accounting. There are offered analysis of management accounting implementation in the educational institutions of Kazakhstan and recommendations about the solution of the related problems.

Keywords: the educational program, competence

Указанные в статье проблемы связаны с управленческим учетом в Казахстане, которые требуют внедрения и развития в указанных областях. В статье рассмотрены актуальные проблемы, возникающие в связи с управленческим учетом в Казахстане.

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