

International Accounting Standards - Better Auditing Performance

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Abstract

During the last 20 years, the economic development and required efficiency on fund's usage has led to a revolution in terms of the Auditors' profession. Successful management of public finances is one of the priorities of governments today; management that requires better use of public funds and efficiency in providing public services in order to increase economic growth and reduce poverty. In this respect, the International Standards on Auditing have changed significantly over the last decade. These standards today are not only more clarified, and more understandable, but also more helpful and more useful by both the auditors and users of financial statements.

In all auditing standards, guidelines, and directives of practices issued by the IAASB, there are always considerations and developed approaches on how to use and adapt them in terms of the public sector.

The main purpose of this paper is to try to analyze the latest developments in the field of international auditing standards, and especially to emphasize the need for drafting appropriate procedures and tools to be applicable for the public sector with the intention of reducing corruption and increasing the efficiency of the usage of public funds. The expansion, growth and strengthening of auditing, strengthens institutions, improves the legal framework and its implementation thus playing an integral role in the war against corruption. The rapid development of market economy methods and tools, including the heavy use of technology brings many benefits. However, there are also some disadvantages, which can lead to new ways of corruption. For this reason, today more than ever, we need to increase the role of auditing and auditors through the use of control instruments such as competency, ethics, high quality and supervision.

KEYWORDS:, public management, theory of auditing, auditor, public funds, efficiency

Background

The importance and relevance of auditing as a profession was better acknowledged in 2000 soon after the large scandals and bankruptcy declarations (as a result of fraud and corruption) in several companies in the United States (Enron, Tyco International, Adelphia, Peregrine System and WorldCom). These scandals cost investors billions of dollars in losses hurting the public's confidence in many trajectories, specifically in the bonds market.

In 2002, Sarbanes-Oxley was passed in the United States. This law, amongst other things, strengthened financial and auditing standards on all public companies. Sarbanes-Oxley states that all managers should ensure the accuracy of financial information. Additionally, any fraud found in a company would result in high penalties. As a result, the independent auditor's role and their independence from government grew significantly.(1) President George Bush said that "this is the strongest reform to practice business in America since Roosevelt's time. The time of low standards and fake profits is over: no Board in America is above the law." (2)

Alan Greenspan, the former head of the Federal Reserve, in response to Sarbanes - Oxley said " I am surprised how quickly this law is being abided. Sarbanes-Oxley mainly reinforces the idea that stockholders are the owners of our corporations and managers should work representing them to distribute earnings in the most profitable way for the stockholders. For this reason, CFO's and managers need to "own" their statements (3)

As a result of Sarbanes-Oxley, similar laws were passed in most developed countries. The global crisis further increased the demand for quality auditing in the process of the war against corruption.

The auditing of financial statements, as well as the auditing of other historical financial information, in most jurisdictions is conducted in compliance to the international standards on auditing or otherwise complying to local standards, which are mostly very similar to the ISA being that they come from a specific and rigorous adoption of the internationally agreed regulations.

Adaptiveness of ISAs in auditing the public sector's financial statements

Financial reporting in every sector has to not only be credible but also useful in order to serve its purpose when being viewed by the involved parties. For this reason a good combination is necessary, on one hand qualitative standards of financial reporting involving professionals and qualified personnel and on the other hand an independent verification of the financial reports in order to avoid discrepancies or incompatibilities, which, as a rule, are also related to the adherence of professional values and ethics.

All these requests have been legitimized from the introductory part of the International Standards on Auditing for the Public Sector, published by the International Public Sector Accounting Standards Board (IPSASB), where an emphasis is placed on standards. The other statements of the board as well aim towards development and harmonization of accounting, financial reporting, and the auditing practices in the public sector. In this context the IPSASB maintains high awareness of implementing their declarations/standards as well as their public statements from the board of the International Standards on Auditing and Issuing of Assurance to the extent they are implementable in the public sector.

The International Standards on Auditing (ISA) published by the IAASB are not directly aimed at the public sector and do not replace authoritative national standards, which can be brought by the government, regulatory bodies of accounting or professional ones. Nevertheless, as mentioned previously, being that ISAs are universal they can be applied to the public sector, such as when auditing financial statements of business enterprises owned by the government, which from here on out will be called entities of the public sector. This encompasses entities of sectors that are relevant to the public interest such as national railways, services of transmitting and distributing energy and combustibles, water, telecommunication public services; as well as other entities of the public sector such as schools, hospitals, etc. Due to the fact that these entities act as business activities they operate as commercial agents meaning that they incur costs and attain revenue. In this context the major activities of businesses of the public sector is similar to business enterprises of the private sector.

Business enterprises of the public sector as well as local and national agencies prepare financial statements for general purposes to be used by law legislators and governmental departments, national and foreign investors, employees, creditors, the public, as well as other users. In order for these users to have a reasonable assurance regarding the financial data of the public sector entities it is necessary that these statements be subject to audit, through which a independent opinion on whether or not the statements are in order can be attained and whether the statements reflect the true financial activity of the entity.

The auditing and reporting objectives of financial statements by business enterprises of the government are similar to those of private sector entities. Seen from this point of view the same standards in auditing, verifying, and examining, can be applied regardless of the entity's nature. The users of financial statements also have the right to an equal quality of assurance, which cannot be attained if different standards in verifying data or auditing were used. Therefore audits of financial statements of governmental business enterprises have to be in accordance to ISA rules in all the material aspects.

ISAs published by the IAASB describe issues such as: the basic principles that adjust/guide the professional responsibilities of the auditor as well as the qualifications or main characteristics of the auditors (ex. The need for appropriate training, independence and caution in auditing financial statements). The accompanying and explanatory documents if ISAs, although they lack the authority standards have, give practical recommendations and guidance in conducting audits of financial statements (ex. For adequate planning and oversight, assessing inherent risk and its influence on crucial procedures as well as the process in which the auditor decides on what procedures are necessary during the auditing process).

The standards give guidance regarding the form and content of the auditing reports. Nevertheless, given the different specifics in drafting reports of the public and private sector, financial statements of entities of the public sector can include different information from financial statements of the private sector entities (ex. There may be information included which makes available comparisons between the report timeframe with the planned budgetary figures or with the limits defined by the law). Under these

circumstances, modifications to the audit may be requested especially in cases of time/deadline; the extent of the audit procedures, or even the auditor's report being requested for a public statement.

Besides what was mentioned above, some of the public sector entities can use extra resources, mainly with the purpose of fulfilling a variety of additional objectives often of a non financial matter such as social objectives, environmental, etc., which surpass the usual requests of their commercial objectives. Whilst audited financial statements can inform on the financial stance, the results of operations, and changes in the financial state, they cannot adequately report on the results of activities of a non-commercial nature mentioned above.

Under these circumstances, in cases regarding entities of the public sector, auditors can be requested to audit and report on information regarding the following as well:

- Compliance of entities to legal and regulatory requests (including compliance to the law, rules, or local statements which apply to the public sector);
- Adaptiveness of the internal control structure of an entity; and
- The economy, the efficiency and effectiveness of the programs, projects, and activities.

Additional information in public sector entities' reports can be included in the financial statements or can be provided separately. Auditing of this information may demand extra work from auditors, which goes beyond what is requested for auditing and reporting purposes on financial statements or historical financial data.

In their yearly reports some entities of the public sector may include information on their progress towards certain objective, which are measured by specific financial indicators or other types of indicators. Auditors may be requested to audit and report on this additional information, which for example can be related to performance.

A distinctive feature that has found adequate treatment in the standards and statements of the IAASB is the acceptance of changes and their specific consideration in cases of audits in the public sector. ISA 200 for example, which is considered a framework standard in auditing financial statements, states that: "The law or regulations that regulates the audit's activities in the public sector, generally mandates appointing of a public sector auditor and usually specify the responsibilities and competencies, including the right of the auditor to access data on the registers and other information of the public sector entity. Even in cases when the law or regulation describes in sufficient detail the terms of commitment of an audit, the auditor of the public sector can nevertheless consider the benefits if he drafts a letter to engage in a more complete audit than that treated in ISA 210 (The Conditions of Commitment on Auditing)".

In conclusion, it can be said that the spread of using uniform procedures of auditing contributes to an increasing confidence and trust in users of financial and non-financial information and contributes to an added value for entities, including an enhancement in the economy, effectiveness, and efficiency.

The Increased Role of Auditing in Albanian and Public Sector

The improvement of financial reporting and increased transparency in the levels of domestic and international standards was one of the best achievements that auditors achieved in their first phases of development.

The audit's role today is quickly developing and it is viewed as proactive in formalizing the processes and procedures through training and communication, ensuring that all the puzzle pieces are in the right place and that each is playing a certain role.

It is often difficult to formalize the audit form for different problems and functions because of the specific government structures, cultures and capacities. In many cases, corruption is not directly related to bribery; it does not include an actual transaction. It is much worse, much more sophisticated and camouflaged and as such, it is difficult to pinpoint using traditional auditing methods. Nevertheless, such a phenomenon can lead to potential risks of breaking the law.

Therefore, to optimize and increase the effectiveness of the audit functions, international regulatory systems have been engaged. Both international and domestic regulatory systems are tested in different software programs to ensure that even the internal auditing has the appropriate tools in detecting corruption and internal fraud. Internal auditors need to know the specific risk areas from the beginning of the process. This is the only way they can closely follow the manager's process over the amount of time.

The development of the audit profession in Albania has developed simultaneously with the development of the market economy (immediately after the collapse of the centralized economy beginning of 90's) and it continues to be an essential tool in improving financial reporting specifically increasing confidence and transparency.

For almost a decade Albania is on the list of countries that apply ISAs. The first steps to the creation of the audit profession in our country started in 1994, when for the first time, the law required companies to use certified experts in the audit field. It took some time for this process to be implemented and was finalized in 1997 when IEKA (Institute of certified Public Accountant) began operating as a private institution with public attributes.

Auditing procedures have started in Albania in 1999 when the procedures were first drafted based on the technical recommendations from the National Company of Auditors of France (CNCC), which served as the first procedures and standards of auditing used by several generations of CPAs for several consecutive years not only for their personal qualification and professional preparedness but as work practice procedures in carrying out yearly audits of companies. In 2001 the technical recommendations were replaced with a package of auditing procedures focused mainly on small and medium enterprises (SCAP), while in 2003 this package was substituted with the International Standards on Auditing published by the board of the International Federation of Accountants (IFAC), translated in Albanian and declared obligatory by law.

In 2011, IEKA translated and published the clarified package of standards of the IFAC. In the aspect of standards of labor and procedural aspects, IEKA currently finds itself in the process of including the most coherent literature of the IFAC.

Governments have come a long way in becoming more demanding towards the audit functions and they should continue to do so.

Both auditors and executives should be viewed as partners who seek the highest effectiveness of the company. This co-operation gives managers a clear view of the risks that each public institution faces.

Recommendation

Today, through these new unstable economic conditions due to the global and euro zone crises, business activity in our country is more complex and at higher risk. Now more than ever it is even more vital to reconsider the role of external and internal auditors with the intention of increasing the wellness and values of private companies and public services.

This goal can be achieved if both side work effectively. The auditors should be more conscious and work hard under the professional standards focusing more on quality and ethics as well as businesses and other interested parties as regulators etc. have to be proactive and involved in the process.

Reconsideration of the auditor role is not only important because of the dynamic economic development of our country, but also because of the needs to change our behavior in order to be ready to face the larger consequences of the crises. Public institutions have become more aware that without changing management methods, they will not be able to face the crises' consequences. Looking at the crisis' effects so far are serving as a lesson for us to address the questions of efficient use of this profession from the business point of view, as well as in the context of better legal regulations of the auditors' profession.

Reconsidering the role of the auditor also means the expansion of their activities. Today the main focus should not just be the valuation and control of financial tables in general, but their work should include other services such as reporting and controlling the internal control process, assessing business risks due to the local economy or assessing strategic risks, as well as obedience to the law framework requirements, etc.

The auditors should be involved in servicing large local companies for tax purposes. This duty requires the implementation of very high standards of quality and being very objective and independent. In this process they should increase and reevaluate their responsibilities as well. This involvement should start as a pilot program in some entities, focused primarily on formalizing economic models and reducing public and private costs, in order to later achieve development in the field as a result of the pilot program's efficiency.

The new role of auditors requires professional standards, high-level ethical and technical standard, independence, and objectivity. Taking into consideration that quality standards are the key preparation and use of a simple standard manual about the steps and duties on how to implement auditing practices and other services for small and medium entities, will contribute not only in unifying the working procedures for local auditors, but it will also make their work comparable to that of professionals of other countries.

When looking from a different perspective, the improvement of the regulatory framework is a continuing key factor to the auditor's new role. New economic conditions require a reasonable and proportional distribution of the duty between internal auditor regulations and exterior oversight of public institutions; a process where all actors should participate and be very proactive.

Despite all the above, practical implementation of the legal and regulatory requirements will be the main challenge. In this process it is necessary to include all members the profession includes, as well as other interested parties such as business entities, tax office, registration office etc. in a broad process focusing on economic formalization, higher performance and transparency.

On the other hand, higher collaboration with FEE, World Bank, IFIAR, ACCA, etc., with the intention of better usage of instruments, will guarantee better fulfillment of the general auditing functions such as competencies, ethics, quality assurance and supervision.

That is why a good understanding of the importance of the auditors work is required in today's world, giving them the proper acknowledgement in public finance and pushing for more professionalism and effective use of scarce resources to minimize and manage risks.

International organizations, national and local governments, and public sector entities at all levels, today use similar standards of reporting. This tendency is easily visible in the modifications they have made moving from a cash basis model to a cash modified basis model of accounting targeting the full use of accrual-based accounting.

List of abbreviation:

IAASB - International Auditing and Assurance Standards Board

IAS International Accounting standard

IPSASB -International Public Sector Accounting Standard Board

CNCC - National Company of Auditors of France ()

CPA - Certified Public Accountant

SCAP - Small Company Audit Procedures

IFAC - International Federation of Accountants

FEE, (Fédération des Experts-comptables Européens – Federation of European Accountants)

IFIAR - The International Forum of Independent Audit Regulators

ACCA - Association of Chartered Certified Accountants

IEKA (Institute of certified Public Accountant)

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