Audited financial statements increase the certainty and efficiency of decisions made by organizations

Prof. Assoc. Dr. Hysen MUCEKU
Lecturer, Faculty of Economy, Business and Development
European University of Tirana

Msc. Geralda MUCEKU
Specialist, Process & Product Development Department
Banka Kombëtare Tregtare

Msc. Krisdela KAÇANI
European University of Tirana

Abstract

The quality and accuracy of financial information is very important in making the right decisions by the parties that use this information during their activities. To conduct an audit, the information must be in a verifiable form and have certain standards / criteria by which the auditor can evaluate the information. Managers of various levels within the organization, shareholders, investors, creditors, government, are all interested in the quality and accuracy of the information contained in the financial statements. In the exercise of their activities, financial auditors in Albania face problems that affect the quality of the services they provide, especially problems related to the environment where they operate and professional ethics, as the economic environment presents problems that create difficulties in practicing the profession according to standards and professional ethics. Also, an important challenge is educating business leaders on the long-term benefits of accurate financial reporting that leads to increased business value, as well as raising their awareness of the importance of establishing efficient internal control systems over financial reporting.

Keywords: *Financial Statement, Standard, Professional ethics, Audit opinion, Quality assurance.*

Introduction and study methodology

Users rely on financial statements to make their decisions, so they view the auditor's report as an indicator of the reliability of the statements. Decision makers can use the audited information assuming it is completely reliable, accurate and impartial. They assess the auditor's safety because of the auditor's independence from the client and their knowledge of financial statements and reporting.

Reducing information risk has a significant impact on business decisions, because, as society becomes more complex, the decision makers are more likely to receive unreliable information, for several reasons:

Firstly, is the distance of information. In a global economy it is almost impossible for a decision maker to have a lot of important information about the organizations with which they do business. The information on which to rely on, is provided by others. When information is provided by others, it is possible that anomalies may be intentionally or unintentionally presented.

Secondly, manipulations and motives of the provider. If the information was provided by someone whose intentions are contrary to those of the decision maker, the information may be biased in favor of the provider. The reason may be honest optimization about upcoming events or aimed at influencing users. In other cases, the result is an information anomaly.

Thirdly, the voluminous data and complex exchange transactions. As organizations become larger, the volume and complexity of exchanged transactions also increases significantly. This increases the chances of inappropriate information being included in the records.

The quality and accuracy of financial information is enhanced through audits performed by financial auditors. To conduct an audit, the information must be in a verifiable form and have certain standards / criteria by which the auditor can evaluate the information. The criteria for evaluating information vary depending on the information being audited. Auditors perform audits of quantitative information contained in financial statements.

In auditing financial statements by independent auditors, auditors use the standards on which they are based, such as the generally accepted US GAAS accounting standards or those applied in other countries (including Albania). International Financial Reporting / IFRS.

Auditors try to have high level of independence in maintaining the confidence level of users relying on their reports. Auditors who report on the company's financial statements are called independent auditors. Although they are paid by the company, they are independent in conducting the audit on which the users rely, so that their opinion is credible.

For the audit of internal control over financial reporting, the criteria are based on the well-known COSO framework for the functioning of internal control, while for the audit of tax revenues are used the standards set out in fiscal legislation.

The auditors and the audited entities agree on the criteria before the start of the audit.

Before starting the audit, the auditor should know the standards used in keeping accounting records and publishing financial statements by the organization, and should know the types and amount of evidence collected in order to reach the right conclusion for giving the opinion of the on the audited financial statements. Also, the auditor must have a high level of independence in order to maintain the trust of the users of their reports.

At the end of the audit process, the auditors prepare an audit report that communicates the audit findings to the users, who are informed of the extent to which the audited information corresponds to the standards set.

Study Methodology

To identify the problems faced by the financial audit in Albania and assess the capacity of this service, for the purposes of the study the method used in data collection is the quantitative one that was developed in the form of a questionnaire to auditors that included questions based on legal, the efficiency of the supervision of this profession, the obstacles they encounter in the economic environment and on the pressures or demands of the business, also the qualitative method was used which was developed in the form of semi-structured interviews and for this purpose interviews with businesses and managers were organized public organizations. Within the data analysis, both of these sources of information used are complementary in order to ensure that the findings describe certain prevailing phenomena.

The purpose of the study was to determine the current capacity of public financial auditors in Albania.

Research question - Is the activity of certifying financial statements performed according to standards?

Literature Overview

For the assessment of the security and quality of financial information used by organizations (public and non-public) in Albania in the decision-making process and the role of audit services in this process in addition to standards, legislation, methodological basis prepared by public bodies respectively, works of various authors in this field and publications of professional bodies were also treated.

In their book "Principles of Auditing & Other Assurance Service" (2018), O. Ray Whittington and Kurt Pany emphasize that: "Reliable information is essential to the existence of our society. The investor in making a decision to buy or sell securities, the banker in deciding whether to approve the loan, the government in obtaining income based on income tax - all rely on information provided by others."

Financial reporting fraud is a deliberate misinterpretation or omission of financial statements of amounts or disclosures for the purpose of misleading users (the example of WorldCom capitalizing as fixed assets billions of dollars that should have been recorded as expenses).

In their book "Auditing and Assurance Services" (2014), Alvin. A. Arens, Randel J. Elder and Mark S. Beasley define fraud as a legal concept: "fraud is a deliberate act to deprive a person or party its property or rights". In this definition we see 3 typical elements of fraud: (1) committing an intentional act, (2) doing something bad or wrong by causing harm and loss to someone intentionally, (3) unauthorized personal gain.

The Committee of Sponsoring Organizations / COSO (2020): "Compliance Risk Management: Implementing the COSO ERM Framework / Framework". "Compliance risks are common and frequently material risks to achieving an organization's objectives" said Paul Sobel, President of COSO. While Gerry Zack, CEO of SCCE & HCCA, emphasizes that: "As compliance and ethics programs continue to evolve and gain wider adoption globally, it makes increasing sense to understand and appreciate the synergies that can be achieved by applying the ERM framework".

According to COSO (2017): the authors K, Rae., J, Sands., N, Subramaniam in the paper "Associations among the Five Components within COSO Internal Control-Integrated Framework as the Underpinning of Quality Corporate Governance", states: "Companies that are attracted to the COSO Internal Control-Integrated Framework should benefit from a better understanding of direct, indirect and reciprocal associations between the components of internal control systems. The benefits gained from this better understanding can help companies improve their corporate governance practices leading to operational objectives, financial reporting and compliance."

COSO (2014): "Improving organizational performance and governance". Emphasizes: "Within the context of its mission, an organization has been created to meet the objectives. It is assumed that the leaders of the organization can articulate its objectives, develop strategies to achieve these objectives, identify risks to achieve these objectives and then reduce / mitigate these risks in the development / implementation of the strategy."

Organization for Economic Co-operation and Development / OECD, SIGMA PAPER No.59, (2019), Guidelines for evaluating the quality of internal control systems. It states that: “The development and maintenance of efficient management and control systems, based on the principle of decentralized managerial accountability, remains a challenge for public sector managers in EU candidate countries and potential candidates.”

OECD in the publication “Public Governance Reviews” (2017). Internal Control and Risk Management for Public Integrity in the Middle East and North Africa. Emphasizes that: “Internal control systems are necessary to ensure reliable financial reporting; compliance with laws, regulations and policies; and economic, efficient and effective government operations.”

The OECD study on the integrity of internal control and risk management of the public sector (2016), states: “Risk management is an integral part of the management system of an entity, carried out by the senior management of the entity, managers line and other personnel, designed to identify, understand and evaluate potential risks and opportunities (and their interdependence) that may affect the entity and manage those risks and opportunities that are within the risk appetite/tolerance, in in order to provide the appropriate presentation / disclosure and reasonable assurance regarding the achievement of the entity’s objectives.”

OECD in its publication “Risk Management and Corporate Governance” (2014), states that: “Existing risk management standards for listed companies still focus mainly on internal control and audit functions, and mainly financial risk, rather than on identification (ex / ante) and comprehensive risk management. Corporate governance standards should place sufficient emphasis on the prior / ex ante identification of risks.”

Some issues of auditing financial statements in Albania

The Albanian economy is still characterized by a high degree of informality, corruption and tax evasion and in these conditions both auditors and specialists in the field of finance and accounting face an unsuitable environment to conduct their activities according to standards and professional practice, as there are business owners who tend to increase their profits through corrupt and informal channels by manipulating accounting information.

In the exercise of their activity, financial auditors face problems related to the implementation of laws, rules, standards and ethics of the profession. Also, there are problems in the supervision of these professions, the environment where they operate and the ethics of accounting professionals, as well as the quality of services provided by them.

Verification of financial reporting is very important for the decision-making process, as it is not only a legal obligation, but also a necessity to have transparency and reliability. This process is regulated by laws, guidelines and regulations on statutory audit, organization of the profession of statutory auditor and certified public accountant.

Public companies are obliged to perform the legal audit of the annual financial statements, before their publication, by statutory auditors or auditing companies who have the respective cost for this service.

The role of statutory auditors is to verify that the financial statements of organizations as a whole do not contain misstatements, errors or anomalies, ie to give stakeholders an opinion on the accuracy of financial accounts. A wide community of people and institutions rely on the quality of statutory audit. Therefore, by improving the integrity and reliability of financial statements, statutory audit contributes to the economic development of the country as a whole.

The discussion in this area has focused mainly on the regulation of the profession and the model to be followed. The model that is being implemented in Albania is being approximated to that of the EU countries, as the mix model between regulation and self-regulation of accounting professions according to EU directives is being implemented.

The legal regulation of accounting professions in our country is based on law no. 10091, dated 05.03.2009, "On legal audit, organization of the profession of registered accounting expert and certified accountant", as amended. The purpose of this law is the best supervision of the financial auditor profession, where the Public Supervision Board / FMB has the task to monitor their organization, statute and activity in terms of certification, quality control of activity, continuing professional education , as well as the approval of rules and procedures of audit work. While IEKA monitors the internship of professionals before entering the profession, their registration, continuous qualification and quality control of the audit activity. These professional bodies have the task of performing quality control of audit work, investigation of suspicious cases and taking appropriate disciplinary measures.

A very important aspect is ensuring the quality of the audit activity. Quality control for the implementation by auditors of international auditing standards is performed by IEKA and is based on the international standard for quality control no.1 and international standards for the performance of commitments. Quality control is mandatory for all registered auditors. This control is exercised by the quality committee and is performed at the location of the auditors. Quality control verifies the implementation of auditing standards, code of ethics, independence, quality, amount of resources spent, fees charged, etc.

The questionnaires and interviews conducted state that, in conditions when the financial information is not accurate, the auditors should give qualified or contrary opinions, and in these conditions problems are created in the relations with the business, as the auditors are faced with business pressures to provide an unqualified opinion even when the audit results in problems related to the accuracy of the financial information.

Another important issue is the fiscal consulting that auditors do, as various businesses find manipulations related to concealment of income, fictitious increase of expenses, especially the increase of deductible expenses in order to reduce the declared profit. and profit tax.

Another problem identified is unfair competition within the audit profession and price competition which in many cases lead to legal violations, non-compliance with standards and low quality of audit activities.

Problems are also found in relation to the appointment of auditors, since the client's acceptance and commencement of engagement, joint engagements of experts in auditing units, changing the appointment in cases where the need arises to change an auditor for various reasons, and conflicts of interest.

It is important to note that auditor engagement programs often do not program to be audited and report on the effectiveness of internal control systems over financial reporting, where the leaders of organizations have their responsibilities to design, establish, make effective and update these systems, as the efficient operation of these systems at all times increases the security of financial information in the organization.

Conclusions and Recommendations

In exercising their activities, financial auditors face problems that affect the quality of services they provide, especially problems related to the environment in which they operate and professional ethics, as the economic environment presents problems that create difficulties in practicing the profession according to standards and professional ethics.

Auditors exercising the activity of financial certification should be continuously trained and qualified with the application of professional standards and practice, as well as with the application of ethical principles and norms. For this, an increasingly important role should be played by the two professional public bodies, the Public Oversight Board and IEKA. These bodies, in addition to the legal obligation to prepare the modern legal and regulatory framework, as well as the necessary methodological basis of the system, certification, training and continuous professional development, must continuously monitor the quality assurance of audit activities, in order to resolve of identified problems and the development of this activity according to contemporary standards and professional practice to add value to the audited organizations.

Higher education institutions also have an important role in educating young professionals in this field and preparing them for the labor market.

It is important to educate business leaders on the long-term benefits that accurate financial reporting has that leads to increased revenue, business longevity and its image. Also, the leaders of organizations should be aware of the importance of establishing effective internal controls over financial reporting, as an efficient control system will produce accurate and quality financial information that will help them in the decisions they will make.

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