

Ways for the Development of the Audit Quality Control System through the Analysis of Ongoing Problems, Experience and Challenges: Example of the Republic of Georgia

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Abstract—Audit is an independent inspection of the financial statement of the audited person and expresses the opinion of an auditor on the reliability of this statement. The auditor's activity (auditor's service) is realized by auditing organizations, individual auditors in connection to conduction of an audit and rendering of audit accompanying services. The profession of auditor means a high level of responsibility for rendered service. Results of decisions made by information users depend on the quality of the auditor's conclusion. Owners, investors, creditors, and society rely on the opinion of the auditor under the condition that inspection was conducted with good quality. Therefore, the existence of the well-functioning audit quality control system for the administering of the audit is an important issue. An efficient audit quality control system is a substantial challenge that many countries face worldwide, especially those states where these systems are being formed within the respective reform program. The presented article reflects on the best practices of the leading countries, the assumptions and recommendations for the financial accounting, reporting and audit; current reforms in Georgia are made based on this comparative analysis.

Keywords—Audit quality control, audit program, financial statement, perspective analysis.

I. INTRODUCTION

FOREIGN scholars imply that the quality of audit is defined by the reliability and sufficient level of trust of auditor's customers in reference to the auditor's opinions regarding the reliability of the information of the client's financial statements [13]. Thus, the auditor's qualified professional opinion is an independent and objective viewpoint that strengthens the consumer confidence in the implementation of their economic activity [7].

The audit quality implies the orientation of the audit firm on satisfaction of market requirements. In our opinion, the advantages should be given to consumers' evaluation, study of the nature of requirements and the identification of quality indicators, which is of paramount importance for those who use the final result of audit inspection. According to International Audit Standards, audit quality is an audit that meets international standards, national standards or practices used.

Based on the international research, we can conclude that

the quality of audit is determined by the object, its characteristics and information about the satisfaction of customers' requirements [12].

II. AUDIT QUALITY CONTROL

The audit quality object is an audit inspection, which consists of the contacts with the examining entities and other organizations (checking the documents, collecting evidence, etc.) Characteristics are the features of audit as a type of service, which are distinguished by the individuality defined by the intellectual capacity of the service provider. The qualitative characteristics of the audit are evaluated based on such qualitative indicators as auditors' professionalism, their independence and conscientiousness; the completeness and thoroughness of internal documents prepared by the auditors and internal standards; professionalism in leadership.

The requirements as elements of quality audit represent the information contained in the audit report. The information requirement is the interest of the user to receive information on the credibility of the financial statements of the economic entity. Thus, the quality of the audit is the compliance of the inspection processes with the customers' requirements for information entered in the audit report [1].

The quality assurance system is being developed based on detailed perspective analysis, forecasting the changes in external and internal conditions. The development of this system in an audit firm is related to the problems of assessment of the required characteristics of factors affecting on the audit quality.

In the audit organization, the individual auditor is obliged to establish and maintain the internal control rules of work quality. The quality control system must strengthen the belief that the given audit organization and its employees conduct audits and provide appropriate services in accordance with the requirements of the applicable laws.

The internal control of the quality consists of three types of control: preliminary, current and further control [4].

The preliminary control of audit quality is an important element of the control system. It is carried out before performing controlling operations. The preliminary control is being carried out in the form of approbation of new standards and methods. This may comprise an analysis of various standards, based on which, the decisions are made for the

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development of internal criterion dedicated to a similar problem, for the detalization of particular procedures or for application of certain standards in the internal firm manner.

The next stage of implementation of the preliminary control is conducting an audit inspection. In the given case, control takes the form of audit planning. This is a large-scale stage of audit inspection. The quality of the audit is largely determined by its planning. Due to the high importance of this stage, there are many requirements stipulated by the existing standards [9].

The characteristic feature of the current control is that it is carried out directly during the audit procedures and depends on the level of quality system and can be performed at the various stages of audit inspection. Thus, ongoing control through the audit standards, as well as their approbation can be carried out both during the collection and reporting of audit evidence and also at the planning stage. This control envisages the use of audit standards approved in daily activities, in order to issue recommendation for their perfection. The internal firm standards as well as general standards existing nowadays may include various elements of auditing activities: Customer Relationship Rules, Audit Methodology, Rules for Preparing Auditor Report, Professional Training, etc. The necessity of the use of internal firm standards should be reflected in the organizational and administrative documents of the firm, as well as work instructions of employees.

Further control cannot prevent unlawful, unjustified actions, but it can cover those objects that are not under preliminary and current control. The control is carried out in the form of inspecting the work documentation and the survey of staff participating in the audit process. These forms of control are universal i.e., they can be used during both internal and external controls. Such control may be carried out by the quality control service of audit firm or by the employees having the relevant qualification, who are not involved in the inspection. Based on the outcomes of the control, the decisions are made on compliance with the internal standards and other provisions. The results of such control can become the basis for the decision of the career advancement of the employees.

Further control at the functional quality level is used during the client's feedback analysis provided about the inspection. During or after transfer of the audit conclusion, the head of audit inspection must evaluate the quality of customer satisfaction with the conducted audit.

Each audit organization must set up and maintain an internal firm system of quality control to ensure that the audit inspections carried out by this organization are fully compatible with regulatory documents for audit activity.

The quality control system of the auditing organization implies:

- Protection of independence, honesty, objectivity, confidentiality and professional ethics by professional employees of the auditing organization;
- Staffing the auditing organization with professionals who have relevant education, experience and skills to fulfill their obligations;
- Transferring of audit tasks to those professional employees whose qualifications correspond to the specification of the

given task;

- Performing all types of work during the audit based on guidelines, ongoing monitoring and control of the work done in compliance with the requirements of the quality;
- In case of lack of experience or knowledge in specific circumstances, provide the personnel with appropriate consultations within and outside the audit organization;
- Developing and continuous usage of the client hiring and firing procedure in auditing organizations. In addition, the independence of the audit organization and its ability to conduct a high quality audit has to be taken into consideration, as well as the reputation of the heads of possible economic subjects for the purpose of future inspection;
- Regular checking of reliability and efficiency of functioning of internal quality control system;
- Taking necessary measures against the employees of audit organizations in case of misconduct or improper accomplishment of the imposed obligations.

Prior to the commencement of the audit, the chairman of the auditing organization shall approve the head of the specific audit and senior auditors, which should be reflected in the general audit plan. The chairman of the audit and senior auditors are obliged to analyze the professional possibilities of the ordinary participants of the audit, to schedule works that can be assigned to them and determine the specifics and the volume for ongoing control and the assessment of the works conducted. The chairman of the audit is obliged to use the means of control of the work performed by the audit organization that best conforms to the given specific audit inspection.

The chairman of audit group must ensure that the senior auditors and ordinary auditors have the necessary knowledge and skills to perform the work properly.

The guidelines for senior auditors and ordinary participants of auditing include information about their duties and the procedures that shall be performed. These instructions also shall contain information about the peculiarities of the activities of the economic entity that is the subject of inspection and about possible problems of accounting and audit that may affect the specificity, volume and time spent on auditing procedures.

In preparation of guidelines, a general audit plan should be considered and calculation the time required for auditing. The audit program is a major factor in providing guidelines for performers.

Current control of the work performed implies the guidelines and inspection of tasks and outcomes by those employees who have superior knowledge and skills. During the inspection of the results, the main attention should be paid on the following:

- Is the work performed according to the audit program?
- Was the work performed properly documented?
- Have all important remarks that have arisen during the inspection been reviewed and reflected in the auditor's conclusions?
- Are the goals or relevant auditing procedures achieved?

- Are the findings made by the auditor conditioned by obtained results and are the results of the work the basis for the auditor's opinion?

The employees, who conduct the inspection of the work outcomes shall sign or mark with a symbol easily identifying their identity, the documents of works for inspection; In case of necessity, they are able to reflect the assessment of the activities of the audited entity in the work documents, to make notes and provide feedback and recommendations.

The heads of audit organizations have a right to instruct the participants of the group, as well as properly qualified specialists to inspect the results of the work done. Such an independent, parallel examination within the auditing organization is recommended in the case of auditing large and difficult economic entities [6].

The external control of the audit quality will be one of the main tools of local audit quality enhancement for a long time. The necessity of membership of auditors and auditing organizations and their obligatory external control will facilitate its constant development. The subject of external control of work is the protection of the law, the standards of audit activities, the independence of auditors and audit organizations, and the Code of Professional Ethics of Auditors [8].

In accordance with Article 19 of the law of Georgia on "Accounting, Reporting and Auditing", external inspection of quality of audit is conducted by the state sub-agency within the system of the Ministry of Finance of Georgia. This is the agency responsible for the accounting, reporting and audit supervision services, which performs state policy development and statutory and legal regulatory functions in the field of audit.

In general, notwithstanding the fact that the audit quality control system in Georgia is still the process of development and formation, we can admit that it is quite developed compared with other countries of post-Soviet bloc; however, Georgia is still lagging behind the audit quality control of the developed countries. At present, the legislative acts of Western countries, the International Audit Standards (ISA) represent the guiding source of legal regulation of the audit activities of developing countries. At the same time, Western European countries place serious emphasis on the importance of the issues of audit quality control [10].

III. INTERNATIONAL EXPERIENCE

In 2002, the Sarbanes-Oxley Law/Act had been adopted in the United States. According to this law, the Audit and Accounting Supervisory Board is currently actively functioning and has a wide range of powers. It implements the inspection through the utilization of the major workforce represented by the qualified inspectors, who are employed in the registered auditor firms, in order to evaluate legislation requirements, professional standards, compliance etc. The Board conducts an annual inspection of all audit companies, which prepare reports on more than 100 companies with the registered securities and at least once in every three years - those companies that prepare audit reports on 100 or less

similar companies.

In 2003, France adopted the so-called "Law on Financial Security", according to which, the High Council of Compulsory Auditors has been established. The Council has the authority of the Supreme Body that represents the public interest and exercises control of the audit profession. It consists of 12 people, of which, only three are auditors. Within the quality control, all technical professional principles, including audit professional standards, ethics code, checking of technical methods of conducting audit are also provided, also there is considered to publish the report on the Council activities.

The Financial Reporting Board has been established in Great Britain in the framework of the Audit Profession Reform. The board is composed of five main departments including the Professional Supervision Committee on the Activities of Independent Accountants (Auditors). The Committee also has an audit-quality control department. The Council shall conduct supervision of the quality of audit of Professional Audit Unions (Institutes) and Public Interest Individuals [5].

The legal basis for the perfection and harmonization of the legislation of the States (EU members) in the field of accounting, reporting and auditing is the directives adopted by the Council of Ministers of the European Parliament [2]. Directive 2006/43 EK about the Compulsory Audit provides that the countries should have an external control system of the quality of implementation of auditors and auditing companies. In addition, this directive establishes that the audit international standards will be the minimum standards of the audit activities for compulsory audit. The Auditors Ethics Code adopted by the International Federation of Accountants (IFAC) is a collection of minimum rules for the professional conduct of auditors.

The IFAC pays great attention to the quality assurance of audit services. One of the priority directions of IFAC activities is the promotion of high-quality services provided by the representatives of the world accounting professionals, and continuous improvement of audit quality. To this end, the IFAC is working on developing and publishing standards and provisions for providing professional services.

A basic document in the quality assurance standards system of professional audit services is the provision of the commitment of IFAC member organizations, the "Quality Assurance". According to this document, audit quality control should be carried out at three levels: Professional audit association, audit firm and audit assignment. The provision establishes the requirements for the audit quality management only to professional auditing associations.

Development of standards and practical recommendations to provide auditing quality in an audit firm is the competence of the International Federation of Accountants (IFAC). They have adopted such documents like the International Standards of Quality Control (ISQC) 1, "Quality Control for Firms that perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements" (it regulates the organization issues of quality control at the firm

level), International Standard of Audit (ISA) 220, "Quality Control for an Audit of Financial Statements" (it deals with quality control issues at the level of individual audit tasks) [3].

The package of international standards (provisions) dedicated to audit quality control contains one more important official document developed by the IFAC Small and Medium Enterprises Practical Activity Committee – "Technical Assignment for the Project: Development of Quality Control Guidelines for the use in practical activities of small and medium enterprises". The document is intended for IFAC member organizations, in order to involve specialists in the process of development of quality management guidelines for small and medium enterprises. The technical assignments define the procedure for the adoption and review of project proposals, requirements for the presentation of the form and content of the project, and the evaluation criteria for the submitted proposal [11].

IV. CONCLUSION

Thus, the issue of audit quality control is very important today. Scientists struggle to clearly define this concept and differentiate the audit quality criteria. But despite all the uncertainties, it is necessary to establish an efficient audit quality management system that should be utilized in Georgia and other countries.

Basic requirements for the organization and functioning of internal audit quality control system, which should exist between auditing firms or independent auditors, in Georgia is determined by the Order of the Accounting and Audit Surveillance Service on the "Rule of Monitoring of Implementation of Quality Control System".

There are several types of quality control of auditor's work: the control of main auditor over the work of its assistants, control of audit firm over auditor's work and external control.

The main auditor is fully responsible for conducting the audit. In the process of audit, he/she must constantly control and lead the work performed by the assistants.

Assistants who will be given a job must have received relevant instructions on their liability and the procedures that are to be performed on the entrepreneurial activities and possible accounting audit problems that may influence on the essence and scale of auditing process during its implementation. The auditor's written program is an important element of transfer of audit authority.

The control from audit firm on the auditor's activities is carried out, firstly through checking the audit plan, reviewing and justifying of the program for the given client and secondly, through strict protection of audit organization and ethical principles. Moreover, some auditing firms carry out reporting credibility verification of the report conducted by other auditors free of charge for the client.

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