APPROACHES TO ASSESSING THE QUALITY OF AUDIT IN THE RUSSIAN FEDERATION

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Abstract

The article analyzes approaches to assessing the quality of audit activity in Russia at the level of two self-regulating organizations of auditors, as well as procedures for external quality control of audit organizations implemented by the Federal Treasury of Russia.

The ultimate goal of the research is to develop practical solutions to improve the assessment of audit quality in the Russian Federation at the in-house level of operation.

The results of this research can be interesting from the point of view of the formation of modern ideas about existing approaches to assessing the quality of audit in Russia. Practical approaches can solve the problem of developing a methodology for assessing the quality of audits at the intra-company level, which can use in the practical activities of self-regulatory organizations of auditors around the world, as well as regulators of the audit industry.

Based on this research, as well as the assessment of violations of the requirements of the legislation of the Russian Federation in terms of the regulation of audit activity, a methodological toolkit for ensuring the quality of audit activity is proposed, based on the development of a comprehensive quality indicator. The authors having considered the requirements and quality control indicators that affect reliability and efficiency of audit activity, in the future, methods will be developed and proposed to implement external audit quality control in the Russian Federation.

Keywords: audit, quality of auditor services, quality factor, self-regulating organizations of auditors (SROA)

1 INTRODUCTION

The questions of setting and implementing audit quality assessment procedures in Russia are most widely represented in the works of domestic authors: Bychkova S.M. [1], [2], Ityigilova E.Yu. [11], [12], Melnik M.V. [17], Rogulenko T.M. [19], Chaya V.T. [3], [4], as well as economic and statistical approaches to their assessment and analysis [13], [14], [15], [16]. At the same time, the positions of assessing the quality audit touch upon issues of confidence in the results of the audit, from the standpoint of their compliance with professional standards, as well as the ability to meet the needs of the intended circle of users of audit results, which act as indicators of the perception of audit quality in general. There is an inextricable link between the quality of professional audit services and the audit institution and the institutional perception of the economy.
The quality of audit activity influenced by the interest of each specific auditor in the quality of the audit and the implementation of appropriate audit procedures. Then, the motivating force for the quality of professional activity on the part of audit firms (hereinafter - AF) may be:

- AF experience in the industry;
- Experience of the audit team;
- Speed of response to requests from customers and potential partners;
- Compliance with regulatory requirements and standards;
- The proper level of professional competencies and qualifications of the staff and leadership of AF;
- AF compliance with independence rules;
- an appropriate level of work.

The participants in the audit services market have their own specific goals and expectations regarding the opportunities available and the range of services if related to key professional characteristics: quality, information security, confidentiality, profitability, reliability, usefulness, comparability, effectiveness and efficiency from professional activities.

An important driving role in the establishment of approaches to assessing the quality of audit played by the regulatory framework. Recently, the unresolved issue of changing the current version of the key law in the audit industry "On Auditing" No. 307-FZ [8] (hereinafter - 307-FZ). The changes in the content of Law 307-FZ will also affect the existing quality standard - International Quality Control Standard 1 "Quality control in audit organizations conducting audits and reviews of financial statements, as well as performing other tasks that provide confidence and tasks related to the provision of related services" (hereinafter - IQCS 1) [11], which is planned to be replaced by the International Quality Management Standard (hereinafter – IQMS 1 and IQMS 2) [18], in terms of ensuring approaches to audit quality, are presented in Table 1.

Table 1. New approaches to the quality of audit services as part of the introduction of IQMS 1 and IQMS 2 standards

<table>
<thead>
<tr>
<th>New position</th>
<th>IQMS 1</th>
<th>IQMS 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company responsibilities</td>
<td>Establishment of procedures and regulations for checking the quality of assignments</td>
<td>Appointment and authority of responsible persons</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Criteria for assessing the powers assigned to verify the quality of persons</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Documentation</td>
</tr>
<tr>
<td></td>
<td>Appointment of the appropriate authority for persons appointed for quality control</td>
<td>AF partner responsibilities in quality assurance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Assessment of emerging threats, including a threat to objectivity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Proper level of communication and transmission of necessary information</td>
</tr>
<tr>
<td>Focus on the allocation of organizational, intellectual and reputation capital</td>
<td>Addition and expansion of the principles of intellectual capital (human resources)</td>
<td>Increasing requirements for quality monitors</td>
</tr>
<tr>
<td></td>
<td>Mandatory implementation of an information system in the AF within the digital economy</td>
<td>Development of a new system for monitoring and evaluating the quality of quality checks, including the evaluation of other information</td>
</tr>
<tr>
<td></td>
<td>External communication aimed at maintaining AF's intellectual and reputation capital</td>
<td>AF management should evaluate measures and procedures to address deficiencies identified during monitoring</td>
</tr>
<tr>
<td>Introduction of the term “High Public Importance”</td>
<td>For socially significant organizations (hereinafter - SSO) that relate to company’s subject to statutory audit</td>
<td>Introduction of scaling principles for tasks, goals and scope of inspections</td>
</tr>
</tbody>
</table>

Source: compiled by the authors based on [6]

Based on the above measures, the Quality Council plans to improve the approaches used in organizing and conducting quality control for AF, as well as expand the appropriate methodological tools for quality.
In the dynamics of implemented quality checks, the number of violations of AF and individual auditors (hereinafter – IA) is growing annually. More and more violations appear which indicates a deterioration in the quality of services. The most common violation in all SROA is violation of federal standards; half of the violations occur in the requirements of the Law “On Auditing” No. 307-FZ. The smallest number of violations falls on the position of violation of the law “On counteracting the legalization (laundering) of proceeds from crime and the financing of terrorism”. The largest number of violations - violation of federal auditing standards - over 54%; violation of the Law on Auditing Activities No. 307-ФЗ - 30.3%; violation of the law “On counteracting the legalization (laundering) of proceeds from crime and the financing of terrorism” - 5.8%; for other violations - 9.9%.

Currently, an analysis of the existing methods of two self-regulatory organizations of auditors (hereinafter referred to as SROA) on external quality control of work (hereinafter - EQC) in relation to its members consists in the sequential execution of several stages presented in Figure 1.

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**Fig. 1. Approaches of self-regulatory organizations of auditors to EQC in Russia**

Source: compiled by the authors based on [6], [7]

EQC is also implemented by the supervisory state body - the Ministry of Finance of Russia through the conduct of the executive body - the Federal Treasury of Russia (hereinafter - FTR), EQC is implemented through planned and unscheduled quality checks [9]. Planned quality checks are implemented in accordance with a pre-formed inspection plan, unlike unscheduled ones, which are implemented due to complaints received by the FTR, untimely elimination of previously issued orders and repeated AF of previously identified violations. Scheduled inspections are based on a risk-based approach, in order to minimize the risks of non-compliance with applicable laws and regulations for AF and individual auditors (hereinafter - IA).
Based on the results of the inspections, the FTR employees draw up the relevant acts. The most progressive measures in 2018, during the implementation of the EQC by the FTR, were the transition from a formal approach to checks, to substantive control and the application of a risk-based approach to assess AF and IA.

In order to prevent possible violations in the field of auditing, the FTR has compiled a list of measures aimed at preventing these violations. The methodology of the organization and construction of the WKR by the FTR is based on the assessment of the implementation of the following key legislative positions.

The objective of effective and impartial conducting of EQC by the FTR is the implementation of existing methodological recommendations aimed at creating unified approaches to assessing and selecting for WRCs AF and IA based on a risk-based approach. Based on the risk assessment, the EQC compiles an AF rating that assigns appropriate points. First of all, AFs are subject to inclusion into the EQC plan, about which information has been received about violations identified by a wide range of stakeholders, and secondly, AF’s with the highest risk score.

Based on the study of the practice of implementation of the EQC by SROA and FTR, we propose an algorithm for assessing approaches to the quality of audit activity, based on which we strive to determine an assessment indicator that integrates the positions of the standards and the level of performance of the EQC by the SROA. The algorithm is supposed to increase the transparency of methodological assurance of audit quality for AF. High-quality provision of audit services and honest service to the public, of course, is very important for the audit community, SROA and the regulator, and the development of audit quality assessment methodologies will contribute to diversified approaches to the implementation of EQC, will avoid formalities in audits and significantly reduce the volume of requests from SROA in AF address.

2 SOURCES AND METHODS

The information base of the research was the documents of self-regulatory organizations of auditors, the regulatory framework governing various aspects of the audit industry, the data of the Federal Treasury of Russia, as well as studies of foreign and Russian scientists. In the process, general scientific techniques and methods were used: observation, abstraction, analogy, deduction, induction, analysis, synthesis, formalization, comparison and generalization, as well as specialized computer programs - MsExel with the function of regression analysis.

3 RESULTS

In contrast to existing approaches to assessing the quality of auditing, the authors propose to calculate an array of coefficients evaluating the quality of audit activity at the internal and external levels to optimize the costs of the procedures for performing EQC.

At the first stage, it is proposed to calculate the quality factor of the activity of any audit organization, as the regression dependence of the number of AF in the audit market and the number of violations of the quality of professional activity (based on the results of inspections of the Federal Service for Supervision of Finance, the Ministry of Finance and the Russian Federal Treasury), Table 2.

<table>
<thead>
<tr>
<th>Year</th>
<th>Violations of the Federal Law “On Auditing” ($X_1$)</th>
<th>Violations of auditing standards ($X_2$)</th>
<th>Violations of the law “On combating the legalization (laundering) of proceeds of crime, and the financing of terrorism” ($X_3$)</th>
<th>Other violations ($X_4$)</th>
<th>AF amount in Russia ($Y_1$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>4</td>
<td>7</td>
<td>0</td>
<td>0</td>
<td>7500</td>
</tr>
<tr>
<td>2001</td>
<td>3</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>7300</td>
</tr>
<tr>
<td>2002</td>
<td>5</td>
<td>9</td>
<td>0</td>
<td>0</td>
<td>6200</td>
</tr>
<tr>
<td>2003</td>
<td>5</td>
<td>9</td>
<td>0</td>
<td>0</td>
<td>6300</td>
</tr>
<tr>
<td>2004</td>
<td>4</td>
<td>7</td>
<td>0</td>
<td>0</td>
<td>6500</td>
</tr>
<tr>
<td>2005</td>
<td>5</td>
<td>9</td>
<td>0</td>
<td>0</td>
<td>6100</td>
</tr>
</tbody>
</table>
In the course of the author’s study, relying on the use of the MsExel program, the calculation of a comprehensive quality indicator summarized in the form of formula 1.

\[ K_{q} = s \times X_1 - f; \] (1)

Where: \( s \) - constant;

\( X_1 \) - the number of violations of law 307-FZ;

\( f \) - free member equal to 7352, 4 units.

The presented dependence was confirmed, because equation reliability level \( R^2 = 0.553 \) (55.3 %)) is sufficient and accurately describes the audit market.

The authors are proposed that the number of violations should be calculated from the aggregate data for each AF for 3 years (since the total statute of limitations according to Art. 196, Civil Code of the Russian Federation \([5]\) is 3 years), based on EQC data from SROA and data from the regulator.

If you change the number and structure of errors, you can enter additional coefficients and their numerical values, which makes the hypothesis revealing the dependence of the number of violations of the law by AF and the number of AF in the market, easy to calculate and accessible for understanding and analysis. To develop this method, we used data from the old version of national audit standards (FPSAD and FSAD), however, with the accumulation of a sufficient amount of statistics, the methodology is also applicable to international audit standards (hereinafter- IAS).

The authors need to introduce a method of constructing a linear regression equation showing the dependence of factors and the resulting indicator is due to short-term and long-term planning of the quality of audit activity in order to avoid potential violations of the regulatory framework governing audit activity, as well...
as reducing the costs of SROA and the regulator in terms of implementing unscheduled EQC, to forecast results can be calculated in current periods for future periods, thereby limiting the volume of planned and unscheduled EQCs.

As additional indicators that contribute to improving the quality of audit activity, an array of calculation indicators proposed that could assess the quality of professional activity at the level of an individual audit organization Table 3.

Table 3. Settlement indicators providing an assessment of the quality of the audit at the intra-company level

<table>
<thead>
<tr>
<th>Indicator Name</th>
<th>Calculation Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assessment of the reliability level of the audit organization</td>
<td>It is calculated by the ratio of the total number of licenses revoked from the audited entities, from the moment of issuing the audit report to the total value of the issued audit reports for the analyzed year for each AF</td>
</tr>
<tr>
<td>The coefficient of dissatisfaction with the activities of the audit organization</td>
<td>The ratio of the number of modified (disputed, erroneous) audit reports based on the results of the annual work of the AF to the total number of audit reports issued per year</td>
</tr>
<tr>
<td>Sufficiency of methodological tools of an audit organization</td>
<td>The ratio of the number of methodological tools developed and implemented in the AF and internal regulations to the total number of regulatory frameworks, which subsequently is the basis for the development of internal audit standards</td>
</tr>
<tr>
<td>The coefficient of professional marriage within the audit organization</td>
<td>The ratio of the number of claims and complaints received for a specific (current) project to the total number of claims and complaints received for the analyzed year within the AF</td>
</tr>
<tr>
<td>The sufficiency ratio of information support of the audit organization</td>
<td>The ratio of the number of processes within the AF that require information (IT support) to the total number of processes within the AF</td>
</tr>
</tbody>
</table>

Source: compiled by the authors based on [6], [7]

The main purpose of calculating the proposed system of indicators is to ensure the quality of the provided audit services, maintaining the professional mission of the audit and the prestige of the audit profession.

For SROA, meeting the conditions in these coefficients will mean reducing additional bureaucratic barriers, constant monitoring of the activities of AF and IA, as well as the absence of a large number of unplanned external checks of the quality of work of AF and IA, which will lead to additional financial, labor and time costs.

For the regulator - the Ministry of Finance of Russia and the potential regulator verification of AF auditing socially significant organizations - the Bank of Russia, the introduced coefficients will mean conducting constant market monitoring, reducing costs associated with unscheduled WRCs.

For the state as a whole, the proposed measures will contribute to increasing the quality of audit activity, reducing the imbalance of the industry, reducing the total costs of bureaucratic procedures and unscheduled quality checks, as well as raising the industry in the economy.

4 CONCLUSIONS

Based on the research, these indicators are proposed to assess the quality of audit activity in Russia. The key difference between the proposed approaches and the existing ones is simplicity of calculations, optimization of possible costs for scheduled and unscheduled WRC procedures, as well as costs for staffing and IT support for such checks.

REFERENCE LIST


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