

Conference Paper

Problems of Identification and Evaluation of Materiality of Fraudulent Distortion of Financial Statements Auditing Process

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Abstract

Audit, which over 150 years has demonstrated high potential as an instrument for shareholders and other users to provide reliable financial reporting, at the beginning of the 21st century faces new challenges. These challenges include increased fraudulent misstatement of the financial statements. In article the extent of objectively existing restrictions and the ability to use audit in changed conditions for confront the negative trends are examined. It is noted that there is deepened contradictions between the increased requirements for auditor responsibility for not detecting fraud and decrease of the role of moral-ethical foundations of audit activities. Palliative care is offered for this contradiction by an auditor in respect of fraudulent distortion reporting views in negative form with an average level of confidence, as the relevant collected evidence. Defined the future direction of the transformation of the audit in the conditions of development and implementation in business practice of digital technology.

Keywords: fraud, unlawful activity, the risk of material misstatement, prerequisites

1. Introduction

Disturbing trend of the 21st century was the mainstreaming of fraudulent distortion of financial statements [1]. The responsibility for detecting and preventing such distortions in the management fully reporting companies at the same time. universally accepted and actively used tool standoff from fraudulence is financial reporting audit. Audits, representing the process of protecting the interests of owners and investors against abuses administrations reporting companies, are designed to increase the level of confidence in the reliability of financial reporting by its users. Audit, not ensuring complete elimination, allows you to reduce to an acceptable level of information noise that occurs in the financial reporting of companies both mistakes and misconduct by its personnel and leadership. Such downward before the auditor raises a number of

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complex and not always having a solution to the issues. Particularly different liability issues auditor for the identification, assessment and disclosure to interested users of fraudulent distortion of financial statements on the initiative of management or owners of audited entities.

2. The main part

At the preparatory stage of the audit, the aim is to assess the degree of distortion of auditable financial statements, including fraud (risk of material misstatement due to fraud - RMMF). With the decision of this problem there are two problems: the problem of assessing the level of fraud risks and their identification. Estimation of risks of fraudulent distortion of statements given by the results of testing the reliability of the internal control system. The internal control system, effective against frauds auditee staff, as a tool to confront the fraudulence of leadership often turns out to be impotent. Guide the auditee has an exceptional opportunity for ignoring internal control systems for falsifying financial statements, by virtue of their powers. As a result, the risk of material misstatement of the financial statements, due to fraud Guide (RMMF_r), estimated audit preparation phase always recognizes the significant risk (significant risk) [2].

The complexity is due to insufficient identification clear understanding in auditing the content of the category "fraud." within the legal framework of the RUSSIAN FEDERATION, the term "fraud" is used in the criminal code, where it means stealing other people's property [4]. International standards on auditing (ISA) under fraud (fraud) refers to "a hoax with the purpose of gaining an unfair or illegal advantages" (deception to obtain an unjust or illegal advantage) [2]. Thus, the audit is designed to protect the users of the financial statements not only from direct violations of legislation, but also of injustices by the administration of the reporting company with formal compliance with laws. Adopted for use in the RUSSIAN version of the ISA concept of "fraud" is replaced by "unscrupulous actions, defined as" the use of deception to Obtain improper or unfair advantage [2]. Since the terms "arbitrary" and "illegal" are synonyms [4] the area of concern of the auditor for verifying financial statements, limited to verifying compliance with the requirements established by law exclusively. Such a narrowing, limiting the positive potential of audit as a means of protecting the interests of shareholders, investors and society as a whole is not only illegal, but also from the unjust deeds administrations reporting companies, several lowers the social significance of the audit profession, but greatly facilitates the fate of Russian

Auditors, reducing their level of responsibility for the results of the audit. In addition, the problem of identification fraud is compounded by the complexity and often the impossibility for the auditor of the distinction between error and fraud. The auditor does not give legal opinions on the presence of genocidal intent and mis-reporting could only be suspected, presumed and only in exceptional, isolated cases can reveal the presence of fraud [5].

In the second phase, test phase "on the merits", the auditor is obliged through audit procedures to obtain sufficient appropriate evidence of the absence (or presence) material misstatement of the financial statements, whether due to fraud. Procedures should be adequate to the expected high level of information noise (RMMF), estimated in the first stage of validation. High RMMF requires the use of meticulous labour-intensive procedures to ensure low risk going undetected. Through such procedures are going to three groups of evidence: in relation to the balance of the accounts turnover on accounts and regarding the disclosure of information in the accounts. The direction of the expected distortions due to fraud depend on the composition of the most important groups of users reporting a particular business entity. If such groups are shareholders and lenders, is expected to be overstating the balances of assets and capital and understatement of balances of obligations. If users dominated by tax authorities, the expected directions of distortion of information will be the opposite. Assets and capital will be underestimated, and obligations would be inflated in order to demonstrate the weakness of the financial condition of the enterprise and the resulting need to reduce tax payments. The second category of evidence essentially applies to classes and events operations during the audited period, describing the results of the management of the resources entrusted to the company management. The most probable violations due to fraud are overstating the speed of loan accounts earnings and financial results and underreporting of turnover on debit accounts cost accounting in accounting, stock market-oriented. The probability of such distortion is so high that the ACI clearly indicate the scope of audit as a high-risk zone [2.5]. In reporting by enterprises prepared primarily for the tax authorities, the direction of the distortion will be opposite, but risks will also be significant. The third area of verification is to collect evidence of correctness of presentation and disclosure in the financial statements. When the prerequisites are confirmed completeness of disclosure", "clarity", "lack of distorted and false allegations."

During the audit, the auditor must essentially obtain sufficient appropriate evidence used in this audit procedures objectively limited by a number of reasons. Fraud often accompanied by collusion, fraud, the deliberate omission of information, making it

difficult to collect evidence, especially in the case of involvement in such leadership. Use of accounting estimates also severely complicates checking their veracity. As a result, traditional audit procedures-detailed tests, effective for error detection, often ineffective and even useless for detecting fraud. In these circumstances, the auditor is obliged to focus not so much on gathering evidence of fraudulent distortion on the verification of the absence of signs of such distortion. Accents procedures essentially shifting toward preemptive use of analytical procedures. Analytical procedures less time-consuming, but rather a medium rather than a high level of confidence. As a result, it has to be said objectively justified high risk going undetected material misstatements due to fraud reporting (detection risk material misstatement due to fraud - DRF). The product of two elevated risks RMMF and DRF characterizes high risk distorting the reporting after the audit. A significant part of the fraudulent distortion inevitably will remain undetected by the auditor.

In respect of the same distortions identified at the third and final phase of the audit arises a new problem. This is the problem of assessing the materiality of fraudulent distortion of financial statements in terms of information, the nature and magnitude of identified misstatements. Materiality (and distortion) is determined by the ability to influence the economic decisions of users [6.7]. Each user group is in need of specific information. The auditor must examine the composition of reporting information enunciated in assessing whether exclusion of significant groups of users. Users of financial statements are persons who provide the reporting company their resources, including shareholders, bondholders, employees who hold options, bankers and loaners. Unlike IFRS, Russian accounts standards allow inclusion of users and accounting practices qualifies as an "overarching" such user as the tax authorities. The situation should change with the introduction of the new edition of the Modu-1 "accounting policies", which declared priorities IFRS before RAS. Consequently, the auditor should not (and can not) qualify as significant such distortion or lack of information, which affect the interests of the tax authorities, but does not affect the decisions of investors and creditors about providing their resources the company.

Materiality Assessment MMF depends on their quantitative and qualitative characteristics that reflect the specific circumstances of each specific company. It is conducted differently in relation to different parts of the Materiality of fraudulent accounting. distortion of information about the financial position, the results of the management of resources and cash flow in the primary financial statements is measured mainly within quantitative approaches. The materiality of the fraudulent distortion of information in the notes to the financial statements evaluates quantitative and

qualitative sides. While the quantification of materiality is not determinative, but simply a helper tool. Qualitative materiality, which is a high-risk area, covers the most sensitive and critical, in terms of both content and presentation, financial reporting. Such areas include information on accounting policy, a description of the uncertainties and contingent facts of economic activity, instead of credits and loans, as well as information about business prospects. Including irrelevant information for the reporting period, but expectations, becoming significant in the future. The complexity of the verification and valuation of the materiality of identified misstatements due to the fact that most of the information from this area received outside the accounting system and cannot be estimated reliably verifiable. Many of these details are based on professional judgment of accountant and company management. Assessment of the credibility of professional judgment of management and accounting personnel relies solely on the professional judgement of the auditor and may not be reliable. Additional difficulties are associated with the presentation of indicators notes to the accounts. This information is only partly digital, much of it is a verbal and Visual form. In note accounting policies are presented information about affiliates, kovenantah, etc. In Visual form can be provided with information on trends in business development, etc. High risks going undetected fraudulent distortion of accountability require lowering the threshold of materiality as in quantitative and in qualitative evaluation. Until the recognition of the essential fact of fraud identified each with reporting. ACI recognizes that any fraud involving management cannot be isolated because there is motivation and the ability to implement [5].

The above allows you to declare that without removing responsibility from the Auditor, admittedly less trustworthy evidence in respect of the auditor used the fraudulent distortion of accounting supervision than the same evidence in against fraud or mistakes of personnel. It can be argued that if the audit as a whole completes expression in a positive form, with a high level of confidence [8], the fraud management audit provides confidence level not above average. Based on the evidence, the Auditor can hardly express confidence in a positive form. It is necessary to recognize the right of Auditor to use the negative form of expression with an average level of certainty about the fraudulent distortion of accounting supervision of the reporting organization.

The auditor identified fraudulent reporting, distortion of the facts as well as information about the possibility of such distortions and related suspicions in full shall be communicated to the management, located on a level above the position of the fraudster, and to responsible for the prevention and detection of fraud. If you have a diagnosed or suspect fraud involved top management, there is a problem with the

addressee. The auditor is obliged to promptly bring such information to the representative of the owner. It is not always feasible technically and legally. Sometimes, relatively rarely, Legislative Auditor a duty to transmit information to regulatory or law enforcement authorities. Most often, this refers to banking activities. The most important professional auditor's duty to maintain the confidentiality of information obtained during the audit the auditor does not give information to pass on information about fraud to anyone outside your organization. If the owner is involved in scams, a stalemate. A possible way out of this situation for auditor-termination of audit and corresponding modification of the audit opinion. Not made of such steps the auditor accused of poor-quality auditing with external quality control.

At the beginning of the 20th (I) century in the Russian Federation in accordance with global trends, tightened supervision of auditing activities and cases of claims to auditors are facing claims by the SROs, State regulators and even from investors. Most of the claims related to corruption and fraud management that auditors have not found or is not disclosed in the audit findings. Especially resonant steel claim by CBR, indicating that the vast majority of banks, a person deprived of the licenses is unqualified audit opinions.

3. Conclusion

Trend of tightening control over audit activities are implemented by legislative initiatives recently on enlargement of the scope of interaction between the Auditors and the public authorities. [9] including Russian Government approved in February 2017. to allow the federal tax service request from Auditors about their clients. In the same logic of the intention to extend the duties of Auditors without prior notice to the customers pass the public authorities information on business operations of the auditee is suspected in money laundering or financing terrorism. Finally, a CBR announced his intention to oblige the Auditors report to the regulator facts affecting the interests of depositors and creditors of the banks. Despite all stated Auditors worldwide unconditional willingness to cooperate with government agencies and regulators, the above initiatives are not indisputable, as weakening a crucial basis for the audit profession-strict saving audit secrets.

Further audit trends dictated by the widespread devaluation of moral and ethical values that predetermines the impossibility of effective use of the tripartite relationship and moving on bilateral relations. Likely scenario becomes transformation audit with allocation of him in the role of independent activities such as consulting services,

targeted at fixing bugs, and forensic fraud detection-oriented personnel. Both these areas are quite effective on a bilateral basis. With regard to the fraudulent distortion of accounting supervision and owners reporting companies, it can be assumed that, with the development and introduction into economic practice of digital technology, which will rise to a new much higher level of degree of business transparency, auditing features will move the stock market regulators, banks and other similar players. In these circumstances, the audit becomes superfluous link and eliminates the need for it.

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