

The application of auditing internal standards for strengthen positions in the accounting outsourcing services market

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Abstract: The practice application of internal auditing standards makes it possible not only to reduce the labor input while conducting audits, increase the level of control over the work of auditors, but also to obtain additional advantages in the market of audit services. In this study's boundaries was found that when choosing an audit firm to receive its accounting outsourcing services, firms primarily focus not on advertising in the media, but on the business partners' advice. To conquer new market positions, audit companies have first of all to strive to improve the quality of services, provided to their clients. This can be achieved by introducing new and improving existing internal standards for auditing.

Keywords: Audit, audit standards, internal audit standards, audit services market, accounting outsourcing

Introduction

As a result of the enlargement of audit firms and the creation of audit transnational associations, a demand to develop international standards for audit activity appeared. The problems, with which auditors faces in their current activities in different countries, are

approximately the same, and therefore it is possible to adopt practical experience between professional auditors from all over the world.

In this connection, according to points of many authors' view Temirkhanova, Mutabar & S, Mekhmonov. (2020) it is very important to create new and improve existing auditing standards constantly.

Audit standards that regulate the daily auditors' activities are applied in almost all countries of the world, in connection with which it helps to achieve maximum objectivity in the analysis of enterprises' financial reporting. The unification of accounting principles and financial reporting analysis methods makes it possible to produce a standardized set of qualitative criteria for comparing audit results.

The sameness of audit standards creates common standard requirements regarding the level of reliability and quality of the audit, and also gives the opportunity to provide certain guarantees of the audit verification quality, in condition of keeping foregoing standards.

The usage of standards in auditing also helps to control audit activities from the side of supervisory authorities.

Methods

In the framework of this study, an analytical method was used, through which the opportunity to study issues, touched in the article, in their unity and development arose and was realized. Within tasks and goals of providing study, a structurally functional research method was used along with a systematic one. That, finally, gave us the opportunity to explore a number of problems of introducing internal standards of audit activity in order to strengthen positions in the audit services market.

Results

Nowadays, in practice of audit activities the application of international, national and corporate standards have been found.

However, in our opinion, for further improvement of audit standards the interpretation of such concepts as accounts receivable, credit debts and accounting reports should be unified.

For example, accounts receivable Chow, Chee. (2006) "is understood like the existence of certain obligations of third part people to the entity that are reflected in accounting"; at Ewert, Ralf. (1999) "it is an asset of an enterprise that arose due to obligations of third parties to it"; at Hoang, Kris & Luo, Yi & Salterio, Steven. (2020) "a set of debt obligations, from individuals and legal entities, that are debtors in relation to it"; Jiao, Allan. (2015) "debt arising as a result of economic activities to an enterprise from individuals and legal entities";

Dewing, I.P. & Russell, Peter. (2014) "a component of working capital of an enterprise associated with settlements with legal entities and individuals"; Brown, Veena & Dickins, Denise & Hermanson, Dana & Higgs, Julia & Jenkins, J. & Nolder, Christine & Schaefer, Tammie & Smith, Kecia. (2019) "set of accounts for receiving, temporary withdrawal of an enterprise's assets from turnover because of delivery works, services or works in loan"; Khakimov, Akmal. (2019) "amount of debt to the organization from third parties"; Ye, Minlei & Simunic, Dan & Winter, Ralph. (2010) "the sum of debt to the enterprise in the form of financial or other obligations of third parties".

In our opinion, it is more correct to consider accounts receivable as a type of lending to the company's counterparties, because this is not only a temporary withdrawal of the company's assets from their turnover, but also is accompanied by the additional working capital refill from the debtor.

Accounts payable are understood as Whitelaw, Ken. (2004) “a sum of liabilities arising to the budget, suppliers, employees, as well as financial liabilities”; Utku, Mehmet & Kaya, Yusuf. (2020) “presence of debt to counterparties”; Gao, Pingyang & Zhang, Gaoqing. (2019) “enterprise cash, that has been attracted on a temporary basis and that will need to be returned to creditors”; Dye, Ronald. (2002) “debt, arising as a result of temporary usage of money turnover, which belongs to creditors”; Hancock, Phil & Simnett, Roger. (2007) “the arrears of an enterprise, that arises as a result of operations with individuals and legal entities, which must be paid off”; Lane, Greg. (2007) “indebtedness of an economic subject that arises from commitment between it and its creditors”.

Based on the study that was carried out, we consider that it is more correct to understand accounts payable as part of an economic entity's assets that belong to it by right of ownership or possession, as an object of obligatory legal relations, and can be also claimed or recovered by persons with the right to collect and demand.

Under the accounting (financial) statements is understood: Oestriecher, Kurt & Beasley, Mark. (2018) “information on the financial condition of a legal entity at certain reporting date, results of its activity, as well as the dynamics of cash flows in the reporting period”; Smith, Murphy & Sagafi-Nejad, Tagi & Wang, Kun. (2008) “a list of parameters that reflects the results of the production activities of the enterprise for a certain reporting period, as well as other information of accounting, operational and statistical accounting”; Simunic, Dan & Ye, Minlei & Zhang, Ping. (2015) “it is a set of indicators that have been appropriately summarized and reflects the results of the organization’s activities over the past period”; Ye, Minlei & Simunic, Dan. (2012) “a system of accounting indicators that shows the results of the enterprise's economic activity for a certain period of time”; Toy, Alan & Hay, David. (2015) “a structured set of information, that reflects the financial and property status of an enterprise and the results of its industrial and economic activities, that has been compiled from accounting information”; Ewert, Ralf. (1999) “this is a systematized set of indicators, designed to reflect the results of the enterprise activity in the reporting period”; Jiao, Allan. (2015) “an ordered, by a certain methodology, set of data on the enterprise activities for making decisions related to this enterprise”.

In our opinion, financial statements is based on accounting data, structured in a certain way information, that reflects the enterprise's activity and is intended for making decisions, that are related to its functioning.

In this work’s boundaries, we consider the usage of internal standards for auditing with the aim to strengthen position in the market of audit services using the example of the audit firm Limited Liability Company (LLC) «Victoria», the company has been operating in the audit market for 16 years, the number of full-time employees are 12 people. In 2019, the company's management made a decision to widen the provision of accounting outsourcing services. For this purpose, an advertising campaign was undertaken in the media, but significant success was not achieved. In this connection, the management of the audit company «Victoria» asked us to help them to solve the problem of attracting new clients for the provision of accounting outsourcing services.

To understand the problem, we, with the consent of the company's management, interviewed the employees of the audit firm Victoria LLC and some of its clients whom they provide accounting outsourcing services.

According to the results of the interview, it was found that during conducting audits, company employees keep to international and state standards of audit activity, but the enterprise had no intra-company audit standards. The company management didn’t see the necessity for the implementation of intra-company standards, motivating by the fact that their employees have at least 10 years experience in the specialty and they needn’t such standards.

During the interviewing of LLC Victoria' clients, the following was found out:

- 1) They began to cooperate with the audit company not due to advertising in the media, but as a result of business colleagues' recommendation;
- 2) Clients first of all are afraid of information leakage about their company, and do not always provide the audit company with all accounting documents;
- 3) Clients cannot control the work of the contractor, as well as receive advice promptly;
- 4) The operational accounting at the enterprises doesn't exist; according to the results of work for a month, they provide documentation for processing by audit company. In consequence of it, the response to emerging problems occurs late.
- 5) A risk of audit company liquidation exists, and in this case, clients will need either to keep accounting records independently or look for a new partner.

Discussion

Based on the study, we have proposed introducing in the auditing firm Victoria LLC the internal standards of audit activity that would detail and regulate the basic standards during the audit. We have proposed the following set of regulatory documents for the company:

1. Instructions for preparing an audit contract.
2. Instructions for studying the characteristics of the client's business
3. Instructions for assessing the presence of errors or cheating from the client side.
4. Instructions for studying of the control system and accounting at the client.
5. Instructions for making recommendations to clients based on the results of the audit.
6. The standard defines the algorithm for the functioning and organization of internal audit.
7. The standard governing the conduct of audits for certain operations and kinds of activities
8. Internal standards for auditing of each specific tax
9. The standard terminology of tax and accounting registration

The usage of internal audit standards has given the opportunity to increase significantly the effectiveness of audits and their compliance with international and national auditing standards.

It contributed to the creation of an additional base for resolving conflicts that may arise between the management of the audit company and its employees, clients and auditors, as well as among auditors with tax authorities.

As a result of the introduction of internal audit standards at the audit firm Victoria LLC the level of audit skills increased, as well as the level of customer satisfaction with the services received.

The usage of intra-company standards enabled the audit firm to make the internal audit process more rational, contributed to the formation of a unified approach to working with documents and made it possible to provide high quality service to partners and managed to reduce the risk of errors during inspections.

Within a year after the introduction of internal audit standards at the audit firm Victoria LLC, the company increased the number of customers on 20%

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