



**Khovrak I.,
Kozyarchuk T.**

THE IMPACT OF AUDITOR'S ETHICS ON THE QUALITY OF AUDITING THE COMPANY'S CASH FLOWS

Розроблено концептуальну схему проведення аудиту грошових потоків підприємства та ідентифіковано критерії якості проведення аудиту грошових потоків. Авторами систематизовано інтереси основних користувачів аудиторської інформації та розроблено механізм етичного проведення аудиту грошових потоків підприємства. Визначено переваги формування соціально відповідальних компаній-лідерів ринку в умовах асиметричності інформації.

Ключові слова: *аудит грошових потоків, якість аудиту, етика аудитора.*

1. Introduction

It is important for enterprises to provide the appropriate level of financial stability, liquidity and business activity in nowadays' unstable conditions. The neglecting of this issue leads to losses and bankruptcy of Ukrainian enterprises. Thus, the average loss ratio of companies in the last decade is almost 34 % [1]. At the same time control of cash flows is one of the most important functions of financial management, therefore, it can increase financial stability and efficiency of enterprise activity.

The cash flow of the enterprise is a sophisticated complex system, which is divided to subsystems depending on:

- the direction of movement (input or output);
- type of economic activity (operational, investment or financial);
- method of calculating the cash flow volume (gross or net);
- evaluation and value forecast, flow types (non-cash or cash);
- legal background (legal or shadow), etc.

The wide variety of cash flow types aggravates requirements for the cash flow audit quality.

The recent rising trend of volumes and asymmetry of financial information leads to the increased complexity of its analysis. According to the results of a study conducted by American experts [2], the volume of information during 2010–2020 doubles annually. This tendency creates an important and timely task for successful enterprises, like satisfying the urgent need for organizing a properly planned cash flow audit. Growing arrays of information can be not only a threat, but also an additional competitive advantage, as it allows the individual approach to consumers and partners, increasing the effectiveness level of enterprise performance [3].

Regarding the above-mentioned issues, the role of the cash flow audit of enterprises quality is constantly increasing. At the same time, the process of conducting an audit is influenced by various factors, such as: level of financial market development, regulatory support, level of trust for audit services, the quality of financial information, interest differentiation of parties, qualifications of the auditor, etc. Special attention is required to study ethical aspects of the audit.

2. The object of research and its technological audit

The object of research is the process of auditing the company's cash flows. The research of world practices in providing audit services has been done, in order to develop a mechanism of ethic auditing process of the cash flow of the enterprise. The leading companies who have secured 80 % of on the global audit market are Deloitte [4], PricewaterhouseCoopers [5], Ernst & Young [6], KPMG [7]. The results of The Statistics Portal's [8] study state that revenues of the Big Four accounting/audit firms worldwide in 2017 are valued at 38.8 billion U.S. dollars, 37.68 billion U.S. dollars, 31.4 billion U.S. dollars, 26.4 billion U.S. dollars respectively. With having this in mind, profits of the «Big Four» are ranging at \$ 45,000 to \$ 60,000, \$ 48,000 to \$ 68,000, \$ 40,000 to \$ 63,000, \$ 46,000 to \$ 62,000 respectively [9]. It should be noted that Ukrainian audit market has a tendency of asymmetric information and resistance to the presence of world leading companies. In accordance with the official data from Audit Chamber of Ukraine [10], there are 959 individual auditors and audit companies listed in the register as at December 28, 2017. Despite this, the summarized information about the state of audit activity in Ukraine is present only for the 2008–2012 period. Moreover, Ukrainian market has a feature of the extensive network activity of national audit organizations such as:

- Auditor union of Ukrainian (Kyiv);
- Federation of professional accountants and auditors of Ukraine (Kyiv);
- Federation of auditors, accountants and financiers of Ukraine (Kyiv);
- Ukrainian association of certified accountants and auditors (Kyiv);
- Chamber of independent accountants and auditors (Kyiv);
- Financial Analysts Society of Ukrainian (Kyiv);
- Chamber of auditors and accountants of Ukraine (Kyiv).

Other elements of auditing in Ukraine are pressure from companies' owners, rather low auditors' earnings and high level of corruption. Thus, according to the results of Ernst & Young [6] research, Ukraine is number one in the

corruption acceptance in business ranking. In accordance with this, it is a business environment that struggles to follow principles of business ethics. Regarding which, it is important to focus on the qualification training of auditors, their following of global standards and safe working conditions guarantees from the government.

Resolution of Ukrainian Chamber of Auditors approved the translated to Ukrainian Language International standards of quality control, auditing, evaluating and providing other additional services connected with that as mandatory national auditing standards. Nevertheless, governments of various countries and international organizations additionally came up with their own business ethics codes for auditors. There is an objective opportunity for ensuring ethics of auditing in Ukraine, in case of shadow economy sector decrease, anti-corruption measures and auditor training. Therefore, it is important to use a successful global experience for the development of the audit market in Ukraine.

3. The aim and objectives of research

The aim of the research is substantiation of the importance of the auditor's ethics and the quality of auditing the company's cash flows to form socially responsible market leaders in the context of asymmetric information.

The system approach towards the realization of the research goal requires the fulfillment of core tasks:

1. Systematization of theoretical and methodological aspects of cash flow audit.
2. Identification the criteria for the quality of the cash flow audit.
3. Development of the mechanism of an ethical audit of the company's cash flow.
4. Define the advantages of forming the socially responsible leader companies on the market in the conditions of asymmetric information.

4. Research of existing solutions of the problem

Authors [11] emphasize that in the nowadays conditions the analysis and forecast of cash flows is the core part of strategic future planning development of the enterprise and ensures the effective fulfillment of financial planning. The development of theoretical and methodological aspects of definition and evaluation of cash flows allows increasing the effectiveness of investment projects [12]. The general methodology of cash flow audits is explained in details in scientific researches. The research [13] shows information sources for audit control and its main stages. Based on the practical experience of the company, the research [14] explains the importance of independent auditor use.

Quality of auditing has been given a considerable attention in this research. The research [15] justified basic theoretical aspects of accounting information quality and proved that its quality shows to which extend the characteristics of accounting information corresponds to the set requirements. Meaning that the high quality of information is capable of rising the quality of auditing. On the other hand, the author thinks [16] that global shifts in the economy cause the revision of the methodological foundations of accounting that leads to the increased application of professional judgment of an accountant. Let's believe that the increase of professional judgment

of an accountant and auditor must be followed by the increase of qualification, level of professional ethics and responsibility of those who specialize in this field.

Very interesting are researches [17] about factors of audit quality: abnormal accruals, restatements, and the propensity to issue a going concern opinion. The hypothesis of the decrease of the audit quality for auditors, who check the same companies every year was proved, as the result of developing an empiric model. It was also proved [18] by experts that benchmarks are improving the audit quality, forcing low-quality profiled auditor to withdraw from the market. The research [19] will allow the audit quality differentiation to be present in European countries.

Scientists think [20] that the audit ethics issues arose from the abuse of the internship selection process, accounting practices and audit which resulted in the four key paradigms for ethical decision-making:

- targeted integration;
- rights and duties;
- a model of fairness;
- facts-oriented models.

Therefore, the development of the professional ethics is a complicated process, because it combines personal ethics, moral values, objectiveness, impartiality, ethical actions, dignity towards colleagues and employees, professional self-awareness and development. Nevertheless, auditors, especially internal ones, face various ethical dilemmas [21], such as:

- prevention of lawful disclosure;
 - pressure from management;
 - influencing objectivity and integrity of internal auditors;
 - delay by management in timely completion of audits;
 - internal auditors failing to maintain independence.
- Taking into consideration the importance of social responsibility to society, the research [22] systemized advantages of socially oriented accounting at the macro level and micro level.

Some scientific researches of certain aspects of conducting an audit do not take into consideration the specifics of Ukrainian audit market. There is also an urgent need to detail and scientifically substantiate the influence of auditor ethics on the quality of cash flow audit of the enterprise. The necessity of practical recommendations regarding the development and fulfillment of the ethics audit mechanism requires an update of the topic and the research in this field due to the insufficient scientific research level of this issue in general.

5. Methods of research

For the purpose of achieving the set goals, the following general scientific and specialized methods were used:

- analysis and synthesis, generalization – for the purpose of determining specifics of the cash flow audit of the company;
- abstract-logical – for theoretical summarization and conclusion;
- graphic – for visualization of the ethics audit mechanism, etc.

The methodological core of the research is a state of foreign and national economic thoughts on the analysis and audit issues. The information core of the research consists of regulations from international organizations and governments and analytical overviews from foreign audit associations and experts.

6. Research results

The cash flow audit allows to get recommendations regarding the balance of input and output of cash flows, improve and forecast effectiveness of enterprise's resource usage. In order to do so, certain models and methods of calculating the optimal cash balance was approved:

- Baumol's model (calculates the optimal liquidity level);
- Miller-Orr's model (takes into account stochastic processes);
- Stone's model (used for financial and production flexibility improvement);
- Monet-Carlo's simulation modeling method (used for homogenization of uncertainty factors), etc. However, the use of above-mentioned models in Ukraine sophisticates the unstable economic, political and social environment of the country.

Studying of the theoretical and methodological aspects of cash flow audit reveals that at its core lays the system of regulations of the international and national level. The availability of reliable, objective and precise information has a significant influence on the cash flow audit and its effectiveness. This became possible due to proper organization of cash and non-cash operations, correct and

timely documentation, systematization of inventorying, unconditional abidance to the calculation rules, etc.

Cash flow audit is conducted in three stages:

- preparation (collection of primary documentation and evaluation of the accounting system);
- checking stage (direct cash flow audit of the enterprise);
- final stage (summarization of the collected information, analysis of the detected violations and recommendations preparation). It is worth noticing that enterprise's cash flows have their own properties, which are worth being included in audit process: depending on the activity type, enterprise size and type of ownership; constant flow; presence of an active and passive component. Coming from that, the cash flow audit of the enterprise must include a collection of audit evidence, analysis, substantiate recommendation regarding optimization of the accounting system and also ways of improving the effectiveness of cash flow control. Conceptual scheme of enterprise cash flow audit conduct is shown in Fig. 1.

The research and summarization of world experience in identifying cash flow audit quality have been conducted, in order to identify the main criteria of cash flow audit quality (Table 1).

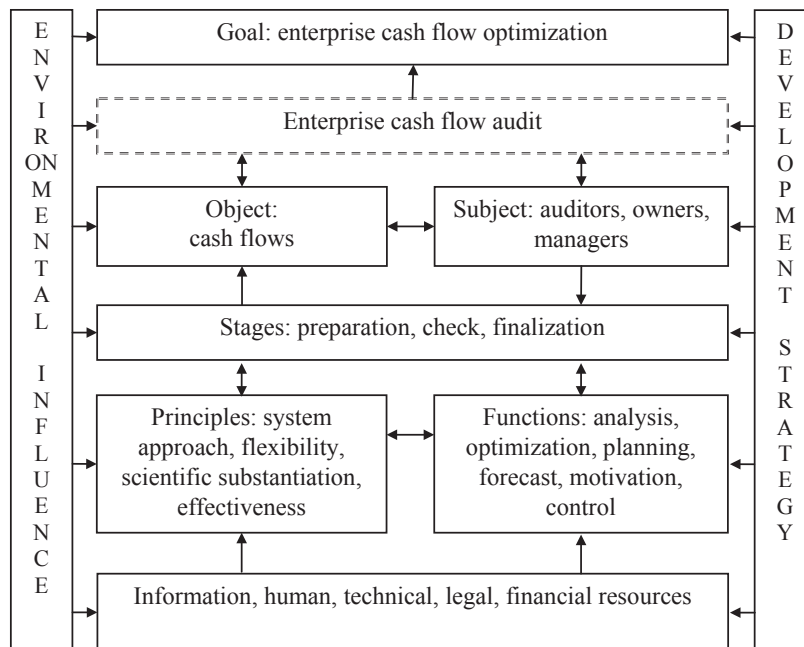


Fig. 1. Conceptual scheme of audit of the company's cash flow (the author's concept)

Systematization of world experiences in identifying the criteria of cash flow audit quality

Table 1

Country or organization	Cash flow audit quality requirements									
	Competency	Confidentiality	Independence	Integrity	Objectivity	Political Neutrality	Professional Behavior	Professional Competence	Professional Development	Professional Judgment
American Accounting Association [23]	-	-	-	+	-	-	+	+	+	+
Australia [24]	-	-	+	-	-	-	-	-	-	+
Belize [25]	-	-	+	-	+	+	-	-	+	-
Bhutan [26]	+	+	-	+	+	-	-	-	-	-
Hong Kong Institute of CPAs [27]	+	-	+	+	+	-	+	+	-	-
International Federation of Accountants [28]	+	-	-	+	+	-	+	+	-	-

A systematic approach in identifying interests of main audit information users is proposed, due to the fact that cash flow audits are significantly dependent on information reliability and the possibility of its use by different parties (Fig. 2).

The mechanism of cash flow audit ethics includes policies and procedures, which are appropriate for different levels: personal level (level of auditor), enterprise level and environment level (local, national & international) (Fig. 3). Realization of the proposed mechanism can stimulate overall integrity, ethical behavior and stable society development.

It has to be mentioned that abundance of ethical principles in business activity is a sign of social responsibility of the auditor. The source [29] states that social responsibility helps audit companies and those ones, that practice a transparent ethical audit, become market leaders.

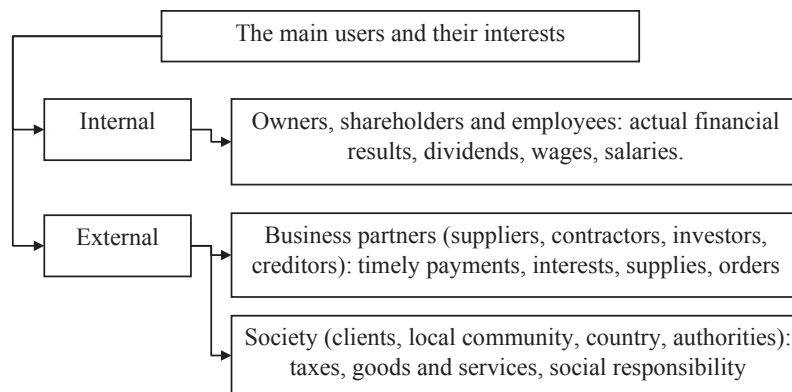


Fig. 2. Interests of cash flow audit users (the author's concept)

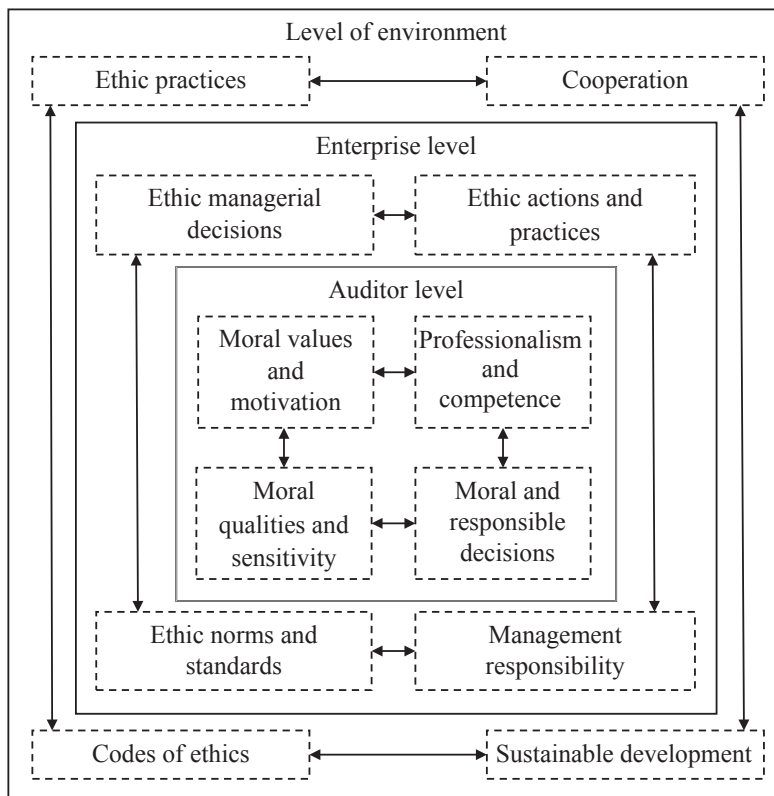


Fig. 3. The mechanism of ethical audit of the company's cash flow (the author's concept)

In the result, socially responsible companies are more attractive for investors, qualified personnel and loyal clients and partners. Main advantages of building socially responsible leader-companies on the market in the conditions of asymmetric information are:

- client trust increase, which leads to market share increase;
- partner trust increase, which improves environment conditions and ensures their durability;
- personnel loyalty increase that decreases human resource rotation and improves motivation;
- reputation & image improvement and brand value increase, which leads to financial results improvement and stable working conditions.

7. SWOT-analysis of research results

Strengths. The strength of the research is the development and substantiation of cash flow audit ethics that can be used by Ukrainian enterprises.

Weaknesses. The weakness of the research is the fact that the implementation and the enforcement of the proposed mechanism require additional funding and time for the personnel training, development of own auditor ethics codes.

Opportunities. The opportunity for further studying of the topic is prioritization of international audit experience implementation regarding ensuring the ethics principles abundance in auditor business activities.

Threats. The threat for implementation of the research results is the unwillingness of the Ukrainian enterprises to «step out of the shadow» and follow transparency principles in their own activities.

8. Conclusions

1. Systemization of theoretical and methodological principles of cash flow audit of the company that allowed to develop a conceptual cash flow audit conduction scheme, which includes external environment influence and company's development strategy.

2. On the base of the comparative analysis of professional auditors' ethics codes developed by experts from various countries and international organizations, it was possible to identify the criteria of cash flow audit conduct such as: integrity, objectivity, professional competence, confidentiality, professional behavior and others. The quality of the audit significantly depends on the information reliability and the possibility of its use by various users. Therefore, the interests of main audit information users have been systemized.

3. The mechanism of an ethical audit of the company's cash flow has been developed, which includes policies and procedures

appropriate for different levels: auditor, enterprise, environment. The implementation and enforcement of the proposed mechanism can stimulate overall integrity, ethical behavior and stable society development.

4. The advantages of socially responsible leader-companies on the market in the conditions of asymmetric information have been identified. It is the opportunity to attract investors, qualified personnel and loyal clients and partners for the company. At the same time, the presence of socially responsible companies and auditors will result in a stable society development.

References

1. Official site of the State Statistics Service of Ukraine. URL: <http://www.ukrstat.gov.ua/> (Last accessed: 11.01.2018).
2. Ffoulkes P. insideBIGDATA Guide to Use of Big Data on an Industrial Scale // InsideBIGDATA. URL: <https://insidebigdata.com/white-paper/guide-big-data-industrial-scale/> (Last accessed: 11.01.2018).
3. Wolkowitz E., Parker S. Big Data, Big Potential: Harnessing Data Technology for the Underserved Market // Morganstanley. URL: http://www.morganstanley.com/sustainableinvesting/pdf/Big_Data_Big_Potential.pdf (Last accessed: 11.01.2018).
4. Official site of Deloitte. URL: <https://www2.deloitte.com/ua/uk.html> (Last accessed: 11.01.2018).
5. Official site of PricewaterhouseCoopers. URL: <https://www.pwc.com/> (Last accessed: 11.01.2018).
6. Official site of Ernst & Young. URL: <http://www.ey.com/> (Last accessed: 11.01.2018).
7. Official site of KPMG. URL: <https://home.kpmg.com/xx/en/home.html> (Last accessed: 11.01.2018).
8. Revenue of the Big Four accounting/audit firms worldwide in 2017 (in billion U.S. dollars). URL: <https://www.statista.com/statistics/250479/big-four-accounting-firms-global-revenue/> (Last accessed: 11.01.2018).
9. Big 4 Accounting Firms Salary Breakdown. URL: <https://crushtheexam.com/salary-breakdown-of-the-big-4-accounting-firms/> (Last accessed: 11.01.2018).
10. Register of Audit Companies and Auditors of the Audit Chamber of Ukraine. URL: <http://www.apu.com.ua/reestr-auditorskikh-firm-ta-auditoriv> (Last accessed: 11.01.2018).
11. Iankovyi O., Koshelek H., Iankovyi V. Realization of the complex forecast of an enterprise's cash flows // Technology audit and production reserves. 2017. Vol. 2, No. 4 (34). P. 52–56. doi:10.15587/2312-8372.2017.99137
12. Grechan A. The role of the cash flow in evaluation of the real investment project // Technology audit and production reserves. 2016. Vol. 2, No. 6 (28). P. 25–27. doi:10.15587/2312-8372.2016.66191
13. Korinko M. Audytorskyi kontrol hroshovykh koshtiv // Intelekt XXI. 2014. Vol. 6. P. 80–85.
14. Bukit R. B., Iskandar T. M. Surplus free cash flow, earnings management and audit committee // International Journal of Economics and Management. 2009. Vol. 3, No. 1. P. 204–233.
15. Pravdiuk N., Plakhtii T. Development of the basic theoretical basis of accounting information quality // Technology audit and production reserves. 2017. Vol. 3, No. 4 (35). P. 4–9. doi:10.15587/2312-8372.2017.100912
16. Derun I. Improvement of the essence of professional judgment in accounting of Ukraine // Technology audit and production reserves. 2017. Vol. 2, No. 4 (34). P. 25–29. doi:10.15587/2312-8372.2017.98277
17. Gunny K. A., Zhang T. C. PCAOB inspection reports and audit quality // Journal of Accounting and Public Policy. 2013. Vol. 32, No. 2. P. 136–160. doi:10.1016/j.jaccpubpol.2012.11.002
18. DeFond M. L., Lennox C. S. The effect of SOX on small auditor exits and audit quality // Journal of Accounting and Economics. 2011. Vol. 52, No. 1. P. 21–40. doi:10.1016/j.jacceco.2011.03.002
19. Van Tendeloo B., Vanstraelen A. Earnings Management and Audit Quality in Europe: Evidence from the Private Client Segment Market // European Accounting Review. 2008. Vol. 17, No. 3. P. 447–469. doi:10.1080/09638180802016684
20. Professional Ethics in Accounting and Auditing / Kaveh M. et al. // World Essays Journal. 2014. Vol. 1, No. 2. P. 85–93.
21. Nand A. Five Ethical Dilemmas facing Internal Auditors – Find out how you can help? URL: <https://www.iaafiji.org/resources/66eff172-2496-4c51-8025-c2d53d2c3956.pdf> (Last accessed: 11.01.2018).
22. Shkulipa L. Research of the main advantages in social oriented accounting // Technology audit and production reserves. 2017. Vol. 3, No. 4 (35). P. 14–19. doi:10.15587/2312-8372.2017.101925
23. Official site of The American Accounting Association. URL: <http://aaahq.org/> (Last accessed: 11.01.2018).
24. APES 110 Code of Ethics for Professional Accountants. Accounting Professional & Ethical Standards Board Limited, 2010. 133 p.
25. The Code of Ethics. Belize. URL: http://www.belizelaw.org/web/CJEI/Belize/doc/pdf/4c_code_of_judicial_conduct_and_etiquette.pdf (Last accessed: 11.01.2018).
26. Central Coordinating Agency for Internal Audit Service, Ministry of Finance. Code of Ethics for Internal Auditors, Royal Government of Bhutan. November 2014. URL: <http://www.mof.gov.bt/wp-content/uploads/2014/07/CODEOFETHICS01012015.pdf> (Last accessed: 11.01.2018).
27. Kiernander G. Professional Ethics in Auditing (Relevant to Paper III – PBE Auditing and information systems). URL: http://www.hkiaat.org/images/uploads/articles/PBE_PaperIII_Oct09.pdf (Last accessed: 11.01.2018).
28. Handbook of the Code of Ethics for Professional Accountants // The International Federation of Accountants. 2015. URL: <https://www.ifac.org/publications-resources/2015-handbook-code-ethics-professional-accountants> (Last accessed: 11.01.2018).
29. Khovrak I. Odpowiedzialność społeczna jako strategia przywództwa przedsiębiorstwa na rynku // Zarządzanie Publiczne. 2017. No. 3 (39). P. 391–401.

ВЛИЯНИЕ ЭТИКИ АУДИТОРА НА КАЧЕСТВО АУДИТА ДЕНЕЖНЫХ ПОТОКОВ ПРЕДПРИЯТИЯ

Разработана концептуальная схема проведения аудита денежных потоков предприятия и идентифицированы критерии качества проведения аудита денежных потоков. Авторами систематизированы интересы основных пользователей аудиторской информации и разработан механизм нравственного проведения аудита денежных потоков предприятия. Определены преимущества формирования социально ответственных компаний-лидеров рынка в условиях асимметричности информации.

Ключевые слова: аудит денежных потоков, качество аудита, этика аудитора.

Khovrak Inna, PhD, Associate Professor, Department of Accounting and Finance, Kremenchuk Mykhailo Ostrohradskiy National University, Ukraine, e-mail: inna.khovrak@gmail.com, ORCID: <http://orcid.org/0000-0002-0352-4374>

Kozyarchuk Tetyana, Department of Accounting and Finance, Kremenchuk Mykhailo Ostrohradskiy National University, Ukraine, ORCID: <https://orcid.org/0000-0003-1418-7884>