

Problems and prospects of ISA implementation

Problemas y perspectivas en la aplicación del ISA

Gulmira TUSSIBAYEVA [1](#); Murat ALIYEV [2](#); Ulagat YUSSUPOV [3](#); Miyatbek ALTYNBEKOV [4](#); Aliya SHAKHAROVA [5](#)

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ABSTRACT:

The main document reflecting the position of the company and the results of its economic activity is financial statements. Third-party investors are interested in the fact that it is authentic. That is why financial statements should be made for the clear rules for foreign investors. One of the problems is the standardization of audit activity. The fundamental place in dealing with this problem belongs to the International Standards on Auditing (ISA). In recent years, Kazakhstan striving for efficient integration into the world economy is strongly interested in international auditing standards. Primarily this is due to the strengthening of global integration process accompanied.

Keywords: audit, accounting, reliability, standards, reliability, users.

RESUMEN:

Este documento refleja la posición de la empresa y los resultados de su actividad económica a través de los Estados financieros. Los inversionistas están interesados en el hecho de que es auténtico. Por esta razón los Estados financieros deben hacerse por reglas claras para los inversionistas extranjeros. Uno de los problemas es la normalización de la actividad de auditoría. El lugar fundamental en el tratamiento de este problema pertenece a las Normas Internacionales de Auditoría (ISA). En los últimos años, Kazajstán buscando una integración eficiente con la economía mundial está fuertemente interesada en estas normas internacionales de auditoría. Principalmente debido al fortalecimiento del proceso de integración global asistido.

Palabras clave: auditoría, contabilidad, normas, fiabilidad, confiabilidad, usuarios.

1. Introduction

Audit services are now an integral part of the global market. This phenomenon can be explained by the development of the private property that generates a high degree of the risk during the process of its usage and management.

Economic activity in a market economy is motivated by the proprietary interests. It creates demand for these interests' protection that can be performed by the means of audit system.

Audit services protect legitimate proprietary interests of the business entities by the independent financial audit and the confirmation of reliability of the financial reports on business operation and related service results. Development of the market relations produces demand for the foreign economic relations expansion.

Today more companies are entering foreign markets due to a number of factors:

- maximization of the received profits,
- expansion of the market boundaries,
- implementation of scientific and technical potential of the firm,
- exchange of political, economic, scientific, technical and cultural information.

Audit services help meet these needs because audit is a necessary condition to establish foreign economic relations between economic parties. Enactment and continuous improvement of the auditing standards as well as competitive pressure on the audit services' market determined the need for further development of the theory and improvement of the methodology of audit services' efficiency.

The leading form of the external financial control in the developed countries is an independent auditing performed by the auditors of the wide range of expertise. There are many audit companies in each country.

The main goal of auditing consists of the control on the compliance with the law regulating enterprises' financial activity, accounting and financial bookkeeping as well as providing state authorities, private businesses and all owners with the objective information about financial situation of the firm, bank etc.

International Standards on Auditing (ISA) are the result of many years of accounting and international audit experts so the study and use of them is designed to help domestic experts competently organize their work in the field of audit and improve its quality in order to meet the needs of stakeholders in reliable information about the financial condition and results of operations of the audited organizations. (Gracheva, 2006).

In recent years Kazakhstan striving for efficient integration into the world economy is strongly interested in international auditing standards. Primarily this is due to external factors which include the strengthening of global integration process accompanied, on the one hand by convergence of audit performance standards, and the other - desire of each country to protect its national interests including by maintaining of competitiveness of their enterprises in the world market.

The use of clear and internationally accepted standards of auditing activity enhances financial "transparency" of the companies and as a result contributes to attracting of foreign investors. In addition, the focus on ISA strengthens the position of auditors in the competition on the world stage opening their way to an international audit.

The following projects of foreign and domestic authors are devoted to investigation of individual theoretical questions related to the theory and practice of international auditing standards: M.E. Grachyeva (2006), E.A. Arens, J.K. Lobbek (1995), S.V. Pankova (2005), F.L. Defliz, G.R. Jenik, V.M. O'Reilly, M.B. Hirsch (1997), K.S. Dyusembayev (2012), S.H. Koshkimbayev (2001), E.O. Nurseitov (2012, 2008), and others.

The aim of the research is review and study of theoretical, methodological and practical aspects of international auditing standards application as well as disclosure of problems related to international auditing standards and their features in modern conditions.

2. Methods

Methodological and theoretical sources of research were the works of leading domestic and

foreign scientists, documents regulating auditing activities, the International Federation of Accountants, international and national professional associations of auditors, the legislation of the Republic of Kazakhstan and legislation of other countries in the field of regulation of auditing, accounting and financial reporting, civil relations.

3. Results and Discussion

The main problems of International Standards on Auditing implementation in Kazakhstan are the following:

- Until 2011 there was no translation of ISA from English into the state (Kazakh) language;
- Translation of the International standards in Kazakhstan of 2001 had some inaccuracies, wordings which auditors understood in two ways;
- Audit organizations in the regions of the Republic of Kazakhstan (Aktau, Atyrau, Shymkent, Kyzylorda) carried out audits with ISA violations;

It is known that in October 2000 with the participation of the International Centre for the reform of accounting systems the first official translation of International Standards on Auditing to the Russian language was published. However attempts to use translation of international auditing standards as the Kazakhstan regulatory documents were not successful, mainly because of the complexity of the literal translation of the text of normative documents from English into Russian.

International Standards on Auditing are written in a narrative form; contain a large number of examples and recommendations. Kazakhstan rules (standards) of audit provide a compilation of international standards available for Kazakhstani specialists by language and in a form familiar to the persons to whom these regulations are intended (Nurseitov, 2008).

Kazakhstan economy needs western investments in specific companies for which it is necessary to convince investors in advisability of investing, after giving them information about the state of financial and economic activity of the economic entity. The main document reflecting the position of the company and the results of its economic activity is financial statements. Third-party investors are interested in the fact that it is authentic.

That is why financial statements should be made for the clear rules for foreign investors and its reliability must be confirmed by the external audit using the same procedures as in the West. Kazakh investors are also interested in the reliability of financial statements of domestic enterprises and its conscientious audit. All of this makes clear the need for a common approach to auditing at home and abroad (Dyusembayev, 2012). However, in this perspective there are opponents who believe that the specifics of Kazakhstan and the current level of economic development makes it impractical or impossible to apply the international auditing standards or local standards based on them in our country. At the same time they refer to the fact that most customers are much more interested in tax audits and tax optimization than in abstract "assurance". Unfortunately, there are not many qualified investors in Kazakhstan really analyzing the balance sheet and the income of previous data to make a decision about investing.

A key issue of International Standards on Auditing implementation is to monitor the performance of them by audit firms. To date the qualification of employees in state auditing bodies do not always allow them to understand intricacies of the audit methodology. The state cannot also allocate sufficient funds for the growth of state inspection staff.

Some auditors fear that confidential information obtained in the process of inspecting can be used to the detriment of auditors customers, for example, information about detected violations may be reported to the tax authorities of control. In contrast to the state bodies, public organizations of auditors can establish mutually test of audit quality and compliance with standards among its members (Pankova, 2005).

Currently there are three professional organizations in Kazakhstan competing among

themselves for the influx of new members and receipt of these contributions and objectively interested to scare experts and audit firms stringent requirements. In addition, some auditors fear that colleagues from other audit organizations came to them for checking can entice customers to borrow methodological secrets and "know-how", will try to remove a competitor falsely accusing him of poor quality audit (Koshkimbayev, 2001).

One of the problems associated with the International auditing standards implementation in Kazakhstan practice, is that the Kazakh auditors badly imagine what is meant by international auditing standards; not all Kazakh auditors familiar even with the previously applicable national standards of audit activity, although they have been published in Russian and not once commented by experts.

Users of financial statements rely on a qualified auditor, its competence and objectivity. The auditor's report is a guarantee of the reliability of the data contained in the financial statements. The audit report should provide answers to users' questions: does the statements give true and fair view of the financial position and financial results, whether the financial statements is prepared in accordance with generally accepted accounting principles drawn up (Defliz et al., 1997).

It is not enough to check financial statements on a simple regulatory compliance governing the rules of accounting and reporting. You must also verify whether the methods of reflection of accounting objects for the enterprise conform credibility of their reflection in the financial statements. During the inspection the auditor is required to determine accounting methods chosen by the company that adversely affect the accuracy of the financial statements (Arens and Lobbek, 1995).

The integration of Kazakhstan into the world economy requires inclusion of standards or individual documents of international public organizations into Kazakhstan right and giving them the status of normative legal acts of the Republic of Kazakhstan.

In this regard a separate article was introduced in the RoK Law "On Accounting and Financial Statements" which implies that IFRS should be an integral part of the national legislation of Kazakhstan, and business entities are required to prepare financial statements in accordance with these standard (Law, 2016).

In the legal aspect IFRS even in the state language do not have neither any signs of a normative legal act of the Republic of Kazakhstan according to the Law of the Republic of Kazakhstan dated March 24, 1998 № 213-I "On normative legal acts" (as amended of November 17, 2015) nor international instrument that meets the requirements of the Law "On International Treaties of the Republic of Kazakhstan", i.e. have the status of an advisory document of the international public organization.

Only correct translation of IFRS into the state or Russian languages made by organization received written permission from the IFRS for translation and publication has legal effect.

At the same time the Republic of Kazakhstan through the issuance of national legislation obliges the subjects of accounting legal to use these documents under administrative and criminal penalties for non-compliance or violation, despite the fact that IFRS and ISA have not the status of RoK regulations or international instruments recognized in prescribed manner, and accordingly, are not included in the RoK legislation.

However, despite these limitations the process of practical IFRS development continues to spread rapidly in the Republic of Kazakhstan, in the absence of a common approach to the understanding of IFRS requirements with different levels of knowledge of the lecturers, translators and students will inevitably affect the quality of generated knowledge of accounting services professionals and created accounting system.

The first Law of the Republic of Kazakhstan "On Audit Activity" adopted on October 18, 1993, № 2446 had no mention of regulations on the basis of which audit of financial statements to be carried out in the Republic of Kazakhstan. Therefore in July 1995, at the Conference of the

Chamber of Auditors of Kazakhstan 12 audit standards were adopted which were developed on the basis of ISA.

However, these standards have not passed the approval and registration procedure i.e. only the Law of the Republic of Kazakhstan "On Audit Activity" № 304-1 adopted on 20 November 1998 for the first time established that the auditing standards should have the status of regulations and inspections shall be carried out in accordance with their rules.

The procedure for giving of such status in accordance with paragraph 2 of Article 16 of this law should be as follows: "audit standards are accepted at the conference (meeting) of the Republican Chamber of Auditors and approved by the authorized state body." And only in April-June 1999 the Ministry of Finance of the Republic of Kazakhstan has developed, approved and registered 12 positions (standards) that establish the basic rules of the audit which were recognized as regulations and included in the legislation of Kazakhstan on auditing, despite the fact that these provisions were not adopted at the conference of the Chamber of auditors.

However, this issue was discussed at a meeting of the Constitutional Council and by the decision of RoK Constitutional Court # 10/2 of 16 November 1998, it was determined: "Throughout the procedure of development, adoption and approval of audit standards the critical step is the approval of auditing standards which belongs to the public authority."

In May 2006 in the Law of Kazakhstan "On Audit Activity" amendments were made mentioned ISA and, as well as for IFRS, declaratively set: "The audit is carried out in accordance with this law and International Standards on Auditing (hereinafter - the auditing standards) not contradicting the legislation of the Republic of Kazakhstan published in Kazakh and Russian languages by organization having a written authorization of their official publication in the Republic of Kazakhstan from the Committee on international auditing practices of the international Federation of accountants'" (Law, 2016). That is the situation is repeated with IFRS, as ISA also have a normative legal act status and are not part of the Republic of Kazakhstan legislation.

While the forms of Article 2 of the Law "On Audit Activity" clearly requires giving of RoK regulations status to audit standards, Article 18 of the Law "On Audit Activity", warns: "In the case of non-compliance of audit report with Kazakhstan law or actual data such report is admitted as invalidated by a court decision." Therefore, ISA can only be used as guidance documents but not as official documents governing the audit procedure to confirm the company's financial statements. Accordingly, all audit reports and reports made by auditing firms - RoK resident and executed in accordance with ISA provisions have no legal effect since 1999 and can be invalidated at any time limitation period.

The situation is complicated by the fact that in the event of conflict relating to audit quality or correctness of accounting neither entity reporting in accordance with IFRS nor the auditor confirming it by ISA procedures will not be able to prove in court the validity of the use of IFRS and ISA standards, and audit reports may be invalidated. Only insurance companies providing insurance of civil liability of auditing organizations will be satisfied because it is obvious that accounting and reporting of companies is compiled according to unenforceable documents and an audit is not conducted in accordance with the requirements of the RoK legislation.

4. Conclusions

Based on the foregoing, it can be concluded that the construction of accounting in accordance with IFRS and auditing of financial statements in accordance with ISA requirements is carried out in the Republic of Kazakhstan outside of legal field, and at any time the results of this work may be challenged by third parties on the grounds mentioned above.

Thus at the present stage of development of audit activity in the Republic of Kazakhstan there is a need to create a perfect mechanism of regulation of audit activities and its standardization, consideration of the legislative recognition and full use of international auditing standards in the country.

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1. PhD, Acting Associate Professor

2. PhD, Professor, Email: mur@mail.ru

3. PhD, Acting Associate Professor

4. PhD, Acting Associate Professor

5. Associate Professor

Kazakh University of Economic, Finance and International Trade, Department of Accounting and Auditing, Astana, the Republic of Kazakhstan

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