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***Existing postulates of auditing are analyzed in this article as well as new ones are defined.***

**Keywords:** *audit, postulates of auditing*

**INTRODUCTION**

Postulates of auditing were defined by foreign scientists R.H. Mauntz and Sharif H.A. in their book *The Philosophy of Auditing* in 1960s. Later on these postulates were considerably refined by J.C. Robertson. Some attempts to improve and supplement postulates were made also by other scientists.

Contemporary Russian scientist Sokolov Y.V. offered his own ten postulates of auditing.

In scientific works existing postulates of auditing are interpreted differently and even sometimes in diametrically opposite ways. In the process of consideration of these postulates stays out of attention a profound analysis of contradictions and conflicts in the field of auditing. Only several authors underline that some contradictions should find its reflection in the postulates of auditing.

It's absolutely logical to consider existing postulates of auditing as well as define new ones from the position of contradiction as main philosophical principle.

**RESEARCH METHODS**

Methodological basis for this research is formed by laws and categories of dialectics. Informational base consists of works of foreign and domestic scientists, Internet resources.

In the process of analysis of scientific works logic methods of structural analysis, comparison, systematization and generalization were used.

**RESULTS**

In the majority of the scientific works postulates of auditing are defined as some theoretical positions or axioms, based on which new rules, standards and norms of auditing are forming [1,2].

Postulates, stated in the work of R.H. Mauntz and H.A. Sharif *The Philosophy of Auditing*, are considered the most accepted [3]. These postulates are:

1. Financial statements and financial data are verifiable.
2. There is no necessary conflict between the auditor and management of the company under audit.
3. The financial statements and other information that has to be verified are free from collusive and other unusual irregularities.
4. Satisfactory system of internal control eliminates the possibility of irregularities (violation of work rules).
5. Constant application of generally accepted principles of accounting results in the fair presentation of financial position and the results of operations.

6. In the absence of clear evidence to the contrary, what was held true in the past for the enterprise will hold true in the future.

7. If examination of financial information is conducted to express independent thought, auditor's activity is regulated only by his powers.

8. Professional status of independent auditor corresponds with his professional responsibilities.

Subsequently J.C. Robertson and others amplified and specified the number of theses [4, 5]. In their opinion audit postulates should be defined as follows:

1. Financial statements and data are verifiable.
2. Clash of interests between auditor and management of the enterprise under audit is always possible.
3. The satisfactory structure of internal control system reduces possibility of violation and mistakes.
4. Consistent following GAAP results in accurate reflection of financial position and the results of operations.

5. If there is no clear evidence to the opposite, information that was held true in the past for the enterprise under examination will hold true in the future.

6. In the process of verification of financial information with a view to make an independent report auditor acts only as auditor.

7. Professional status of the independent auditor lays on him corresponding obligations.

Domestic and foreign scientists interpret these postulates of audit differently. Discussion of the second and third postulate is worth our notice.

As for second postulate of R.H. Mauntz and H.A. Sharif some authors emphasize that in its basis lies "the idea of eternal kindness and pureness of human nature". Along with that they notice that in a number of cases there can be exceptions, but the probability of such situation isn't high [6].

Other researchers notice that mentioned postulate indicates the necessity of fair behavior of management as without cooperation with it the process of audit is practically impossible. In their opinion this postulate induces to trust on the one hand and demands skepticism in relationship with management on the other. [7].

Some scientists consider that "third postulate of R.H. Mauntz and H.A. Sharif is outdated". Financial statements have irregularities of a different kind, including ones caused by fraud of the management and staff of the company [8].

Various authors insist that this postulate is associated with the responsibility of the auditor. If auditor is guided by the fact that financial statements have no irregularities, he can limit the scope of examination. If there are some

irregularities auditor has to extend the scope of examination. In turn, unreasonable extension of the scope of auditing and its cost can lead to the conflict with management [7].

Russian scientists express quite critical remarks concerning postulates of auditing mentioned above. Their conclusion comes to the idea that peculiarities of audit development in post soviet countries doesn't allow to apply such postulates of audit unambiguously. In a view of this some of them offer their own system of postulates [9]. According to Sokolov Y.V. it's rational to use following postulates of auditing:

1. Financial accountability has to be verified.
2. Unaudited financial statement isn't reliable.
3. Every other examination can reduce the value of previous ones and is always less informative.
4. Financial statement was formed incorrectly.
5. The conclusion of the auditor depends on his interests.
6. Nobody is secure against wrong conclusions.
7. Interests of management of the client-company, its shareholders and creditors shouldn't coincide.
8. The more internal conflicts client company has, the more reliable are its financial statements.
9. The less internal conflicts client company has, the less reliable are its financial statements.
10. Every conclusion of the auditor has to have certain degree of persuasiveness.

The main conclusion of the author of these postulates adds up to the idea that "conflict of interests of all subjects which are participants of the economic relations is a guarantee of unbiased data given in financial statements". The scientist doesn't disclose the essence of such conflict and its laws. Due to this methodological approaches to the determination of mentioned postulates of auditing remain out of attention.

The analysis of various interpretations of postulates of auditing indicates that definition of their nature and laws is impossible without researching the nature of contradictions and conflicts in the field of auditing. R.H. Mauntz, H.A. Sharif, J.C. Robertson and others tried to define the content of the postulates mentioned above in this aspect. They paid attention only to the existence of conflicts, but did not study their dialectical essence.

Some authors think that mentioned postulates of audit, offered by Y.V. Sokolov, include negative conclusions as well as positive, unlike postulates of R.H. Mauntz and H.A. Sharif that are based only on positive statements.

In this connection authors mentioned above "recommend to consider that the conflict of interests is also peculiar to audit, and it can manifest itself as a discrepancy of interests between auditor and client, and also as existence of restrictions connected with the necessity to follow principles of independence and neutrality". Along with this they underline that the conflict of interests certainly has to be reflected in the principles of audit [10].

As we can see from the theory of R.H. Mauntz and H.A. Sharif at first they also came to the conclusion that conflict between auditor and management is inevitable. Later, when social contradiction in the field of auditing became more obvious and convincing, J.C. Robertson

specified that there always exists possibility of clash of interests between auditor and management of the company under audit.

Some scientists reckon that conclusion of J.C. Robertson is absolutely opposite to the statement of R.H. Mauntz and H.A. Sharif. At the same time they admit that the conflict of interests between auditor and management always has to be taken into consideration thereby they note the existence of contradiction in the field of auditing [18].

In fact mentioned postulates of audit aren't absolutely opposite. They characterize different aspects of audit as social contradiction and this way complete one another. R.H. Mauntz and H.A. Sharif consider that for audit as social contradiction emergence of conflict state isn't inevitable. In turn J.C. Robertson insists that there always exists a probability of conflict state emergence in auditing as social contradiction.

The main problem is that R.H. Mauntz, H.A. Sharif, J.C. Robertson considered external manifestations of audit as social contradiction on the level of formal logic that is based on the laws of identity and consistency. Such methodological approach has corresponding restrictions and doesn't allow defining the essence of audit using analysis of its various external manifestations.

If we consider mentioned above postulates of audit of R.H. Mauntz, H.A. Sharif, J.K. Robertson from the position of dialectical logic, then in these postulates in different aspects is mentioned such essence of audit as social contradiction. Depending on the circumstances it can assume different meaning and social conflict. In turn, social conflict is a manifestation of such side of the social contradiction as struggle of opposites. One of the conditions of the emergence of conflict in this case is unity itself in the form of diverse relations to such subject of activity as financial accountability that can include distortions in the form of fraud.

Stages or phases of social conflict have different definitions in scientific literature [11,12]. Mainly it's suggested to consider formation and development of social conflict in the aspect of the following stages:

1. Emergence of social tension and realization of opposite interests.
2. Increase of social tension and formation of the conflict.
3. Clarification or neglect of possibilities to find mutual understanding and corresponding solution of the conflict.
4. Intensification of conflict and open struggle.
5. Settlement of social conflict and termination of certain social contradiction by means of its transformation to another social contradiction.

It's typical that in the social conflict open struggle can take traits of antagonism. Contradictions in such state cannot be solved within boundaries of the process in which it was formed and still exists. Other basis of interaction and new quality of relations are needed.

Any social conflict, including conflicts in the field of auditing, can have purposeful or spontaneous character. Everything depends on subject's perception of its interests and actions that influence interests of other subjects. Usually subjects with opposite interests realize opposition of their interests incompletely and in a

different time. Those subjects that became aware of their interests earlier and deeper turn out to be in an advantageous position. They try to elaborate in advance plans to realize their interests by means of taking into account or ignoring interests of other subjects.

Persons that practice fraudulent actions in the process of financial accountability formation beforehand choose such ways of manipulation and falsification that have minimal reflection in accounting documents. As a result guilty persons obtain much more advantageous position than auditor concerning hiding irregularities in financial accountability.

In view of this, objective answer to the question about the probability of conflict between management and auditor and the possibility of clash of interests between auditor and management of the company, can be given only from the position of main laws of philosophy. It's not enough to use only formal logic in this case.

Recognition of the fact that the essence of audit as social relation constitutes social contradiction shows that mentioned contradiction will necessarily transform into the state of social conflict if auditor discovers substantial irregularities in financial statements caused by fraud or mistake.

Such conflict will take place even when upon request of management of company under audit auditor won't make public substantial irregularities in financial statements discovered by him. If auditor in view of insufficient qualification or other circumstances won't discover existing irregularities in financial statements, social conflict doesn't disappear and continue to exist. In such cases it becomes latent and later it can transform into more intense form when hidden or undisclosed by auditor irregularities of financial statements will be discovered by other interested persons.

In case of absence of substantial irregularities in financial statements audit and auditing activity as social relation will keep its state of social contradiction in which interaction of subjects with opposite interests doesn't turn into social conflict. At the same time struggle of subjects with opposite interests will remain as source of audit activity development in the form of social contradiction.

Taking into consideration all mentioned above it's possible to agree in a certain degree with conclusion of R.H. Mauntz and H.A. Sharif that conflict between management of the company and auditor is inevitable. Along with that such conclusion doesn't include existence of dialectic contradiction in the essence of audit itself.

Stated remark also refers to the conclusion of J.C. Robertson that there always exists possibility of clash of interests between auditor and management of the company under audit. Presence of social contradiction in audit confirms that interests of auditor and management of the audited company are in a state of constant collision and struggle and under certain circumstances such clash of interests turn into state of social conflict.

Hence, the probability of conflict between auditor and management as a result of clash of interests between auditor and company's management, in the end depends on existence of substantial irregularities in financial statements. According to the Law officials that are guilty in intentional distortion of financial statements, have to

account for it. On the other hand, auditors also have to be called to account for hidden or unrevealed facts of distortion of financial statements.

Taking into consideration mentioned circumstances, audit and audit activity as social contradiction with important social significance without fail has to be regulated by law. As a result of that regulation audit acquires meaning of legal social relation [13,14].

Though social relation is primary relative to rules of law, legal relation has certain peculiarity and independence. In this regard subjects are connected and interdependent on each other by determined legal rights and duties which help to regulate behavior of people who are directly or indirectly involved in audit and audit activity.

It is characteristic that behavior of subjects of legal relations in the field of audit and audit activity is not only interconnected, but also clearly defined by rules of law that are determined and sanctioned by state. This means that state or person empowered by state fixes in the rule of law optimal or allowable model of behavior with possibility of taking independent decision. Normative acts that regulate audit and audit activity which contains public relation in the form of social contradiction and social conflict have exactly such meaning.

Audit and auditor activity didn't appear on its own, but as a result of formation of social contradiction that consisted in the following: at some point of the economic development of goods production, management of property was separated from its owner. Thus the necessity to introduce a new specific control over the use of property by outside persons emerged.

Some scientists reckon that such transformation of property relations resulted in considerable social conflicts. From their point of view "firstly began conflicts of interests: owners wanted to preserve and multiply their property and managers tried to pass to the class of owners themselves, often using given resources to the detriment of their employers" [15, c.186].

On the grounds of stipulated above we can logically draw a conclusion that philosophical concept or main postulate of auditing lies in that its essence as social relation constitutes a social contradiction that with presence of irregularities in financial statements changes into the state of social conflict. Following this methodological approach it's rational to critically evaluate postulates of auditing that were defined by J.C. Robertson.

Mentioned postulates of audit show that formal logic dominates in its definition. In turn elements of dialectical logic are traced in particular provisions of current International Standards on Auditing. As a result there are some discrepancies between mentioned postulates of auditing which are differently interpreted by scientists.

We can take as an example first postulate of audit concerning possibility of verifying financial statements and other data.

The term "verification" comes from Latin "verificatio" that means evidence or confirmation. In its turn notion "verification" is mostly defined as a process of determination of conclusions veracity by means of empirical testing using evidences obtained in the process of observation, measurement, experiment or comparison

with standard or experimental models. The principle of verification itself became widespread among neopositivists who considered necessary to reduce theoretical propositions to fixation of empirical data and its formalization in the report [16].

As a matter of fact the possibility of verification of financial statements itself doesn't serve as a guarantee that it has no irregularities caused by fraud or mistake. It's impossible to leave out of auditor's attention probability of such irregularities. Whether we want it or not, but it's necessary to admit the fact that audit is carried out with purpose of confirmation of veracity, fullness and accordance with legislation of financial statements. This purpose is achieved by means of analysis and evaluation of financial statements in order to ascertain absence or presence of irregularities caused by fraud or mistake. Under the assumption of complete absence of financial accountability irregularities every business entity loses sense of the verification and audit altogether.

Other postulates offered by J.C. Robertson also have formal character. In these postulates, that reflect auditing at the level of certain effects, the dialectics of unity and variety according to its essence as contradiction isn't traced. In any case postulates of auditing have to be external manifestation of its essence, which brings up the necessity to formulate following postulates of audit:

1. Financial statements, which by its external characteristics meet the requirements, may have distortions caused by fraud or mistake.

2. The persons guilty of distortion of financial statements are able to counteract against auditor concerning uncovering and making public such distortions.

3. As a result of counteraction against auditor in the question of due fulfillment of his official duties, emerge conflicts that require adequate response steps from auditor and other authorized persons to be solved.

4. To ascertain presence or absence of irregularities in financial statements auditor has to act independently taking into account professional skepticism which allows auditor to estimate critically evidence and to reach sufficient confidence.

5. It's allowed to use as evidence any appropriate and admissible information basing on which auditor can ascertain presence or absence of irregularities in financial statements.

6. Evidence and evaluation of financial data, received by auditor on the basis of analysis of possible interrelations, cannot be based on assumptions.

7. Unbiased and thorough examination of financial accountability can have sufficiently high but not absolute level of certainty, with moderate certainty concerning examination of financial statements on the conditions of conformed procedures and consultations which are carried out by auditor without expressing certainty concerning presence or absence of irregularities in financial statements.

8. Sufficient certainty of auditor doesn't exclude the risk that properly made analytical and other procedures won't allow disclosing irregularities in financial statements that really exist.

9. Auditor accounts responsibility for intentionally caused damage in case of illegal expression of certainty

that financial statements don't have irregularities caused by fraud or mistakes as well as for violation of professional ethics and contract responsibilities.

10. Special status of auditor requires public supervision and control over auditor activity.

To some extent stated postulates of audit have found its reflection in the International Standards on Auditing [17]. Some postulates require further implementation in corresponding legal acts and methodical recommendations. It's also necessary to discuss offered postulates of auditing among scientists and practical experts to define directions of using these postulates to further improvement of auditor activity in Ukraine.

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