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## **UPDATE OF THE CIRCUMSTANCES OF RISK OF THREAT OF PERSONAL INTEREST OF ACCOUNTANTS AND AUDITORS**

**Annotation.** *This article discusses one of the threats to the professional behavior of the accountant and the auditor - the threat of self-interest. The threat of self-interest in the business of the client may arise if there are financial or other interests of a professional accountant or auditor, his close relatives or members of their families. The article examines the external and internal reasons for self-interests, measures to eliminate the threat of self-interest, as well as effective ways to prevent unprofessional behavior among accountants.*

**Key words:** *audit, accounting (financial) reporting, accounting, basic principles of ethics, self-interest.*

Under current legislation, persons responsible for verifying and maintaining financial statements must comply with key ethical principles in order to prevent distortion of accounting (financial) reporting data. Prevention of the threat of

personal interest of the accountant or auditor is the primary goal, pursuing the goal of maintaining the correctness, completeness and objectivity of accounting information of individual entrepreneurs and organizations.

Threats to the basic principles of ethics can arise as a consequence of financial, personal or other interests of citizens who provide professional services to the auditor or accountant. If the circumstances that arise improperly affect the opinion or behavior of the expert, the latter risks to admit intentional errors.

In accordance with the current Code of Ethics for Professional Accountants, performers offering accounting and auditing services should adhere to the principles of independence, confidentiality, competence, professional conduct, honesty and integrity.

The fundamental principle of independence presupposes the lack of financial, property or other interest in the work of a serviced legal entity in an audit or accounting company. This principle includes the absence of dependence on third parties who are able to influence the objectivity of the opinion of the performer.

The purpose of competent accounting activities is a reliable mapping of economic situations in the accounting system. If an interest component arises, the responsible person may allow the intentional distortion of the financial indicators in order to obtain personal benefits.

In the provision of professional services for the preparation and audit of accounting (financial) reporting, specialists must strictly comply with the requirements of federal rules and ethical standards. Strict adherence to legislative regulations allows creating conditions for full trust in respect of the expressed expert opinion, drawn up audit report.

Dependence on the position of third parties creates a threat to the personal interest of the performer who participates in the task of verifying the financial statements. Interest in a positive audit opinion is usually caused by direct or

indirect dependence on leaders, participants of the organization or other interested citizens.

When considering audit and accounting activities under independence, it is possible to maintain accounting records, to formulate accounting (financial) statements and to draw up an audit opinion unbiased. Dependence on the interest of third parties directly contradicts the principles of honesty and objectivity.

In the course of the analysis of professional accounting and auditing activity it turns out that the threat of losing independence does not belong to the number of clearly significant. That is why this topic is very topical. In modern conditions of functioning of commercial and non-commercial organizations, effective measures are required to prevent and eliminate the described risk.

In the event that the application of preventive measures does not give the expected result or their implementation is impossible, the interested executor must refuse to participate in the provision of accounting or auditing services. This will eliminate the danger that the basic principles of the conduct of the responsible person will be subject to reasonable doubt on the part of the serviced organization and the controlling state bodies. Refusal of cooperation can be expressed in rejecting the contract with an indication of the motive that caused the termination of the fulfillment of its obligations to the client.

The interest is the dependence on certain persons, which can be expressed in the following forms:

- - the dependence of thinking, which does not give an objective expression of professional opinion due to the presence of factors compromising the professional judgment of the expert;
- violation of the order to act honestly, objectively, showing professional skepticism;
- - Dependent behavior, allowing to establish the bias of the performer in assessing all the facts and circumstances of the situation.

Dependence often has the nature of financial interest, which is related to the existence of joint investments, debt obligations, property complexes and other types of intermediation. Direct financial interest implies the establishment of ownership and control by an individual.

Violation of ethical principles can occur if the expert of the enterprise has financial interest or awareness of the auditor regarding the interest of family members, relatives. For example, executors of accounting services may refuse to comply with the principles of objectivity or secrecy of commercial information, manipulate accounting (financial) accounting data for financial gain.

The study of the nature of financial interest will help to establish the significance of the threat in the conduct of professional audit or accounting activities. In the course of such an assessment, it is important to identify the degree and nature of the interest, for which the value of financial interest is established, taking into account the personal circumstances of the subjects.

It is important for decision-makers to understand that financial interest can grow into a personal one. The presence and degree of significance of the risk of violation of ethical rules is determined by:

- - the role of the dependent performer;
- - the nature of the interest. The direct one arises from the possession of financial investments, property rights and duties. The mediated is manifested through investment institutions and funds;
- - importance of interest.

The existing principles of ethics can be violated if there is a direct or substantial indirect interest of the accounting organization, the audit team, their family members. In the category of relatives may include brothers, sisters, parents and children.

If, based on the results of the assessment, the threat is recognized as significant, it is necessary to take appropriate measures to eliminate it. Major precautions include:

- - exclusion of a person from the audit team or accounting team;
- - complete elimination of the relative's interest or partial reduction of indirect interest to the level of low materiality;
- - carrying out an inspection by a third person who has all the necessary knowledge and skills.

The reason for the personal interest of the accountant or auditor may be external and internal factors. Among the external causes is the influence of moral principles and the economic model applied in the country. Internal causes of interest are related:

- - with illiterate promotion of accounting and auditing services. Offering help, a specialist can not compromise a profession, exaggerate the level of services, make disparaging reviews about the activities of competing firms;

- - with gifts and attention signs. The threat of violation of the foundations of ethics arises if the auditor or accountant receives valuable gifts from the client. In the future, the customer can blackmail the performer and demand that he violate the rules of objectivity while conducting the audit;

- - with the acceptance of the assets of the serviced organization for preservation. The circumstances under which the accountant receives the firm's assets create the possibility of assuming unprofessional behavior or bias in the provision of services;

- - with loans received by the employer company, family members of employees from the audited entity;

- - with the establishment of close business relationships with the client. Expressed in the presence of joint management powers, agreements on the pooling of efforts, agreements on promotion in the market;

- - with kinship or personal connections of the head or employees of the audited organization.

To cause a threat of personal interest of specialists in providing accounting and auditing services can:

- - financial interest in obtaining credit;
- - the availability of motivational compensation, incentive bonuses from management;
- - misuse of the organization's assets;
- Risk of losing the customer;
- - commercial pressure of the head;
- - ownership of shares in the enterprise-employer. The value of securities directly depends on the profitability of the company;
- - close business relations with the company served;
- fear of missing a large profitable customer.

When revealing facts of biased behavior of accountants and auditors, it is required to take immediate measures to eliminate the threat of personal interest or to reduce existing risks to a minimum.

These measures fall into two categories:

1. Actions dictated by the profession and the current regulatory requirements. The system of normative acts, which auditors and accountants use in carrying out their activities, is legally fixed. These include the rules of corporate conduct, guidelines, instructions, requirements for education, advanced training.

Among the additional ways to control the impartiality of accounting and auditing activities are called disciplinary procedures, monitoring of independent experts and supervisory services. Authorized persons organize external audits, which involve the examination of documents, reports and reports formed by the executor.

2. Operations due to the work environment. When describing precautionary measures in the work environment of the accounting company mention corporate supervisory structures, strict internal control of the behavior of employees, strict disciplinary measures for the perpetrators. The head of the audit firm should detail the procedure for hiring highly qualified personnel, regulating the norms of corporate ethics.

The director of the employer company needs to emphasize the importance of good ethical behavior, support and develop corporate policies and procedures for internal and external control of the competence of employees of the accounting department. It is useful to regularly conduct training seminars and talks to familiarize the staff with current legislation and internal acts of the company. It is necessary to introduce procedures that allow each employee without fear to inform the boss about existing ethical problems and shortcomings.

In the event that the employer has reason to believe that unethical behavior of his employee will continue even after taking all possible preventive measures, he has the right to dismiss the offender from the company.

Effective ways to prevent unprofessional behavior among accountants in the performance of a specific assignment, recognize:

- - examination of the activities of a professional accountant. An independent expert who did not work together with the audited specialist will give advice, analyze its results;
- - consulting an independent third party. For checking, disinterested professional accountants, members of the board of directors of the client company, employees of the Institute of Professional Accountants and Auditors of the Russian Federation, regulating and controlling authorities, are involved;
- - research and discussion of ethical issues that arose between the client firm and the owner's representatives;
- - clarification of the contents of the accounting or audit services provided, justification of the amount of the appointed remuneration;
- - Involvement of an external accounting or audit company to re-execute part of the task assigned to the audited specialist.

Among the preventive measures incorporated in the customer's systems, the following are recommended:

- - procedure for selecting or approving the performer by persons not included in the management team;

- - the presence of specialists at the client who are able to make managerial decisions;

- - internal procedures that facilitate the objective selection of the accountant;

- - rules of corporate conduct to control the provision of audit services.

That the difference in the sum of compensation did not become the reason of unethical behavior of the bookkeeper, it is necessary:

- Enter into a written agreement on the method of calculating the payment.

- Disclose the contents of the work of the accountant and the auditor.

- Monitor the quality of services.

- Conduct an independent review of the results.

The fundamental rule in the conduct of the activities of the auditor and the accountant is observance of the principles of objectivity, independence and honesty. If there is a risk of dependence of the expert, it is necessary to assess its significance and take adequate preventive measures. To identify and prevent cases of unethical behavior among the responsible persons, it is necessary:

- - conduct systematic work on complaints and claims;

- - to reveal facts of unprofessional behavior among experts;

- - report on proven facts of violation of ethical requirements.

All identified ethical conflicts are subject to resolution by formal or informal methods. If necessary, accountants or auditors can be consulted by competent employees of their own organization or customer's company. If the conflict is internal, it may involve members of the board of directors and the audit committee.

The order of consideration of a problem situation includes documenting of significant circumstances, fixing details of any discussions and decisions taken. If the conflict can not be solved on its own, accountants can apply for advice or receive practical assistance in the IPA of Russia.



Organizations should implement detailed regulations to bring to justice those who committed unethical behavior. In a situation where all possibilities have been exhausted, but the problem has not been resolved, the auditor should partially or completely abandon the assignment given by the customer or employer.

First of all, the clarifications we have set as our goal are to draw the attention of the professional community to the problems of ethical issues, and also to stimulate all interested parties to the relevant discussion in the periodical press.

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