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THE ROLE OF PROFESSIONAL ETHICS AND INTERNAL AUDIT IN THE DISCLOSURE OF INFORMATION ABOUT THE ENTERPRISE

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Abstract
The issue of disclosure continues to be a challenge for users of financial and non-financial reporting and the accounting standards community. Financial disclosure standards aim to improve the qualitative characteristics, comparability, verifiability, timeliness and understandability of financial statements. Enterprises that implement the principles of the ESG agenda face the problem of disclosing information about the results of socially responsible activities in non-financial reporting. Such reporting is optional and standardized. This is due to the voluntary nature of socially responsible activity. The quality of information disclosure is determined by professional ethical principles and internal audit.

Keywords: information disclosure, financial and non-financial reporting, professional ethics, internal audit, reporting veiling.

РОЛЬ ПРОФЕССИОНАЛЬНОЙ ЭТИКИ И ВНУТРЕННЕГО АУДИТА В РАСКРЫТИИ ИНФОРМАЦИИ О ПРЕДПРИЯТИИ

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Реферат
Вопрос раскрытия информации продолжает оставаться проблемой для пользователей финансовой и нефинансовой отчетности и сообщества стандартов бухгалтерского учета. Стандарты раскрытия финансовой информации направлены на улучшение качественных характеристик, сопоставимости, проверяемости, своевременности и понятности финансовой отчетности. Предприятия, реализующие принципы ESG-повестки, сталкиваются с проблемой раскрытия информации о результатах социально ответственной деятельности в нефинансовой отчетности. Такая отчетность не является обязательной и стандартизированной. Это связано с добровольным характером социально-ответственной деятельности. Качество раскрытия информации определяется профессиональными этическими принципами и внутренним аудитом.

Ключевые слова: раскрытие информации, финансовая и нефинансовая отчетности, профессиональная этика, внутренний аудит, вуалирование отчетности.

Introduction

Disclosure based regulation sounds like an easy solution to a lot of problems. For disclosure to work as a governance tool, quite a number of elements (or incentives) need to be working together. The main tools are the development of documents and legislative norms and standards.

Some disclosures can be effectively provided directly in the financial statements, such as a provision for uncollectible receivables. Other disclosures may be provided either directly in the financial statements or in the notes. The possibility of using professional accounting judgments, the ambiguous interpretation of the application of information disclosure standards lead to the possibility of using financial reporting concealment tools.

The main part

The most pressing problems in the disclosure of information about the enterprise are the veiling of financial statements, incomparability and "green" distortion of non-financial reporting indicators. The most significant role in solving the problems of information disclosure belongs to the ethical principles in the field of accounting and the internal audit system in order to monitor their compliance.

The disclosure problem continues to pose a challenge to the accounting standard setting community.

The veiling of financial statements is a deliberate action or inaction with the aim of distorting financial statements or its individual indicators, which causes certain harm to users of statements [1].

The concept of sustainable development has become widespread in the practice of enterprises. ESG performance indicators are presented in various non-financial reports.

Non-financial reporting is reporting that simultaneously covers the economic, environmental and social aspects of the company's activities, disclosing information about its non-financial initiatives and contribution to the sustainable development of the surrounding world [2].

Due to the lack of mandatory standards for non-financial reporting, the data provided by companies to reporting users can vary significantly in content, which complicates the comparability and usefulness of these data. One of the urgent problems is to reduce the risks of the so-called "green" veiling ("green laundering") of non-financial reporting. At the same time, increasing the reliability of non-financial reporting indicators through standardization is also associated with certain business risks of disclosing information about the activities of an enterprise.

Issues of form and style, determining required disclosures, common challenges in preparing various disclosures, disclosures of financial and non-financial performance, and disclosure risks are pressing issues for the business community and professional accountants and auditors.

Financial data is reliable only because auditors check it first. They are the first line of defence for shareholders and serve one of the most valuable functions in a market economy. They provide assurances regarding the information on which almost all our economic decisions are based. If the information is wrong, then the economic decisions we make will also be wrong. In contrast to other professions the auditing profession bears a special burden of being objective and independent.

Raising the quality of the audit and improving the independence of the auditor will remain important challenges in the years to come.

One of the conditions for ensuring a quality audit is the observance of ethical principles. The backbone of an effective disclosure audit is an internal audit system.

The purpose of this study was to study the role and influence of the requirements of the professional ethics of the auditor and the internal audit system on the quality of disclosure of information about the activities of the enterprise.

Understanding the importance of information technology and quality information has already come. And today, the understanding that those who own the world, who have the latest, high-quality information - the needs of progress, no longer raises questions and doubts in anyone.

No public, social life and its scientific manifestations are possible without information, which acts as the locomotive of social, political, and technical progress. The demand for knowledge, the ability to analyze and compare all types of reporting are necessary for a modern leader at any level to make informed and competent decisions.

Any information is important to correlate with the target content in relation to the user. Users make management decisions based on statistical, social, non-financial, environmental, accounting and other reporting. Public awareness for making competent decisions in the world community is also a task of accountability, including for ensuring sustainable development. Accounting and reporting practices are influenced by the economic conditions of the functioning of organizations, the legal system, and political factors. Accordingly, all of the above also affects the transparency of reports.

The manipulation of financial information is not new and will never go away. The reason is that accounting requires judgment [3].

This leads to the possibility of veiling financial statements and misleading its users. Veiling can be achieved legally through accounting policies and illegally through decreasing revenues and increasing expenses.

With regard to non-financial reporting, the lack of uniform standards and disclosure requirements leads to many risks. Concerted actions of states, business and society are gradually solving these problems. The issue of taking measures to introduce global standards for the disclosure of non-financial information is being discussed.

Studies show significant non-compliance or understatement of important information about socially responsible activities by enterprises. On average, firms listed with the US Securities and Exchange Commission provided only about 18% of the information that the Sustainable Development Accounting Standards Board (SASB) considers material. These vary by industry and include environmental performance, health and safety metrics (Grewal et al, 2020). Meanwhile, the volume and quality of disclosures have increased in countries with CSR reporting responsibilities, such as China, Denmark, Malaysia and South Africa [4].

The main problems of disclosure of non-financial information are: incomparability of data, difficulties in controlling the reliability of information, which leads to the possibility of hiding "green crimes".

Green Crime is illegal activity that involves the environment, biodiversity, or natural resources. There are generally five types of major environmental crime: illegal logging, fishing, and mining, and crimes that harm wildlife and generate pollution [5].

Financial institutions and regulators are trying to focus on these crimes and find solutions. However, it is very difficult to identify them based on data from non-financial reports.

Thus, when disclosing information about the activities of an enterprise in financial and non-financial reporting, a system of professional ethical principles in the field of accounting and auditing plays a significant role.

For auditors of financial statements, ethical principles have been established by the Code of Professional Conduct, commonly referred to as the Code of Ethics. This code of ethics is divided into two sections: principles and rules. The principles provide the basis for the decent behavior expected in the performance of professional duties, while the rules provide more detailed guidance [6].

The fundamental principles include: honesty, objectivity, professional competence and due care; confidentiality and professional conduct.

These principles are the basis for the professional ethics of an accountant. The professional competence of an accountant includes the formation of judgments on the disclosure of information in financial and non-financial reporting. And it is especially important that this accountant performs his functions not only professionally, but also in good faith [7].

Independence and ethical principles are important not only for accountants and auditors, but also for standards developers. Standards developers should also be independent. Discussion is at the heart of standards development, but standards developers are sometimes lobbied to reduce disclosure.

The system of control over compliance with these ethical principles is the internal audit system.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes [8].

To detect veiling at the operational level and at the level of formation of accounting information, the most effective is to build an effective control system and constant monitoring of the company's operating environment, that is, prevention. And at the level of detection, as the statistics of detection of cases of veiling show, the most effective method of uncovering fraud with financial statements is to check the so-called analytical symptoms of events that go beyond normal practice. In this case, it is necessary to separate two objects of analysis:

– direct financial reporting
– non-financial information allowing to conclude about the violation.

In the first case, as a result of the analysis of financial information, such analytical symptoms can be identified as:

- significant unreasonable deviation of financial indicators in comparison with the previous period or other comparable data;
- incomparable increase in income with a decrease in inventories;
- increase in income with a decrease in the amount of cash receipts;
- an increase in inventories with a decrease in accounts payable; increase in the number of sales with an increase in the price per unit of production;
- redundant purchases.

If the goal of performance analysis is to identify symptoms, strange relationships, and unusual correlations of reporting performance, then it is important to establish criteria before starting such an analysis, deviations from which will be considered abnormal, given the specifics of the company.

Depending on the goals and established criteria, the following types of analytical procedures can be distinguished:

1. Vertical (correlation) analysis, which allows you to analyze changes in the share of a separate reporting item in a general indicator (for example, in assets) and compare structural changes in the balance sheet, income statement, cash flow and capital changes compared to previous periods or other relevant comparable data.
2. Horizontal analysis is a trend analysis, an analysis of the deviations in the value of an individual item compared to the previous period.
3. Financial analysis of indicators or ratios (turnover, liquidity indicators, financial leverage). It is also possible to combine all methods of comparative analysis in order to obtain confirmation of the unusualness of facts or events.

The analysis of non-financial information can play a big role in revealing veiling.

Analytical symptoms that can help the user of financial statements to identify the obscurity of financial statements include:

1.) internal:
- relationship with the legal department: conducting large-scale litigation, frequent change of lawyers;
- Relationships with managers: be high turnover among managers; frequent change of leadership.

2.) external:
- relations with auditors: frequent change of the external auditor; refusal to provide or delay in the information required by the auditors; lack of internal audit; the auditor's refusal to make a judgment about the financial position of the company or disagreement with the data of the presented financial documents;
- relations with regulatory authorities and the tax service: revocation of licenses; regular inspections by higher regulatory authorities; frequent violations of tax laws, problems with regulatory authorities;
- relations with banks and other financial institutions: significant liabilities or violation of the limits of admissible debt; the inability of the company to secure financing in the form of loans or credits;
- relations with competitors: tough competitive environment, potential takeovers; reorganization of the structure of relations between partners;
- relationships with customers and suppliers: a large number of new customers or suppliers; lack of a counterparty verification system.

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The primary responsibility for detection of financial statement fraud resides with company management. Prevention of fraud is most effective with a strong team consisting of an audit committee comprising internal and external auditors and a board of directors who set a tone for ethics at the organization. Auditing standards establish that auditors have a responsibility to reach a reasonable assurance that financial statements are clear of misstatement due to either error or fraud. The auditors' responsibilities are to appropriately identify, assess and respond to fraud risks, using the many tools and techniques at their disposal.

The first and most important step is to institute strong internal accounting controls. Key to this is segregation of duties, which involves dividing responsibility for bookkeeping, deposits, reporting and auditing between different people to reduce the temptation and opportunities to commit fraud.

Companies should regularly test their financial statements for accuracy to make sure their internal controls are effectively preventing fraud.

Conclusions

Ethics require accounting professionals to comply with the laws and regulations that govern their jurisdictions and their bodies of work. Avoiding actions that could negatively affect the reputation of the profession is a reasonable commitment that business partners and others should expect. Accounting ethics is an important topic because accountants are the key personnel who access the financial information of individuals and entities. Such power also involves the potential and possibilities for abuse of information or manipulation of numbers to enhance company perceptions or enforce earnings management. Ethics is also absolutely required in the course of an audit.

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