

Features and Faces of the Auditor's Report: Qualitative Aspects

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Abstract

The objective of the study is to elaborate the set of qualitative characteristics of the auditor's report, which should serve as the basis for the development of its format and content corresponding to the interests of users. The study results are based on a basic philosophical theories and principles, researches of scientists in the theory and practice of auditing, accounting, financial reporting and information, laws and regulations in the sphere of accounting, financial reporting and auditing. The problems of identifying the quality criteria of audit information taking into account objective and subjective characteristics of information are investigated. It is substantiated that the quality characteristics of the auditor's report must be presented in several groups: those that comply with the principle of objectivity and those that take into account the socio-psychological characteristics of information; fundamental, supporting and enhancing; those that determine the content of the information in the auditor's report, and those that determine the form of its presentation. The correlation of qualitative characteristics is analyzed and two classifications of qualitative characteristics of the auditor's report is presented in the study: the first is based on the statement that the truth is a main purpose of audit functioning and presentation of the auditor's report; the second is based on the priority of the needs of users of the auditor's report. The application of proposed qualitative characteristics enables forming the auditor's report taking into account informational requirements of users and increasing the audit effectiveness that will lead to the quality of audit as a communication process.

Keywords: audit, quality of audit, auditor's report, qualitative characteristics

1. Introduction

The competitiveness of the economy on the national as well as on the international markets is determined by the quality of the management and therefore the problem of an efficient management is of high priority. Modern management of Bangladesh involves the search for managerial decisions in complex social and economic conditions and its efficiency is determined by quality of management and individual abilities of managers, maximum completeness of information about aggregate result of organization. To a great extent it refers to the audit so far as a qualitative auditor's

report which determines a high degree of practical appropriateness of the information used by those charged with governance corresponds to the key values of the management in general; secondly, it is also important to ensure the quality of the auditor's report from the point of view of satisfaction of needs of the direct users.

Auditor's report is the basis for making balanced decisions by shareholders, banks, insurance companies and others, so the importance of auditor's opinion about financial statements imposes a great responsibility on each auditor and the audit community as a whole. The auditor's report is a key result of the audit and its information content corresponding to the requirements of the users is the main way to improve the quality of audit.

At the same time we should take into account the specific nature of the auditing as a professional service and communication process. The specific character becomes apparent in the following:

- the result of audit engagements is a combination of material (auditor's report) and non-material (verbal explanations of an auditors and their communication with the management) elements which are not antipodes but present two sides of a single whole;
- the main result of the audit (auditor's report) is a material object which can be kept, demonstrated and used without the auditor (auditing firm);
- after performing statutory audit its result (auditor's report) has a public character and may be used by different users.

Confirmation of common understanding of the problem of increasing the quality of management through the quality of its components is the fact that over the years a lot of debate has taken place over the contents of the auditors' report. In recent years the problems of enhancing the quality of auditor's reports by changing the structure of information and its contents had been widely considered (Consulting Paper. Enhancing the Value of Auditor Reporting: Exploring Options for Change 2011; Discussion Paper. The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications 2011) and were reflected in the revised standard regulating the issues of the formation of the auditor's report (International Standard on Auditing 700 (revised) "Forming an Opinion and Reporting on Financial Statements" 2015). However, in our opinion, these attempts are not entirely effective and sufficient and the basis for the development of the formats and structure of auditor's reports should be the selection of high-quality characteristics and principles for the preparation of final documents. The above-mentioned shows us the necessity of a deeply thought-out comprehensive study of the original criteria of qualitative characteristics of the auditor's report.

2. Literature and Regulation Review

Theory of auditing is based on some assumptions (or postulates) elaborated by such academics as Mautz and Sharaf (1961), Lee (1986; 1993), Flint (1988). One of assumption states: *"The purpose of the audit is sufficiently clear that its results can be*

communicated clearly". So if the auditor's opinion in auditor's report cannot be communicated effectively then inevitably the value of the audit will be diminished. But the analysis of scientific publications of well-known economists and experts in the sphere of audit shows that despite the fact that the qualitative characteristics of accounting and financial reporting are disclosed in regulatory documents as well as in the professional literature, the issues of determining the quality characteristics of the auditor's report are not highlighted in full.

International Standards on Quality Control, Auditing, Review, Other Assurance, and Related Services (2014) do not disclose this category. These issues are mentioned in International Standards for the Professional Practice of Internal Auditing (2012). In the Performance Standards a separate section is devoted to the quality of communications (2420 – Quality of Communications) highlighting that they should be accurate, objective, clear, concise, constructive, complete and timely. Issues of qualitative characteristics are mentioned only in the International Framework for Assurance Engagements (International Standards of Quality Control, Auditing, Review, Other Assurance, and Related Services, Volume III 2014, pp. 70-104) in relation to characteristics of suitable criteria (paragraph 44). The following characteristics are distinguished: relevance, completeness, reliability, neutrality, understandability

Recent professional Ukrainian literature presents a certain but limited range of issues concerning quality of audit: in particular key demands for the auditor's report such as understandability and accessibility for perception are described (Petryk 2003, p. 213).

The issues of qualitative characteristics are mainly considered in relation to the information in general or to such objects as "accounting", "financial statement" and "criteria". Significant attention is paid to the quality of information in the theories of communication, decision-making, management, accounting and control. In particular, the management theory puts forward such demands as reliability, completeness, timeliness, accuracy, value, selectivity and focuses on the elimination of the "physical noise" caused by the communication channel itself, in particular because of its limited capacity; "semantic, meaningful noise" which is defined by the ability of a user to understand and assimilate the information; "pragmatic noise" which includes the information that was not used for solving a specific problem but was useful as the basis for selection a better decision and can be used for such engagements in future (Radukin et al. 1986, pp. 196 – 198). But the list of requirements for the information is still open so far as in the scientific literature sets covering twenty-four properties are distinguished and it is noted that they "can hardly be considered exhaustive" (Gromov 2011, pp. 350 – 351).

Information support of accounting and analytical process are classified according to the degree of information cognition and it is highlighted new information that reflects the novelty of the proposed solution or substantiates the reasons of disadvantages, and relevant information, existing in analogs, that is prototypes and is used to prove the

truth (Bilukha 2000, p. 231). Separately the requirements for the formation of integrated management reporting are distinguished, such as appropriateness, objectivity and accuracy, timeliness, frequency, comparability, targeting, efficiency, flexibility and uniformity of structure, clarity and visibility of information, the optimal frequency performance, suitability for analysis and operational (Paliy 2003, pp. 769-770); understandability, relevance, reliability, trustworthiness, validity, neutrality, prudence, completeness, comparability, timeliness, cost-effectiveness (efficiency) (Kuznietsova 2014, pp. 276-277). An analysis of such qualitative characteristics of management commentary reporting as understandability, relevance, supportability, balance and comparability over time are suggested (Chatterjee, B. *et. al* 2011, pp. 49-54 2011).

Taking into consideration the direct relationship of the auditor's report and financial statements we should pay attention to the qualitative characteristics of the financial statements set out in the following international standards: Conceptual Framework for Financial Reporting issued by the International Accounting Standards Board (2010), Statement of Financial Accounting Concepts No. 8 "Conceptual Framework for Financial Reporting", issued by Financial Accounting Standards Board of Financial Accounting Foundation (2010), The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, issued by the International Public Sector Accounting Standards Board (2013), such as: relevance, faithful representation, comparability, verifiability, timeliness, understandability. Materiality is distinguished as the characteristic which provides relevance; the characteristics which provides faithful representation includes completeness, neutrality and absence of errors. Similar characteristics such as clarity, relevance, reliability and comparability are contained in the national documents of Bangladesh, namely the Law of Bangladesh "On Accounting and Financial Reporting in Bangladesh" (1999) and National regulations (the standard) of accounting 1 "General Requirements for Financial Statements" (2013).

The complexity and multiplicity of the qualitative characteristics of financial statements are widely discussed in the scientific literature (Shahwan 2008; van Beest *et al.* 2009; Nobes & Stadler 2014) and, in our opinion, efficiently emphasized in the Statement of Financial Accounting Concepts No. 8 "Conceptual Framework for Financial Reporting" (2010) which contains the section "Qualitative Characteristics Not Included". These qualitative characteristics are treated as "desirable" but as different words to describe the information and they are the following: transparency, high quality, internal consistency, true and fair view or fair presentation.

In this context special attention should be given to the necessity of using not only one-parameter quality characteristics but complex and multi-parameter characteristics such as harmony which assume the availability of characteristics that complement each other but not except (Tsvetkov 2008, pp.84-85).

As we can see the issues of qualitative characteristics of the auditor's report are considered fragmentary, somewhat eclectically and mostly in relation to the

information in general or to such objects as "accounting" and "financial statements". There is no common understanding of the characteristics of the final result of the work of an auditor (auditor's report); there is no clarity in the quality of the information. A very important aspect of the study is overlooked, namely the poly semanticist and multi levelness of the concepts themselves that determine the quality of audits, their dynamism and internal mobility.

3. Research Methodology and the Purpose of the Article

In our opinion this problems must be considered in order to strengthen the foundation of auditing theory by detailed elaboration of assumption (postulate) mentioned above and to increase therefore the effectiveness of practice of auditing by finding the ways of solving the problem of "expectation gap" in audit. The complexity of the problem is amplified by the lack of a unified approach to the definition of the audit objectives and the requirements for it as well as by informational inconsistency among the auditor, responsible party and other concerned users. The result may be a "blurring" of the demands of general regulations in the mind of a particular user and the decreasing of the quality of audit. Consideration of these problems forms the purposeful orientation of the research.

The objective of this research is to elaborate the set of quality characteristics of the auditor's report, which should serve as the basis for the development of its format and content corresponding to the needs and requirements of users.

The methodological basis of the research of qualitative characteristics of the auditor's report is the well-known basic philosophical theories and principles. The study is based on the scientific and creative interpreting of elaboration of foreign and domestic scientists in the problem of the philosophy of information, in the theory and practice of auditing.

To achieve the objective the complex of general scientific methods has been used (analysis, synthesis, induction, deduction, abstraction, systematization, compilation, review, comparison). The research has relied primarily on information available in internet, published books and journals, laws and regulation in the sphere of accounting, financial reports and auditing. Attention was paid to three important issues: (a) determine the basic nature of the content and essence of quality criteria of the audit report on the basis of investigation of the essence of information and its quality; (b) formulate principles for the preparation and presentation of the auditor's report; (c) systematize the qualitative characteristics of the auditor's report and determine their possible application in practice.

4. Methodological problems of determination the quality of information in auditor's report

4.1. Problems of Identifying the Quality Criteria of Information in Audit

First of all, we proceed from the position of Hegel about the identity of quality and reality as a basic principle. Hegel emphasized that "*Quality, in the distinct value of existent, is reality*" (Hegel 2010 (1832), p. 85). It is also the principles of objectivity; determinism and reliability are of particular importance. Just the principle of reliability, proven by social and productive practices, is considered as a synonym of objective truth.

The role of the concepts and criteria in the definition of auditor's report quality is indisputable but it would be incomparably greater if they were presented in a hierarchical system but not eclectically.

Getting to the problem, it is appropriate to provide the list of the proposed criteria presented in the regulations (The Conceptual Framework for Financial Reporting 2010; Statement of Financial Accounting Concepts №8 "Conceptual Framework for Financial Reporting. Chapter 1, The Objective of General Purpose Financial Reporting, and Chapter 3, Qualitative Characteristics of Useful Financial Information"; The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities): objectivity, clarity, conciseness, constructively, depth, timeliness, appropriateness, significance, truthful representation, completeness, neutrality, absence of errors, comparability, and in the professional literature (Bilukha 2000, p. 231; Paliy 2003, pp. 769-770; Kuznietsova 2014, pp. 276-277; Beest, Braam, Boelens 2009; Shahwan 2008): reliability, proof or credibility, impartiality, relevance, appropriateness, objectivity and accuracy, cooperativeness, frequency, comparability, targeting, efficiency, understandability, trustworthiness, validity, neutrality, prudence, transparency, high quality, internal consistency, verity and fair view or truthful representation, sincerity.

Even a brief analysis shows that objectivity and significance are a basic characteristics; efficiency is integrated characteristics; timeliness and appropriateness, impartiality and neutrality duplicate each other; internal consistency may have the meaning of following the logic of the presentation; the parameters of sincerity and prudence raise many questions regarding the verity (trustworthiness) of the content of the auditor's report. Therefore, before determining (and providing) the qualitative characteristics of the auditor's report we should clearly identify the basic content and the essence of their criteria.

But many misunderstandings arise merely from the fact that the parties or individuals have different understanding of the meaning of words or expressions. Descartes asserted in his "Rules for the Direction of the Mind" (1637): "... *indeed these verbal questions are of such frequent occurrence, that almost all controversy would be*

removed from among Philosophers, if they were always to agree as to the meaning of words" (The Philosophical Writings of Descartes, Volume 1, 1985).

In addition, we consider that the qualitative characteristics of the auditor's report cannot simply be listed mechanically. They must be inferred and formed into a hierarchical system based on the primacy of quality (essence and reality), and the principles of objectivity and determinism. On the basis of this approach the opportunities of improving the effectiveness of any management system can be identified. All the above mentioned fully applies to the audit as the audit problems are a part of a wide range of general problems.

4.2. Objective and Subjective Characteristics of Information

The basis of the auditor's report is information and all criteria of the quality of audit are the criteria of the quality of information. Therefore, it is important to clearly define its content. But there is no common understanding of the essence of information, and above all, it concerns the nature of it – material or immaterial, objective or subjective.

For example, in the scientific literature it is widely presented an opinion that information is the understanding (sense) that comes to a human mind after receiving data from surrounding reality. The understanding is interlinked with the prior-received knowledge, thus the information is immaterial. The founder of cybernetics, Norbert Wiener said: "Information is information, not matter or energy" (1965) and this phrase is often referred to, because of the enormous scientific credibility of the author. Subsequently other scientists also emphasize this distinction and affirm that "... for a more holistic understanding of the properties of physical objects and systems it is necessary to determine and take into account both their physical and information properties" (Kolin 2013, p.73). It is underlined that information itself does not exist, there are only data from which individuals can get information, so information is variable and subjective, and the degree of informativeness of data is always relative. This relativity is determined by many factors including the level of professional training and knowledge of a user at the time of getting the data (Kovalev 2006, p. 168).

But in the scientific literature more categorical approaches emphasizing materiality of information are presented (Gurevich & Ursul 2012). Basically, information is material because, firstly, at its base there is always a material as a part of the objective reality; secondly, it has material means of communication with a user of information; thirdly, the amount of information can be measured (in bits) which is possible only for material objects.

Without claiming to find the final decision of this problem (purely philosophical), we adhere to the position of the objective and the subjective nature of the information. After all, without exception, objects, processes and phenomena of reality simultaneously possess both material and non-material properties, and this duality is fundamentally no removable.

At the stage of collecting data the information is objective; therefore for the audit the concept of adequacy and accuracy of reflection the information as the primary guarantee of its quality. The transition to the sphere of immateriality and subjectivity is carried out at the stages of processing and using the information, at this moment the information is comprehended. In all spheres of human society an important sense has not the information itself (material) but its semantic content (immaterial).

We should take into account the importance of the needs, requirements and interests of getting certain information because the information itself can acquire the meaning through interaction with the subject, the user of the information. According to N. Luman the information cannot be obtained passively from the signals that are perceived from the surrounding environment. On the contrary, it always contains a free component of expectations of what can then be done with it. In other words, there should be formed an interest before the appearance of the information (Luman 2004, p.38).

So, the auditor should take into account that the meaning is not identical to the information and does not completely coincide with it; the meaning creates an extremely broad interpretation of the information and connects it with the broader context of social reality, especially in terms of freedom and interest. This stage determines the specific perception of the audit but has the danger of subjectivity and arbitrariness of the interpretations of its results.

And here there are other problems that need to be taken into account because they can also reduce the quality of the auditor's report. This refers to the risk of deliberate distortion of the initial information. For example, having formed his own semantic model of the auditor's report a manager can interpret it according to his (her) interests and avoid conflict with shareholders or weaken it.

4.3. Duality of Key Criteria

Similar problems arise in understanding the significance of the key terms that are used to express the auditor's opinion: veritable, true, authentic and fair presentation. A consumer understanding of words is always poly semantic, so science must reduce it to a simple notion. For example, verity and truth are often used in everyday life to characterize beliefs in some Slavic languages (Russian, Ukrainian etc). These concepts are close but not equivalent; by their content they coincide partially or do not coincide at all. In our opinion verity is an adequate and accurate reflection of objective reality; truth is a subjective verity and it is characterized by the fact that an individual says what he (she) thinks and believes its words are true. The truth sometimes is compared with such category of morality as "justice", sometimes with rectitude, that is compliance with rules (which are formed by people or a group of people according to their interests rather than objective truth). Based on the above, we think that the criteria of verity and truth in the analysis of audit quality must be replaced with the criterium of trustworthiness.

The concept of quality is also multi-level and therefore has at least two concepts: (a) the collection of the essential properties of the object (that is the quality in its basis coincides with the essence of the object) and (b) the degree of practical suitability of the information for the user (high, low quality). The second depends on the first. In the audit both interpretations have one common objective – accurately and adequately reflect the essence of the information at all stages of preparation of audit's report, shaping high quality (in the second sense) and simultaneously increasing its efficiency.

The preservation of the assessment criteria of the audit within the boundaries of the original quality (in the Hegelian sense) makes the audit as the guarantee of efficiency (since all the differences between the criteria will have immanent origin). This is a single framework or single "point of reference" which systematizing all the other criteria.

Therefore, the concept of quality and the concept of the efficiency for the process of preparation of the auditor's report can be regarded as integral and system forming. Determining the value of the information, it should be assumed that it has the objective and subjective (meaningful) sides. The value of the information cannot be determined without understanding it by a user (subjective side) but the information is real and exists regardless of user and this fact shows its objectivity. The value of the information which was understood and assimilated by the user of the auditor's report increases in the extent to which it will be used: first, to enrich the user's knowledge of the objective of the audit and audit system itself, and secondly, to make decisions (in the last case the information is called "pragmatic").

5. Results and Discussion

5.1. Principles of the Auditor's Report and General Groups of its Qualitative Characteristics

Therefore, in our opinion, it is important to highlight the following principles for the preparation and presentation of the auditor's report:

1. The auditor's report should contain only objective information, because without principle of objectivity any other characteristics of information are meaningless.
2. The auditor's report must contain pragmatic (useful) information that will facilitate the adoption of certain decisions, not simply descriptive information about auditor and responsible party, their rights, duties and responsibilities.
3. The auditor's report must contain new information (the opinion of the auditor about whether the financial statements as a whole are free from material misstatement) as well as probative information that should be sufficient for justification of new information.
4. In the process of formation the structure, content and presentation of the auditor's report it is important to ensure the elimination of some "noises". "Physical noise" can be eliminated through the timely publication of the auditor's report in an accessible and appropriate way for users. "Semantic noise" can be eliminated by the

use of intelligible and clear form of statements and relevant information. "Pragmatic noise" can be eliminated by the use of neutral (impartial) statements and preventing the diversion of attention of the users of the auditor's report from the section with the auditor's opinion (such situation can occur because of an inappropriate structure of the report and because of the amount of introductory information).

5. Highlighting the quality characteristics of the auditor's report it is necessary to take into account the necessity of ensuring their harmony which involves the analysis of their relationships, certain conventionality and dependency.

Combining the existing requirements for information support of decision-making process, the qualitative characteristics of the auditor's report can be presented in several groups:

- those that comply with the principle of objectivity and those that take into account the socio-psychological characteristics of information;
- fundamental, supporting and enhancing;
- those that determine the content of the information in the auditor's report, and those that determine the form of its presentation.
- These groups enable proving the connection between qualitative characteristics and their relationship, and can be the basis for their further classification.

5.2. Qualitative Characteristics Complying with Objectivity Principle

The main in our view is the first group and leading in this classification are the qualitative characteristics that reflect the objective aspect of the information, namely: *trustworthiness (faithful representation), completeness, neutrality and adequacy*. In the presentation of meaning of such characteristics as trustworthiness, completeness and neutrality the principal propositions of Conceptual Framework for Financial Reporting (2010) concerning such qualitative characteristic of useful financial information as faithful representation (paragraphs QC12-QC16) were used as a starting-point.

Trustworthiness. Auditor's reports should submit quantitative and qualitative information with no errors and distortions that could affect making decisions by the users of report. Trustworthiness expresses the highest degree of confidence in the validity of the initial information, and therefore the highest degree of perception of the truth by a person. It forms the confidence which is based on the knowledge of objective reality and eliminated any doubt. For all that it should be kept in mind that the trustworthiness may be subjective (faith), intuitive and direct (in life). However, to validate the trustworthiness of the information we apply the entire set of quality criteria for the auditor's report. And finally the source of the trustworthiness is a socio-historical practice as a material bearer of information, which makes it almost axiomatic.

Nevertheless, to be useful, the information in the auditor's report should not only present relevant events and facts, it must submit them truthfully and in accordance with the regulations. Trustworthiness also means that there are no errors, misstatements or omissions in the description of the phenomenon or a fact and the methods used for the

accumulation of the information provided in the auditor's report were selected and applied with no errors and alterations. In this context "trustworthiness" does not mean perfect accuracy in all respects. For example, it is impossible to determine whether the preliminary auditor's conclusion about the appropriateness of management's use of the going concern assumption in the preparation of the financial statements is accurate. However, the pre-assessment may be correct, if this conclusion described clearly and precisely, explanations of the nature and limitations of the process of assessment are given and there are no mistakes in the selection and application of the auditor's procedures.

Completeness. The auditor's report should contain minimally sufficient information including all descriptions and explanations necessary for insuring the information needs and requirements of users. Completeness as a qualitative characteristic of the auditor's report means the maximum consideration of all objective conditions and relationships and provides the very fact of meeting the information needs and requirements of users and the corresponding description of the information. In accordance with the information requirements it is necessary to determine information potential of the auditor's report, which is proved its worth in the possibility to satisfy information requirements and in the extent of this satisfaction. The description is considered complete if it includes all the information necessary for the user of the auditor's report in order to understand the phenomenon described - the auditor's opinion about whether the financial statements as a whole are free from material misstatement, including all necessary descriptions and explanations about auditor's procedures.

Neutrality. Neutral description of information in auditor's report suggests the absence of bias in favour of selection or presentation of certain information, in the selection of words, sentences, rules of their construction to increase the probability that the information will be perceived by users with approval or disapproval. Neutral description prepared by the auditor should not be one-sided, in which the various components are of different importance, especially when the value of one component is unreasonably exaggerated, while others are unreasonably diminished. Neutrality assumes that no manipulations are carried out in order to increase the probability of certain decisions by the users of the auditor's report.

Adequacy. The auditor's report should contain such statements and formulations that are most relevant to the real state of the objects otherwise there are possible doubts as to its authenticity. In addition, the assertions in the auditor's report should adequately reflect the opinion of the auditor. This is facilitated by a certain classification of the collected material, its grouping and generalization. The structure of the auditor's report should have a logical harmony, internal system in order to avoid a formal inconsistency.

5.3. Qualitative Characteristics Complying with Socio-Psychological Characteristics of Information

Qualitative characteristics of the auditor's report which are determined on the basis of the socio-psychological characteristics of the information and reflect the subjective criteria should be formed only on the basis of the objective criteria and under conditions of compulsory concordance with them. The purpose of their highlighting is to make the information as effective as possible for the user of the auditor's report. This group of the qualitative characteristics appropriately includes *relevance (appropriateness), understandability (apprehensibility), and comparability*. In the presentation of meaning of such characteristics as comparability, understandability and relevance the principal propositions of Conceptual Framework for Financial Reporting (2010) about such qualitative characteristics of useful financial information as relevance, comparability, verifiability, timeliness, understandability (paragraphs QC6-QC11, QC20-QC32) were used as a starting-point.

Relevance. Relevance shows how the information in the auditor's report, taking into account its predictive and confirming (supporting) values, considering its materiality and timeliness, can influence the decisions of the users.

Information may cause differences in decisions if it has predictive and/or confirming (supporting) value. Information has predictive value if it can be used as input data for processes that are used by the users to predict phenomena and events, for example, for their assessments regarding compliance with the going concern assumption. Users apply the information about the predictive value in order to form their own predictions. The information is valuable if it provides a feedback (confirming or changing) to the preliminary assessment. For example, an auditor's opinion about whether the financial statements as a whole are free from material misstatement has a proving value for investments that have started to cooperate with the company in the current year.

Relevance of information is also supported by its significance and timeliness. The information is significant if its absence or inappropriate presentation can affect the decisions of users concerning a specific entity. Significance in the frames of the auditor's report must be considered in the context of the information about audit procedures and its results. For example, taking into account the information needs and requirements of potential investors the information about the absence of grounds for bankruptcy or liquidation of the company in the coming year is essential, so the absence of an auditor's opinion on this issue can be interpreted as reducing the relevance of information. On the other hand the information should also be presented in view of its significance and the possibility of assimilation. So, if all calculated indicators and their dynamics over several years will be presented in the auditor's report, such information is not likely to be properly "assimilated" (example of "semantic noise"). Principle of significance demands proper consolidation and generalization of the data. Timeliness is an opportunity for users making decisions about entity to have the information in time so that this information could influence their decision.

Understandability. Understandability is the quality of information that enables users to perceive its importance and significance. The information in the auditor's report should be designed for its understanding, unambiguous interpretation and assimilation by users under condition that they have sufficient knowledge in the sphere of economics, accounting, analysis, and auditing and are interested in the perception of this information. It is necessary to select one of the main criteria that will comply with the target audience which is interested in getting the auditor's report: this audience must understand the entity activity which financial statements are audited, the conditions and restrictions of the audit procedures, pursue a sufficient study of the information contained in the financial statements and auditor's report. This criterion for determining the groups of users is extremely important because the wrong decisions can be taken by users not only because of the lack of reliable and useful information in the auditor's report, but also because of the lack of knowledge about the rules, standards and regulations which are the basis for preparing and presenting this document. Accordingly, the information about complex data or conditions which is useful for making economic decisions should not be excluded from the auditor's report because of the difficulty of understanding it by individual user.

Comparability. Auditors' reports should enable users to compare the opinion of the auditor about the financial statements of different periods or about the financial statements of different entities. The decisions enable users to make a choice between the alternatives such as to invest into one or another business entity. Therefore, the information about an economic entity (including the auditor's report) is more useful if it can be compared with the similar information about other business entities as well as the similar information about the same enterprise for a different period.

Comparability is the qualitative characteristic that allows users to identify and understand both similarities of the statements and the differences between them. The prerequisites for comparability are the disclosure of the information about the applied audit methods and procedures and their coherence. Coherence means using the same methods from period to period for a particular business entity or in one period for several business entities. Comparability is the aim and the coherence is one of the means to achieve this aim.

Comparability does not offer uniformity. For information to be comparable similar things must be akin and different things must be different. Comparability of information is not increased if different things are given as those that look alike as well as similar things look different. Comparability could be achieved by ensuring the uniformity of the structure of the auditor's report, by elaboration of recommendations of using certain statements, words and sentences. An important factor to ensure comparability is the use of similar procedures and methods during the audit of an entity for several years and a certain range of entities.

The necessity to include comparability to the set of qualitative characteristics of the auditor's report is obvious because audit is the element that provides a certain level of information security, but at the same time the information should meet certain criteria. Comparability is one of the criteria which are usually applied in the case when the information is used for analysis and making decision. G..G.. Azgaldov offering the enlarged flowchart of qualimetric assessment identifies functional, formal and temporal comparability (1982, p. 221). These components are advisably to use for the characteristics of comparability of the auditor's report as its qualitative characteristic. Functional comparability allows comparing the quality assessment of different objects and for that there should be maximum identity of methods for assessing the different objects. In other words the rating scale and the principles of receiving indicator values should be identical. Formal comparability presupposes the same range of assessments but different principles of determining the values of indicators for different objects. Temporary comparability is associated with the need to use the coherent indicators according to time.

5.4. Correlation of Qualitative Characteristics and Their Classification

Almost all previously highlighted qualitative characteristics (trustworthiness, completeness, relevance and comparability, adequacy, neutrality) are combined by the category of "materiality" which is considered differently according to each of the characteristics.

Thus, trustworthiness of the auditor's report is limited by the use of the key concept in the theory of the audit as "materiality" which involves the formation of an auditor's opinion whether the financial statements have material misstatement but not all misstatement. Completeness and relevance of the information also involves consideration of only the essential information but only according to the determination of the information in the report and its form of presentation. Comparability is ensured only if there are similar criteria for assessment of qualitative and quantitative levels of materiality. Under quantitative level we understand absolute or relative level of possible errors. Under qualitative level we understand, for example: the enumeration of those laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements or may have a material effect on the financial statements and the volume of audit procedures regarding compliance with the provisions of these laws and regulations; the volume of audit procedures regarding the assessment of the correctness of accounting estimates of management personnel and compliance with accounting policy; the volume of audit procedures regarding the effectiveness of internal control; the volume of audit procedures regarding the appropriateness of management's use of the going concern assumption in the preparation of the financial statements.

The main difference between the two groups of qualitative characteristics (corresponding to the principle of objectivity and determining the socio-psychological characteristics of information) is that first ones are of the auditor's responsibility, but

users can take part in developing the ways to comply with the qualitative characteristics of the second group.

The issue of highlighting the fundamental and enhancing qualitative characteristics is quite indefinite. If a user is put in the foreground then we should make the conclusion that the fundamental characteristics should determine the types of information that are likely to be most useful for a key user to make decisions about the economic entity on the basis of audited financial statements. So, fundamental qualitative characteristics of the auditor's report should include trustworthiness, completeness and relevance. To be useful the information must be relevant and truly presented because unfair presentation of the inappropriate fact or a false presentation of relevant fact will not help users to make right decisions. Providing the fullest satisfaction of information needs and requirements of users is the main aim of activity of auditors. Understandability, adequacy, neutrality and comparability refer to the group of enhancing qualitative characteristics of the auditor's report. The peculiarities of these characteristics are that neither together or each taken separately they cannot make the information useful if such information is irrelevant or untrustworthiness.

But if we recognize that the key concept is the truth (without it any report is meaningless) that is conventionally called "trustworthiness" (as an absolute conviction in the truth of information), we should make the following conclusion: the fundamental qualitative characteristic that is the basis of the hierarchy is trustworthiness which is provided by adequacy, completeness and neutrality of reflecting the truth (having minimum of subjectivity) with the exception of relevance because it can be biased. Completeness and relevance are almost opposite: completeness safeguards against preconceived opinion as the completeness (comprehensiveness) in the reflection of the truth and as maximum consideration of all the characteristics. Relevance presupposes prejudice. The same story is with adequacy and usefulness: if they adequately reflect the objective information without subjectivity, then, the truth exists even if it is useless. Accordingly, it is logical to select supporting qualitative characteristics (completeness, neutrality and adequacy) and enhancing characteristics (relevance, understandability and comparability). These approaches are summarized in Figure 1.

Enhancing and supportive qualitative characteristics should be maximized taking into account their impact on the fundamental qualitative characteristics. For example, the auditor may decide to change the level of materiality while fulfilling audit engagement of a particular company, even if it will temporarily reduce the comparability of auditor's reports for several years, if in his opinion it will increase the accuracy of his conclusion.

5.5. Opportunity of Practical Using

As an example of the above-mentioned qualitative characteristics we consider suggestions which were contained in the discussion paper on the auditors' reports issued by the International Auditing and Assurance Standard Board (Consulting Paper. Enhancing the Value of Auditor Reporting: Exploring Options for Change, 2011;

Discussion Paper. The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications, 2011), and subsequently have been included in the new standard which has been published in January 2015 and will be effective for audits of financial statements for periods ending on or after December 15, 2016: International Standard on Auditing 700 (revised) "Forming an Opinion and Reporting on Financial Statements" (2015). The suggestions included:

- changing the structure of the auditor's report by representing the auditor's opinion first and further other sections including the description of the auditor's responsibilities and managing personnel responsibilities;
- expanding format of the auditor's report by including paragraphs that would contain auditor's comments of important aspects of the enterprise performance and separate paragraph devoted to the going concern assessment.

The last suggestion is justified but the first suggestion requires a more detailed consideration. First of all, there is a probability that users will not read the report to the end and it will lead to the fact that their level of awareness of the principles and limitations of the audit will decrease. Besides, this report will not be neutral because too much attention will be given to the auditor's opinion detracting from the conclusions which became the basis for this opinion. The layout of the consistent description of such information as the financial statements as an underlying subject matter of an audit engagement, auditor's responsibility, responsibility of managing personnel, audit procedures must be perceived, in our opinion, as a necessary preface which directs users to the object of study and introduces into the mainstream of a serious perception of the auditor's report and the reasonable opinion of the auditor.

6. Conclusion

Russian scientists Ya. Sokolov and S. Bychkova, presenting the analysis of the evolution of the audit objectives in the epilogue to classical edition of "Montgomery Audit", translated into Russian language, underline that the product of the audit work is not the audit's report itself but the actual opinion of the auditor (1997, p. 538). But we strongly emphasize that the auditor's opinion is an intangible object and its using requires material support (a form) which must contain more or less accurate description of the objective reality. The main document which is presented to users as the results of the auditor's work is the auditor's report and like any other information it must meet certain characteristics. Orientation of selection the qualitative characteristics and the purpose of their highlighting are more or less clear.

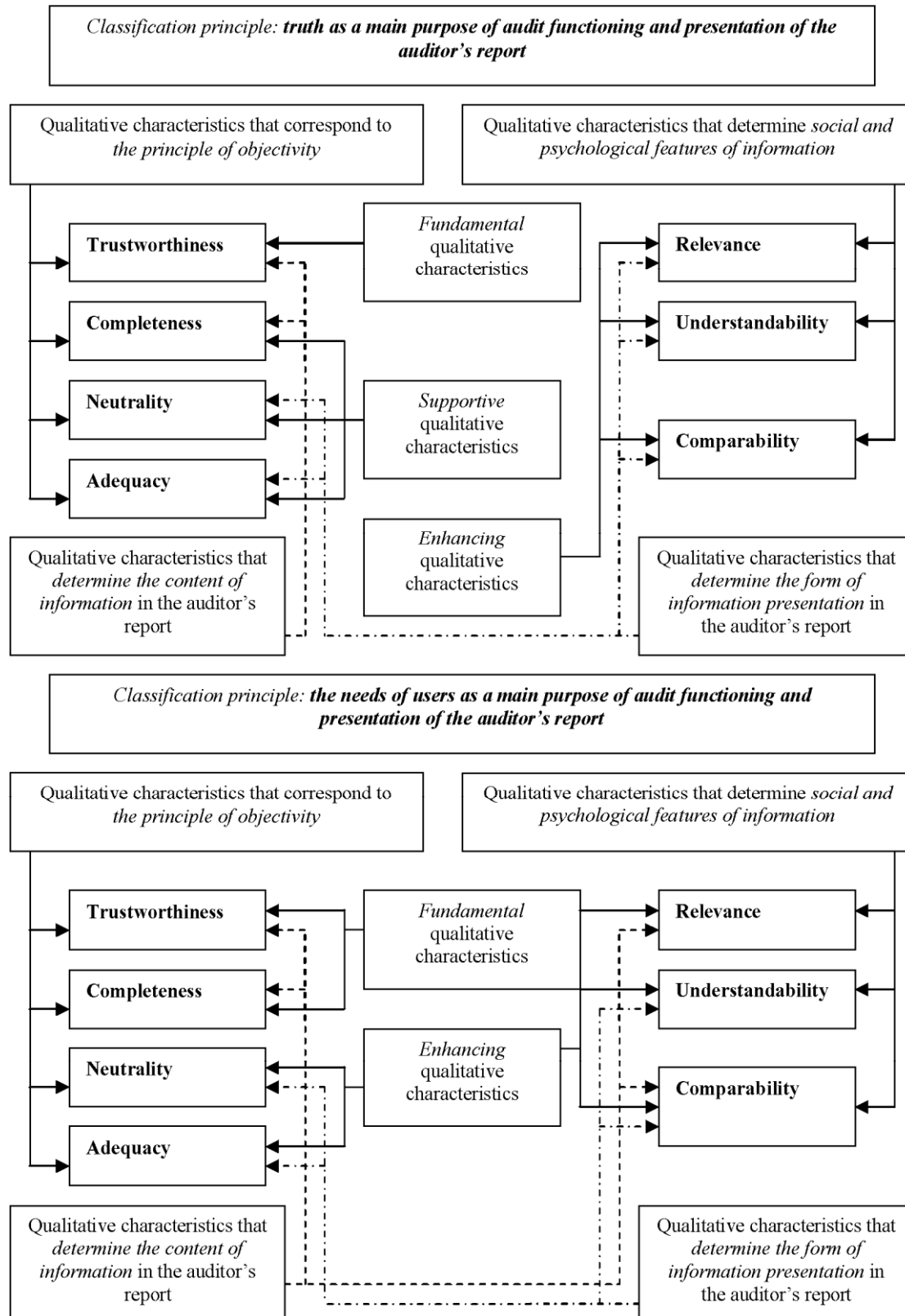


Figure 1. Qualitative characteristics of the auditor's report and their classification

The auditor's report must comply with the qualitative characteristics such as the trustworthiness, completeness, adequacy, neutrality that embrace a necessity of

ensuring the objectivity of the information, and relevance, understandability, comparability that ensure consideration of social and psychological characteristics of the information. These characteristics must take into account in determining the content and presentations of information in the auditor's report so that this presentation, on the one hand, would reduce the information risk of the users in regards of reliability of financial statements, and on the other hand, provide adequate assurance of auditors in the perception of such information by users.

The analysis of present-day economic literature and presented study shows that the problem of the harmonization of quality criteria and qualitative characteristics of the auditor's report within a single framework of principles is quite acute. The proof of searching the standardized system of the criteria is various suggestions for their systematization. However sometimes the suggestions include conflicting elements for a single aim and we should make a choice between them. "Understandability" and "accessibility for perception" are not exhaustive or prioritized characteristics of the auditor's report, as some believe, even if they seem to be. Therefore, common sense in the formation of the qualitative characteristics of the auditor's report does not often work or is insufficient. It is necessary to use other approaches in the formation of the system of qualitative characteristics.

It should be noted that the formation of a hierarchical system of qualitative characteristics of the auditor's report is not the only and the main aim. Prospects for further researches in this sphere are to develop optimal mechanisms of its impact on the bases of management in order to reduce the proportion of subjectivity (and hence arbitrariness) in management and to work out practical recommendations. We believe that only through compliance with these requirements an objective social truth is achieved which gives the ability to see in the society not something that is wanted by a particular individuals on the basis of his(her) own needs, requirements and interests but what it is in itself as existing independently of them.

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