FINANCIAL STATEMENTS, AUDIT AND LEGAL FRAMEWORK IN THE COMPANY

Elena Begolli
Economic Academy "D. A. Tzenov" – Svishtov, Bulgaria, krasniqielena@gmail.com

Abstract: The conflict of potential interests between owners, managers and other capital hold ers of companies creates an environment in which the external auditor can contribute a very large amount of value to investors and other stakeholders.
In general, in the UK legislation requires all companies except small ones and also all public sector companies to prepare audited annual financial statements. Auditing these financial statements from time to time requires considerable time, effort and resources. Prices paid for the audit of the 10 largest companies listed on the London Stock Exchange have reached close to $149 million. From this it is evident that the statutory (mandatory) audits of companies in the UK include a fairly large amount of the country's resources. But what is auditing? Why are financial statement audits necessary - and are they actually so important that they are required by law? Do they offer benefits that are comparable to the costs they cause? We will therefore consider the factors that make auditing of financial statements necessary and discuss their value to users of financial statements, to the company itself, and to society at large.
As a reflection we have taken the data from the London Stock Exchange, as it has been difficult to get the figures that major companies pay auditors for the annual audit of financial statements. Also note that in most European countries, audit firms are required to disclose in their annual financial reports also the “Audit Fees,” as long as the legislation in Kosovo does not oblige local companies. to reveal such a thing which would be very important.
The compilation of financial statements is of particular importance for the compilation of consolidated reports of a country and as such is subject to review by various entities for giving an independent opinion on the data presented in a realistic and objective manner.
Presenting data in a realistic and objective way is important for many strategic partners such as investors, shareholders, creditors, workers, donors, the general public, etc.
The presentation of the business activity is done through the financial reports compiled by the companies, usually for a period of twelve months.
Increasing the reliability of financial reports is done through external audit of financial statements, which is done based on International Auditing Standards (SNA).
Many entities, such as potential investors, shareholders, government, creditors, workers, regulators, customers, suppliers, the public, etc. are interested in collaborating with companies that report their financial results realistically and reliably.
As a result of the conflict of interest between those who prepare the financial statements and those who read them, then as a result of possible reporting errors, the complexity of reporting, the reliability of financial reporting is questioned, and so it is vital that those financial statements to be audited and verified by an independent entity, and this is done through external audit. Independent audits of financial statements increase and strengthen the reliability of information provided by third party companies in accordance with the required reporting frameworks.
Keywords: conflict of interest, auditor, financial statements, reporting and independent audits.

1. ENTRY

Anderson (1977) emphasized the essence of auditing when he emphasized: Auditing practice begins on the day an individual took over the administration (care) of another person's property. In reporting its administration, the accuracy and reliability of that information would be subject to some form of critical review.
The term "audit", otherwise known as "audit", is derived from the Latin word meaning "a review". The audit dates back to 2,000 years ago, when it was first used in Egypt, then in Greece, Rome, and elsewhere, where citizens (and sometimes Slavs) who were entrusted with the collection and distribution of funds were entrusted. The public was asked to present themselves publicly, before a responsible official (an auditor), to give a verbal (oral) account on the management (handling) of these funds.
To understand what auditing is, and how auditing is performed in modern times, the definition of Audit is of particular importance. A comprehensive definition of auditing that has general involvement is as follows:
Auditing is a systematic process of objectivity where the collection and evaluation of evidence related to assertions (research) on economic actions and events in which individuals or organizations that have made those assertions (researches) are involved, to ascertain (find) the degree. (Level) of matching between these statements and any

defined criteria, and the communication of the results to the users of these reports in which the statements were made.

The definition states that:

• The audit is done by a series of steps (a systematic process);

• The audit basically includes the collection and evaluation of evidence;

• In exercising this activity the auditor maintains an objective and unbiased attitude of his mind

• The auditor critically examines the allegations made by the individual or organization about the economic activities they have carried out.

• The auditor assesses how close these statements are in line with "a set of rules" that govern how an individual or company should report on economic events that have occurred to other parties. These "sets of rules" constitute the established criterion that enables the auditor to assess whether these statements are realistically present at events that actually occurred;

• The auditor communicates the results of his assessment in a written report. This report is available to all users of the document in which the statements were made.

Auditing Financial Statements is a security commitment as described in the International Framework of Reference for Security Assignments. Audit Objectives according to the International Audit Standard no. 200 is "The objective of an audit of financial statements is to enable the auditor to express an opinion (opinion) on whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework."

2. FINANCIAL STATEMENTS AND USERS OF AUDITED FINANCIAL STATEMENTS

Users of financial statements, whether audited or unaudited, include current and potential investors, employees, lenders, suppliers and other commercial creditors, customers, governments and their bodies, and the public. They use financial statements to meet their different information needs. These needs include:

(a) Investors. Those who provide venture capital and their advisors are interested in the risk inherent in, and the reward given by, their investments. They need information to help them decide if they should buy, keep or sell. Shareholders are also interested in the information that enables them to assess the entity's ability to pay dividends.

(b) Employees. Employees and their representative groups are interested in information about the sustainability and profitability of their employers. They are also interested in information that enables them to assess the entity's ability to provide remuneration, pension benefits and employment opportunities.

(c) Lenders. Lenders are interested in information that allows them to determine whether their loans, and the interest associated with them, will be paid on time.

(d) Suppliers and other commercial creditors. Suppliers and other commercial creditors are interested in information that enables them to determine whether the amounts owed to them will be paid on time.

(e) Customers. Customers are interested in information about the continuity of an entity, especially when they have a long-term commitment to, or are dependent on, the entity.

(f) Governments and their bodies. Governments and their bodies are interested in the allocation of resources and, therefore, in the activities of economic units. They also seek information in order to regulate the activities of entities, establish tax policies and as a basis for national income statistics and similar statistics.

(g) The public. Economic units affect members of the public in different ways. For example, entities can make a fundamental contribution to the country's economy in many ways, including the number of people they employ and their support for local suppliers. Financial statements can help the public by providing information about the latest trends and developments in the prosperity of the entity and the range of its activities.

The value that external audit provides to users of financial statements is the credibility it provides with the financial information it provides from the company that reports. This credibility comes from three forms of control that audit provides:

(I) Preventive (preventive) control: employees involved in the registration and processing of accounting data, and in the preparation of the company's financial statements, who know that their work will be subject to a detailed audit by the external auditor, it is reliable that they will be much more careful in their work than they would be if there was no audit at all. It is plausible that increased care from workers will prevent at least some errors from occurring.

(II) Detective Control: Even if the employees of the audited company process the data and carefully prepare the financial statements, errors can still occur. The auditor can detect these errors during the audit and present them to the management. They can then be improved before financial statements are published.

(III) Reporting Control: If the auditor detects material errors in the financial statements and addresses them to the management, but the management refuses to improve them, the auditor refers to the errors by qualifying the

audit report (meaning that: the auditor emphasizes that all is not well, giving explanations for this conclusion). In this way, users of financial statements will be notified that, according to the auditor, the information provided in the financial statements is unreliable.
It is important to note that while the legislation in Kosovo is silent on the qualifications of those who prepare the company's financial statements, the law..... Specifies that the auditor of these statements must be licensed by a licensed and recognized organization. To be a member of such an organization, an individual or firm must be qualified and subject to the rules exercised by that organization: the rules include those who perform the mandatory audit of financial statements. Thus, although the preparer of financial statements is not required to be an accountant licensed under applicable law in Kosovo, the auditor must be a qualified, competent and experienced professional. So it seems that Parliament is looking more at auditors to protect the interests of users of financial statements by making sure financial statements are credible or by warning them that they are not.

3. EXTERNAL AUDIT

During the external audit of financial statements, the auditor becomes familiar with the company, its business cycles, the accounting system, and other financial aspects. Adding to this, auditors are qualified and experienced people who come to the company as independent and external persons, divorced from daily and routine activity.
These factors put the audience in an ideal position to observe and notice where improvements need to be made. They are able to advise the company they are auditing on issues such as strengthening internal control; development and improvement of accounting or other information systems management systems; and taxes, investments and financial planning. In addition, (in cases where issues are raised by the audited company), the auditor has the opportunity to provide advice on more complex issues such as buying businesses, merging and merging businesses, or liquidating them. Providing these additional services is very valuable to the company. Indeed, as Anderson (1977) has stated:
"In many cases, it is the presence of these additional services that makes auditing an economic package from the point of view of management. The professional auditor should always be vigilant about the possibilities of the services they can offer to their clients and at the same time discharge the responsibilities towards the users of the audited financial statements".
However, the value of these advisory services to auditors, largely as a result of investigations conducted after audit failures in the early 2000s in Enron, WorldCom and Xerox in the US, Parmalat in Italy, HIH in Australia and some similar failures in other parts of the world, a serious concern had been expressed by politicians, regulators and the general public over the extent (level) of performing non-audit services by auditors to audit clients. Indeed, in the early years of the 21st century, payments made by auditor clients to auditors over other non-audit services have increased so much that in many cases they have even exceeded payments. For audits performed. This has raised concerns that performing these services to auditors (companies that accept these services) has resulted in auditors endangering their independence; in order to avoid quarrels (nervousness) with the management of the company and consequently the loss of lucrative work from non-audit services, auditors have not been critical enough to perform their audit tasks of financial statements. As a result, laws and regulations have been passed in many parts of the world to prevent or reduce the performance of other non-audit services by auditors to their audit clients. Certainly and arguably the strictest and most limited was the Sarbanes-Oxley Act in 2002.

4. FRAMEWORK FOR THE PREPARATION OF IFRS FINANCIAL PROPERTIES (IAS), MRS AND LEGAL REGULATION

Financial statements are prepared and presented to external users by many entities around the world.
Although these financial statements may look similar from one country to another, there are changes that may be caused by a variety of social, economic, and legal circumstances and the fact that different countries consider different users of financial statements when making national claims.
These different circumstances have led to the use of a variety of definitions for the elements of financial statements; such as, for example, assets, liabilities, equity, income and expenses. They have also led to the use of different criteria for recognizing elements in financial statements and in preferring different assessment bases. The object of financial statements and the provision of explanatory information in them has also been affected.
The International Accounting Standards Committee (IACC) is committed to mitigating these differences by seeking to harmonize regulations, accounting standards, and procedures related to the preparation and presentation of financial statements. He believes that further harmonization can be better achieved by focusing on the financial statements prepared for the purpose of providing information that is useful when making economic decisions.
The ICRC Board believes that the financial statements prepared for this purpose meet the common needs of most users. This is because almost all users make economic decisions, for example, for:

(a) Established when buying, retaining or selling an investment of its own capital;
(b) Assess the care or accountability of the management;
(c) Assess the entity's ability to pay and provide other benefits to its employees;
(d) Assess the security of the amounts owed to the entity;
(e) Determine tax policies;
(f) Determine the distribution of profits and dividends;
(g) Prepare and use national income statistics; or
(h) Regulate the activities of economic entities.

The Board, however, recognizes that governments in particular may specify different or additional requirements for their own purposes.

These requirements, however, should not change the published financial statements for the benefit of other users unless they also meet the needs of these other users.

Financial statements are usually prepared more in accordance with an accounting model based on recoverable historical cost and the concept of financial holding of nominal capital. Models and other concepts may be more appropriate to meet the objective of providing information that is helpful in making economic decisions even though there is currently no consensus on change. This framework has been developed in such a way that it is applicable to a range of accounting models and concepts of capital and capital retention.

This framework provides concepts that are at the core of preparing and presenting financial statements to external users. The purpose of the Framework is to:

(a) Assist the IACC Board in developing future International Accounting Standards and its review of existing International Accounting Standards;

(b) assist the IACB Board in promoting the harmonization of regulations, accounting standards and procedures related to the presentation of financial statements by providing a basis for reducing the number of alternative accounting treatments permitted by International Accounting Standards;

(c) Assist national standards-setting bodies in developing national standards;

(d) Assist the preparers of financial statements in the implementation of International Accounting Standards and in the handling of matters which are not yet subject to an International Accounting Standard;

(e) Assist auditors to form an opinion on whether or not financial statements conform to International Accounting Standards;

(f) assist financial statement users in interpreting information contained in financial statements prepared in accordance with International Accounting Standards; and

(g) Provide information to those who are interested in the work of the IASC on its methods for formulating International Accounting Standards.

The framework is related to general purpose financial statements (hereinafter referred to as ‘financial statements’) including consolidated financial statements. These financial statements are prepared and submitted at least annually and are addressed to the common information needs of a wide range of users. Some of these users may request, as well as have the power to receive, additional information from the one containing the financial statements. However, many users need to rely on financial statements as their main source of financial information and these financial statements, therefore, need to be prepared and presented taking into account their needs.

Financial statements are part of the financial reporting process. A complete set of financial statements normally includes a balance sheet, a statement of income and expenses, a statement of changes in financial position (which can be presented in different ways, for example, as an overview of cash flows or a statement of cash flows), and those explanatory notes and other statements as well as other explanatory material that are an integral part of the financial statements. They may also include additional statements and information based on or derived from, which are expected to be read together with these statements.

These statements and additional information may address, for example, financial information about industrial and geographical segments and explanatory information about the effects of price changes. However, financial statements do not include elements such as reports from directors, statements from the chairman, discussions and analysis from management, and similar elements that may be included in a financial or annual report.

The framework applies to financial statements for all commercial, industrial and business entities, whether in the public or private sector. A reporting unit is an entity for which there are users who rely on financial statements as their main source of financial information about the entity.

5. FINANCIAL SITUATION, FINANCIAL RESULT AND CHANGES IN FINANCIAL CONDITION

Economic decisions taken by users of financial statements require an assessment of an entity's ability to create cash and cash equivalents and the timing and security of their creation. This ability ultimately determines, for example, the ability of an entity to pay its employees and suppliers, replenish interest payments, repay loans, and distribute profits to its owners. Users are more likely to appreciate this ability to generate cash and their equivalents if they are given information that focuses on their financial situation, the result financial and changes in financial condition.
The financial condition of an entity is affected by the economic resources it controls, its financial structure, liquidity and solvency, as well as its ability to adapt to changes in the environment in which it operates. Information about economic resources controlled by the entity and its ability to change these resources is useful for predicting the entity's ability to generate cash and cash equivalents in the future. Information about the financial structure is useful to predict future borrowing needs and how future profits will be distributed among those with interest in the entity; it is also helpful to predict how successful the entity may be in obtaining additional funding. Information about liquidity and solvency is useful to predict the entity's ability to meet its financial commitments in a timely manner. Liquidity refers to the availability of cash in the near future after taking into account financial commitments during that period. The solvency refers to the disposal of cash during a long period of time to meet financial obligations in a timely manner.
Information about the financial outcome of an entity, in particular its profitability, is required in order to assess potential changes in economic resources that it is likely to control in the future.
Information about the variability of the financial result is important in this regard. Information about the financial result is useful in predicting the entity's ability to generate cash flows from its existing core resources. It is also helpful to form judgments about the effectiveness with which the entity can obtain additional resources.
Information about changes in the financial condition of an entity is useful in order to assess its investment, financing and operating activities during the reporting period. This information is useful to give the user a basis for assessing the entity's ability to generate cash and its equivalents and the entity's needs to use this cash flow. In building a statement of changes in the financial situation, funds can be provided in ways
Various, such as all financial resources, working capital, liquid assets or cash.
Financial statements also contain explanatory notes and additional statements and other information. For example, they may contain additional information that is necessary for the needs of users about the elements in the balance sheet and in the statement of income and expenses. They may include providing explanatory information about the risks and uncertainties affecting the entity and any resource or liability not recognized in the balance sheet (such as mineral reserves). Information about geographical and industrial segments and the effect on the price change unit can also be given in the form of additional information.
Financial statements are constructed on the basis of basic assumptions, principles and characteristics of accounting information. The objective of financial statements is to provide a true and fair picture of the financial position, financial performance and cash flow of the economic reporting unit, only if they are accurate and complete in reflecting the content of economic events, preparation of they are based on reasonable and data-based assessments and financial statements which are prepared in sufficient detail to provide an overview of the financial position so that competent users can draw reasonable conclusions.

6. CONCLUSION

From the scientific work it is seen that the results are in line with the hypotheses made at the beginning. It is generally seen that there is an opinion that external audit of financial statements affects the increase in the value of companies. The increase in the value of companies has mainly affected the qualifications of auditors' opinions and the issuance of management letter (recommendation letter), which has influenced companies to engage either external or internal specialists to improve those existing deficiencies.
The law on financial reporting and auditing should be amended in order to oblige companies to disclose "Audit fees" in the disclosures of their financial statements in order to know how much the audit of financial statements has cost, in order to avoid worthless audits. . Such a practice is in all countries of the region.
The tax administration should compare the financial statements of the company it audits with the audited financial statements, in order to avoid double financial statements (one audited party that is mainly used for foreign investors, banks, etc.) and those that I are submitted to the tax administration for tax purposes, where they are usually declared for lower tax purposes.
The government needs to create a more stable board on Financial Reporting and Auditing in order to update SNK and SNA more frequently, to comply with European standards, and also to improve the resources of this board and

other regulators. Ensure that regulators are of high quality and ensure that they have extensive knowledge of the industry and the companies they control. Regulatory fees should be competitive with the industry fees they regulate.
Many companies that are required to conduct audits under applicable law do not do so, as the state does not impose any penalties or penalties. As a result, a new law needs to be enacted that would apply to penalties if companies do not conduct audits that are mandatory.

LITERATURE

Abbott, L. J. & Parker, S. (2014). Auditor selection and audit committee characteristics. Auditing: A Journal of Practice & Theory 19.

Abbott, L. J., Parker, S., & Peters G. F. (2013). The effectiveness of blue ribbot recommendations in mitigating financial misstatements: an empirical study.

Audit and Assurance (2015) ACCA Book,

Cohen, J., Krishnamoorthy, G., & Wright, A. (2012). Corporate governance and the audit process.

Harrison, M.L.I. (2014). Diagnosing organizations – methods, models and processes, London,

Houston, T., Abbot, L. J., Park, Y., Parker, S. (2014). The effects of audit committee activity and independence on corporate fraud. Managerial Finance

Porter, B., Simon, J., & Hatherly, D. (2012). Principes of External Auditing, UK.

William Messier Jr. (2013) Auditing and Assurance Services – a systematic approach

Commission report on the operation of the own resorces system, (2016), Financig the European Union, Brussels

European Bank for Reconstriction and Development (2018), Transition report uptade. London