

# Divorce between the beneficiaries and management

[Business](#), [Management](#)



The divorce between the beneficiaries and management has given birth of the Audit. The evolution of modern accountancy and the transformation of auditing profession In Bangladesh and, indeed, in the world as a whole, must be seen in the context of the enormous expansion of industry and commerce, which has been taken place since the Industrial Revolution. While business enterprises were comparatively small and were managed by their proprietors there was little need for the development of complex accounting and auditing procedures.

When the scale of operation increased ND capital was invested In Joint stock companies by shareholder who took no part In the management of such companies it became necessary for the managers to present accounts to the shareholders at regular Intervals by means of annual accounts. Audits serve a vital economic purpose and play an important role in serving the public Interest to strengthen accountability and reinforce trust and confidence in financial reporting.

As such, audits help enhance economic prosperity, expanding the variety, number and value of transactions that people are prepared to enter into Auditing profession helped society to be aware of the consequences of the redundant financial reporting by the parties Involved in the management. Auditors provide reasonable assurance service to the shareholders by means of expressing an opinion on the financial statements about whether they are reflecting true and fair view of the company.

Audit profession, from the very beginning, Is providing reliable information to the society hence trying to curtail expectation gap of the society by means

of enabling auditing standards and guidelines to the auditors. Audits also provide management with confirmation of excellent performance that can be Internally benchmark by the rest of the organization. Over the passage of time, audit has given the civilization many audit services such as Environment Audit, Value Added Audit, Performance audit which helps the particular individual to rely on certain information for his economic decision making.

Audit as a demand driven discipline gives us as well as whole society a lot for betterment of our lives. Auditing, a demand driven discipline The word auditor comes from the Latin word " to hear" because In ancient times auditors listened to the oral reports of responsible officials (stewards) to owners or those having authority, and confirmed the accuracy of the reports.

According to American Accounting Association (AAA), " Auditing refers to a systematic process of objectively obtaining and evaluating a set of evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between these assertions and established criteria and communicating the results to Interested users. " Auditing discipline Is continuously changing Its notion due to the response of the society. From the very beginning of the audit initialization, it is changing its nature, functions and views due to the change in societal. Economical ND political situations. According to Flint (1988), audit is a social phenomenon which serves no purpose or value except of Its practical usefulness and its existence Is response to a perceived need of individuals or groups in society who seek information or reassurance about the conduct or performance of others in

which they have an acknowledged and legitimate interest. According to David Flint (1988), Auditing and Accounting tend to be associated.

This is because universally in diverse organization accountability is exacted for the custodianship and stewardship of uncial resources and in many organizations especially in business firm's accountability is demonstrated by the preparation of periodic accounts reporting on the custody, stewardship and management of resources. Over the years purpose of auditing is changing according to the demand of the society. Sheerer and Kent (1983) argue that the central purpose of audit is to test the efficiency of operations, the quality of management information systems and the social behavior of organizations.

Many auditors concur with Flint (1988) that the aim of an audit has always been a dynamic rather than a static one. Brown (1962) asserts that the objective and techniques of auditing have changed during the four hundred years of recognizable existence of auditing to suit the changing needs and expectations of society. It can be observed that the changes in needs and expectations of society are highly influenced by the factors contextual to the economic, political and sociological environment at a particular point of time.

Therefore, the review of the historical development of auditing enables one to understand, analyze and interpret the evolution of auditing due to the change in expectations of the society. N 1400, Allocation, a monk and mathematician wanted to be accountable by his spiritual accountability though there was no institutional accountability. Afterwards auditing

changed its diversified functions by initializing forensic audit, government audit, environment audit, value added audit and performance audit.

Now E-Audit a new term is considered by the audit profession and in many countries including Bangladesh this system is being checked by the audit professionals. The primary factor is the way in which computers and telecommunications are transforming the information marketplace.

Information genealogy allows for more timely reports and presents an opportunity for direct, real-time access to data. This would allow investors and creditors to have access to selected parts of corporate databases, and create their own reports using the software of their choice.

The audit can effectively minimize the risk of assertions by management. Eng and Tan (2003) design an experiment and find that precise standards and effective audit committees may be compensating mechanisms that enhance auditor effectiveness, bolstering auditors' positions during negotiations with clients (also see Beauties et al. , 2001; Gibbons et al. , 2001; Lobby & Kinney, 2000). THE INFORMATION HYPOTHESIS Information theory contends positive reputation, signaling, and homogeneity of service quality can help to address asymmetry of information concerns by capital providers (Elliott & Jacobson, 1994; Moore & Rene, 1990).

Evidence on the interplay of information and cost of capital is provided in Conniver and Wallace (1995). Evidence has been reported, consistent with lower interest cost being incurred by those entities in six countries - Italy, Spain, Australia, Germany, France, and the United Kingdom (as well as a

hold-out sample from Canada) - that have selected Big 5 auditors (Wallace, 2002). ARIN in his book of " An Integrated approach in Auditing" stated economic role of audit on the face of reduced cost of capital provided by the financial institutions.

Since audited financial statements add value and reliability to the information of the entities, the audit for its nature is demanded over time. THE INSURANCE HYPOTHESIS A dimension of the insurance hypothesis relates to " insurance from blame" by the political sector. The financial statements being audited serve the purpose. The management disburses the risk associated with the assertions to the audit. Thus audit act as a safeguard against the exposure of risk on the part of the management. That is why audit is demanded beyond legal requirement. From the dimensions as stated by Wallace, it is evident that audit is a demand driven discipline.

A brief history of auditing: Auditors have been around for a long time. As long as there has been civilization, there has been a need for some type of record-keeping to implement accountability. In fact, it was the need to keep records of ownership of quantities of goods that led to the development of writing and arithmetic. The first number systems and the first Ritter words were developed as symbols to keep track of merchandise either collected as taxes or used in trade. Auditing accompanied the development of accounting, and the first recorded auditors were the spies of King Dairies of ancient Persia.

These auditors acted as "the King's ears" checking on the behavior of provincial satraps. The word auditor comes from the Latin word "to hear" because in ancient times auditors listened to the oral reports of responsible officials (stewards) to owners or those having authority, and confirmed the accuracy of the reports. Over the centuries this role of auditors as verifiers of official reports evolved to include that of verifying written records. By 1500 A. D. Double-entry bookkeeping had evolved to the point of being documented by Luca Pacioli of Italy in the first known book on accounting.

Pacioli also recommended that the accounting records be verified by auditors. By the early 19th century auditors acting as independent outside experts were frequently called upon to investigate and report on business failures or to settle business disputes. Modern auditing began in 1844 when the British required the corporate director's report to shareholders via an audited financial statement, the balance sheet. In 1844 the auditor was required to be neither an accountant nor independent, but in 1900 a new Companies Act was passed that required an independent auditor.

The first public accountants organization was the Society of Accountants in Edinburgh, organized in 1854, and Scotland and England became the leaders in establishing the modern accounting profession. As a result of the British lead, the first North American association of accountants, later to become the Institute of Chartered Accountants of Ontario, was organized in 1879 in Toronto. The Quebec Order became the first legally incorporated accounting association in North America in 1880. The Canadian Institute of Chartered Accountants (CIA) began under federal incorporation laws in 1902.

And the Certified General Accountants Association of Canada was incorporated by an Act of Parliament in 1913. Following British precedents, the first legislation requiring audits in Canada was the Ontario Corporations Act of 1907. This was followed by the Federal Corporation Act of 1917. After the 1929 stock market crash and the Great Depression of the assets, Canadian practice was increasingly influenced by developments in the United States. U. S. Practice had evolved since the late 19th century towards a process of collecting evidence as to assets and liabilities or what is frequently referred to as a balance sheet audit.

As a result of extensive misleading financial reporting that contributed to the stock market crash of 1929 and the world depression of the assets, the U. S. Passed legislation in 1933 and 1934 that greatly influenced auditing around the world. The U. S. Securities Acts of 1933 and 1934 created the Securities and Exchange Commission (SEC), which regulated the major stock exchanges in the United States. Companies wishing to trade shares on the New York Stock Exchange or the American Stock Exchange were required to issue audited income statements as well as balance sheets.

In addition, because of the earlier problems with misleading financial reports of the assets, the emphasis switched to fairness of presentation of these financial statements, and the auditor's role was to verify the fairness of presentation. Contribution of Auditing and Advancement of the Society Audits serve a fundamental purpose in promoting confidence and reinforcing trust in financial information. The principal-agent relationship, as depicted in agency theory, is important in understanding how the audit has developed.



Principals appoint agents and delegate some decision-making authority to them.

In so doing, principals place trust in their agents to act in the principals' best interests. However, as a result of information asymmetries between principals and agents and differing motives, principals may lack trust in their agents and may therefore need to put in place mechanisms, such as the audit, to reinforce this trust. It can be observed that the changes in needs and expectations of society are highly influenced by the factors contextual to the economic, political and sociological environment at a particular point of time.

According to David Flint (1988), the social concept of audit is a special kind of examination by a person other than the parties involved, which compares performance with expectations and reports the results. Flint (1998) argues that audit exists because interested individuals or groups are unable for one or more reasons to obtain for themselves the information or reassurance they require. Hence, an a mechanism to monitor conduct and performance, and to secure or enforce accountability.

Mackenzie (1996) made the following remark: " Without audit, no control; and if there is no control, where is the seat of power? Without audit there can be no accountability also. All in all, an audit function plays a critical role in maintaining the welfare and stability of the society. So by this statement we can clearly understand how important audit is in maintaining social stability and order. It adjudicates social conflict between persons and

organization in a society. It also brings legal liability to the organizations and persons involving with economic activities.

That is related with what Tinker (1983) holds that the auditor should be involved in adjudicating social conflicts involving the corporate organizations and immunities in which they operate. Audits of financial statements contribute greatly to the vitality of the economy and to the beneficiaries of individual engagements. Without audits, companies would pay higher interest for debt and would have to offer shares at lower prices. Also, investors would have less confidence in the capital markets and capital would be less effectively allocated, dragging down economic growth.

All these benefits provide a potentially higher income stream than would be possible under some state scheme and also give the profession's members more legibility in their work. There is a strong desire on the part of the auditing profession to maintain its self-regulating monopoly. And avoid the government intervention. So there is an additional need to report honestly in an independent manner because every occasion when dishonesty is discovered increases the possibility of increased governmental intervention and the loss of self-regulatory position that the profession currently enjoys.

To maintain this position, the profession should be careful about its implemented standards and principles. According to Purcell et al (1980), the auditing activities should not be regarded merely as a technical and neutral function designed to check the calculation correctness and appropriateness of reported accounting figures for the benefit of the privileged few, instead,

its existence can also be argued to have economic, political and sociological implications in the various communities in which it operates.

In particular it has a role to play in the formulation and consequence of economic decision, modes of organization control and interplay between state and business. Over the passage of time, audit has given the civilization any audit services such as Environment Audit, Value Added Audit, Performance audit which helps the particular individual to rely on certain information for his economic decision making. Auditing as a demand driven discipline gives us as well as whole society a lot for betterment of our lives.

Conclusion: Auditing is a demand driven discipline and the fulfillment of this demand must be met by a process accepted by the society. Society is in a continuous change and as a social process auditor should survey this and adapt to these changing situations. It can be observed that the changes in needs and expectations of society are highly influenced by the factors contextual to the economic, political and sociological environment at a particular point of time.

Due to the changes in the nature and practice of audit profession auditors functions or ways of performing audit has been adjusted with the current information systems and technology uses. Auditing professionals also are concerned with adopting new standards and legal issues. It is need of auditing and auditing helps to verify and thus add value to the principals. As a whole, auditing has contributed largely to the advancement of civilization.