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Changes in accounting and financial auditing activities in the context of economic globalization

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Abstract

The last decades have brought a growing concern for the phenomenon of globalization both in the public and private sectors. It reflects both its enlargement and the changeover and the expansion or outsourcing work to firms in other countries or through labour migration. Accounting and auditing could not remain impassive in the process of globalization in their role as important components of economic life. In this context, to support economic development and expansion of the globalization process, specialized international organizations have developed, published and promoted the International Financial Reporting Standards and, respectively, International Standards on Auditing. This paper aims to capture the main influences of globalization on the accounting and auditing, but also the benefits of applying the same rules, methods and regulations in these fields.

Keywords: globalization, financial auditing, international standards, accounting

Introduction

Hart defines globalization as a complex phenomenon, a combined effect of commerce liberalization, international capital flows and foreign investment, integration of national markets, internationalization of production, increased mobility of goods and services across national borders. Globalization is, in fact, an international integration of economic, political and cultural activities. As O'Reagan mentioned, in a sense, the trend of globalization has always existed, even if to a limited level: people, capital and ideas circulated, relatively easy, in the great empires time Ottoman, Roman, Mongol etc. In these days, the level of economic and cultural changes is more extensive due to significant changes in the free movement and communication, well as political development, bringing nations closer to each other. The term of globalization was proposed for the first time in 1983 by Theodor Eleviu. Gorgan et. al. identified this process with the following series of trends:

- Increase in international trade at a much faster rate than the growth in the world economy;
- Increase in international flow of capital including foreign direct investment;
- Development of global financial systems.

Big organizations, commercial and non-commercial, operating globally through subsidiaries and branch networks and enjoy the many benefits of internationalizing their business. They get such resources, enter new markets, access local knowledge and made large savings compared to a situation that would work in one market. Very important is the ability to diversify risks by working in areas facing different types of risk. From economic point of view, the globalization has an important role to ensure the comparability in time and, especially, in space of the financial statements of companies which is very important for accounting activities, but also for financial auditing.

An attitude towards globalization is identified with three different current by Gul Erbayandur:

- *Hyperglobalists* are also called as the fundamentalists (radicals). They think that the world society is substituting (or will substitute) the traditional nation-state and new social organizations have started to appear.
- *Scepticals* are also known as globalization opponents and they just support the opposite ideas with the hyperglobalists. In their point of view globalization is not something unexpected but it is exaggerated and has been made a myth by the hyperglobalists.
- *Transformationalists* consider globalization as the political power behind the social, political and economic changes reshaping modern societies and the world order.

From my point of view, even if the attitude toward globalization is heterogeneous, this became a natural process caused by economic and social changes of recent years, the aspirations of the great directors of companies, political figures or simple peoples. He reflected on the origin of diversified consumer goods and travels abroad for tourism, for study or business, of subsidiaries of large and small businesses open in different countries or continents, but especially the agreements concluded between partner countries, the creation of political or social organizations multi-national and adherence to common rules and regulations applicable to different areas.

Features of globalization in auditing and financial auditing

Development of multinational firms and increase the need for information, the natural results of globalization, were strong enough premise to develop international rules and regulations that can be adopted and applied in accounting and auditing of all countries concerned. For Roussey this information needs arising from:

- the global information technology and communications revolution,
- the global expansion of business, and
- the global information and knowledge flow.

Globalization in terms of accounting activity

Accounting is a record of current operations of organizations, but is also related element of the economic activities on the one hand and management on the other hand. Accounting objectives are different from the information of the user, to control its activity. Epuran et. al. summarizes them as in the list below:

- providing information and data required to develop work programs and thereby contribute to economic growth;
- chronological record of economic and financial operations, processing and maintaining information on the patrimonial situation;
- control of economic operations performed, the accuracy of accounting data in order to ensure the integrity of heritage;
- providing the data necessary to achieve financial statements must accurately reflect the organization's situation.

The globalization of the accounting methodology is marked by two trends: the *harmonization and normalization*, choosing one of which is determined by the environment where it is applied. Harmonization is promoted by the European Union because it is considered more flexible. It is a negotiation between different international institutions to eliminate major differences between accounting systems and to reach an agreement to facilitate the provision of consistent information to those concerned. In another approach, of the Bodan et. al., the harmonization of accounting is an accounting reconciliation of different cultures, a series of agreements between the main bodies involved in the creation of a common unified language, revisions, improvements to regional rules to users of accounting information, a form of compromise reached the main pillars of accounting blocks opposable.

The first initiatives in the field of accounting harmonization occurred in 1904 at the International Congress of Accountants in St. Luis USA where it formed a working group who it has undertaken to compare the rules and accounting principles in different countries for the formulation of recommendations for reducing differences between the systems prevailing in different countries. In 1973 it was formed *International Accounting Standards Committee* (IASC) which becomes *International Accounting Standards Board* (IASB) in 2001 and in 2003 published the first version for *International Financial Reporting Standards*. The IASB's objectives are (1) to develop a single set of high quality, understandable and enforceable global accounting standards that require transparent and comparable information in general purpose financial statements, and (2) to cooperate with national accounting standard-setters to achieve convergence in accounting standards around the world. In order to promote the same financial and accounting regulations in 2002, the IASB and the Financial Accounting Standards Board (FASB) signed an agreement known as the Norwalk Agreement in order to homogenize the provisions of Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS). In 2008, the two institutions have proposed accelerating the process to standardize the rules set up in 2013 to adhere to international standards: "It is a new world and we're going to have to figure out how to play in that," said Robert Herz, chairman of the FASB.

The main result of accounting harmonization is to provide and obtain financial information unit format and with the same meanings in different countries which promotes international investment flows. It can thus lead to savings of time and money required for the application of specific rules in each country. Another important advantage is for firms that have subsidiaries in countries where the legal system governing the accounting work is clear and complete, and implementation of international standards allow international companies to receive financial accounting information in uniform format, more manageable and not require interpretation or reprocessing. Nobes and Parker mentioned some disadvantages of harmonization:

- the size of the present differences between the accounting practices of different countries;
- the lack of strong professional accountancy bodies in some countries;
- the differences in political and economic systems.

In my opinion, beyond the controversies it creates harmonization is particularly important and beneficial for countries that need foreign investment because the use of a single financial reporting system which can be an important motivation for choosing a country to open subsidiaries or outsourcing some activities.

As Feleagă said the normalization is the process of harmonizing the presentation of the summaries, accounting methods and terminology. Normalization implies the existence of rules applicable in all countries that adhere to this phenomenon, as well as organizations that verify the correctness of their implementation. The elaboration of unique accounting rules is also ISAB task which develops and publishes global standards for accounting and financial reporting, but is also responsible for promoting and acceptance in an appropriate manner.

Globalization in terms of auditing activity

Robertson and Davis define the audit as examining the financial statements of an enterprise by an independent auditor with the objective of expressing an opinion about the image they give true accounts about the financial situation, results and changes in financial position in accordance with generally accepted accounting principles. The application of common auditing rules and regulations shall be subject to harmonization of accounting, because they cannot be applied identical methods to verify if the items subject to this process are different in form and content.

The financial statements are the source of information for a variety of users. Compliance with the content and form of financial statements is subject to verification by company managers and internal auditors, if exists, and the specialized organizations of the state at external level. As

Stickney and Weil mentioned, the subjectivity of these checks has led, over time, the emergence and development of external audit, conducted by specialized people, independent by organization. The need for this activity has been exacerbated by the conflict of interests between creators and users of financial statements, the creative accounting practices, the growing volume of information provided by organizations, the basis for investment decisions and / or loan and are increasingly complex accounting and information gap between users. The audit responsibility for developing international rules and regulations is the International Auditing and Assurance Standards Board has developed and published the International Standards on Auditing.

In a first stage, the Council of International Federation of Accountants (IFAC) created, in the late 70s, the *International Auditing Practices* (IAPC). Its first meeting was held in New York, in 1978, and the next year published its first International Auditing Guideline, *Objective and Scope of the Audit of Financial Statements* which became *International Auditing Standards* in 1991. IAPC became *International Auditing and Assurance Standards Board* (IAASB) in 2002. The board meets now about five times a year, and experts in over 28 countries are presented at these meetings. This aims is to increase the accuracy and uniformity of auditing practices in international and enhance public confidence in the financial information provided by various organizations involved in economic life of one or more countries. Factors which have contributed to the internationalization of auditing have included in the following categories by Owojori and Asaolu:

- The emergence of multinational enterprises
- The increasing internalization of capital markets;
- The growth of international accounting firms, with common approaches to audit methodology, training and quality review;
- The convergence around international frameworks for accounting and audit.

I believe that an important role in standardization of specific audit rules it has extended to large companies worldwide activity in this field, PricewaterhouseCoopers, Deloitte Touche Tohmatsu, Ernst & Young and KPMG, phenomenon considered prerequisite and a consequence of globalization. In the audit, to express an opinion on the consolidated financial statements of an international corporation is necessary for external auditors to verify the data directly to subsidiaries in different countries or to accept the opinion of their colleagues on the accounts "local". As a result, accounting firms that audit major international corporations are themselves multinational companies generally very high. They offer customers the advantage of a common approach in terms of specific activities for all subsidiaries worldwide. Often, the obligations of the internal auditors have an international dimension, because multinational corporations require a common point of view and assume a uniform presentation of all the disparate entities in space. Internal auditors should conduct a review in line with management practices, procedures and controls and to submit periodic reports on their reliability to the parent organization. In these international companies applying unique methods of achieving the audit are particularly important because the audit of the organization involves pooling the results.

Stamp and Moonitz identify the following seven specific benefits of promulgating and enforcing international auditing standards:

- It gives the readers of audit reporting a justifiable confidence in the auditors' opinion.
- It provides readers with greater assurance that the accounting standard are being adhered to.
- It assists readers in making international financial comparisons.
- It provides further investment to in provide and the set of international accounting standard.
- It will assists in the flow of investment capital
- It makes it easier for undeveloped Countries to produce their own standards.
- Effective and credible assisting is necessary where there is separation between the management and the shareholders.

From my point of view, the consequences of globalization are significant and can be risky. As O'Reagen observes in his book *entities separated by distance or significant language and cultural barriers are difficult to control, and accounting practices, legal regulations and political and economic events may be significant changes to management of international organizations*. Even accounting and auditing standards differ between countries and sometimes, even in later years trying to pass the application of common rules, there are practitioners who operate without respect for them all. In our view, "auditing globalization" is subject to the globalization of all other activities and especially in accounting, because the world requires the same conditions for the checks, regardless of the scope and nature, requires documentation, procedures and common methods, generally accepted and respected.

Conclusion

In my opinion, the globalization is one of the most important processes for the humanity in recent years and its effects are evident in both stages of economic growth or economic crisis such as that facing the world economy today. An important role in accelerating this process it has the appearance and enlargement of the EU. How a country or region is affected and supports participation in the process of globalization depends on the cultural and social features which directly and undoubtedly influence economic life, but also the desire to engage in these changes and the correct estimation of the benefits it would bring. Globalization cannot be done forcibly especially in a market economy. In accounting and auditing fields it involves the development and adherence to common rules and regulations which could be achieved with the retention of certain specific features of each country. Harmonization is a slow sometime and costly process, but has many advantages such as the ability to compare financial and accounting information from one country to another and ensuring a certain transparency of data offered through them. I believe that it also facilitates foreign investment and even firms' migration, a phenomenon particularly favourable for developing countries as is the Romania case. Accounting harmonization can be followed closely by the uniformity of the financial audit specific rules, which is encouraged by the publication and application of International Standards on Auditing. If we consider that the accounting information provided useful to a wide range of users, we can better understand the importance of auditing which is meant to certify the accuracy, completeness and correctness of the data contained in financial statements. Consequently, accounting harmonization and then apply the same methods and rules for achieving audit can provide unitary information and to ensure a higher confidence of users in different geo-political spaces. For this reason, beyond the difficulties facing the economic and social systems of different countries in the process of harmonizing accounting and auditing, if we consider the benefits that provides, becomes clear that it is worth all the effort involved and the benefits achieved will be very long term for both public and private field of all countries involved, regardless of economic and social development.

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