

Levan Sabauri

*Associate Professor, Faculty of Economics and Business, Ivane Javakhishvili Tbilisi State University*

Леван Сабаурі

*доцент факультету економіки та бізнесу, Тбіліський державний університет імені Іване Джавахішвілі*

## THE ROLE OF THE AUDIT IN THE ECONOMIC SECURITY SYSTEM

Аудит в системе экономической безопасности играет заметную и важную роль. Гармонично сочетаясь на уровне юридического лица (субъекта) и взаимно дополняя друг друга, аудит (прежде всего, внутренний аудит), другие инструменты экономической безопасности способны нивелировать как внешние, так и внутренние угрозы, а также добиться удовлетворения интересов в экономической сфере. Исходя из понимания экономической безопасности как некоего экономического состояния, при котором субъект получает релевантный механизм, обеспечивающий решение двусторонней проблемы «дефицита(спроса) и выпуска(предложения)», с особым учетом и использованием внешних и внутренних факторов, позволяющих нивелировать угрозы и при этом обеспечить максимальную эффективность в практических, тактических и стратегических аспектах, автор полагает, что именно аудит позволяет выявлять и учитывать те факторы, которые необходимы для оптимизации экономической системы в целом. В данной статье представлены некоторые угрозы, связанные с внешним и внутренним аудитом, а также предложены меры по их устранению, определено место аудита в системе экономической безопасности и структуре субъекта (юридического лица, предприятия), раскрыта структура функциональных составляющих экономической безопасности, представлен принцип отнесения всех расходов и потерь на виновных лиц, объяснена важность резервной системы и конгруэнтности сотрудников и владельцев предприятия.

**Ключевые слова:** экономическая безопасность; система экономической безопасности; функциональные компоненты экономической безопасности; аудит; угрозы; экономические риски, финансовые риски, налоговые риски; юридические отношения.

Аудит в системі економічної безпеки відіграє помітну і важливу роль. Гармонійно поєднуючись на рівні юридичної особи (суб'єкта) і взаємно доповнюючи одне одного, аудит (перш за все, внутрішній), інші інструменти економічної безпеки здатні нівелювати як зовнішні, так і внутрішні загрози, а також домогтися задоволення інтересів в економічній сфері. Виходячи з розуміння економічної безпеки як якогось економічного стану, при якому суб'єкт отримує релевантний механізм, що забезпечує рішення двосторонньої проблеми «дефіциту (попиту) і випуску (пропозиції)», з особливим урахуванням і використанням зовнішніх і внутрішніх факторів, що дозволяють нівелювати загрози і при цьому забезпечити максимальну ефективність в практичних, тактичних і стратегічних аспектах, автор вважає, що саме аудит дозволяє виявляти і враховувати ті фактори, які необхідні для оптимізації економічної системи в цілому. У даній статті представлені деякі загрози, пов'язані з зовнішнім і внутрішнім аудитом, а також запропоновані заходи щодо їх усунення, визначено місце аудиту в системі економічної безпеки та структурі суб'єкта (юридичної особи, підприємства), розкрита структура функціональних складових економічної безпеки, представлений принцип віднесення всіх витрат і втрат на винних осіб, пояснена важливість резервної системи і конгруентності співробітників і власників підприємства.

**Ключові слова:** економічна безпека; система економічної безпеки; функціональні компоненти економічної безпеки; аудит; загрози; економічні ризики, фінансові ризики, податкові ризики; юридичні відносини.

Audit in the system of economic security plays a noticeable and important role. While integrating harmoniously a legal entity and complementing each other, audit

(predominantly, the internal one) and other services, instruments of economical security can level both the external and internal threats, as well as to meet the interests of the economic field. As far as some kind of the economic situation can be implied under the economic security where a legal entity accepts a relevant mechanism which ensures solution of a dual problem – «rarity» (demand) and «issue» (request) via a special accounting and using both the external and internal factors which make it possible to leveling the threats and at the same time provide a maximal efficiency in the operational, tactical, and strategical aspects, just the audit is an instrument enabling us to receive and submit those factors, which are necessary for optimization of an entire economic system, in general. The present article deals with some threats related to external and internal audit, offers the measures for their eradication, defines a place of the audit in the economic security system and the structure of a legal entity, describes the structure of the functional components of the economic security, introduces a principle of imposing a responsibility to guilty persons for all costs and loses, explains an importance of conformity of the reserves system and of officials and owners of a legal entity.

**Keywords:** Economic Security; Economic Security System; Functional Components of the Economic Security; Audit; Threats; Economic Risks, Financial Risks, Tax Risks; Legal relations.

As at today, the audit-related issues are one of the most actual in the economic security system, since a provision of an economic growth of all subjects is depended directly upon solution thereof.

A relevance of functioning those entities and organizations, which increase maximally the function of efficiency both for a society in general and such entities and organizations in particular, requires further perfection of the managerial and controlling skills.

Internal audit is an important direct element and an important component of any operational, tactical, and strategic managerial decision.

In order to achieve at a higher level of the economic security a legal subject must pay more attention to a maximal security of the functional components of its main business.

To this end, common exemplary structural elements of the economic security functional components are as follows: financial, intellectual and HR, technical and technological, political and legal, informational, ecological, enforceable.

Each of the functional components listed above, are characterized by their own content, set of functional criteria and the methods of their provision.

A main reason of ensuring the economic security is a task of achieving the function of efficiency that stands before each legal subject.

For creating the optimal system of the economic security, a set of preparatory measures is necessary to implement, which must envisage both the external and internal conjuncture of the market.

Control of all kinds of documents is critically important for an effective security of the data and a sustainable development of a company. For verifying the book-keeping, financial/

economic, and other documents by the management of the company, the revisions are usually conducted in line with the necessary audits together with the security service [7]

One of the instruments of the economic security is the audit, that may be divided into external and internal audit.

According to the legislation, the external audit shall be conducted by an audit firm only, while the internal audit may be arranged by the company, independently. Just this latter instrument (internal audit) is an effective tool for avoiding negative tendencies, revealing the breaches and taking relevant steps in a timely manner.

The internal audit has one considerable advantage in comparison to the external audit: its results are available, open for a limited circle of the company's officers and have confidential information, for which observance an auditor or a group of auditors is responsible. Moreover, after such kind of audit, no threat of sanctions by side of the state are expected, because they are levelled.

The financial-and-economic activities, in particular, their quantitative and qualitative features, have a direct impact on the entity's economic security.

An importance of audit is rather high ensuring the economic security of an entity. At the same time, it should be noted that the audit may serve both as a strong instrument for ensuring the economic security and a threat for such security.

If the threats arisen during audit inspection carried out by an unscrupulous audit company are quite clear, the auditory activities conducted by good faith and in accordance with the legislation and rules (standards), creates perplexity for many. For example, in conducting the audit inspections, most of the audit companies

are guided by wishes of the company officials, namely – of a company leader who requested for conducting the audit, or a person who made decision on the audit inspection. Position and wish (recommendations) of such persons play important role during the process of audit and drafting the audit report. It should be noted that the interest of a client legal entity and the interests of its representative officials may not always coincide to each other. This factor creates number of threats for which leveling provision of conformity of the aims of the company top officers and its owners is necessary.

Realization of threats of accounting which do not correspond to truth, is comparably clearly expressed in cases of high-profiled scandals emerging in cases of failure of the worldwide known major companies. All bankrupt companies before their final failure had the reports approved by the best audit firms. Very often happens that management of an enterprise had reasons to conceal to its general director of founder partners certain deal(s). In any company, always take place the so called «office wars». A successful audit always strengthens the position of a chief accountant and of a company's financial office, in general, while the bad results of audit, in most cases create a basis for dismissal of a chief accountant from the office. Therefore, it would be very useful to apply such an instrument in the economic security system, as the internal audit.

In the audit, positive moments prevail considerably over the negative ones.

Professional associations of the auditors and their regulatory body continuously make steps for ensuring a high quality of the audit. The relevant legislation and a methodological provision, including the procedures of control of the audit activity, are being perfecting permanently.

The audit can be used to ensure the economic security of the enterprise under various risks. It should be noted that the risk management has only a complex nature.

For instance, under the tax risks it would be advisable to imply causing a damage to an entity as a result of imposing various charges, payments, penalty and fine sanctions. Georgian tax legislation is distinguished by complexity and uniformity of interpretation, while optimization of taxes has turned into an integral part of the financial-and-economic activity. As a result, any enterprise always stands before the tax risks. Besides, the tax risks may be created intentionally.

Existence of the tax risks in its turn may be used by interested individuals for pressing on the enterprise, as well as for the purposes of transferring a property to its managers and

owners and their criminal persecution. Therefore, resistance to the tax risks is necessary for any enterprise and, this aspect should be a central point of attention of the company's security service.

Preventive measures, such as preliminary inspection of new schemes of financial and economic activity by the audit company, are distinguished by a high effectiveness. It allows to reduce considerably the risk of systemic errors before the start of the activity and prevent the threat itself. Such inspections are reasonable to carry with high-value single schemes and repeating schemes of the major activities.

It is important also to check the final report (annual report, as usual) of a reporting period. Here the auditors should carefully formulate the tasks. They must pay special attention to the tax accounting, tax charges and payments thereof.

It happens quite often that for implementing their own interests against the interests of a company, its top managers make changes in the company's organizational structure, relocate personnel, distort the business process. In certain cases this enables them to implement and then hide a trace of falsifications [6, p.98-100].

A timely arranged consulting of managers allows to eradicate effectively a number of risks in early stages of their development.

Economic-legal risks can be divided into two levels: corporate level and current level of activity. Both of them are very important for the enterprise, the main difficulty is to create a relevant system of internal legal acts. The main criteria of legal acts should be: Relevancy (their advantage in spatial and time intervals), well-structured shape, systemicity, unification and standardization, compliance with statutory-legal acts [3, p.191-204].

All economic processes are carried out in the framework of legal relations between the firm and the various legal entities, therefore all these processes must be strictly regulated by legal and normative acts, to ensure economic security.

All financial risks, in turn, must pass through the internal audit system, that ensures a correct understanding of the decisions made, and awareness of their legal consequences [2].

The property potential of the enterprise also depends on the Internal Audit Office, since it provides a way to prevent steal and robbery through revisions and stock inventory.

For the internal audit, inventory is a necessary and normal process for transformation of reporting according to international standards, since it reveals the differences of accounting between the local and international standards. For this purpose the following is to be imple-

mented, in particular: stock inventory as at the date of reporting, when their market value is defined; Inventory of the accounts receivable for the purpose of charging the doubtful and bad debts; inventory of main assets for determining their net market value and depreciation thereof caused by moral and physical amortization of the functional assets; determination of the market value of the long-term financial assets with further charge of their revaluation reserves. These procedures may be avoided via a parallel accounting, which that requires extra costs and, by this reason, is not always advisable for a company [5]. Cooperation between the internal audit office and the economic security office provides an ideal instrument for imposing all costs and losses on violating individuals [4].

Significance of the internal audit office in the system of the economic security is laid down in a relevant use of the reserve system of a legal entity, that ensures identification of the potential reserves, optimization of the reserves-causing economic processes and a useful application of the reserves themselves, which [provide maximally efficient processes of reinvestment [1, p.136].

Thus, application of the internal audit has a great potential for ensuring the economic security of a legal entity. In case if the economic security office has the grounds to suppose that there are problems in the economic block of the company, they should apply as soon as possible to the special organizations or improve the internal audit.

#### References

1. Kalitsinska K. O. Role of internal audit in the system of economic security / Kalitsinska K. O. // *Economics and Business*. – 2011. – No. 3. – P. 128-139.
2. Sabauri Levan Problems Occurring in the Process of Audit by Taking into Consideration their Theoretic Aspects against the Background of Reforms Conducted in a Country: The Example of Georgia / Levan Sabauri // *World Academy of Science, Engineering and Technology, International Journal of Social, Behavioral, Educational, Economic, Business and Industrial Engineering*. – 2017. – Vol.11. – No.5. – P. 1173-1180.
3. Sabauri Levan International Standard on Auditing / Levan Sabauri. – Tbilisi, 2016. – 282 P.
4. Supplemental Guidance: The Role of Auditing in Public Sector Governance. – 2nd Edition. Release, Jan. 2012.
5. Zhuravleva D. G. Internal audit: the need to implement in modern conditions / Zhuravleva D. G. // *Materials of All-Ukrainian scientific-conference «Future – Audit»*. – Copenhagen Publishing House, 2008. – P. 270-271.
6. Mah'd al-jabali & Rami zeyad tawfeq The Relationship between the Information Systems of Accounting / Mah'd al-jabali & Rami zeyad tawfeq // *Auditing, And How to Provide Reliable Information to Characterize the Service*. – *Global Journal of Commerce & Management Perspective*. – 2014. – Vol.3. – No.2. – P. 95-101.
7. Епишин В. В. Учет и контроль в обеспечении экономической безопасности организаций пермского края / Епишин В. В., Светлаков А. Г. – [Электронный ресурс]. – Режим доступа: [http://economyofregion.ru/Data/Issues/ER2016/September\\_2016/ERSeptember2016\\_887\\_898.pdf](http://economyofregion.ru/Data/Issues/ER2016/September_2016/ERSeptember2016_887_898.pdf) (18 августа 2017 г.)