

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

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Abstract—The purpose of this article is an examination of the meaning of theoretic aspects of audit in the context of solving of specific problems of the audit. The audit's aim is the estimation of financial statements by the auditor, i.e. if they are prepared according to the basic requirements of current financial statements. By examination of concrete examples, we can clearly see problems created in an audit and in often cases, those contradictions which can be caused by incompliance of matters regulated by legislation and by reality. An important part of this work is the analysis of reform in the direction of business accounting, statements and audit in Georgia and its comparison with EU countries. In the article, attention is concentrated on the analysis of specific problems of auditing practice and ways of their solving by taking into consideration theoretical aspects of the audit are proposed.

Keywords—Audit, auditor, auditor's ethic code, auditor's risk, financial statement, objectivity.

I. INTRODUCTION

AS well as in other fields of the economy, and sometimes because of incomplete legislative regulations and as a result of the basis of improper audit practice, we often face specific problems in the sphere of the audit too. Legislative regulations cannot be flawless and could not be used toward any enterprise without taking into consideration its size, activity or business environment. Just like this, the theory, which is keystone of concrete economical field, is quite common and often not enough. That is why the question arises in connection to the theory of audit: is the theory itself detailed and is it properly used during the professional study of audit? We shall understand that legislative and guidance regulations are not theory. As the author thinks, the theory of audit is not well developed or is not satisfactorily available, and most part of available literature reflects instruction of conduction of audit and partially ignores its theory, and therefore specific problems connected to this sphere cannot be solved.

The purpose of this article is the correct formation of specific problems selected in connection to the audit and to propose ways of their solving based on theoretical material. At this stage, the purpose of the article is not estimation of legislative regulations and searching for defects, but an attempt to solve problems connected to the aim of the audit or

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to the practical use of its procedures. The list of mentioned problems of course is not complete. It would be impossible if we consider scales of our research. The current article examines those important problems which the auditor can come across when checking financial statements.

II. PROBLEMS CONNECTED TO THE USE OF AUDITORS ETHICS CODE

The profession of auditor serves to the interests of society. Estimation of concrete financial statements by the auditor makes it more reliable and gives an ability to make significant economic decisions. Correspondingly, the estimation of the auditor directly affects persons whose financial statements are used by him (internal consumers i.e. shareholders and also outer consumers – banks, suppliers, ordinary people etc). Therefore, in addition to the basic norms of honesty and integrity, the auditor is obliged to observe professional rules and principles of conduct reflected in the Auditors Ethics Code. According to the aforementioned Code, the professional principles of auditor are [1, p. 29]:

- Honesty,
- Objectivity, professionalism and proper attention,
- Information confidentiality,
- Professional behavior,
- Professional standards, and
- Independence.

Realization of the Ethics Code and the correspondingly above mentioned principles is required by Georgian law “About audit of business accounting, statements”; therefore, we can call it a legal obligation. As the author thinks, practical use of the equity and independence requirement reflected in the Ethics Code, standards and in the law itself is factually impossible.

III. OBJECTIVITY OF AUDITOR

The requirement of equity means that the auditor shall be fair, i.e. he/she shall not be negatively disposed in advance, he/she shall not permit conflict of interests and shall not be under the influence of other persons [8]. Therefore, as a rule, the auditor shall be impartial in any case. According to the equity principle, auditors shall present exact, impartial, and free from conflicts of interest or other persons' influence expert or commercial conclusion; however, auditors can really

get into such situation when equity of auditor becomes impossible. It shall be mentioned that such circumstances are not defined and listed in the Ethic Code, which allows their estimation during practical activity. My conception is based on the fact that according to his/her nature, man is characterized by an unexplained friendly or non-friendly attitude toward actual persons; however, the purpose here is not an estimation of the innate features of man that can hinder the realization of the principles of professional ethics. According to the international standards of audit, the audit shall be conducted with professional skepticism, i.e. by an approach which somehow contradicts the principle of objectivity. Professional skepticism means possible, important, intended or accidental errors made in financial statements. As we think, exactly this request creates inequity toward some financial statements, and therefore, toward concrete accounting unit. Is it really necessary to allow the inaccuracy of the financial statement? The purpose of the audit is not **proving** the correctness of a financial statement, but **confirmation** of its correctness. The author conceives that it is not necessary to use professional skepticism during the audit because its results confirm or reject accuracy of a financial statement, and that by avoiding professional skepticism, the realization of objectivity request will be possible.

IV. INDEPENDENCE OF AUDITOR

Request of an auditor's independence is a basis of his/her profession. This request basically comes from the nature of the

audit, because estimation of the financial statement can be realized only by the person who is fully independent from specific accounting unit. The same is requested by the 16th article of the Georgian law "On business accounting, statement and audit", international standards of audit, Ethics Code, directive on audit and Sarbanes-Oxley Act [2]. Audit becomes meaningless without realization of requirement concerning independence.

The independence of an auditor means that the report shall reflect unforced, complete and detailed estimation, which means that the auditor shall not perform instructions from other persons or be under their important influence. The audit inspection shall not be connected to the personal interests of the auditor or to the interests of other influencing persons and it shall be impartial toward the answerable person, who is subject to auditing. We shall underline that in this case "independence" is widely explained and means economical and personal subtext. Intentionally or accidentally, the independence of an auditor can be threatened.

Table I briefly reflects the factors hindering the independence of an auditor and the audit results.

Independence request concerns as to the auditor himself thus all members of its group and auditor company. Until acceptance for employment, each auditor company and auditor shall recheck if there is any circumstance hindering their independence. If independence is hindered, the work shall be waived or a member of the audit group shall be excluded from concrete work.

TABLE I
 SUMMARIZATION OF AUDITOR INDEPENDENCE RISKS [3]

Obstacle as result of below mentioned	Personal interest	Self-control	Protection	Friendship	Intimidation
Financial interests.	X				
Loans and guarantees.	X				
Close business relations with clients.	X				
Family and personal relations.	X				
Employment by client.	X			X	X
Service recently rendered to the client.	X	X		X	
Official or member of Directors Board of the client.	X	X			
Compensation.	X				
Presents and hosting.	X			X	
Rendering of other services to the client.	X	X			
Trading with shares or securities of client or supporting of trading.			X		
Realization of function of client's trustee.			X		
Long-term relationships of high officials and clients.				X	
Expected or possible legal proceeding.	X				X

It is difficult to establish in practice what constitutes a threat to the independence of the auditor. For explanation, several examples are listed:

- 1) Under ordinary business conditions, i.e. with observance of all criteria for issuance of a loan or guarantee and on the basis of obtaining of standard interest, the client is sued the loan or loan guarantee to the auditor or to the auditor company, and this loan does not threaten their independence. From the other side, if the loan or loan guarantee is not issued under ordinary business conditions or the amount is important, this will be considered as a

violation of the independence principle. Although, by our opinion, even the above mentioned case can be viewed as resulting in an obstacle to independence, despite the fact that it is difficult to prove such intention and principle of independence cannot be degraded at all. But in this case, influence over an auditor's conclusion can be indirect or involuntary.

- 2) One of the members of auditors group is relative of the worker of the accounting unit in which the audit is conducted. Therefore, the audit company excluded this member from the auditing. It means that it removed the

possibility of damaging the independence principle and secured independence of all members of the auditing group. However, despite this fact, we think that independence will be damaged anyway because the excluded member may still have influence over other members of the auditing group and may achieve a desired purpose via them.

- 3) Acceptance of gratuity and hospitality generally are considered as factors threatening independence. How shall we determine an allowed limit and its overcoming? The answer to this question is not in the Ethics Code or in any other guidance. There exist only general recommendations about the fact that presents and hosting are unacceptable. In this case, our advice is to find out which present or hosting is considered as threatening to independence. The Ethical Code states that if the gift or hospitality is insignificant, independence is not threatened. However, what is or is not significant is a matter for interpretation by different persons.
- 4) The fee is a special problem. This is a very specific question because just the fee issued for auditor service establishes a commercial relationship (provider-client) between the auditor and answerable audited subject. The auditor will never render service for free, that is why the amount of fee shall be constantly considered. Risk factors connected to the fee are: the received fee makes up a big part of total fees of the audit company; or vice versa, is too small, is conditioned by something or issued later than on due date.

There are many companies that render different services except of audit: estimation, services connected to IT or internal audit, legal service etc. Rendering of other services to clients except of audit threatens the independence of the auditor (self-control may take place). But from the other hand, rendering of different services assists to familiarization with a specific accounting unit, and finally, these conditions auditing services of higher quality. In some cases, rendering of non-audit service to the client may not endanger the independence of the auditor, for example allocation of the auditors group from employees rendering other services etc., but, by in our opinion, the independence of auditor during the rendering of different services is not always provided.

We think that the above examples satisfactorily prove the fact that independence of the auditor is frequently unsecured. First of all, this is hindered by commercial relationships of auditor and client, i.e. rendering of service for fee. We think that there is a need to determine a limit overstepping of which threatens to the independence of the auditor, in particular, his/her report about the financial statement, which, by taking all essential aspects into consideration, exactly depicts the situation of the accounting unit., i.e. his/her conclusion that financial statement by taking into consideration all **essential aspects exactly reflects condition of accounting unit**. Independence of the auditor shall be defined according to the purpose of the audit, only in relation to significant factors.

Significant factors basically means financial interests (except of fee), close business relations, expensive gifts

expensive presents, employment of clients, participation in management of client's firm etc.

V. PROBLEMS CONNECTED TO THE FULFILLMENT OF REQUIREMENT REGARDING ACCURATE AND FAIR REFLECTION OF FACTS

Accurate and fair reflection of facts that are the basis for reporting and accounting of financial condition of accounting unit is a fundamental rule of business accounting. This is a supreme principle which exceeds all rules of accounting. Other generally confessed rules are [4]:

- Functionality of an enterprise;
- Constant use of rules and methods of business accounting;
- Superiority over content format;
- Restriction of balance sheet articles, gains and expenses, incomes and outlays compensation;
- Taking into account all expenses rendered in an accounting period and received gains despite of their coverage, income or date of other payments;
- Estimation rules;
- Distribution of expenses and gains from point of view of material resources and time;

In the case when used rules and methods of business accounting contradict the rule of exact and fair reflection of the facts, which is the basis for accounting, the accounting unit shall prepare such a financial statement which would accurately and fairly reflect facts.

Rule of accurate and fair reflection of facts – basis of business accounting – is a part of any national legislation connected to accounting. But according to local conditions it is differently used. In Anglo-Saxon law (Great Britain, USA), this rule requires the respect of generally recognized accountancy rules and principles. While in Europe (Germany, France, Republic of Slovakia) observation of the mentioned rule provides subordination to legal norms. According to the existing legislation, the accounting unit shall keep accounting books so that the **financial statement provides for a true and fair picture of the facts that are a subject-matter of the accountancy and financial situation of the accounting unit**. The financial statement is considered to be accurate if each record in it complies with reality and with the rules and methods established for business accounting. A financial statement is considered to be fair if during its preparation there are used the rules and methods of business accounting which result in an accurate reflection of the facts in financial statement. With the purpose of comparison, it shall be said that international standards of financial statements do not directly define what an accurate and fair fact is, but according to these standards, accuracy and fairness during preparation-submission of financial statement will be achieved by taking into consideration quality characteristics. This fact is reflected in Fig. 1. The rule of the accurate and fair reflection of the facts has long been the subject of discussions; but, it is still not established how their accuracy and fairness shall be achieved.

As we suppose, taking into consideration the mentioned rules and methods, as well as of all the requirements of concrete legislation **does not provide absolute accuracy and**

fairness of facts. Confirmation for this is a well-known thesis that perfect legislation does not exist and so-called “black holes” are almost unavoidable.

If we consider the accuracy of the reflection of facts by the auditor as the supreme rule of accounting, it comes out that he shall estimate how accurately assets, resources, expenses, gains, incomes-outlay, economical result etc. of the accounting unit are reflected in the financial statement. An auditor shall decide what is the exact picture of the financial condition and on which basis it shall be determined. In the case of the Republic of Slovakia, a financial statement is deemed to exactly reflect the facts only in the case that during its drawing all rules, methods and legislative norms of accounting are fully provided. This definition concerns the general purpose of the audit, according to which, the auditor shall conclude if a financial statement corresponds to the valid legislative base of accounting.

On the basis of the above mentioned, we can conclude that the purpose of the audit is not the confirmation of the accuracy of tax declaration or observance of legislative norms or accuracy of business accounting, the purpose of an audit is to define how accurately a financial statement reflects facts about its consumers, because the situation of the accounting unit is evaluated and economic decisions are made in accordance with the data in the financial statement.

As result of an analysis of the above mentioned facts, we can conclude that at first the auditor shall have **reasonable suggestion that financial statement accurately reflects facts** and does not exceed corresponding frameworks of accounting.

Concrete example confirming the facts is use of proper principles, according to which overestimation of property cost is realized by the principle of subtraction (for example via corrections) and not by the principle of addition. Although there are such assets as buildings, land, particular types of inventory reserves of a concrete type etc., the initial price of that asset can be increased in line with the conditions in the market (for example increasing prices of immovable property etc.). According to the principle of proper attention, the revaluation of assets, with the price increase principle, is impossible overestimation of assets by the principle of increase in prices is impossible. This means that according to the applicable legislation, the accounting unit does not use such measure and this fact will be reflected in his financial statement (or directly in the balance). Will facts be exactly reflected in financial statement in this case? Is it fair if the auditor submits his conclusion on the basis that the financial statement exactly reflects these facts?

According to theoretical sources, accurate reflection of facts it is more important than all other principles, among them the principle of proper attention. An accounting unit is obliged to observe the rule of the accurate reflection of facts – the basis for business accounting. In connection with this, we think that auditor’s report shall be added one more article in which there will be mentioned similar cases, their quantity and results. The addition of such article will allow the consumer to obtain real information about an actual accounting unit. For consumers it is important if financial statement is prepared according to the

corresponding legislative base, but for making of decisions of economical character it is more important if financial statement reflects accurate facts.

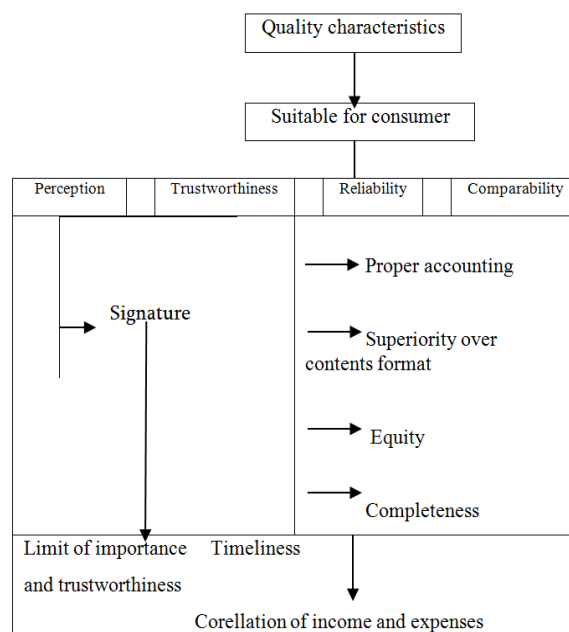


Fig. 1 Quality Characteristics

VI. PROBLEMS CONNECTED TO THE DEFINITION ACCURACY OF FACTS REFLECTED IN THE STATEMENT BY AUDITOR

In documents drawn up in connection to concrete auditing, the auditor shall indicate which facts are insignificant, and at the same time, determine a limit between important/essential and less important/not essential defects in a financial statement [9]. We realize that essentiality is established by definition of limit and not by an indication of those qualitative characteristics contained in concrete information in order to be considered as essential.

Although it shall be said that neither in international standards of audit, nor in international standards of financial statements, is essentiality clearly and exactly defined; the first just defines the doctrine of independence, while the second defines essentiality from the point of view that information becomes important if its deletion or incorrect mentioning influences the economic decisions of the users of the financial statement. It is very difficult to establish a limit beyond which information can be considered to be essential and this is basically caused by an important number of users of a financial statement and their various aims and priorities. Therefore, during preparation of a financial statement there shall be estimated which information is important for the consumer, and the auditor shall establish how grounded the submitted information is, or the fact that essential information is not reflected in financial statement. The fact important for the auditor is also important for the user of information reflected in a financial statement. The importance/essentiality of audit and risk are inversely proportional to each other, i.e.

the more important/essential information is the lesser is the risk for the auditor and vice versa.

Even international standards of audit do not indicate how the auditor shall provide observation of the rule of information essentiality. In order to establish the essentiality the following main points are used: there are practically used following ascending items:

- Total assets (0.5-1.5%)
- Profit gained by the accounting unit from realization of ordinary business until taxation (5-8%)
- Income from realization (0.5-1.5%)

With the purpose of comparison, we can note that according to the American standards of audit, an important defect is

considered a 10% limit index of taxed profit. Introduction of a general percentage index is impossible because ascending points can be variable. Besides, there is no agreed opinion about which ascending point is better for establishment of the essentiality limit. An auditor shall consider establishment of an essentiality limit as a complicated problem which shall be solved according to the concrete situation, client, time and work.

Use of the above mentioned facts in concrete cases will show differences between corresponding initial points.

By December 31, JSC XYZ, subject inserted the following indexes in its financial statement:

TABLE II
BALANCE (GEL) [1, P.84]

Purpose	Assets	Line N	Accounting period		Previous accounting period Remainder
			Beginning of year - part 1 Correction – part 2	End of the year	
	Whole assets	001	3,324,000 916 000	2,408,000	2,282,000

Therefore, if we use the upper or lower limit in order to establish essentiality in the initial base of total assets, the following indexes will be noted:

Lower limit: 3,324,000 X 0.5% = 16,620 GEL

Upper limit: 3,324,000 X 1.5% = 49,860 GEL

Theoretically, if in order to establish essentiality the auditor uses the upper limit i.e. 1.5%, each inaccuracy up to 49,860 GEL will be considered as insignificant.

The same can be applied to the cost basis such as income from sales used toward such initial base as income from realization. If the concrete accounting unit in its own profit-loss account indicated total income gained from sales as 8,150,000 GEL, by use of the above mentioned percentage limits, we can calculate the following level of essentiality:

Lower limit: 8,150 000 X 0.5% = 40,750 GEL

Upper limit: 8,150 000 X 1.5% = 122,250 GEL

During the use of the lower limit, any inaccuracy up to 40.750 GEL will be considered as insignificant, and in the case of upper limit, insignificant will be considered any inaccuracy up to 122.250 GEL.

It can be said that toward the initial base that these amounts are not large; however, they can have important influence over users of the financial statement. We understand that established limit of essentiality is not known for the consumer; therefore, consumers do not know which scale of inaccuracy the auditor considered as insignificant.

On the basis of the above mentioned examples, it can be said that if financial statement contains inaccuracy within established limits, an auditor will conclude that despite inaccuracies, the financial statement exactly reflects facts.

In connection with this the question arises: can the auditor consider that a financial statement exactly reflects facts

despite an inaccuracy made by the accounting unit on the basis of the essentiality limit. We shall note that establishment of the mentioned limit fully depends on the expert evaluation of the auditor. Limits of essentiality are not used everywhere and that is why an auditor can establish higher levels.

As we have noted above, because of different interests of consumers of financial statements it is impossible to underline the limit of essentiality as it was confirmed by the above mentioned example. The indicated amount will not be important, but on the other hand, it can show an important limit.

The auditor's account shall include fact of the establishment of essentiality limit, in order consumers could find out if they agree with indicated limit and with the fact that inaccuracy discovered within limit is insignificant for them.

VII. AUDIT IN SMALL AND MEDIUM ENTERPRISES

Audit in small and medium subjects (companies) is a specific field of audit. In contrast to large enterprises they have specific characteristics, demanding another approach from the auditor by consideration of the conditions typical for them [10]. International standards of audit used in some countries (Slovakia) usually regard all accounting units despite their size or legal form. Similarly in audit regulating law, nothing is said about the criteria of the size of accounting units, and this is considered to be a problem, because standards of audit are formed for large enterprises where liability and rights are properly divided. In this case, report of the auditor first of all is provided for the shareholders because they as owners are separated from officials of the accounting unit. Non-solving of this situation creates problems for both interested parties. Considering their payment obligations, the main thing for small and medium enterprises is the "accuracy" of a statement. Representatives of such enterprises think if they have to render important expenses for a high-quality

“full” audit or not, it is better to avoid the risk of the imposition of fines for violation of applicable provisions of accounting law. There is no compromise from this point of view: this is a quasi-full audit which will be conducted by the auditor in a shorter time or for lower fees. But such a form of audit may not achieve its aim. However, on the one hand, during financial auditing the auditor is faced with a problem, because in the case of large enterprises the approach to the auditing of their financial statement is different. In large enterprises, for example, risk of control can be increased [5].

According to the size, accounting units can be divided as following:

- Micro companies
- Small companies;
- Medium companies;
- Large companies.

In accordance with a definition of the Regulation EC No. 800/2008 on the declaration of certain categories to be contrary to a common market pursuant to Article 87 and Article 88 of the Treaty (General Regulation on Group Exceptions) (hereinafter referred to as “Regulation on the Categories“) a micro-enterprise may be defined as an enterprise that employs less than 10 persons and has a yearly

turnover that does not exceed 2 million Euro. This kind of enterprise is not subject to auditing, it is more of a family-run kind of enterprise [6].

Such sized companies are not subject to auditing because they are mostly family-run businesses.

According to the above mentioned regulation on categories, a **small company** is one that employs less than 50 people and with an annual turnover that does not exceed 10,000,000 Euro.

A **medium-sized company** employs up to 250 people and has an annual turnover which does not exceed 50,000,000 Euro. In the case of higher parameters the company is considered to be large.

Based on the criteria provided above, according to the European resolution, small and medium-sized companies in the Republic of Slovakia can be subject to auditing if they meet other requirements of the law on business accounting. Here it is worth noting that in the case of Georgia we will have to provide other criteria because by taking into consideration reality of our country it is not possible to divide companies into categories by consideration of limits established by EU. According to the requirements of the second article of Georgian law “On business accounting, reporting and audit” companies are divided into following categories [7]:

TABLE III
TYPES OF COMPANIES, CRITERIA OF THEIR DEFINITION; REQUIREMENTS OF ACCOUNTING AND AUDIT

Company type	Assets (GEL)	Turnover (GEL)	Workers	Preparation of accounts	Publication	Obligatory audit
4 category (so called micro)	<1 000 000	<2 000 000	<10	By simple rule	No	No
3 category (so called small)	<10 000 000	<20 000 000	<50	IFRS for SME	Shortened	No
2 category (so called medium)	<50 000 000	<100 000 000	<250	IFRS for SME	Complete	Yes
1 category (so called large)	>50 000 000	>100 000 000	>250	IFRS	Complete	Yes

Requirement of accounting according to IFRS exists since 2000.

* For 3-4 categories companies accounting requirements are simplified (by existed law they were requested IFRS for SME).

**For 1-2 category companies there was added request of audit what will be met by majority (from applicable request of obligatory audit and business parameters).

Within context of used method of audit, small and medium companies are characterized by following specific features:

- Limited division of liability;
- Supreme authority of governance of higher rank or owner.

After detailed analysis of above mentioned characteristics we got the following:

- Small (and often medium) companies less finance business accounting what causes serious results and by which audit risk is increased. Mentioned results are:
 - Business accounting can be non-formal and inaccurate;
 - Under conditions of such companies the auditor is imposed more responsibility during preparation of report and financial statement. There can be formed incorrect view that via accurate business accounting the company was released from obligation;
- Accountants staff in small and medium companies is not large, therefore in contrast to large companies it is impossible to distribute responsibility of workers and because of this auditor could not rely upon internal control system. The example of this is such event when accountants have right to dispose property which they can hide or sell.

- Owner and governor of the company often is the same person, i.e. in large companies these functions are not divided.
- Decisive rights of governing persons or owners can concern functioning of company in basic question such as internal control system or preparation of financial statement.
- Risk of falsification by governance or company’s owner is higher while because of small number of employees established procedures can be avoided. For example the owner can force hired employees to cash amounts without original documents.
- Prior condition of governors or owners of the company can cause important inaccuracy in financial statement.

As we have already noted, specific conditions of business realization by small and medium companies highly influence over audit of their financial statements. As well as with other types of audit, during the audit of small and medium-sized companies, the auditor at first familiarizes them self with the accounting, the system of registration, and the obtaining and development of data. At the same time, auditors shall estimate the whole system of business accounting in order to realize the

economic activity of the company which contributes to the planning and implementation of the audit. An auditor shall estimate if it is possible to find enough and reliable information needed to make conclusions from the accounting books and after checking of the financial statement. For the non-satisfactorily distribution of responsibility and possible avoidance of internal control by governance or owners, the auditor of a small and medium company can face problems, and this is caused by the absence of internal control or by incomplete or inaccurate data. During the audit of a small and medium-sized company, it is particularly important that the auditor should be able to get a clear explanation from the company's management about the inaccurate financial statements for which she/he has responsibility and based on the risk related to the auditor's work. The auditor should remind the management of the company that they are obligated to ensure proper accounting and protection of property. Basically, from his responsibility for inaccurate financial statements and risks connected to the work of the auditor, the auditor could accept explanations of company's governance. The auditor shall report to the governance of the company that shall provide proper business accounting and protection of property.

In connection to the above mentioned definition of small and medium companies, we can declare that such definition nowadays is widely used in EU rules and shall be considered as their integral part. There is a methodological instruction of audit of small and medium-sized companies although it does not rely on a legislative base. That is why we suggest putting this process under a legislative framework and strengthening the theoretical principles of the audit with the auditor's proper approach to the financial statement of small and medium-sized enterprises. At the end of the discussion about this issue, we should consider whether the audit of small entities is needed. It can be said that their management and owners are the same, which is why, unlike enterprises where the management and owners are various people; there is no original user of the auditor's report. For this reason, we offer to bring this process within a legislative framework and to confirm theoretical bases of the audit by a standard approach to the financial statement of small and medium-sized companies on the part of the auditor. In conclusion, discussions about this question shall examine if the audit of small subjects is needed, and it can be said that their governors and owners are identical, and therefore in contrast to those companies where governors and owners are different persons, primary users of the auditor's report do not exist. Conducting an audit in such a company requires large financial resources and serves "only" to the realization of a legal obligation. However, there are such accounting units which do not perform the mentioned obligation, and therefore, face the risk of being fined. In connection with this, we offer to use quantitative criteria according to which there will be showed which accounting units shall check their financial statement via an auditor in order to separate small accounting units from this group.

Above, was mentioned the example of Republic of Slovakia. After signing the EU Association Agreement, there

already appeared a number of obligations and responsibilities for which Georgia is responsible to perform; however, we should also take into account the countries that have already experienced it. Despite the fact they are EU member states, the above examples clearly show that there are still many issues to be solved in this regard. When Georgia signed the Association Contract with Europe, a number of obligations and responsibilities were already created, the realization of which Georgia became responsible for. Here, it is necessary to consider the experience of countries which have already implemented the necessary obligations, and despite of the fact that they are member countries of EU, by examination of the above mentioned examples it is clearly shown that many questions in this direction are not yet solved.

VIII. CONCLUSION

The findings of this article can be described revealing of concrete problems in connection to financial statements in the practice of the audit and then development of proposals or their solving in the context of theoretical aspects of the spheres, which can be listed as:

- Ethic principles of the auditor, especially with regard to the principles of independence and objectivity;
- Establishing of the priorities by the auditor in connection to the audit;
- Accurate and fair reflection of facts in the report;
- Use of size criteria by the auditor during definition of those accounting units whose financial statements the auditor is obliged to check.

The purpose of this article is to show the concrete problems connected to the audit and establish ways of solving them which implies a revising the requirements for auditors, determination of ways for their solving which means changing of requirements toward auditors, adding of additional items in the auditor's report and revising of the size criteria toward those accounting units whose financial statements the auditor is obliged to check, and this finally, will release small accounting units from this obligation.

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