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The role of audit companies and frequency of auditing on quality of financial statement

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Abstract

The purpose of this paper is to investigate the importance of the audit companies and frequency of auditing on quality of the financial statements. Furthermore, The general objective of this dissertation is to show evidence that audit process is the main factor to provide clarity and reliability on the financial statements in companies and first thing that we need is the market have to really recognize the importance of audit value. The present topic of the study is the "The role of audit companies and frequency of auditing on quality of financial statements" is an important topic that has been discussed in the past and this thesis represents the results of the research about this topic. It discovers and helps to completely understand the importance of transparency and reliability on the financial statements. The Big Four audit firms' auditing activities in Azerbaijan were investigated to achieve the result. Research papers express that companies are more competitive in market and provides transparency in financial statements which indicate company's financial performance and position which continuously use auditing activity.

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1. Introduction

1.1 Background Introduction

The powerful impacts of the global financial crisis have emphasized the serious meaning of trustworthy high quality financial statements. Succeeding quality financial reporting relies on the role that the external audit plays in creating the quality of financial reporting of mentioned entities. Generally, audit is playing an essential role in emerging and developing the global economy and business firms. The true decision of an external auditor has essential economic results and for productivity and effectiveness of the full of audit process. Auditors indicate an opinion on the objectivity of financial statements and reports. This is important and key factor for the users of financial statements to obtain assurance that the information are being reported, accurately measured, and objectively represented. Auditors are more likely to make the decision more balanced and accurate, and more opportunities to use the auditor's report and to increase their ability to audit financial statements. However, the quality of the audit can not only be determined by the qualifications and modifications of the auditors, additionally, internal regulation of the work process may be an additional factor affecting the quality of audit and other matters within the audit company. This is a vital segment of the monitoring and controlling structure and hence an activity of substantial public awareness. Today audit quality is one of the most key matters in audit practice. Some individuals and groups, these include both internal and external interest with the superiority of audited financial reports. In this diploma thesis, a number of methods have been used to prove the accuracy of all these. The Big Four audit firms' auditing activities and role of these firms on the companies' financial statements, literature which are focused on auditing are analyzed the role of companies in their financial statements.

Today financial statements come as the essential mechanism by which the works of entity managers were observed. When the directors were demanded by law to arrange annual financial statements, investor s then had admission to financial information about this company they maintained. However, this admission was regulated and the stockholders may want to believe that they are not following all of the financial data, or the truthful information to permit them to decide true investment decisions. Consequently, the activity of the auditor as agent for the investors becomes vital and the costs of the audit are as nothing with the assurance and encouragement the audit manages the investors. The self-governing audit is a critical part of this procedure to confirm that the financial statements realistically characterize the actions of the supervisors through the financial term.

Commonly, auditing process of the financial statement is a monitoring procedure that supports decrease information irregularity and defend the interests of the numerous investors by affording sensible reassurance that the organization's financial statements are organized fairly. In other word, financial audit is explained as involving of assessment of any issue or problem related to financial statements with a view to express an opinion on whether the any issue is properly represented. The Auditing Practices Board, which is the association responsible for supplying auditing standards and management states: "The aims of an audit of financial statements are to allow the auditor to indicate an own opinion whether the financial reports are organized in full material respect in conformity with an appropriate financial reporting framework, to prepare a report by the auditors of their estimation of the certainty and impartiality of financial statements so that anyone reading and using these reports can have trust in them, then to suggest administration of any faults or drawbacks with their accounting structures and to advise ways of developing its, to frustrate mistakes and fraud by the prevention and proper influences of the audit."

The social role of auditors ought to be a basic influence to financial operation, in periods of decreasing the risks of substantial misstatements and by confirming that the financial statements are expounded as stated by predetermined parameters and regulations. Lower risks on misstatements improve self-assurance in capital markets, which in sequence reduces the cost of capital for companies.

External financial statement users or clients, containing current and prospective depositors, suppliers, creditors and others want trustworthy financial information on which to establish their resource distribution decisions. When the bankers of companies have self-assurance and trust in the audited financial statements of company, they are willing to allocate in more funds into the company, which in succession causes in enlarged and developing financial performance. Supervisors and standard identifiers can raise the effectiveness of mentioned companies by announcing rules and regulations that aid confirming that audits develop financial information superiority. The study of Miettinen (2011) internal financial statement users for instance administration, audit committees and executive board interest with the quality of audits to support cut the cost of capital.

The quality of audit plays an important role in maintaining an effective market environment and ensures the reliability and reliability of the financial statements that are important to the good-performing markets and the financial performance improvements. External audits performed in line with great quality audit standards can encourage the execution of auditing standards by reporting firms and aid ensure that its financial statements are dependable, clear and valuable. Good audits can support strengthen sound corporate governance, risk management, also internal regulation at entities, therefore, providing to financial performing.

The statutory audit can strengthen assurance, for the reason that, every time auditors are required to provide an external, impartial opinion on the arrangement and demonstration of financial statements. All auditors need to be self-dependent in the estimations which they express according to financial statements, while the process, when they are required to do to produce their opinions is very reliant on and rootled in the actual world, also they may become stimulating in various business areas for instance, as in the cement industry.

1.2 Objective of Diploma Thesis

Primary purpose of this thesis is to show the importance of audit on quality of financial statements, to provide effective consistency and audit quality matters in some cases and the impact of frequency of auditing on the financial condition of businesses. General objective is to assess the role of audit firms on creating transparency on financial reports. Firstly, let's look at the definition of audit firms and understand what they do, what their activities are.

On the whole, audit firm is a company that realizes activities to determine financial action of company and else accomplish organizational goals. Auditing firms may examine expected theft or fraud and confirm agreement with appropriate rules-procedures. They also aid to provide the truthfulness of reports or financial statements.

Commonly, audit is a methodical procedure which assembles and assesses all timely financial data are used in production processes, sale of goods, service and further areas fairly then control accounting system and also financial statements separately. Building powerful and efficient audit system is essential for accomplishing firm's objectives.

Similarly, as we know, financial statements are one the most important source in assessment. Accounting information has the vital role in the expansion of entity, its status and so on in the financial statements. Mostly, there is an expectancy that audited financial reports ought to be dependable to all of the shareholders. For example, for the stockholders, business, accounting sector, and additionally, consumers in the case of transparency and truthfulness in financial statements have been a difficulty. The being of transparency and trustworthiness appears indistinct in the marketplace.

The same as several other improving countries accounting and audit occupations still are in the initial periods of their improvement in Azerbaijan. In Azerbaijan, audit services are compound of processes which bring the opportunity to most completely and accurately assess a financial and economic circumstance of the company, enable to review the plan of the supplementary acts focused to raise effectiveness and encourage in business action, expand controllability of the entity. Throughout reviews, the analysis of consequences of activity of the company or its actions are performed, the support in the explanation of matters according to financial administration is suggested. A particular group of auditors with which workers of the Consumer are able to solve matters including financial accounting, tax policy and other requests of financial, and also economic actions of the Customer at any time, is attached to the Customer. Thus, work with the consumer, isn't restricted only to the assessment time, but comes to the continuous situation. In difference to the review for the term, audit allowance encourages working alteration of the made mistakes and faults by the Consumer during a year then arrangements of an efficient business and structure of the tax accounting and the procedure of internal regulation lessening possibility of appearance of mistakes in the upcoming years. Additionally, insufficiency of experienced workers, trustful staff of corporations and poor audit service can form inopportune situation with the aim of convince transparency of companies. Regularly, investors cannot identify faithfulness of financial data and therefore they need to get audit services.

2. Literature Review

2.1 History of auditing

This diploma thesis has been written as a result of the study of literature, research papers on a number of topics. Initially, the history of audit activity was investigated, and then theories were reviewed. Additionally, the activities of Big Four audit firms that have a major impact on the company's financial statements have been reviewed.

There is a wide frame of literature regarding to history of auditing. Generally, the history of accounting, administration or supervision and total departure of the roles of agents is the base for auditing history. In ancient past about 5000 years, there was proof of initial writings, improving new forms of corporation, new socio-economic development, and theoretical, national factors. After this, mission has been imparted to a member of the society, who recognized to write and conquered the figures to appreciate actions of forming the facts and numbers, which should enable to an assessment of the financial condition to make applicable results. Consequently, the auditing process was called to have started by about the 400 which in the ancient Egyptians and Babylonians had accounting procedures for testing warehouses, containing verbal "audit reports", causing in the auditor process period.

The history of auditing should be linked to history of accounting, which all result from the division of the responsibilities of agents. When the principal enable to provide the fund, the agents are willing to use this fund, which is based on agency theory, additionally, plan reports on how the fund was expended in accounting according to the auditors who settle the collection of such accounts and provide their own estimation before such is proposed to the principal. As a result, the agency theory, auditing theory and accounting theory are linked.

The important characteristic of the history of auditing theory is to indicate the role, responsibilities and functions of auditors. Salem (2012) described that their roles have not been well explained from beginning. As observed by Iuliana (2012) auditing has continuously changed and progressed, responding to the changes in the world and regulating its objectives beginning the middle age, continue within the industrial transformation up to the 21st century. The expanding gap between administration and action has made it necessary to develop series of jurisdictions by means of which the business may be organized cautiously.

Likewise, AbdulGaniyy (2013) gave an summary of the evolution of the auditing procedure from its tranquil Victorian starters where groups of supporters experienced and marked the whole thing in their customer's books, to the transformation in the 1960s at what time, with the growing scale of customers auditing developed more a substance of monitoring a customer's systems rather than the evidences themselves. Previously mentioned changes in the 1980s are similarly noted when as a consequence of the growing influence on the audit fees from customers gathering the risk of worldwide competition. In addition, auditors started to place their confidence in some unclear techniques as risk estimation. Likewise, Derek (2006) emphasized that auditors also had to cope with the appearance of modernization which stole from them of the audit ways. Besides, in the early 20th century, the testifying knowledge and methods of auditors, which was used to prepare financial reporting, that contained giving reports of their responsibilities and the consequences, was controlled as in the "Independent Auditor's Report" reported. The increase in demand for auditors managed to the development of the testing procedure. Auditors developed techniques to strategically choose principal cases as affectionate of the firm's overall action. Based on Hasyudeen (2009), this was a sensible option to detecting all conditions in detail, therefore, the standard audit demanded more than.

Based on literature, we can see that the word ‘audit’ is taken from “audire”, which is included in the Latin language. It means that, “to hear” or “to listen”. As stated by Wang (2004), financial audit contain the procedure of reevaluating of self-personality, self-dimension and self-oversee on financial answerability of administration. Canibano (1993) stated audit in the his study as being, in extensive durations, to test then examine financial information, records, procedures, taking as an take omission to articulate an estimation over the beneficiations and also the competency. As a result of this study, Canibano expressed that audit is the approach of developing determined upkeep by observing determined upkeep by catching on what you arrange, to get if you are able to arrange it better.

As said by Power (1999), auditing refers to a methodical and unbiased consideration of balances, books, records then vouchers of the company to establish quality of the financial statements and consider fair view of the problems. After this, similarly, Raffa (2003) expressed auditing as a methodical procedure of accurately gaining and assessing observation concerning affirmations about fiscal processes and affairs to establish the amount of similarity between those affirmations and determined standards and interconnecting the consequences to interested users.

In 2008, Salehi showed the indications of extremely industrialized financial conditions according to ancient cultures of Egypt, Mesopotamia, Greece, also Italy, so far the financial details for the period of these were controlled to the noting of particular records. Furthermore Tanko expressed that auditing process has broad history for a sizeable amount controlled by the accounting history, the same as the later transformed and concluded with the growth of economy of the world in 2011. In the same year, Salisu (2011) noticed in his study that archeological objects then conclusions disclosed that recording was in reality established by auditors. In the next year, Iuliana (2012) also investigated the auditing history due to the pre-historical term. He explained that the auditing procedures are able to be related to the essential performance of individual existence in life situations.

As a consequence, throughout the last half of the twentieth century, like more specialized accountants were hired into the business area from the qualified auditing and accounting companies that had educated, auditing companies appeared under radically expanding competitive difficulty to decrease and ignore audit fees, then change the workplace to other auditing companies. As the expressed, demand for the audit was controlled by law to the assurance of the criterions, the audit was expressed as an undifferentiated thing in which the only real means for the audit company to differentiate service providing was whether to cut their fees below due their rivals and to provide services supplementary to an audit. Today, the audit companies' balanced financial reaction to be concerned with rising price rivalry was to improve, provide then bring advanced-margin non-audit provisions on the under the existing audit associations.

Consequently latest legislation, rules are enable to increase the consistency of financial statements. One piece of legislation Sarbanes-Oxley called covered the responsibilities of auditor to audit the capability of external regulations in financial reporting. This is the proof of the fact that several assignments known the significance of external regulation in avoiding financial statement failure.

2.2 What Is Auditing?

A broad definition of auditing from literature is shown that auditing is a methodical procedure of quantitatively assembling and assessing substantiation regarding to statements about financial condition where the personality and business making the statements have been involved, to establish amount of resemblance between statements mentioned and recognized fact, and interconnecting the consequences to users of the reports. Additionally, the auditor evaluates how thoroughly those assertions imitate to the rules which manage how the entity is to inform to users about the financial condition which has happened. These regulations includes the measured standards that allow an auditor to estimate objectively those assertions characterize the fundamental cases. Furthermore, the auditor reviews the consequences of that estimation in the given the report, it is accessible to users of the reports where the assertions are formulated.

Audits can be categorized with different methods. They can be grouped consistent with the main purpose and beneficiaries of the auditing. Based on the initial auditing goal, three major classes of audits might be differentiated: financial statement audits, operational and compliance audits.

The financial statement audit is seen as an assessment of the company's financial statement, that has been written for stockholders and further wanted groups external the business, and of the proof maintaining the material included in mentioned financial statements. This is overseen by the knowledgeable specialized who is self-governing of the company, for the objective of stating a view on the quality of financial statements are seen as the accurate and reasonable condition of the company's financial performing and financial observation then deal with applicable authorized and further controlling obligations.

The Companies Act demands the executives of all entities to present financial statements yearly that involve the balance sheet indicating the factual and fair observation of the entity's financial position like at the final of the fiscal year then a profit and loss statement indicating the factual and fair observation of the organization's profit or loss during the fiscal year. Consequently, all organizations must, do audit financial statements by law. However, organizations which are not considered public firms and which succeed like small are commonly free from the legal auditing.

Subsequently, organizations having benefit of the audit exception, and also enterprises and solitary dealers that are not lawfully wanted to audit financial statements, might motionless have its financial statements reviewed for particular objectives. For instance, if each of those companies contacts with the bank for the credit, the bank is probable to want the company to give audited financial statements like a foundation for determining whether or not to give a credit. Supplementary, this is normal for societies, clubs to contain in its composition the obligation for audited financial statements yearly.

2.3 Theories

Theories on the demand of audit propose a broad literature for auditing. Mautz and Sharaf (1991) clarified the purpose of theory for auditing by way of to resolve problematic events. According to Mautz and Sharaf auditing theory enables to know why auditing is required, what is the objective of the audit system is having in the interaction between company and its conditions. As stated by Mautz and Sharaf it makes an attempt to illuminate why several advise and significant classics of auditing are very crucial. There are several various theories that can illustrate the demand of audit services. More of them are well recognized in literature and others are more directed to the impersonations. Four theories of auditing are differentiated according to Hayes et al. (2005).

2.3.1 The lending credibility theory

The lending credibility theory shows that the main focus of the audit is to increase the reliability of the financial statements. In this direction, the services are provided for customers with confidence by the auditors. Audit financial statements have been developed for the components that enhance the accuracy of the user applications represented in the financial statements management. The users of the financial statements are required to make a profit that is characteristic of the fact that they have developed the function of investing time based on reliable materials.

2.3.2 The policeman theory

The policeman theory requests that an auditor being the reason for seeking, discovering and avoiding failures. It was certainly the case in the early 20th century. Nevertheless, more lately the major attentions of auditors have been to stipulate rational assertion and realize the accurateness and objectivity of the financial statements. The uncovering of deception is considered a main factor in the discussion on the auditor's accountabilities, and characteristically subsequently cases where financial statement failure has been exposed, the force enhances on expanding the obligations of auditors in discovering failures.

2.3.3 Inspired confidence theory

The theory of inspired confidence stresses the demand the supply for auditing services. The demand of audit services is the straight result of the contribution of other interested group of persons in the organization. These persons require answerability from the administration, in response for its investing in the organization. Responsibility is achieved throughout the issuance of periodic financial statements. However, after this evidence provided by the administration can be prejudiced, then external parties have no straight means of supervising, an audit is demanded to ensure the dependability of that information. In connection with the supply of audit confidence, Limperg (1992) offered that the auditor may continuously struggle to cover the public expectancies.

2.3.4 Agency theory

A simple agency theory offers that, like a consequence of information irregularities and selfishness, principals absence aims to believe their agents then will get to determine those affairs by setting in place procedures to support the concerns of agents through principals then to decrease the possibility pro information irregularities or resourceful event. The simple agency theory accepts that agents aren't faithful and if any agent may well make himself at the expenditure of the principal so he will continue. It ignores the probability that several agents would actually be valid then would work with their interests, regardless of their activities and their performance. Therefore, the quantity of untrustworthiness is therefore a vital consideration in defining the extent to which encouragements and observing procedures need to be in the true place.

In a broad sense, the theory of the agency, Watts and Zimmerman indicates that external parties have been identified in the notification of the auditor. An organization is observed like web agreements. Some groups, include providers, investors, consumers, workers formulate particular kind of involvement to the organization for the known prices. The duty of the executive is to organize those groups then diminishes then attempt to improve them, besides low price for acquired provisions, high price for offered produces, soft interest rates for credits, high stock price and low salaries for workers. In these connections, organization is the agent, which attempts to get effects from principals such as investors, stockholders, workers. For Watts and Zimmerman, audits have been half of the well-organized technology to organize organization from the 14th century forwards, it was constantly been there, in mercantile associations, combined stock businesses and incomplete obligation businesses doing creation of reinstating trustworthiness. The greatest famous and broadly used auditing theory is considered the agency theory. To better understand the agency, it is better to review the application of countries with more developed audit activities, such as in United Kingdom and the US.

2.4 UK historical context according to agency theory

In the UK, the contemporary audit purposes have changed over periods, seemingly in reply to agency matters. According to Baker and Collins, the sources of the contemporary audit purposes in England were observable in feudal times in the confirmation of public accounts for instance Exchequer accounts, region accounts also public associations accounts and in the confirmation procedures of wholesalers then dignity for business undertakings, mansions and propertied holdings. Agents were demanded obligation for the protection or management of the estate of others that directed to probabilities of belief, truthfulness and capability, and later the requirement for auditing.

These had substantial improvements in financial statements in the nineteenth century like the UK economy developed and the capital marketplaces were converted within the development of banks and investing. It caused in a departure of proprietorship and managing in organizations and audits progressed as the defending stockholders' interests. These weren't till the Companies Act, however the overall legal responsibility for annual auditing was enforced on recorded organizations.

In the historical background, there were small impressions of auditors like independent specialists. Watts and Zimmerman underlined the element that audits of mercantile societies were accompanied by a committee of society members, so in the mid nineteenth century firm auditing were frequently assumed by individual stockholders whose individuality from the agents managing the firm wasn't a problem. However, in many agency connections principals do not have the knowledge and abilities to test whether agents have seen accountabilities. Accepted some information irregularities, principals go to skilled auditors. Nevertheless, the selection of skilled auditors makes additional agency relationships which in order influences on confidence and generates new problems about their individuality.

The financial statements are the crucial instruments for stockholders to observe the action of directors. There may be tensions between the stockholder and the director because of the removal of property and management for information violations and for various reasons. Stockholders regulated admission to information around the processes of the organization and may trust, consequently, they aren't receiving the true information they need to be notified decisions or the information are provided by factor of the financial statements is prejudiced. In isolation, stockholders can absence trust in the executives and in such a condition the benefits of audits in providing assurance and strengthening trust are probable to be observed like compensating the expenses.

In the UK under Section 235 of the Companies Act auditors are assigned by stockholders of the firm and report to them. Auditors provide an impartial report on the reliability and objectivity of the financial statements presented by management to the shareholders. Consequently, the UK auditors play the essential role and as in the Caparo study, UK auditors are immediately answerable and henceforth owe a responsibility of care to the organization's remaining stockholders as a whole.

Auditors are considered like agents under agreement however they are awaited to be independent who oversee the procedures of the company. The essential objective of audited accounts in this situation is one of answerability and audits aid to strengthen belief and encourage constancy. This is a simple agency theory of auditing, where skilled independent auditors is presented and the statutory audit achieved to aid speech a simple agency disagreement between stockholders and executives.

2.5 Regulatory corporate reporting model in the US

According to the United States regulatory model, the law applies to SEC registrars and is intended to prepare future financial statements and information for market prices for the non-formalization system. This model of market prices and financial statements, along with the establishment of a reliable financial reporting framework was planned as an alternative to the absence of investors' liability in government legislation.

Audits are expected to provide fraudulent security against the establishment of untruthful information in the price-sensitive market. Nevertheless, issues rise like markets are characteristically unbalanced and vary then they do not, consequently, act follow principals. Accordingly, US regulators have improved the great role of trade relation in the US, for instance, the summary of the SEC under the 1934 Securities Act to cope with the supervision of securities, also the Accounting Public Company Supervisory Board approved the 2002 Sarbanes-Oxley Act.

Although there are stakeholders and boards of executives in American organizations, stakeholders in the United States do not understand the audit procedure very well and the auditors are not responsible for it. However, auditors are progressively seen as answerable to the independent executives who include to the audit committee. In operation, they perform in place of the holders of the firm, so the independent executives perform as principals.

UK companies are expected to provide clear financial information with the public. They consider interests in the information disclosed and its audit, elsewhere interests of investors. Auditors carry out statutory audit of their financial statements and, if they are responsible for the entity's equity holders, there may be additional equity holders that provide for certain revenues that are independent of the auditor's obligation to the entity's obligation to recognize their interests. Additionally, there are also beliefs amongst other investors that auditors would be independent of stakeholders. Other shareholders can or cannot have a prescribed relationship with the organization. Shareholders for instance, financiers, owners, banks, consumers, workers can request an interest from the audit.

Particular contracting groups can be required to arrive in distinct contracts as the statutory audit isn't supposed appropriate for their objective. Some contracting groups can require the capability to assignment an audit for a specific non-statutory objective. Nevertheless, in these positions this is improbable to be a statutory audit that increases problems around the capability to concern global, principal-based auditing criterions to dissimilar audits where the objective of the appointment might be differed. Consequently, the need to provide reliance and assurance stays significant however fundamental principal-agent matters aren't continuously applicable on identification varying opportunities of audits.

2.6 Demand for auditing

According to Titman and Trueman, then Datar et al, demand for auditing results from meeting needs, needs to diminish agency expenses (Jensen and Meckling 1996). Agreements between principals and agents won't decrease the expenses of conflicts excluding the groups may establish whether the contracts have been broken. For study of Watts (1986) there is a usual demand for observing. Auditors play a appreciated role in checking the prescribed relationships between the company and its investors, executives, creditors and staffs.

As stated by Leuz and Verrechia (2005) financial theory for the demand for auditing indicates that more trustworthy financial reporting decreases the cost of equity capital with reducing extents and expanding market liquidness because of opposing selection and raising the share price by decreasing stakeholders' information risk. Consequently, in theory, by reducing the information threat audit can support an actual benefit for clients, such as form of subordinate cost of equity capital. Given the expenses and profits connected with "more auditing", generally audit users are assumed to be eager to enhance the audit inspection whenever the degree of decreased agency expenses will compensate the bigger expenses. Besides, agency issues differ from firms, the stage of supervising demanded to address those issues are also probable to differ.

In addition, according to the literature, the accounting information used to make decisions for individuals and foreigners without an external audit is valid. Accordingly, Lee (1972) made significant oversight of the external audit in order to improve the reliability of his financial statements. Principal agreement auditors to observe the accounting figures, techniques exercised in reward and any breaks of agreements.

In an early view as stated by Littleton, the objective of audit was to check the uprightness of people arraigned with fiscal sooner than managerial accountabilities. At the moment auditing was related with supervising management representatives. Later, Flint (1988) expressed auditing as "a public control instrument for obtaining answerability.

One stream of literature examines the demand for auditing before legal audit obligation. These papers, generally, provide indication that agency expenses, designated by better size, advanced obligation influence or lesser managerial proprietorship, are definitely related with demand for external audit. Precisely, by using U.S. records before legal audit obligation, Chow (1982) discovered provision for the optimistic consequences of leverage and customer size on intention demand for auditing. In another study, Abdel-Khalik (1993) expressed an optimistic relation between voluntary demand for auditing and company size, however expressed simply less positive relationship between leverage and auditing.

Another source of audit research examines quality- distinguished audits with statutory audit obligations. This research is based on DeAngelo's (1981) theory and claims that bigger audit companies offer greater quality service and are more probable to be hired to assume the auditing of firms confronting the more agency conflict. Generally, the verified indications in those studies consider provision to these examinations. Explicitly, these theories are likely to discover proof proposing that, the greater costs of agency, the better confidence and audit quality used to verify the truthfulness of financial information. The most healthy conclusion from this patches of auditors' selection literatures have considered the tendency of big firms requiring modern external economics to choose big global audit companies with brand name statuses.

Though private companies preponderate in the economy, there isn't more research of auditor selection and need among private companies. In 2008, Knechel et al. investigated the auditor selections for the example of 2,333 principally small and mid-sized "Finnish firms". Ordinarily, the procedure used in all auditor selection theories indirectly simulates that dissimilarities in demand for audit and may be concluded by monitoring the consequence. Besides, Knechel et al. indicated that the assistances of the audits are thoughtful to special sections of the market under audit services. Precisely, they form the probability of customer to select from four kinds of audit companies. Firstly, tier international companies, include Big 4, second tier countrywide companies, third tier native auditors and last one are non-specialized auditors. They provide suggestion that in the audit market the requirement for an advanced auditor is controlled primarily by customer difficulty. This proposes that there can be an absence of capability in accounting connected problems among executives of smaller private firms that stimulate them to obtain admission to specialist recommendation from high quality auditor so as to progress the efficiency of internal processes. In contrast, in the section of mid-size firms the greater -quality auditor choice is influenced by credits, whereas in the better end of the audit market, among the biggest firms, and clients' requirement for external control are the other details for choosing an upper auditor.

Demand for auditing, formerly studied by Dopuch and Simunic (1980 and 1982), is thoroughly connected to the agency, meanwhile it also results from data irregularities.

The choice of trustworthy auditors not only indicates executive's integrity and excellence to the interested users, but also decreases agency expenses through the overseeing purpose. The opinions of both DeAngelo and Dopuch and Simunic are regularly mentioned to as the 'product difference suggestion '.

According to literature three different but interconnected bases of demand are known. They are agency demand, insurance demand information demand. All of these sources of audit demand create a rank assembling of auditors. DeAngelo (1981) claimed that auditor extent provides like a substitute for audit quality, meanwhile bigger companies have decreased motivations to weaker audit quality unscrupulously so as to recollect other customers, Dopuch and Simunic (1980 and 1982) concluded that trustworthiness is related with an auditor's status or brand name, based on the monitored supremacy of big audit companies in the market for openly-held firm auditors. Finally, many scientists contended that bigger audit companies have 'larger pockets' than smaller companies due to great insurance. The insurance measurement of the audit methods the base of the third source of audit demanded. It is maintained that the audits help to insure shareholders and depositors contrary to financial crisis through the auditors' qualified accountability contact.

2.6.1 Evidence on factors affecting the demand for auditing

The American Accounting Association's Committee on Basic Auditing Conceptions reviewed the standards that increase the demand for audit. These include the possible or definite divergence of interest, effects of faults, difficulty and isolation. Firstly, as earlier mentioned the demand for auditing can result from the presence of divergence of interest between the audits and the users. This state can instigate the data to be prejudiced, i.e. the supervisor is enabled to elect the technique, amount and effectiveness of the statement. It can create the superiority of information doubtful and require a selfdetermining evaluation of the information auditing. Two causes of divergence of interests can be determined connected to corporate reporting, thoughtful and accidental. Primary, management can purposely arrange and disclose prejudiced information to follow individual interests. For instance, management reward organizes are normally based on stated profits or several other financial action assessments, which are typically resulted from financial reporting. Management can therefore have an inducement to disclose prejudiced information which aids to get targets set by the stockholders.

Accidental unfairness in financial information might occur if executive, without understanding, efforts to pay the wants of some external interest party at the expenditure of the others. The manager can follow the wants of their debtors to get positive credit terms or to know the credit contracts. Otherwise, management can struggle to follow the wants of substantial holders, at the expenditure of other holders. One key purpose of auditing is to confirm fair reporting which might profit some interest party at the outflow of the others.

Secondly, the audit demand can relate with the profitable economic, societal or additional consequences of incorrect user decisions. Shareholders need reliable and detailed information to increase the effectiveness of decision-making. The purpose of the audit is to ensure the reliability of key data, and therefore users may be more dependent on information and the most accurate assessment.

Third, equally accounting or formulation of financial statements is being progressively more complicated. Correspondingly, the clarification of financial statements likewise commands detailed identification of accounting and reporting preparations, trade procedures governance matters and official settings. Users are thus discovering it progressively problematic or incredible to assess the quality of financial reporting and understand the indications of the results. Difficulty of the reporting procedure can also raise the risk of unpremeditated mistakes due to the weakness of experience to the preparer. Moreover, the specific user of financial information, for instance, an average amateur individual investor isn't well-informed sufficient to completely understand financial reports, not more discover achievable deliberate or accidental mistakes. The auditor is employed to deliver users a measurement of the quality of financial data.

Fourth, normally financial statements users do not have straight admission to the accounting reports from reported financial statements. Additionally, if the accounting reports might be made accessible for assessment, period and expense restrictions typically avoid users from significant investigation. Inaccessibility avoids users from audit process. Because of those limitations users may depend on the third party, an audit company, to aid them in measuring the quality of financial data, or receive the quality of the financial information in suitable confidence.

American Accounting Association varies four situations that they enhance strength then they create the audit demanded. These are based on the hypothesis of rational expectations. The theory of rational expectations imagines that persons place all accessible information into report that affects the consequences of their decisions. Additional, that supposes persons to use their data logically and thus they do not methodically slip up mistakes. It means that standards wouldn't be steadily misinformed by agents. According to Wallace, The suggestion of rational expectations model for agents is that principals want interests of agents to differ from theirs, can assess the consequence of each difference, then to regulate prices to influence the connected expenses of the agents' predictable actions.

The capability of principals to solve themselves throughout a change of prices creates the agents' request for observing actions. The agents rather than the principals can be seen as the source of demand for monitoring. Principals are essentially indifferent, as they may safeguard themselves from the risk of harm by decreasing payment for the agent's services. Therefore, agents require observing in sequence to prevent the descending modification of their reward. Additionally, the supervising of an agent may follow a different of methods. These are holder-manager relationship, depending reward or bonus strategies, continuing reports on performing. Also Beaver (1989) indicated that single way to support the interests of executive and stockholders is to usage income-distribution contracts as incentive agreements.

According to Ball and Brown extensive fact occurs that incomes declarations by organizations cause in stock price changes however, according to Beaver, financial data is connected with the market value of the organization's stock, and this financial ratios may be included to assess the likelihood of bankruptcy and the threat of holding the organization's shares. These evidences propose that reported income has data subject according to Foster (1998) and are valuable in the measurement of an agent's occurrence. However, regarding to Smith, Clifford and Warner, the usage of financial data in management reward and bond contracts establishes the usage of stated incomes in execution assessment.

As stated by Wallace (2004) inducements obviously occur for agents to prepare financial statements to support observing actions by principals from an examination on the agency theory and the consequences of rational expectations. Nevertheless, if the principals do not believe the facts offered by an agent which will require reimbursement with modification of the agent's salary for the threat of damage. According to Palmrose, Richardson and Scholz (2004), indication occurs that summaries of financial statistics offered consequence in shares price changes and lower incomes reply constant. It suggests that once financial numbers are discovered to be imprecise, the stakeholders' belief in financial numbers will be weakened for upcoming years. Thus, as highlighted aspects the agent will furthermore, to affording financial statements, decide to require proof that the stated numbers were prudently arranged and free from faults. Consistent with Wallace, external audit gives that confidence, taking into report the limits of audit on discovering mistakes.

The audit sources have known that agency expenses, resulted from information irregularity and divergence of interest are definitely connected to the demand for great audit quality. Francis and Wilson (1988) expressed that agency expenses influence the selection of a greater brand name, included Big 8 auditor. Likewise, De Fond (1992) expressed that transformations in agency expenses are related with transformations in quality auditing. In contrast, Nichols and Smith (1983) didn't find a confident irregular shares market response to firms' declarations of substituting to advanced auditors. Equally, Francis et al. (1988) and De Fond (1992) found that companies had dissimilar requests for quality auditing based on the arrangement of interests between the executive and the holders. The difference of interests includes divergence of interests and information irregularity and the amount of them affect the amount of auditing demanded. Audit is considered to do the supervision more trustworthy to stockholders either in the lack of and moreover to further incomes to manage agency disagreements. Besides, the explanations by Gul et al. (2001) and Nikkinen et al. (2004) also indicated the theory that the agency expenses of the firm have the consequence on the demand and supply for auditing services.

In 2007, Rountree, Blouin, and Grein investigated two factors of auditor choice and agency costs. Generally, Blouin used the technique of Arthur Andersen to show the consequences of the client firm misplacing the agency profits characteristic in the association with an auditor. Client firms are observed to lose their agency profits because of the decrease in observed quality auditing of Arthur Andersen, which was explained in numerous studies. Additionally, Blouin et al. expressed that firms with more agency issues were more probable to build the modern audit relationship rather than subsequent the obligatory Arthur Andersen audit group to the audit company that took around some processes of Arthur Andersen. Consequently, it follows that audit is the essential methods of decreasing agency expenses then thus the firms' agency problems are a crucial factor in the auditor choice procedure.

2.7 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

Misrepresentations in financial statements may be caused by error or fraud. This determined issue between fraud and error is whether the core action that effects in the misrepresentation of the financial statements is deliberate or accidental. Though fraud is a comprehensive permitted model, for the objectives of the ISAs, the auditors are affected by fraud which affects a material misrepresentation in the financial statements. Generally, two kinds of deliberate misstatements are applicable to the auditor failures caused by false financial reports and misstatements caused by embezzlement of assets. Though the auditor usually can assume and define the source of fraud, thus an auditor cannot define legal factors of whether frauds have essentially existed.

The major responsibility for the identification or finding of fraud rests by both accused by domination of the company and management. This is critical that management, through the omission of these accused with domination, place an intense importance on fraud deterrence, which can decrease prospects for fraud to occur, and fraud prevention, which might influence persons not to obligate fraud due to the probability of prevention. This contains an obligation to generating the culture of morality and ethical performance that may be strengthened by an energetic oversight by these accused by governance. Oversight by these accused by governance contains determining the potential for controls and other unsuitable effect over the financial reporting procedure, such as attempts by executive to control incomes in sequence to persuade the views of experts to the company's operation and profitability.

Normally, the auditor who is conforming with ISAs is responsible for achieving sensible assurance that the financial statements prepared overall are free from material misstatement, whether because of deception, otherwise unevenness. Despite of the essential limits of an audit, there is an inevitable risk that certain material errors in the financial statements cannot be identified, even if the audit is appropriately arranged and realized consistent with ISAs. As explained in ISA 200, the possible consequences of natural limitations are principally important in fraudulent brains resulting from fraud. The risk of not discovering a big mistake due to deception is higher than the risk of discovering someone who made a mistake. It can include advanced, well-developed programs designed to cover fraud, thoughtful failure or misinterpretation. Including such initiatives as hiding can be more problematic when handling each other. An accusation can affect the auditor to trust that the proof of audit is truly satisfactory when established is wrong.

The ability of the audit to identify the fraud relies on aspects, for instance inefficiency, an occurrence and scale of manipulation processes, level of participation, relative scope of individual quantities manipulated, and forced motives. Although the auditor can distinguish possible prospects for fraud, it is problematic to identify whether misstatements in judgment sections such as accounting assessments are resulted from by fraud or error.

Additionally, the risk that the auditor untruthfully determines the error is greater than the employees' mistakes, because the executive should eliminate the management processes that are intended to manipulate the records of the accounts, provide false financial information, or prevent similarities, the fraud by other workers. While reasonable assurance is achieved, the auditor is responsible for providing specialized skepticism during auditing and identifying the element that auditing processes which are applicable for discovering error cannot be applicable in discovering mistake. Consequently, the requirements in ISA are aimed to help the auditor in recognizing and evaluating the hazards of material misstatement because of fraud and in planning techniques to discover all misstatement.

2.7.1 The Role of Audit Firms in Preventing Financial Reporting Failures

One of the oldest research papers on this subject belongs to Watts and Zimmerman, (1983). The simple institutional problem between investors and executives encourages auditors to engage in independent financial reporting based on the generally accepted accounting principles due to the company's financial statements. Nevertheless, in many countries, global economic crisis, institutional disappointments, and scandals have raised doubts about the effectiveness of the audit. Many attempts to reassure the audit have taken place with the introduction of legal audits. The audit quality of these Acts should be increased. For instance, De Fond and Lennox (2011) expressed that the chapters of SOX consequences in a large decrease in the quantity of small auditing companies managing in the marketplace. They highlighted that about half percent, 607 of 1.2352 small audit companies that were dynamic in 2001-2008 included to the market and the margin of those departures happen during 2002-2004, according to the SOX, the beginning of PCAOB recordings, then the start of assessments. Additionally, they emphasized that the attendance of smaller number of small auditors accords with a repetition of the average number of users for each small auditing companies. Consequently, after the acceptance SOX, small auditors made important changes in the arrangement of the marketplace. Moreover, in turn to the new governing environment within SOX, low-quality auditors are more prospective to understand the costs of the public auditing firms. Those consequences indicate that these Acts have improved audit quality when auditing size assumed to be substitution for quality auditing. Moreover, as we have argued it is supposed that strong quality auditing cause strong financial reporting quality.

In 2010, Christensen said that audit is the crucial part of the jurisdictions authorizing interaction of private information for the decision makers, includes two objectives: As a quality assurance and independent reliability supplier in the report. The objective of the government's independent timing is to use it as an instrument to certify transparency of its financial statements and to provide information to stockholders. As mentioned earlier, it convinces externals that the information given is dependable according to Barton and Waymire (2004). However, according to Healy and Wahlen (1999) financial statements have perfectly made it achievable for strong executing companies to distinguish themselves from the weaker players. Therefore, public and private companies around the world may publish audited financial statements. Nevertheless, in many countries, small private companies may succeed for an exemption from the auditing under confident necessities regulated by the government, for instance in Norway.

Various studies indicate that audit companies are mostly more dependable and can borrow from banks and attract stockholders. Kim et al. (2011) has shown that auditing demand for private firms is larger due to the needs for equity financing of stakeholders in the shares market and the requirement for a loan agreement with banks and other creditors. Additionally, external audits are considered essential because they increase the reliability of the auditing and, thus aid to reduce information problems due to the special borrowing.

Caramanis and Lennox (2007) investigated how auditing attempts influence irregular accruals by investigating nine thousands audits made by auditors in Greece. In the study, it was seen that firms with fewer auditing hours have reported higher income abnormal accruals at higher rates from income-deducting abnormal accruals. These firms tended to control incomes upwards toward the no earnings ceiling. In other word, executives report higher earnings when there aren't much audit attempts.

Other quality influencing accrual based earnings management is the business knowledge of the auditors. Krishnan and Balsam et al. (2003) indicated confirmation that professional auditor decrease the level of accrual-based earnings management. Commonly, auditing decreases information irregularities between executives and shareholders by enable to auditors to reinforce the financial statements rationality (Becker et al. 1998). As mentioned earlier, weaker information irregularity is symptomatic of weaker earnings management.

As noted earlier, the US Congress, Securities, NASDAQ, the Stock Exchange Commission, the New York Stock Exchange (NYSE), and the Public Company Accounting Oversight Board continually define substantial responsibilities for auditors that involve the roles of auditing firms on the quality of financial statements. At the 3 year Annual Ethics and Compliance Symposium, The chairman James R. Doty (2014) stated that the PCAOB's New Relevant Standard has assisted the auditors in avoiding frauds in financial statements. It also disclosed to enhance the quality and regularity of inspectors' work to follow the PCAOB's notified standards and related adjustments from misleading investors, misinterpreted or unexplained and other unfamiliar businesses.

Auditors should pay close attention to the risks associated with such transactions. The new standard and amendments clearly expect the auditors to understand the relationship of the enterprise and its relationships with related parties as an integral part of the auditor's ability to recognize and evaluate significant errors. Furthermore, it expects auditors to assess whether the firms have appropriately defined interested parties, containing by testing the correctness and comprehensiveness of management's relationship and by including other information collected through the auditing into account. In other words, the auditor cannot handle interested party processes like an inaccessible element of an audit. When an audit defines information an unrevealed interested party could occurs, the guideline expects the auditor to keep on. In the similar manner, when there is substantial unfamiliar transaction, adjustments to the PCAOB's standard on deliberation of fraud currently obviously expect the auditor to identify and assess the stressed business objectives.

Large audit firms have a strong status and generally are costly, and they strictly control their auditors. Dopuch and Simunic highlighted that large audit companies to progress quality auditing, make large amount of investments. Additionally, Craswell determined that the analytical auditing firm has upper price, they pay money for knowledge and status.

Furthermore, Dedman and Kausar (2012) also investigated the situation in the U.K. by an example containing with approximate four thousands companies. These investigations sustained Lennox and Pittman’s consequences of lower debt rankings for bail out companies. Moreover, they detected a differentiation in the financial quality and accruals. Financial quality assessment involved companies to bail out adopted various reporting preparations associated with companies that engaged with the auditing. Consequently, withdrawing companies minded to report less conventional and more destructive than companies holding audit, with fewer revenue reducing accruals and more revenue raising accruals. The paper also discovered indication that companies determining not to demand an audit minded to report revenue reducing or raising actions future or previous than the audited companies.

2.8 Frequency of auditing

Generally, it is necessary to carry out the frequency determined by the clients. The determination of frequency ought to take into account the following factors: effects of previous inspections, priority of situation, defined or legitimate requirements, important transformations in management, company, strategy, systems and technology.

According to Protiviti (2013) firms are under continuous pressure to follow regulatory agencies and increase their credibility and accountability in order to contest for emerging global business situations. In response to global requirements for timely and sustained security of risk management and management systems, firms are gradually moving to mechanical management situations by application of technologies such as constant audit components. Consistent with Coderre (2006), continuous audit is stated as "a process used to automatically control and control risk assessments frequently. Continuous audit technology enables real-time monitoring of financial operations and linked controls. There are mixed consequences for the dissemination of sustainable auditing technology. From one side, according to the research results provided by the profession, on the other hand, vast majority of participants are planning to adopt sustainable control approaches at least in some business procedures. Vasarhelyi et al. (2012) underlined that firms are in the initial stage of the audit engagement, thus, limited assimilation of the ongoing audit in the external auditing.

2.9 The role of The Big 4 on quality of auditing of financial statements

The Big Four are companies that are considered traditional firms, however in fact, the most of the revenue of them comes from the auditing, consulting services including larger types of advisory activities, and associated tax activities. These companies are Deloitte, KPMG, PricewaterhouseCoopers (PwC), and EY or recently called Ernst & Young. While overseeing documentation practices, then companies restart to investigate methods to increase audit effectiveness. These contain the creation of maritime, lower cost centers, auditors' outsourcing and information technology. Guarantee revenue represents income from different services, containing legal audits, internal audits, risk assertion, actual services and transactions on the capital market.

Furthermore, Big Four audit companies are revolutionizing in IT systems, for instance, several companies include CAAT-"Computer-Assisted Audit Training" and data retrieval and analytical instruments in addition to the auditing procedure to enhance quality auditing. Audit deserves the company. All at once, firms' processes, business paradigms, procedures and offered service have been more problematical, demanding auditors to provide high specialized judgment and expertise.

In fact, Big Four companies are at the heart of global capitalism. Such system of capitalism is based on the power of the stakeholder capital used by the management, which is dependent on the owners and auditing by independent auditors. This system cannot work absence of the audit services provided by the Big Four companies. These companies are regulators on the center of the global economic system, and we are still aware of them very insufficiently. This is a clear contradiction that the answerability of global capitalism is subject to the companies that have a weak rule on its operations.

A research on the comparison of Big 4 and Second-Tier Companies, studied by Nedal Sawan and Khaled Hamuda, have shown that the public firm participants and auditing company’s participants consider the Big Four audit companies as higher controllers independence than others.

The summary of the overall revenue of these four companies is divided to three essential sources, including auditing, taxing and advice services. It is essential to emphasize that the information mentioned is largely due to the fact that these companies offer all obtainable financial information they want to submit us. These companies directly do not disclose their accounts because they claim that not any similar not the international corporations. In other words, the Big Four audit companies do not report gross earnings or profits for single lines which indicate overall effectiveness areas in the companies. Thus, it isn't easy to identify the effectiveness of a company's line of application and make the largest contribution to the overall profitability of the company. Consequently, we do not know their global revenues, nor do we take any information about economic stability. Also, as described later, this communication does not affect to its actions as accountable across the country. These are almost all of these companies should have the transparency level rejected by most customers in multinationals. The rest of this report is a matter of transparency.

2.9.1 The Big Four's audit assurance services in Azerbaijan

At Big Four companies, the international network of auditing services specialists offer the extent of audit services to analyze customers in accomplishing their business purposes, supervising their risk and increasing their business operation, but somewhere in the world. Companies using the most advanced instruments provide auditing experts with the Big Four status and provide quality and excellence for the security services that provide financial community and public expectancies. Contained by global network them, they have forceful audit instruments, resources and processes to offer the ways for our experts to provide great auditing quality services. In providing services they follow to the highest criterions of individuality, specialized impartiality, and practical excellence.

These firms satisfy themselves with reliably delivering first-rate audits and realizing the public interests. As the financial environment is rapidly developing, Big Four firms are engaged in various innovative activities to continually improve its healing for future inspections in the Azerbaijan. They operate dynamically with regulators in the world to promote the ways and standards of policy development, promotion, objectivity, rivalry, shareholders confidence, financial growth, and, thus, the public interests. Also, they are financing in a broad scale of programs, measures and to form the audit of the future. This involves pointing comprehensive audit reports with many firm customers to offer appreciated extra explanation on the financial position of firms, which provide other visions into the main factors affecting the audit.

Additionally, these companies develop complex measures and programs to form future control. This covers a number of pilot audits of long-term audit reports with a range of clients to provide auditor's impact and key factors to offer appreciated information about the company's financial performance and offer benefit to the shareholders. Besides, their tactics are based on clear vision into business experiments and innovative explanations, together with the detailed recognizing of native environments and industry information. After the disintegration of numerous large firms, the size and global capabilities of an audit firm aren't the major criterions for choosing of auditing company.

Deloitte prepares audit of financial statements in compliance with international (IFRS, IPSAS) and other national standards in addition to Production Sharing Agreements in Azerbaijan. Their actions linked to doing evaluations processes concerning financial statements. Other methods of confirmation for example, reports on inspection, compliance with debt contracts. Deloitte ensures for international firms, that IFRS is concerned in a universally reliable manner rather than as a mix of local versions can include important attempts around the making of policies, the adjustments of systems, and the training of staff.

PwC offers the leading audit and assurance services in the world. PwC auditors include nearly half of Fortune and 500FTSE 100. Generally, they audit big banks, gas and oil, insurance, rental, building, industrial and service organizations in Azerbaijan. Besides, the PwC auditors are supported by manufacturing knowledge, broad global practice, and international network of experienced specialists. Additionally, PwC's audit and assurance team guarantees your business's financial operation operations. Advancing audited firms’ external financial reporting may support to strengthen corporate governance processes and get societal and financial aims for corporate sustainability to fulfil new legal regulations, such as the new International Financial Reporting Standards (IFRS) and Sarbanes-Oxley.

EY Azerbaijan operates with each of the sixty two thousand assurance specialists, the extent of experience, the quality of audit and the enormous majority of the world's fastest growing and fastest growing firms and its ongoing personal and specialized growth. To address the most challenging problems, a multilateral group, using a precise international methodology, ensures consistent control over the use of end-to-end controls and perspectives. Knowing that firms need a service dedicated to a consistent methodology to reach your potential, they strive to take advantage of their deep knowledge of the industry, full knowledge, and the modern insights from their operations. When it comes to unusual financial activity, they may verify electronic evidence, review financial statements through all compassion and urgency measured. If important, they may offer professional witness statements to express evidences.

KPMG Azerbaijan indicates that the financial statement audit enhances the information used by shareholders and money markets, accountability for public needs KPMG audit experts are becoming more and more aware of KPMG's commitment to better understanding their views by building stronger audit evidence by ‘Value of Audit’ forum. KPMG specialists create innovations to better serve the money markets and the public. KPMG’s audit supported by D&A who is improving the obstruction on auditing quality by allowing us to check whole data inhabitants and know the business aims behind outliers and irregularities. Automated audit competences allow people concentrate on the higher risk parts of the audit. Consequently, the improved business visions auditors bring around the audit aid firms see their business from a new viewpoint. To ensure the shareholders' reliability, high quality and independent financial reporting is required. KPMG Audit experts from KPMG member companies depend on public interest. These skilled experts are trying to challenge the value and understanding of a company's business and manufacturing, besides modern control methods and approaches.

Consequently, today Innovation is not a conventional control concept. Simultaneously, it is at the forefront of firm strategy to meet the challenges and opportunities firms face as auditors. Therefore, Big Four mission to take responsibility for their collective and money markets as an essence for auditors. Inventions that cause to improved audit quality are essential for companies they provide.

3. Methodology

3.1 Methodology

In this chapter methodical techniques have been described about this thesis. The dissertation examines the influence of quality auditing on financial performance of companies which is resulted from quality of financial statements. However, in generally, the main objective of this dissertation is to investigate the impact of audit companies on quality of financial statements. In our study, information and data were collected from secondary source through reviewing research papers, other dissertations, and qualitative method was used in order to analyze influences, responsibilities, and role of audit companies on quality of financial statements. For preparing this thesis, various literatures have been analyzed; many regulations about the topic, essays in English, Turkish and Azerbaijani, articles in the internet have been studied.

Today, the audit industry is particularly emphasized in some areas of the international Big Four audit companies, with many authorities taking into account their superiority. Therefore, the audit companies' activities were explained related to auditing, and during my research, many activities of audit and accounting companies reviewed in Azerbaijan: KPMG & EY, PWC, Deloitte which are considered international accountant companies who get the most revenue from the auditing and additionally, are connected with auditing of financial statements and tried to disclose that audit is one of the main factor for providing quality on financial statements.

Additionally, this chapter contains surveys, questionnaires, inquiry form, and feedback form of Big Four audit companies' role on the financial position, financial performance and economy condition in the organizations. These surveys also include collected information from financial users, such as shareholders, that, they know well financial performance of owner companies. Generally, some of them work in this section, some of them are educated in this area, and some are related to audit or have some information about audit, accounting, transparency, and the global economy.

A number of theories related to the role of the audit have been investigated to achieve the result which they allow to define the audit demand and its responsibilities on the financial statements. The most important of these theories is considered the agent theory. The agency theory is an important accounting theory that facilitates to explain the audit process. In this diploma thesis development of auditing and relationships between stockholders and directors to develop mandatory audits in UK and US regulatory model are investigated according to agency theory. However, the role of an audit described by the agency theory is far more complicated than other factors highlighted in this dissetation. For example, auditors are also leaders who can continue to find additional mechanisms such as additional concerns regarding credibility, objectivity and independence threats, and regulatory arrangements for stakeholders, managers and auditors.

The theoretical importance of this diploma thesis is the improvement of hypothetical and systematic characteristics of developing the methodology of the valuable auditing activity and frequency of auditing which improves economic condition of the companies, that enable to the shareholders to make decision in the financial market about the shares acquisition or selling. Fairly opinions provided by auditors on the financial statements helps to the audited companies to improve affordability and progress the financial position of the economic company in the competitive market. We have explored various literary works such as books and articles to enhance our understanding of these results.

While approving the certification practices, companies begin to learn how to improve the effectiveness of the audit. These include the creation of offshore, low cost focuses, contract out of auditors and information tools. Guaranteed income consists of various services, including legal services, risk approval, external auditing, actual services, internal audit checks and transactions in the capital market.

3.2 Results

As mentioned earlier, the argument of this diploma thesis was to demonstrate the importance of the role of audit companies in providing transparency on the financial statements of companies, in realizing frequency auditing. Generally, various methods were used for this purpose, including data from second sources were collected. Therefore, the diploma was mainly based on literatures. In order to obtain a conclusion about the argument, the research papers about the history the auditing were first investigated and reviewed. According to literature, the audit has been continually altered and adapted to global developments in the changing world, and then has turned the industry into the twenty-first century. It has been concluded from that, in the way of development of the audit, many socio-economic development, national factors already have required preparing initial reporting forms more than 5,000 years ago. Consequently, according to literature about history of the auditing the latest legislation and regulations allow to increase the consistency of financial statements. One part of the Sarbanes-Oxley legislation is used for accountability of the auditor for verifying the possibility of external rules in the financial statements. This is evidence of the fact that in several tasks about the value of external regulation is known in order to avoid a financial reporting malfunction.

Researches indicate that there are a number of factors that affect the requirement of the audit. As you have already done so, the audit can occur from the demand of financial statements users. This can be a pretext for information, which means that the supervisor can determine the amount, effectiveness and effectiveness of the application and creating superior information and demanding self-explanatory audit information. Furthermore, an audit demand may be relevant to the useful economic, social, or consequential benefits of incorrect user decisions. Shareholders need reliable and comprehensive information to increase their decision-making power. The purpose of the audit is the reliability of the key information, and users can therefore substantially depend on the information and the most accurate estimates. The users of financial statements cannot directly access financial statements from their financial statements. Additionally, if time limits and expense limits can be used to estimate accounting, it usually does not allow users to carry out detailed research. Therefore, disability depends on the audit process. Due to these limitations, users may be dependent on a third party, an audit company, to help them assess the quality of their financial information or obtain relevant financial information. In addition, audit responsibilities related to fraudulent cases of financial statements have been investigated and there is a broad scope of control and rules defined.

4. Conclusion and recommendation

4.1 Conclusions

This diploma thesis has found the impact of audit companies and the frequency of auditing are significant factors in quality of financial statements. In other word, additionally, the influence of auditing frequency results in the positive consequences which enable to companies to report and disclose more quality information. Because, auditing of financial statements is an essential tool for reducing financial frauds and misstatements to get protection of the effective market environment. However, when the audit tries to increase financial performance, in this case, there must be trustworthiness, reliability, and credibility like affections audited financial statements. Audit companies acted in agreement with high qualitative auditing standards may encourage accounting firms to adopt accounting standards by ensuring that their financial statements are reliable, transparent and useful. Big audit firms can aid support strong corporate governance, internal control in enterprises and risk management, therefore, that help to increase financial performance. In other word, audit of financial statements is a observing procedure that facilitates reduce the risk of asymmetry of information and interests of different shareholders, and take into account the management's financial statements are free from material misstatements.

Users of external financial statements, containing with current and potential stockholders, lenders, suppliers, employees and others demand trustworthy financial information, which can be used to make compatible their decisions. When the organization's investors believe the credibility of the organization's audited financial reports, they are forced to fund more on the organization, which leads to increased financial performance. Regulators and standard regulators may raise the efficiency of the companies by disclosing rules and procedures that support audit to imrove financial reporting quality. Additionally, users of internal financial statements, such as management, audit committees and executives are interested in auditing quality, generally, to reduce cost of capital.

Many researchers have investigated a number of articles about audit quality and according to these consequences, we can see that the quality of the audit is directly related to the quality of the financial statements. The quality of audit plays a significant role in creating an effective market environment, as an result, an independent quality audit strengthens the reliability and trustworthiness of financial statements that is important for successfully maintaining markets and increases financial performance.

In addition, the social role of auditors can be a major player in financial activities to minimize significant errors and confirms that the financial statements are prepared in accordance with legal norms and rules. Low risk raises capital trust in capital market, which, in sequence, reduces the cost of capital for companies. Additionally, audit companies serve importantly to the capital markets. By fostering truthfulness and contributing to the integrity of financial reporting in financial statements, auditors help to decrease their financial costs and aid to shareholders to effectively divide investments into growing economic growth. As a result, frequency of auditing and generally external auditing can be beneficial both companies and all society.

Addition to the conclusion of this diploma thesis companies Act at the end of the fiscal years with the factual and fair monitoring of the entity's financial position, and then reports the earnings per share report, with the actual and fair monitoring of the earnings, requesting managers of all companies to submit annual financial statements or loss of the entity over the fiscal year. As a result, all organizations need to audit financial statements. However, companies that are considered public small companies are usually free from legal audit.

It is also important to analyze the role of Big Four audit companies in order to investigate the influences of audit. Because, these are leaders for auditing activities and currently the great amount of auditing is making by them. It is a fact, these companies, including Deloitte, PwC, KPMG and EY get the greatest amount of revenue from auditing activity. The amounts of earnings indicate revenue from different services containing, such as statutory audits, internal audits, risk reassurances, definite services and consultations in connection with capital markets transactions. Simultaneously, companies' strategies, business transactions, models and service contributions have turned out to be more complex, demanding auditors to exercise greater professional judgment and utilize specialized abilities. Getting results showed that major part of auditor process in the world belongs to Big Four firms.

4.2 Recommendations

As a result, the role of auditing for gaining assurance is cutting-edge and at the present time, in today's difficult economic time it is crucial that to ensure that all financial statements are accurate, transparent and truthful in all auditing, by means of this directly affects the economic conditions of the countries. It is important to provide assurance for effective and proper operation of companies. Companies should try to maximize their profits and minimize costs in the case of difficult economic times. That's why, in order to avoid all errors that may arise in the financial statements, they may also require internal audits or may use external audit to avoid possible errors in tax audits. In order to ensure that the process is progressive, it is always necessary to be sure of the smoothness of the situation, so that companies are contracted with different audit companies during the period of time, and the conclusion is that companies believe in more and more audit firms and their role is increasing.

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