

# Factors Influencing the Professional Conduct of Auditors in the Dialogue on Going Concerns: A Study of the Banking Sector

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**Journal of Corporate Finance Research**, Vol. 14, No. 3, pp. 28-50 (2020)

**DOI:** <https://doi.org/10.17323/j.jcfr.2073-0438.14.3.2020.28-50>

**Received** 13 April 2020 | **Peer-reviewed** 15 May 2020 | **Accepted** 25 May 2020

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## Factors Influencing the Professional Conduct of Auditors in the Dialogue on Going Concerns: A Study of the Banking Sector

### Abstract

This article is dedicated to exploring the dialogue between shareholders, management, partners, government and auditors regarding the status of banking sector entities as 'going concerns'. The purpose of this article is to develop and validate an approach to the study of factors influencing auditors' opinion on going concerns.

The authors identify factors which affect auditors' professional conduct in establishment of an opinion on an entity as a going concern. Articles were retrieved from the Scopus and Web of Science databases and analysed for relevant factors, and a number of research hypotheses are formulated, among which the modification of legislative regulations on banking and auditing activity is identified as a key factor. The state of auditing activity and the banking sector during 2009-2019 is evaluated. Additionally, in order to identify periods during which a significant influence of a selected factor is expected, a novel analytical method was devised based on the nature of modifications of legislative regulation of banking and auditing activity and the period of such modification.

The following factors are significant influences on auditors' decisions on the going concern status of credit organisations: evolution of auditing standards, implementation of external audit quality control, development of banking regulation and supervision, and interaction of auditors with financial institutions and regulators. Evidence was also discovered of conclusions recorded against entities inconsistent with the real conditions of individual banks.

The authors have established a basis for an integrated study of the influence of factors on the professional conduct of auditors in providing opinions on the going concern status of audited entities, and have proposed further research prospects as related to establishing and measuring the relationship between audit report types based on bank statements and factors describing the results of their activities.

**Key words:** auditing, financial statements, professional conduct, going concern, credit organisations, government regulation

**JEL classification:** M42, M48, G21, G28, G38

## Introduction

An auditor's opinion on an audited entity's going concern may result in various social and economic consequences for its stakeholders. This is precisely why such opinions should be formed by means of a dialogue between auditors and the actual and prospective users of the auditor's evaluation. The context of such dialogue should be established according to auditing standards and the key emphases should be established through the professional conduct of a particular auditor. This way of placing emphasis broadens the potential scope of impact of an auditor's decisions, but also requires a more prolonged involvement of the auditor as a participant in the dialogue.

The point of departure of this research was the widely-held view of audit service users that imperfection in legislative and regulatory acts (including instability of the legislation related to auditing activities) and the inconsistency of certain regulations have an adverse effect on the perception and development of the audit concept. This research is based on an acknowledgement of the specific nature of going concerns as a subject of evaluation. The opinion on a going concern rests on an auditor's professional judgment and requires an individual approach to professional skepticism due to a significant impact of the uncertainty factor.

At first glance, it seems that if auditors comply with certain industry standards, independence rules, and a code of ethics, the audit of a going concern should not yield negative results. However, one should take into consideration the complexity and multidimensionality of the factors which influence not only the ability of an auditee to do business as a going concern, but the auditor's actual appraisal of the business. Such factors comprise external conditions and events which demand recognition of the auditors potential influence on the going concern. This involves factors related to changes in applicable regulations on a nationwide or industry-wide scale, changes in the market, and other similar factors. One should pay particular attention to those factors which influence or can influence reasonable assurance and professional skepticism when audit evidence related to a going concern is collected and analysed.

The foregoing articulates the logic and tasks set for this paper in order to achieve our research objective. First, we conducted a statistical analysis of the Russian practice of issuing auditors' opinions which question a company's ability to continue as a going concern, and define the circumstances which identify the relevance of certain measurement variables for the banking sector.

Second, we analysed foreign publications indexed in the scientific systems Scopus and Web of Science. Publications were chosen on the basis of subject review results according to the category of "going concern". So, we determined the repertoire of methods applied by foreign

researchers and identified the factors which influence the evaluation of going concerns, including the factors which have or may have a significant impact on auditors' professional conduct.

Third, we formulated and tested the approach to study of influence of dynamics of regulation of banking and auditing activity on auditors' professional conduct when evaluating going concerns. We determined that the following factors had the most influence on such auditor evaluations within the analysed period: the evolution of auditing standards; the conceptualisation and implementation of external control of audit quality; the development of banking regulation and supervision; the level of interaction of auditors with financial institutions and supervisory authorities. In order to define the periods within which a significant influence of the identified factor is assumed, the authors analysed the relationship according to the following logic – the nature of modification of legislative regulation of banking and auditing activity, and the period of such modifications.

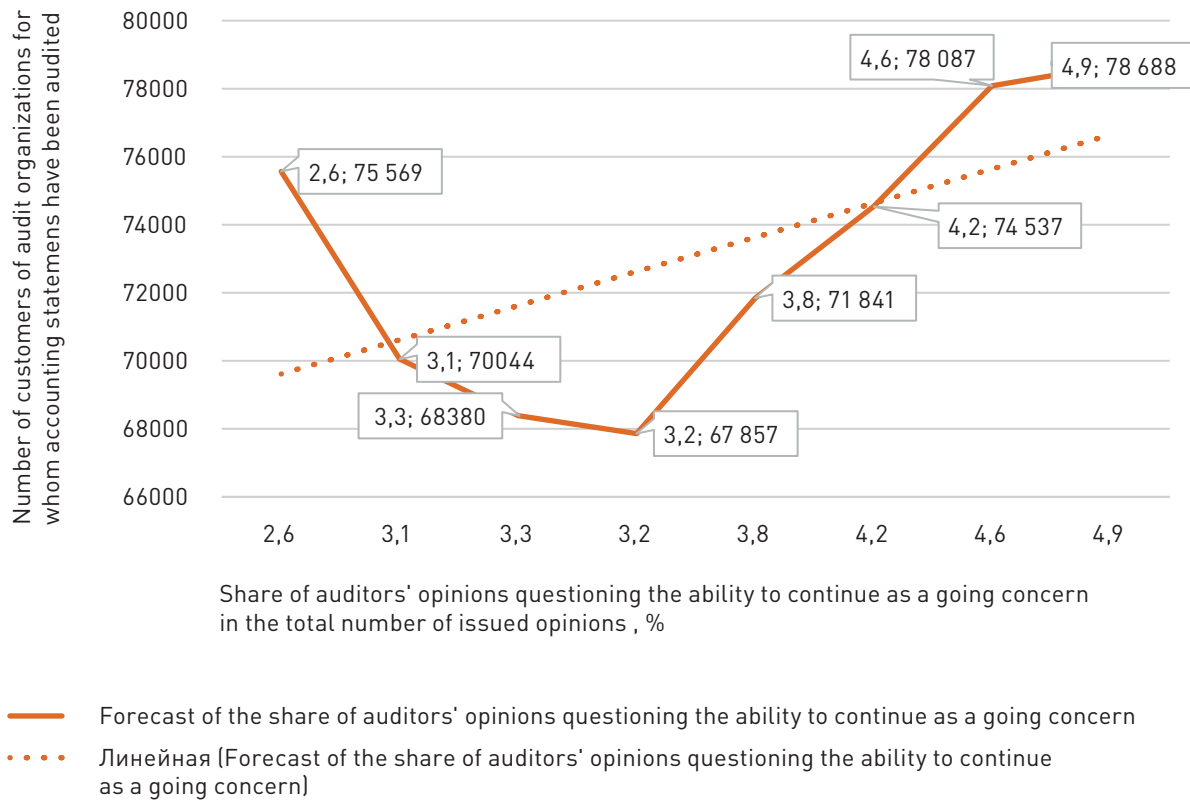
## Relevance of Factors which Influence the Assessment of Banking Sector Entities as Going Concerns: National Level

In order to substantiate the relevance of the studied issues and in order to define the appropriate trends, we conducted an analysis of practice of issuing auditor's opinions which question the customer's ability to continue as a going concern for 2011–2018 (Figure 1).

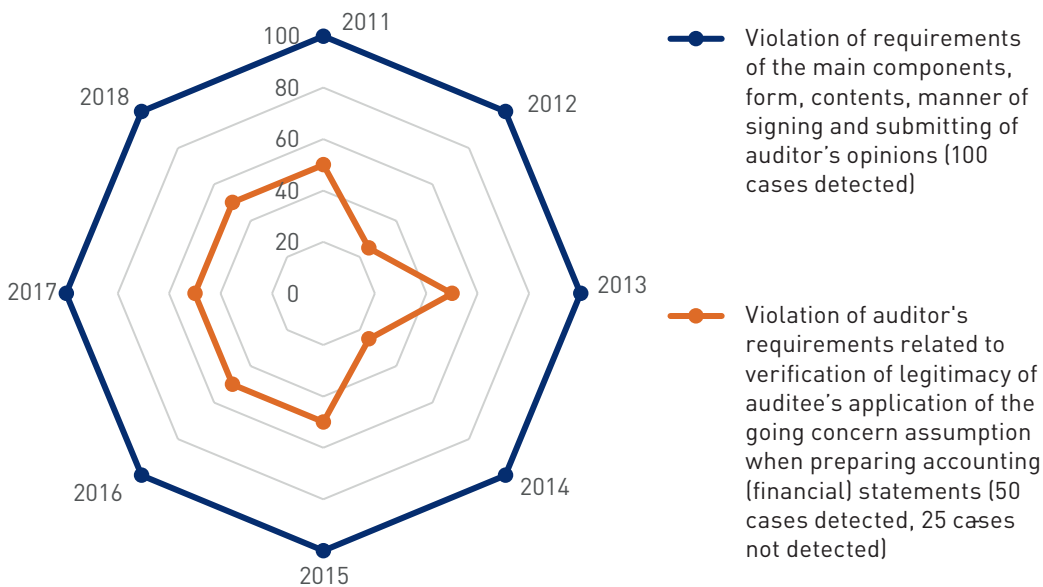
We can see from Figure 1 that within the analysed period, there is an overall increase in the share of auditor's opinions which question the customer's ability to continue as a going concern and indicates a significant uncertainty in the customer's activity (2011 – 2.6%, 2018 – 4.9%). Therefore, in spite of a reduction in the number of audit organisations' customers for whom accounting statements have been audited, there is a forecast predicting a significant growth in the number of auditor opinions questioning the customer's ability to continue as a going concern and indicating significant uncertainty in the customer's activity. We refer to a forecast because official statistics offer no information on the number of issued auditor's opinions with a negative opinion or a qualification related to questioning the ability to continue as a going concern (1,2).

The practice of issuing auditor's opinions which question the customer's ability to continue as a going concern was analysed, taking into consideration the results of external control of the quality of auditors and audit organisations for a comparable period (Figure 2).

**Figure 1.** Dynamics of auditors’ opinions which question the auditee’s ability to continue as a going concern for 2011–2018 [1]



**Figure 2.** Individual results of external control of the quality of auditors and audit organisations for 2009–2010 [2]



It should be noted that there is no information regarding the results of external control of audit quality and auditor’s opinions calling into question the customer’s ability to continue as a going concern for the period of 2009–2010. Figure 2 shows that throughout the analysed period, violation of requirements to the main components, form, contents, manner of signing and submitting auditor’s opinions are designated as typical

violations. As for assessment of going concern only, in 2012 and 2014 violation of requirements to auditor’s actions related to verification of legitimacy of auditee’s applying the going concern assumption when preparing accounting (financial) statements are not considered typical. Thus, we can suggest that external quality control found out the following:

Violation of auditor's requirements related to verification of the legitimacy of auditee's applying the going concern assumption in cases where the auditor registered a doubtful opinion as regards the business as a going concern;

Violation of auditor's requirements related to verification of the legitimacy of auditee's applying the going concern assumption in cases where the auditor did not state his/her doubts in the registered opinion as regards the business as a going concern.

In the authors' opinion, both cases may be a consequence of violations not just of auditing standards, but also of professional conduct rules which require independence, impartiality, and professional skepticism. Therefore, it is necessary to study the internal and external factors which influence auditors' decisions.

We propose that the influence of determining factors on auditors' professional conduct should be studied in respect of a certain type of auditee. This auditee type should be determined according to the type of economic activity engaged in, the compulsory or voluntary nature of audit applied, and the types of users of the auditor's opinion. In our research, we determined that credit organisations should represent such a category of auditees. The reasons for choosing the banking sector and credit organisations are explained below.

The banking sector has one of the highest levels of regulation and supervision both nationally and internationally. In order to maintain stability, special mechanisms of sustainable development support of the banking sector are applied along with requirements to comply with a range of compulsory regulations, information disclosure, and other instruments. The significance of these mechanisms increases particularly during financial crises, and the consequences for the financial sector's stable functioning have traditionally had a pronounced and measurable effect on its operations.

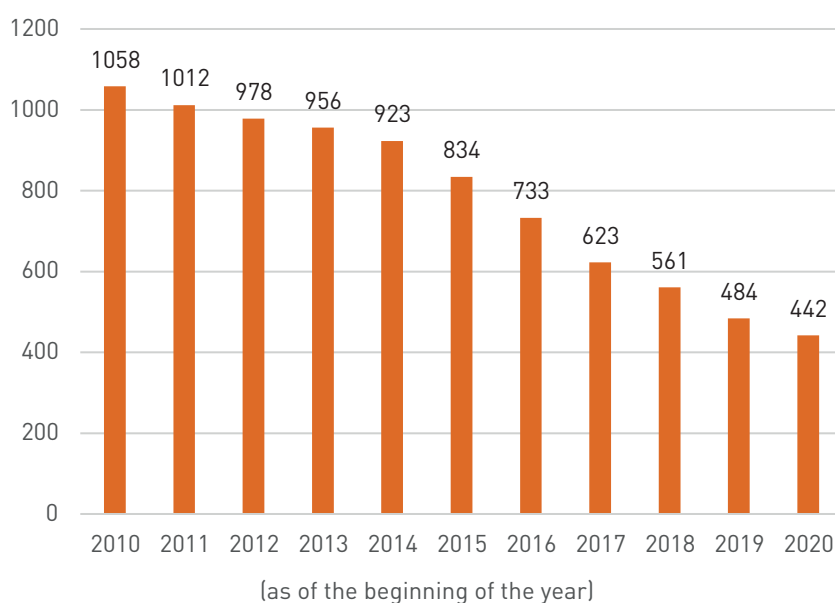
In the analysed period (2009–2019) both internationally recognised approaches and the national system of industry-specific regulation were transformed (e.g. the guidelines and standards of the Basel Committee - FATF - were revised). Additionally, regulator supervisory practices, anti-money laundering practices, and applied mechanisms of credit organisations' financial rehabilitation evolved. We presume that a change of the above factors could exert material influence on auditors' professional conduct from the perspective of evaluating going concerns.

Taking into consideration the highly strict requirements around information disclosure in the banking sector (including the publishing of mandatory regulations and the making available of detailed statistical information) we assume that our research will enable us to focus on the factors characteristic of this sector by means of defining bank-specific variables, and to collect the necessary empirical materials in order to verify the hypotheses suggested in this research.

The paper by N.V. Gorelaya and K. Yu. Kuznetsova [3] outlines the results of the research of creating and managing bank liquidity. It studied the influence of intrabank and macroeconomic factors on the liquidity buffer made by banks using bank statistics at a micro-level. It was noted inter alia that banks showing high liquidity indicators are more prone to go bankrupt. The banking sector is also supervised by reputable ratings agencies and this may expand the list of factors that may be taken into account in the model in future.

As a banking sector regulator, the Bank of Russia pursues a policy of "purging" unscrupulous and financially uncertain credit organisations. As such, the number of operating credit organisations has been diminishing steadily over the past decade: at the beginning of 2020 their number was 58% less than at the beginning of 2010 (Figure 3).

**Figure 3.** Dynamics of the number of operating credit organisations according to the Bank of Russia in 2010–2020 [4]



In recent years the Bank of Russia has paid special attention to the increased reliability and stability of the financial sector. At the same time, there is a scholarly dispute as to where researchers – banking sector representatives – express their opinions, showing their view on the basis of the attained reliability and stability. So, the research by S.V. Stepanova and V.L. Karakchieva [5] shows that the existing credit risk evaluation method (based on regulatory documents of the Bank of Russia) results in excessive loan loss provisions accumulated by Russian banks. These loss provisions are inconsistent with actual loan losses and, thus, have a detrimental effect on the financial performance of credit organisations. This results in unjustified credit refusals which, in their turn, impede the economic growth of both credit institutions and their corporate customers. Thus, a mega regulator (e.g. the Bank of Russia) enters into the dialogue on going concerns between auditors and credit organisations. The bank, in such an instance, acts as a ‘user’ of auditor’s opinions, which questions a company’s ability to continue as a going concern. In accordance with applicable standards, it is the auditor’s responsibility to analyse compliance by the auditee with the going concern principle, and to express in the auditor’s opinion his/her point of view as regards any serious doubts relating to this principle. That is to say an auditor evaluation may warn the users of financial statements (and first of all, the mega regulator) of the potential and possible causes of the examined credit organisations’ bankruptcy.

Bankruptcies of certain credit organisations with expressly positive auditor’s opinions (which caused a massive public outcry) confirm the necessity to change the model of bank auditing regulation against the background of its relations with a supervisory authority. This *inter alia* predetermines the relevance of study of the factors which have resulted in the issuance of such opinions. According to the estimates of the deputy governor of the Bank of Russia Vasily Posdyshev, out of 82 banks declared bankrupt in 2013–2015, 69 had positive auditor opinions [6; 7].

Meanwhile, an analysis of Russian scientific literature allows one to draw the conclusion that audit methodological foundations are highly developed, including the normative and proprietary methods of audit evaluation of going concerns [8–12]. However, the majority of papers are focused on methods of evaluation of event and conditions groups (e.g. financial, operational, etc.) and do not take into consideration the dynamic and uncertain character of the external environment which influences an auditor’s professional conduct.

Thus, the relevance of going concern evaluation for audit theory and practice, the efficiency of national policy in banking regulation, and an understanding of the degree of development of these issues in international practice (due to the sophistication of audit institutions) each serve to predetermine the necessity of analysing foreign publica-

## Analysis of the Factors Influencing Auditors’ Professional Conduct on the Basis of Foreign Research

We analysed certain foreign research publications catalogued in the scientific systems Scopus and Web of Science. For our analysis we chose publications selected by using the object field “going concern” within the period of 2016–2020. The analysis criteria applied to these publications were tailored for our research, including research methods and methodological platforms, and factors which influence the going concern evaluation (e.g. auditor’s professional conduct). The results of our review have been systematised on the basis of these criteria in Table 1. It is important to note that we did not attempt to analyse a great number of publications, because we sought to define factors selected as a result of applying a specific methodological template to the representative sample.

Auditing standards dictate that auditors are responsible for the evaluation of uncertainty regarding an auditee’s going concern [13]. Some research studies establish that an auditor’s opinion may be used to assess a going concern because it contains information on any significant uncertainty related to events which may warn the users of possible causes of bankruptcy. As such, uncertainty evaluation is assessed as a complex and multiple-factor aspect of auditing activity [14]. The paper referenced at [15] systematises a range of research studies on this topic and explains the applied methodology, sample, the variables used and its key results. Among other things, its authors conclude that information disclosure in an auditor’s opinion may explain approximately 80% of the causes of business failures.

Other research analyses a two-stage process of issuing an opinion on going concerns which, alongside a professional evaluation of the applicability of the going concern assumption also comprise the stage of taking a decision on the expediency of issuing a going concern opinion. In particular, paper [16] tests the restraining influence of management, family, and institutions, on the relation between auditor’s characteristics and issuing an opinion. Its authors emphasise that the pressure exerted by management, family and corporate owners influences the process of making such an opinion. That is, auditors may exhibit an adaptive professional conduct under the influence of external factors. We have not found any research aimed at systematising such factors. So, we generated the following research hypothesis. Appraisal of an auditee’s going concern is a complex aspect of audit evaluation which to a is exposed to the influence of the idiosyncratic professional conduct of auditors. Under present-day conditions the influence of external factors which determine the adaptive character of an auditors’ professional conduct is on the increase.

The review we conducted in this study allowed us to define some frameworks and factors which influence extent auditors’ professional conduct. We identified therein

global frameworks, which include dynamics of macroeconomic conditions, national (country-related) frameworks including regulation models and codes of business conduct, the influence of religion etc., industry frameworks (boundaries) including the extent (level) of regulation in the industry and its nature. According to our reckoning, the influence of public opinion on auditors' professional conduct requires a separate study. Additionally, a distinct focus on sustainable development initiatives which have transformed social and economic systems has also apparently affected the auditor profession.

Many researchers and political commentators have stated that one of the reasons for the global financial crisis of 2008 was a poor-quality audit function, including erroneous evaluations of audited companies as going concerns. The research results cited at [17], describing changes in auditors' conduct in the USA during the global financial crisis, indicate that the number of errors related to the issue of an auditor's opinion which questions the ability of economically viable customers to continue as a going concern is less during a crisis, but is the same before and after the crisis. At the same time, the number of errors related to opinions on customers which went bankrupt and where the opinions do not question the business's ability to continue as a going concern, does not differ during the crisis, while post- and prior to the crisis are at similar levels.

On the basis of empirical data, the author proves that auditors' accuracy and conservatism (skepticism) increase during the crisis but return to the pre-crisis level subsequently.

In the pre-crisis and post-crisis period the 'Big Four' auditors are more skeptical. Consequently, the probability of a wrong classification of events in relation to going concerns is lower than by the auditors from smaller audit companies. As such, during the crisis the auditors employed by companies other than the Big Four grow more skeptical, and are less prone to issue auditor's opinions without the qualification questioning the ability to continue as a going concern to the companies which go bankrupt later.

Thus, we may make the conclusion that during the crisis auditors are maximally vigilant as regards going concerns, while in stable times they are more inclined to take mitigating factors into consideration.

Study of national, gender, and religious differences are also included in research papers by modern scientists. So, T.C. Omer et al. [18] show that auditors of companies with offices in highly religious American states are prone to exhibit more professional skepticism than auditors from offices located in less religious states. Consequently, their views on going concerns are more likely to be based on objective criteria and critical evaluation of mitigating factors. These results are typical for both the Big Four and smaller audit companies.

Hence, certain auditors' personal qualities such as religiousness may influence auditors' professional conduct, and encourage the individual auditor to risk less when taking decisions and to observe consistently ethical standards.

The research paper referenced at [19] studies the influence of auditors' gender differences on taking a decision on going concerns regarding companies in financial difficulties. The authors conclude that the above differences exist. Women auditors are less likely to issue an opinion questioning the ability to continue as a going concern of a financially troubled customer. This assumes that women auditors compromise the audit quality, including the going concern evaluation. The authors emphasise that these results may differ from similar research conducted using data from other jurisdictions (countries) but they also draw attention to the fact that one way or another gender differences manifest themselves and influence an auditor's professional conduct.

Within the scope of the research cited at [20] the role of external auditors in supervision over the banking sector is considered, including change of audit practices and audit quality amid financial crises, and taking into consideration the changes in the global industry-specific legal and regulatory framework (such as Basel Committee documents on banking supervision). It studies the dependence of auditors' involvement in supervision procedures in terms of a series of institutional and country-specific factors on the basis of a constructed index of auditors' participation in banking supervision. It was established that the role of the central bank strengthened in terms of supervision over the financial sector in countries which have survived a financial crisis. It was also noted that in the post-crisis period in the countries which had granted great powers to the central bank the probability of auditors' involvement in banking supervision procedures was greater and regulation of supervision over audit in the banking sector increased. However, the issue related to influence of the trend of strengthening the audit supervision regulation in the banking sector, including against the background of auditors' professional conduct when taking decisions on issue of going concern opinions, has been studied incompletely.

Some research studied changes in the professional conduct of bank auditors' in the course of macroeconomic crises, including changes related to an increase of uncertainty in accounting evaluation during periods of perturbations in the economy. In particular, the research paper cited at [21] tested the relation between uncertainty of assets' evaluation at fair value, discretionary loan loss provision, and the role of auditors in containment of possible manipulation with accounting evaluations during a recessionary period. It was found that auditors are inclined to be more conservative during a financial crisis in comparison to the post-crisis period. Therein it was observed that the financial crisis significantly influences the auditors' professional conduct irrespective of their size and industry specialisation.

A model of determinants of going concern opinions for the banking sector is developed and tested in paper [22]. The research is based on industry-specific sources in order to define risk factors characteristic of banks. It was noted in this research that regulatory sanctions are a

significant factor defining views on going concerns along with capitalisation level, credit portfolio quality, and other factors determining the character and conditions of an auditee's operations. A multivariate analysis of the determinants of auditors' views on going concern in the banking sector was conducted in paper [23], using a sample from nine Asian countries. This paper studies, inter alia, the influence of statutory requirements to accounting and information disclosure in the banking sector, and requirements to external audit on the probability of obtaining an auditor's opinion against the background of going concern evaluation.

In the research dedicated to transformation of the audit institution under the paradigm of sustainable development, the following is identified:

- a new approach to understanding of audit as an essential prerequisite for the "green economy";
- expansion of auditing procedures due to insufficient verification of exclusively financial information in order to ensure the sustainable development of public companies;
- necessity to harmonise auditing standards and ethical standards in the circumstances of increasing complexity of international systems of labour differentiation, in particular the globalisation of process flows and supply chains [24–27].

As such, the banking sector of today displays commitment to the principles of the green economy, in particular the building of information systems to slow down greenhouse gas emissions occurring due to the colossal scale of use of electronic appliances and equipment. In paper [25] audit is considered to be an essential prerequisite for high quality study of critical factors of success of the "green" information system.

The emergence of new verification fields requires new competencies from auditors. The paper by E. Dobre, G.O. Stanila and L. Brad [26] proves that financial statements make a single-ended estimate as a source of operating performance indicators of a company, thus precluding investors and authorities from getting a comprehensive estimate of the company's prospects.

The research cited at [27] shows that financial indicators fail to provide an entire explanation of corporate performance, and over the long term a positive correlation was detected between indicators of social and environment-related activity and positive stock exchange results.

The global trend towards sustainable development requires to harmonise auditing and ethical standards because the companies involved in global chains are under pressure from customers, non-governmental organisations, and governments of various countries as regards social responsibility (including responsibility for externalities). M. Boström et al. [24] justified the need to go beyond the narrow bounds of countries and organisations. Thus, a study of the mechanism of influence of external factors on actions, responsibility and competence of

auditors related to going concern evaluation allowed us to generate our hypothesis. The most significant factors defining the adaptability of auditors' professional conduct are as follows: macroeconomic environment at the global and national level; dynamics of regulation of auditees' activities in terms of their industry sector, and transformation of the audit institution under the paradigm of sustainable development.

Thus, the results of the review dictate the need for a new dynamic approach to the study of auditors' professional conduct, which unlike traditional approaches defines external factors (as related to the auditee, statements, and auditor) as variables determining the quality of auditor's conclusions on the issue of the business as a going concern.

## The Influence of Banking and Auditing Regulation Dynamics on Auditors' Professional Conduct in terms of Going Concern Evaluations

At the first stage of our research we systematised the statistical information characterising the banking sector and certain aspects of auditing activity related to the audit of credit organisations. The source of information was data published on the official website of the Ministry of Finance of the Russian Federation and annual reports of the Bank of Russia [4; 28; 29].

We constructed a model of dependence between the number of auditor's opinions questioning a credit organisation's ability to continue as a going concern and the factors influencing going concerns in general. The basic data for constructing the model of dependence between the number of auditor opinions on credit organisations and the factors influencing such opinions were statistical data describing the dynamics of the banking sector for 10 years from 2009 to 2018, and the activity of audit organisations for the same period (Table 2 and 3) [4; 28; 29]:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8, \quad (1)$$

where  $Y$  – number of auditor opinions questioning credit organisations' ability to continue as a going concern;

$\beta_0, \dots, \beta_8$  – estimates of the model parameters obtained using the least squares method on the basis of statistical data;

$X_1$  – proprietary capital of the banking sector (total), billion rubles;

$X_2$  – loss provisions, billion rubles;

$X_3$  – adequacy of capital of the banking sector;

$X_4$  – operating credit organisations, pc.;

$X_5$  – companies with the right to accept retail deposits, pc.;



$X_6$  – total assets (liabilities) of the banking sector, billion rubles;

$X_7$  – number of auditor's opinions questioning the customer's ability to continue as a going concern and pointing out a significant uncertainty in the customer's activity;

$X_8$  – number of customers – credit organisations - with audited statements (mandatory audit).

The explicative variables do not comprise the ones linearly dependent on the abovementioned variables.

Consequently, we obtained the following classical multiple regression model:

$$\hat{Y} = -10,3 + 0,00209 \times X_1 + 0,000693 \times X_3 - 0,659 \times X_4 - 0,156 \times X_6 + 0,208 \times X_7 - 0,000170 \times X_8 + 0,00420 \times X_{10} + 0,0207 \times X_{11} \quad (2)$$

The model of dependence of the number of auditor opinions questioning credit organisations' ability to continue as a going concern, and the factors influencing going concerns (least squares method, robust estimators of standard errors (adjusted for heteroscedasticity)\*)

	<i>Coefficient</i>	<i>Standard error</i>	<i>t statistics</i>	<i>P value</i>
const	-10.3209	21.7596	-0.4743	0.7180
$X_1$	0.00208615	0.000690000	3.023	0.2034
$X_2$	0.000692545	0.00114935	0.6026	0.6548
$X_3$	-0.658566	0.162871	-4.043	0.1543
$X_4$	-0.156310	0.0938225	-1.666	0.3442
$X_5$	0.208185	0.118903	1.751	0.3304
$X_6$	-0.000170070	6.52293e-05	-2.607	0.2332
$X_7$	0.00420375	0.00335878	1.252	0.4292
$X_8$	0.0207215	0.00490539	4.224	0.1480

\* Obtained by the authors on the basis of the data from Tables 2 and 3 using the application software package Gretl.

On the basis of the obtained results, taking into consideration P values we can draw the conclusion that neither of the explicative variables is significant. Therefore it is clear ( $\beta$  coefficients) that there is a positive relation between the number of issued auditor's opinions with the qualification of existing threats to credit organisations' going concern and such factors as: proprietary capital of the banking sector, loss provisions, the number of credit organisations with the right to accept retail deposits, the number of auditor's opinions questioning the customer's ability to continue as a going concern and indicating a significant uncertainty in the customer's activity, and the number of credit organisations with audited statements (mandatory audit).

There is a negative correlation with the following factors: adequacy of capital of the banking sector, operating credit organisations, and total assets (liabilities) of the banking sector.

We cannot assert that the obtained model entirely describes the interrelations verified in the research. Therefore, in order to confirm or reject the suggested hypotheses it is necessary to verify the model which represents the relation between the type of auditor's opinion obtained by a certain bank (questioning or not questioning its ability to continue as a going concern) and the factors describing the banks'

performance (capital dimension, reserves, regulations etc.). Probably it is not unreasonable to add to the model some characteristic features of auditing companies which have performed audits of the banks included in the sample, e.g. experience related to credit organisations, or the existence/absence of comments concerning previous audits, etc.

At the second stage we systematised the factors which influence or may influence the auditors' view on credit organisations as a going concern in order to define the research period and select a representative sample.

The factor of change of statutory regulation of banking and auditing activity within the period of 2009–2019 was defined as the key factor. The authors proceed from the position that within the analysed period the following factors influenced decisions taken by auditors as regards credit organisations' going concern.

- evolution of auditing standards;
- conceptualisation and implementation of external control of audit quality;
- development of banking regulation and supervision, including implementation in the legislation and national banking practice of the approaches and standards of the Basel Committee on Banking Supervision (BCBS);

- vigorous efforts in cooperation of Russia with the Financial Action Task Force (FATF).

**First, statutory regulation of an auditor's opinion procedure and going concern evaluation is seen to transform in accordance with modifications to the statutory basis for audit.** Externally, the situation is fairly obvious,

however, a detailed analysis of expected and actual effects of such modifications is necessary to understand coherence of such modifications and to assess continuity. A gradual development, increasing complexity and improvement of standards on auditor opinions is observed in normative legal documents of each stage (Table 4).

**Table 4.** Stages of standardisation of the issues of auditor opinions and going concern

Documents defining legal foundation of auditing activity regulation	Auditor's opinion standards	Standards regulating audit of going concern
Provisional regulations of auditing activity in the Russian Federation approved by Decree of the President of the Russian Federation of 22.12.1993 No. 2263	<b>Regulation (standard)</b> of auditing Making of an Auditor's Opinion as regards Accounting Statements	–
Federal Law of 07.08.2001 No. 119-FZ On Auditing	<b>Regulation (standard) No. 6</b> Auditor's opinion on Financial (Accounting) Statements	<b>Regulation (standard) No.11</b> Applicability of the assumption of auditee's going concern
Federal Law of 30.12.2008 No. 307-FZ On Auditing	<b>Federal Auditing Standard (FSAD 1/2010)</b> Auditor's Opinion on Accounting (Financial) Statements and Formation of Opinion on their Trustworthiness <b>Federal Auditing Standard (FSAD 2/2010) Modified</b> Opinion in an Auditor's Opinion <b>Federal Auditing Standard (FSAD 3/2010) Additional</b> Information in an Auditor's Opinion	<b>Regulation (standard) No.11</b> Applicability of the assumption of auditee's going concern
Federal Law of 30.12.2008 No. 307-FZ On Auditing	<b>International Standard on Auditing 700</b> Formation of Opinion and Drawing up of a Report as regards Financial Statements <b>International Standard on Auditing 701</b> Informing on the Auditing Key Issues in an Auditor's Opinion <b>International Standard on Auditing 705 Modified</b> Opinion in an Auditor's Opinion <b>International Standard on Auditing 706</b> Sections: Emphasis of Matter and Other Matter in an Auditor's Opinion	<b>International Standard on Auditing 570</b> Going concern

It is obvious that the evolution and improvement of standards of auditor opinions resulted in changes of the requirements of auditor's opinion, and has bearing on the going concern aspect.

So, at the first stage the auditor's opinion expressed a view on the trustworthiness of accounting statements, i.e. on the compliance of accounting statements in all material respects, with the legislative instrument regulating accounting and reporting in the Russian Federation. There was no separate standard as to the going concern aspect, but the auditor's opinion standard stated the possibility to

indicate, in the auditor's opinion, serious doubts as regards the economic entity's ability to continue operations and fulfill its obligations for at least 12 months following the reporting period. At the third stage there emerged the Federal Standard (FSAD 3/2010) – 'Additional Information in an Auditor's Opinion' which enshrined the opportunity to state the going concern evaluation results in the paragraph which draws the users' attention to certain events. Currently the International Standards on Auditing describe in sufficient detail the manner and ways of indicating the information related to an auditee's going concern.

**Second, the quality control concept, comprising the fundamentals of internal and external quality control of audit, was being made up *ad hoc* since the first version of the law ‘On Auditing’. However, it acquired integrity after the emergence of the auditing self-regulatory institution.** The present authors hereby postulate that a combination of internal and external control instruments does not just assure a high quality of audit services for the users of statements users and audit services, but also encourages development of audit methods and procedures. External control of credit organisations’ audit is performed by a self-regulatory organisation or an authorised federal body.

Thus, it is clear that modification of auditing standards and approaches used for internal and external quality control influences auditors’ professional conduct because they define the principles of auditing activity, rights and obligations of auditors, and enshrine auditors’ responsibility.

**Third, since 2009 Russia is a fully-fledged member of the Basel Committee on Banking Supervision (BCBS), participates in development and improvement of banking regulation and supervision standards, preparation of industry-specific guidelines and has obligations of implementation of international standards’ requirements into the national regulation system including capital adequacy requirements.** Capital adequacy is related directly to assessment of the going concern assumption by an external auditor and is at the same time one of the most important objectives of prudential banking supervision. In the majority of countries, the testing of capital adequacy is a normal component of constant supervision. It is also emphasised in the BCBS guidelines concerning interrelations with external auditors [30].

It should be noted that international approaches to regulation of credit organisations’ activity, including the requirements to capital adequacy, which take into consideration the quality of bank’s assets and risks related to them provided for in the International Convergence of Capital Measurement and Capital Standards (Basel I, enlarged in 1996) have been implemented in Russian practice since the 1990s. In 2000, amendments entered into force which clarify the calculation of the algorithm of capital adequacy ratio of Russian banks (H1) taking into consideration market risks. In general these complied with Basel I approaches. Once the 2004 Basel II Accord (included in the final document of 2006) was published the Bank of Russia announced that it planned to implement stage by stage Basel II requirements in the Russian banking sector, taking into consideration legislative limitations, capabilities and priorities of the national banking supervisory authority [31].

At the end of 2009, legislative instruments of the Bank of Russia were adopted and entered into force stage-by-stage (2010-2013) [32; 33]. They regulate calculation of the capital adequacy ratio, taking into consideration the operational risk on the basis of the basic indicator and the simplified, standardised approach to credit risk assessment of

Basel II. A complete implementation of the second Basel II component (Supervisory Review Process) and requirements to disclosure of information by banks as regards capital and risks (in order to instill market discipline by means of increase of financial statements transparency) was postponed [34].

It is remarkable that if in 2009–2010 the dynamics of the capital adequacy indicator in the banking sector was mainly defined by the government support programme as a part of crisis response measures (in 2010 by redemption of previously-incurred subordinated loans), then a diminishment of this indicator at the end of 2011–2013 was to a great extent due to regulating changes. New requirements for credit organisations’ capital adequacy imposed by the regulator, apparently, could influence auditors’ professional conduct, as well including confirmation as to going concern status.

Because of the financial crisis of 2008–2009 BCBS came to an agreement on reforms and started revising prior standards. In 2009, specified requirements called Basel II.5 were published, and in 2010–2011 new regulatory approaches stipulated in the reform package Basel III were approved. Initially it was planned to implement them by 2019. In accordance with the internationally agreed schedule, a stage-by-stage implementation of Basel III standards started in Russia. New standards alongside the reform of capital adequacy requirements (including the capital structure and quality, taking into consideration all risks, introducing the notions of conservation buffer and countercyclical buffer, and debt ratio) also contemplate the reform of requirements for liquidity and other elements aimed at strengthening the financial system stability in general. In Russia, implementation of Basel III elements started before Basel II had been implemented completely, i.e. these procedures were actually performed simultaneously.

Since 2014, significantly more conservative approaches to calculation of capital value in accordance with Basel III have entered into force in Russia. Meanwhile, at the end of 2014, in order to arrange conditions for adapting the banking sector to the volatility of currency and financial markets, decisions were taken to establish temporary specifics of prudential standards’ calculation which made a multidirectional impact on capital adequacy indicators. [36]. In 2015, the capitalisation increase of a series of banks also supported the capital adequacy indicator through the Deposit Insurance Agency. Additionally, we should note that due to the adoption of Federal Law of 01.12.2014 No. 403-FZ changes were introduced in some provisions of the Federal Law on Banks and Banking Activities, requirements to contents of an auditor’s opinion on credit organisation’s statements were also clarified (art. 42).

As of 01.01.2016, for the first time the statutory framework of the Russian Federation as a member of BCBS was verified for compliance with the Basel Accords and standards on the basis of RCAP programme (Regulatory Consistency Assessment Programme). During the verification,

the Bank of Russia performed extensive work in changing banking regulation practices taking into consideration comments obtained from experts [37]. In accordance with reports published in March 2016, the Russian banking regulation was declared, complying with corresponding Basel standards including capital adequacy standards [38].

We would like to indicate the results of the Financial Sector Assessment Program (FSAP) in Russia, including the task of assessment of compliance with the Basel core Principles for effective banking supervision which was completed in 2016. As outlined in the published report, the experts observed that in Russia implementation of principle 27 Financial Statements and External Audit is inconsistent with international approaches to a great extent [39]. According to international experts, due to the drawbacks of the legal framework the regulator has a limited opportunity to comply with a range of criteria of this principle. They recommend to broaden the powers in order to grant the supervisory authority the power to reject appointment of an external auditor which is insufficiently independent or fails to meet professional standards, to provide rotation of an external auditor, or appoint a meeting with an audit company in order to discuss issues related to the institution under supervision. An auditor as well as a supervisor should have legal protection when they exchange confidential information (additional criterion 1).

In 2016–2017, an implementation of reforms in the banking sector continued in accordance with internationally recognised approaches. Since 2016, the requirements for calculation of proprietary funds (capital) and risk-weighted assets have been changed. In addition to the requirements related to capital adequacy ratios, the buffers (capital adequacy maintenance, countercyclical, systemic importance ones) - in alignment with which the capability to distribute profits is contingent - are introduced stage by stage, and changes concerning the creation of loan loss provisions entered into force (some derogations were cancelled). In spite of the constraining influence of regulatory adjustments, the capital adequacy indicator in the banking sector increased within this period (in 2017 - exclusive of the banks being restored to a healthy state) [40].

In December 2017 the Basel Committee published documents dedicated to the completion of post-crisis reforms included in the Basel III standards package (Basel III: Finalising post-crisis reforms). The Bank of Russia implements corresponding changes stage by stage in the national regulation within the time period established by BCBS.

We consider that significant changes in the industry-specific legal and regulatory framework, increasing complexity of calculation algorithms for statutory ratios, methods of detecting the risks significant for credit organisations (and their efficiency evaluation), as well as banking supervision practices, are all significant factors which influence auditors' professional conduct when they issue an opinion including the issue of assessment of the going concern assumption.

**Fourth, a significant influence on the state of the credit and finance sector and on interaction of auditors with financial institutions and supervisory authorities was exerted by Russia's active involvement in the field of development and implementation of financial anti-money laundering measures and cooperation with FATF.** Since the beginning of the 2000s a sustained effort has been exerted in order to create a national system for combating money laundering and the financing of terrorism. In 2002 Russia was taken off the FATF black list. Subsequently it was admitted as a fully-fledged member of FATF and released from the regular monitoring procedure in 2013. According to FATF experts, in general technical conformity and efficiency are characteristic of the national system of anti-money laundering and combating the financing of terrorism (AML/CFT). A reliable legal framework was created, data was used for investigating cases related to money laundering and terrorism, and was collected and is still complemented on a regular basis.

Improvement of the national system of anti-money laundering and combating the terrorism financing (AML/CFT) affected the financial and credit sector as well. As such, since 2013 the Bank of Russia has used elements of the risk-oriented approach in its supervisory activity, and in recent years it has improved the risk-oriented approach in the supervisory field. In 2013 requirements to licensing of financial institutions were tightened. At present it allows to significantly reduce the risk of delinquents' gaining control over financial institutions.

According to the public report of Rosfinmonitoring [41] for 2018 the coverage of financial institutions by the Russian AML/CFT system increased 1.5 times. Currently the national anti-money laundering system's circuit comprises over 160 thousand entities including approximately 53 thousand credit and non-financial entities. A complex of interauthority measures taken in 2018 significantly reduced the number of dubious operations conducted through the banking sector. As such, since the beginning of 2018 the amounts of cash withdrawals, transit operations and cross-border money transfers on doubtful grounds decreased by over 1.5 times. This is due to the active policy of the Bank of Russia for purging the credit and finance sector (Figure 3): over 2018 licenses of 58 banks were recalled. Additionally, in 85% of cases Rosfinmonitoring informed of the detected risks in advance. Together with the Central Bank of the Russian Federation features of ineffective operation of internal control systems and insufficient attention paid to risks were detected. On the basis of Rosfinmonitoring's risk descriptions in 2018 the mega regulator confirmed the risk areas related to dubious operations conducted by over 140 credit organisations.

Auditors also pertain to the national system of combating money laundering and the financing of terrorism. As the system improves, the role of the professional auditing community and auditors' responsibilities become more important. In accordance with Federal Law No. 115-FZ, when auditors render auditing services and have any grounds to assume that the auditee's transactions or

financial operations can be performed in order to launder illegally-generated money or to finance terrorism, they have to notify Rosfinmonitoring about it. In order to fulfill this obligation the auditors have to observe certain methodological recommendations of Rosfinmonitoring, describing the features of operations which may prejudice the auditee and the financial system in general, and information of which should be furnished to Rosfinmonitoring if they are detected.

Thus, the activity of the Russian Federation and FATF aimed at mitigating risks related to money laundering and terrorism financing is a significant factor influencing the stability of the banking sector, including those which audit financial and credit institutions.

An analysis of the key changes of the statutory regulation of the banking and auditing activity allowed to define the periods within which the authors presume a significant influence of such changes on auditors' decisions as regards credit organisations' going concern. Figure 3 shows the results of correlation analysis of succession of auditing standards' generations and enhancing of cooperation between Russia and FATF between 1996–2018. We assume that the significance of influence of these factors on auditors' professional conduct may be observed in the periods of 2008–2010, 2013–2017 and in 2019.

## Conclusions

The authors substantiated and tested the approach to study of influence of the factors which determine an auditor's view on banking sector entities as a going concern. The substantiation points for the need to create an approach to study the factors suitable for the Russian banking sector are as follows:

- increase of the share of auditor's opinions questioning the customer's ability to continue as a going concern, and indicating a significant uncertainty in the customer's operations in the total amount of issued opinions;
- designating during the whole analysed period the violation of requirements to the main components, form, contents, manner of signing, and submitting an auditor's opinion as typical violations;
- A high level of regulation and supervision of the banking sector entities' activity (both at an international and national level) as well as the need to agree upon regulation and supervision boundaries.

The authors' proposals push the boundaries significantly and shift the focus of research in the field of theory and methodology around going concern audit. First of all, this entails raising the issue of the necessity to identify factors which influence the quality of an auditor's conclusions and his/her professional conduct, and to identify the factors characteristic of the banking sector.

On the basis of analysis of foreign researchers' publications found in the Scopus and Web of Science databases, the authors defined the factors and methods applied by

foreign researchers to evaluate the influence of certain factors. The authors identified the dynamics of regulation of banking and auditing activity as a key factor for the Russian banking sector. The authors defined that the following factors influenced the auditors' decisions on credit organisations as a going concern within the analysed period: evolution of auditing standards; conceptualisation and implementation of external control of audit quality; development of banking regulation and supervision; and interaction of auditors with financial institutions and supervisory authorities. As a result, the authors determined the periods within which a significant influence of an identified factor is assumed. These periods were defined by a consistent analysis of the relationship of the nature of modifications in regulation taking into consideration the period of such modifications.

We therefore assert that a baseline has been established for a comprehensive study of influence of the factors on auditors' professional conduct when a view on the going concern status of banking sector entities is formed. Further research perspectives have also been identified. In the first instance, it is necessary to study the relation between the type of an auditor's opinion as regards banking statements and the factors which describe the banks' performance, as well as the characteristic features of audit organisations by means of applying the methodological template represented by our analytical approach. In order to study limitations it is important to assess the applicability of the elaborated solutions to the research of influence of the characteristic factors of insurance companies, joint-stock companies, and other socially significant entities.

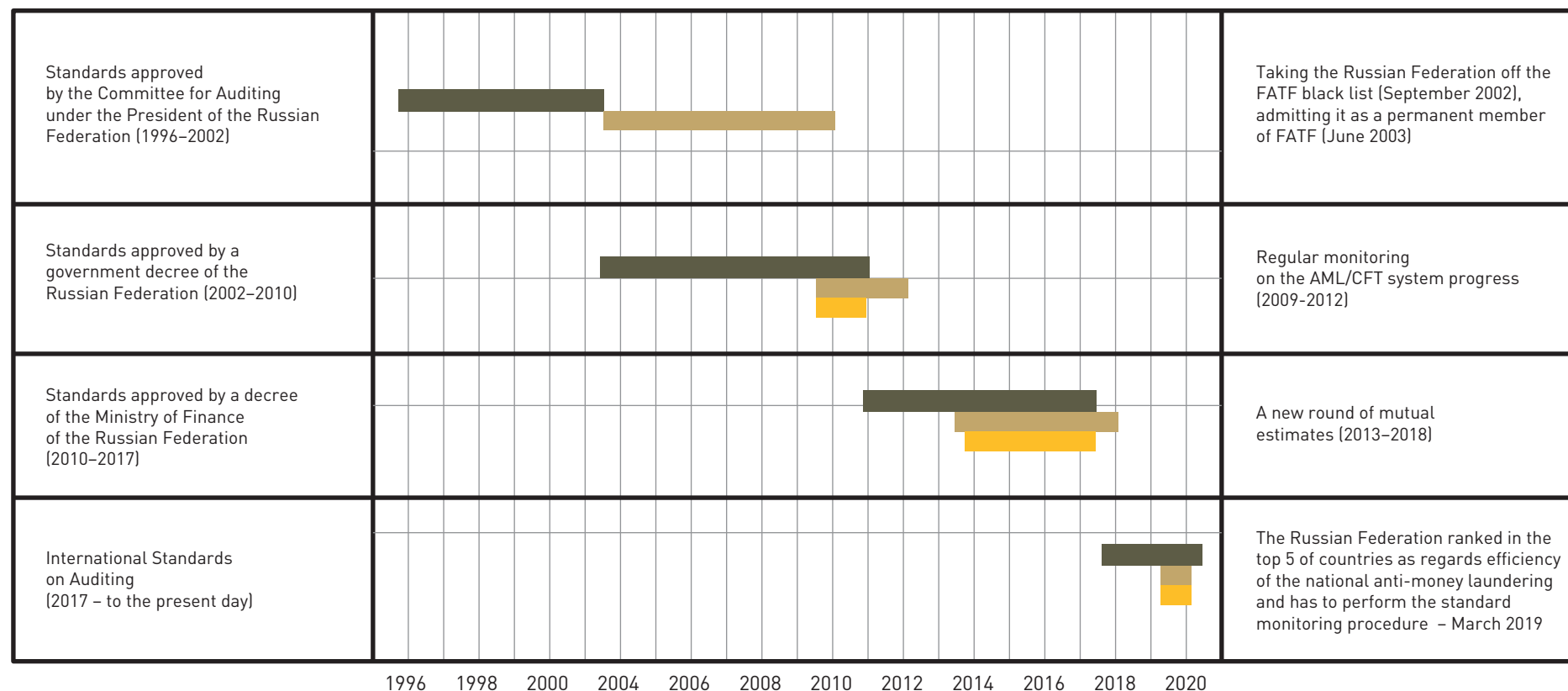
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**Figure 4.** External factors which influence auditor’s decisions as regards credit organisations’ going concern within the period of 1996–2018



Auditing standards
  Areas of the assumed influence of external factors’ change on auditor’s decisions as regards going concerns
  FATF



**Table 1.** Analysis of research of auditing companies as going concerns

Author/year/title	Sample	Methodology	Variables	Key conclusions
N. Muñoz-Izquierdo, M.J. Segovia-Vargas, M. Camacho-Miñanob, D. Pascual-Ezamab – Explaining the causes of business failure using audit report disclosures (2019)	404 bankrupt companies and 404 successful companies in 2004–2014	Multivariate test (logistic model)	Type and contents of an auditor's opinion as regards external and internal factors of going concern (disclosure by financial indicators, management's plans, Events After the Balance Sheet Date, regulation within the industry etc.)	Auditor's opinions to a great extent explain causes of business failure
L.A. Myers, J.E. Shipman, Q.T. Swanquist, R.L. Whited (2018) – Measuring the market response to going concern modifications: the importance of disclosure timing	897 companies which have got an auditor's opinion for the first time with a modification as regards going concern (653 – with a disclosed income statement, 244 – without such statement) (March 2003 – May 2014)	Multivariate test (logistic model)	Disclosure of information on income, financial indicators (EBIT, assets), estimate and expectations of management, period of an auditor's opinion's "falling behind" – influence of indicators on stock exchange prices (i.e. market response)	The majority of auditors' opinions are published simultaneously with income statements. In case of issue of an auditor's opinion questioning the ability to continue as a going concern for the first time there emerges in the income statement a significant negative financial cumulative excess return
M.N. Hisham Osman, Z.M. Daud, A.R.A. Latiff, Z. M. Sori (2018) – The impact of management, family, and institution on the auditor's going concern opinion issuance decision	644 Malaysian public companies which are financially troubled, contribute significantly to the national economic advancement (2006–2012)	Multivariate test (logistic model)	Auditor's specialisation, period during which the auditor occupies his/her position, auditor's services cost; influence of management apparatus, marital status and higher education institution; size of the audit company, customer, bankruptcy probability, existence of previous auditor's opinions commenting on going concern, default on debts, industry sector etc.	No interrelation was found between auditor's/audit organisation's characteristics and issue of an auditor's opinion commenting on going concern. Influence of a powerful management apparatus and family on the auditor's decision as regards the type of the auditor's opinion was detected.

Author/year/title	Sample	Methodology	Variables	Key conclusions
J. Bedard, C. Brousseau, A. Vanstraelen (2018) – Investor reaction to auditor’s going concern emphasis of matter: evidence from a natural experiment	9,457 companies with statements in SEDAR (System for Electronic Document Analysis and Retrieval) using the Compustat database (2005–2014)	Multivariate test (logistic model)	Extent of uncertainty in disclosures as regards going concern; external and internal factors: bankruptcy probability, company size, financial indicators (leverage, equity, money flows, prior year losses etc.), market return and volatility (and other market factors), audit quality (Big Four factor)	It was discovered that when auditors opine doubts as regards the ability to continue as a going concern there is an additional negative excess return and lower sales volumes in case of insufficiently detailed disclosures of doubts as regards the ability to continue as a going concern in financial statements. Disclosure of information on doubts as regards the ability to continue as a going concern in the additional paragraph of the auditor’s opinion is of additional importance to investors.
S. Kanyarat (2018) – Auditors’ going concern reporting accuracy during and after the global financial crisis	883 USA companies which have got for the first time an auditor’s opinion questioning their ability to continue as a going concern and 537 bankrupt companies in the Compustat database (2005–2010)	Multivariate test (logistic model)	Bankrupt / not bankrupt company, bankruptcy probability estimated on the basis of the Zmijewski model, solvency, sales, whether the audit company pertains to the Big Four, presence in the auditor’s opinion of an express doubt in the ability to continue as a going concern, period from the date of the auditor’s opinion till declaring the company bankrupt etc.	<p>The number of errors related to issue to economically viable customers of an auditor’s opinion which questions their ability to continue as a going concern is less during a crisis but is the same before and after the crisis.</p> <p>The number of errors related to issue of auditor’s opinions to customers which went bankrupt later, which do not question their ability to continue as a going concern does not differ during the crisis and after it from the period prior to the crisis.</p> <p>Auditors’ accuracy and conservatism (skepticism) increase during the crisis but return to the before-the-crisis level after it.</p>

Author/year/title	Sample	Methodology	Variables	Key conclusions
T.C. Omer, N.Y. Sharp, D. Wang (2018) – The Impact of Religion on the Going Concern Reporting Decisions of Local Audit Offices	3,623 USA companies which ability to continue as a going concern was not questioned by auditors 3,498 companies which auditor's opinion states that they do not observe the going concern principle	Multivariate test (logistic model)	Presence in the auditor's opinion of an express doubt in the ability to continue as a going concern, auditor's religiousness, customer's religiousness, share of population with higher education, customer's involvement in political parties, population endowment in the state, customer's total assets, share of the auditing industry in the national market, period of auditor's working with the same customer and other variables (totally over 35)	The obtained results show that audit companies with offices located in highly religious American states are more prone to express their view on going concern exhibiting more skepticism in evaluation of mitigating factors. These results are typical for both the Big Four and smaller audit companies.
S. Hossain, L. Chapple, G.S. Monroe (2018) – Does auditor gender affect issuing going-concern decisions for financially distressed clients?	7,361 Australian companies (2003–2011)	Logistic model	Presence in the auditor's opinion of an express doubt in the ability to continue as a going concern, auditor's gender, bankruptcy probability estimated on the basis of the Zmijewski model, customer's asset value, number of years during which the company was on the list of the Australian Stock Exchange, return on assets, customer's industry affiliation, whether the auditor pertains to the Big Four etc.	According to the results Australian women auditors are less likely to issue an auditor's opinion questioning the ability to continue as a going concern of a financially troubled customer. This assumes that women auditors compromise the audit quality. The authors emphasise that these results may differ from similar research studies conducted using the data from other jurisdictions (countries).

Author/year/title	Sample	Methodology	Variables	Key conclusions
D. Masciandaro, O. Peia, D. Romelli – (2020) – Banking supervision and external auditors: Theory and empirics	115 countries in the period of 2007 to 2012 included in the World Bank's Banking Regulation Review	Ordered logit model	Expected benefit from engaging external auditors (supervisory powers of the Central Bank, supervisory practice), audit quality (regulation quality, measures taken against banks and auditors, Big Four), expenses for engaging auditors in supervision (degree of development of the credit market and information asymmetry)	One of the main factors defining the reform of auditors' participation in supervision is strengthening of the role of the Central Bank in supervising the financial sector. A higher audit quality supported by a tighter control is related to more active auditors' involvement in supervision over the banking sector.  Systemic banking crises enhance the likelihood of involving external auditors, but it happens only in the countries where the role of the Central Bank grows.
F. Chen, K. Lam, W. Smieliauskas, M. Ye – (2016) – Auditor Conservatism and Banks' Measurement Uncertainty during the Financial Crisis	1,026 observations of USA public banks for 2008–2011	Multivariate test (logistic model)	Uncertainty of assets evaluation at fair value, frequency of type II errors, whether the auditor pertains to the Big Four, auditor's specialisation, period between issue of the auditor's opinion and financial year end, auditor's remuneration	Auditors are inclined to be more conservative during a financial crisis in comparison to the post-crisis period. Bank auditors are less prone to make errors as regards the banks with a higher risk and uncertainty of assets evaluation. The financial crisis significantly influences the auditors' professional conduct irrespective of their size and industry specialisation.

**Table 2.** Initial information for building a model (statistics of auditing activity) [34]

No.	Indicator	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1	Number of customers of <b>audit organisations</b> which accounting statements have been audited	92,683	87,096	75,569	70,044	68,380	67,857	71,841	74,537	78,087	78,688
2	Breakdown of customers of audit organisations which accounting statements have been audited by the types of economic activity, share of financial activity (credit organisations, insurance companies and mutual insurance societies, private pension funds)	*5.6	5.6	6.9	2.5	2.5	2.6	2.0	1.7	1.4	1.2
3	Number of customers of <b>audit organisations</b> involved in <b>financial activity</b>	*5,190	4,877	5,214	1,751	1,710	1,764	1,437	1,267	1,093	944
4	<b>Breakdown of issued auditor's opinions by types (in %)</b>										
4.1	with expressed opinion with a qualification	43	40.2	32.7	28.1	24.8	22.6	21.6	22.1	19.8	18.0
4.2	with a negative opinion	0.8	0.8	0.7	0.6	0.6	0.5	0.5	0.7	0.8	0.8
4.3	with disclaimer of opinion	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.5	0.5	0.4
5	Auditor's opinions questioning the customer's ability to continue as a going concern and indicating a significant uncertainty in the customer's activity	*2.2	*2.5	2.6	3.1	3.3	3.2	3.8	4.2	4.6	4.9
6	Number of <b>auditor's</b> opinions questioning the customer's ability to continue as a going concern and indicating a significant uncertainty in the customer's activity	2,039	2,177	1,965	2,171	2,257	2,171	2,730	3,131	3,592	3,856
7	<b>Grounds for audit by auditing organisations (in %)</b>										
7.1	Mandatory audit	*80.3	*81.5	82.7	81.5	83.3	85.3	88.7	90.6	91.3	91.4
7.2	Voluntary audit	*19.7	*18.5	17.3	18.5	16.7	14.7	11.3	9.4	8.7	8.6

No.	Indicator	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
8	Number of customers which statements have been audited (mandatory audit)	*74,424	*70,983		57,086	56,961	57,882	63,723	67,531	71,293	71,921
9	Share in the mandatory audit of credit organisations	1.6	1.6	1.9	1.5	1.5	1.5	1.2	1.0	0.9	0.8
10	Number of customers – credit organisations - which statements have been audited (mandatory audit)	*1,191	*1,136		856	854	868	765	675	642	575
11	Number of auditor's opinions questioning credit organisations' ability to continue as a going concern	26	28	31	27	28	28	29	28	30	28

Comments:

\* Due to lack of information in the analytical reports of the Ministry of Finance some indicators for 2009–2010 have been calculated by the authors:

Line 2: according to the level of 2010

Line 3: line 1\*line 2.

Line 8: standard deviation of the growth rate of auditor's opinions commenting on going concern from the average growth rate of auditor's opinions with a qualified opinion, with a negative opinion, with disclaimer of opinion. The aim is to reconcile dynamics of the share of the auditor's opinions different from non-modified opinions with dynamics of auditor's opinions commenting on going concern. This standard deviation was 14%. Further the value of 2011 was adjusted, i.e. reduced by 3% (89% is the average growth in 2011 in comparison to 2010 of auditor opinions different from non-modified opinions +14% = 103%). Thus, we obtained the value of 2010 which is 2.5%. Then the value of 2010 was also adjusted, i.e. reduced by 12% (98 + 14 = 112%), so we have 2.2%.

Line 9: line 1\* line 8.

Lines 11 and 12: The average growth of the share of mandatory audit within the analysed period is 1.2. 2010 and 2009 are adjusted consistently on the basis of the share of 2011.

Line 13: line 1\* line 11.

Line 15: line 13\* line 14.

Line 16: line 15\* line 8.

**Table 3.** Initial information for building a model (statistics in the banking sector) [31; 36; 37]

Indicator	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1 Proprietary capital of the banking sector (total), billion rubles	4,621	4,732	5,242	6,113	7,064	7,928	9,009	9,387	9,397	10,269
2 Proprietary capital of the banks being restored to a healthy state, billion rubles	70	105	250	212	203	52	(24)	(106)	(481)	(602)
3 Proprietary capital of the banking sector without taking into consideration the banks being restored to a healthy state (calculation), billion rubles	4,550	4,627	4,992	5,901	6,862	7,876	9,033	9,493	9,878	10,872
4 Loss provisions, billion rubles	899	1,821	1,904	1,988	2,852	4,054	5,406	5,594	6,916	7,539
5 Capital adequacy of the banking sector, %	20.7	18.2	14.8	13.6	13.7	12.6	12.9	12.9	12.0	12.1
6 Capital adequacy of the banking sector without taking into consideration the banks being restored to a healthy state, %	21.2	18.7	14.9	13.6	13.7	12.9	13.7	13.7	13.5	14.4
7 Operating credit organisations, pc.	1,058	1,012	978	956	923	834	733	623	561	484
8 with the right to accept retail deposits, pc.	849	819	797	784	756	690	609	515	468	400
9 Total assets (liabilities) of the banking sector, billion rubles	29,430	33,804.6	41,627.5	49,509.6	57,423.1	77,653	82,999.7	80,063.3	85,191.8	94,083.7
10 Total assets (liabilities) of the banking sector, billion rubles	29,430	33,804.6	41,627.5	49,509.6	57,423.1	77,653	82,999.7	80,063.3	85,191.8	94,083.7
11 Assets of credit organisations for which bankruptcy prevention measures are applied, billion rubles	800.8	814.9	1,852.4	1,943.6	2,105.9	3,831.3	5,248.4	4,380.4	10,374.6	9,953.7
12 Proprietary funds (capital) of credit organisations for which bankruptcy prevention measures are applied, billion rubles	70.3	105.4	249.7	212.4	202.8	52.1	-24.3	-106.1	-480.5	-602.4