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REVIEW OF RISK MODELS IN THE CONTEXT OF FINANCIAL AUDIT

Relevant audit problems relating to historical research of audit risks models in carrying out professional activity have been analyzed. The analysis of risks models' classification in the scientific literature has been carried out as well as the definition of the audit risk has been given due to both internal and external factors. Auditor has been considered to make decisions under ambiguous conditions caused by the inadequate evaluation of these factors

Introduction

Relevance of the problem. According to various authors professional service management is the system of both internal and external remedies that create environment for businessmen and employees of audit company where they develop, share and use their and other's knowledge to achieve the best results (Dawson, 2000; Probst & Raub & Romhardt, 2006). Knowledge (capabilities, competence, experience, organization culture, informal networks of organizational relations and organization's human capital) create conditions of risk management culture in business. Knowledge organization has much better possibilities for successful work in the unpredictable and fast changing environment created by globalization processes (Probst & Raub & Romhardt, 2006).

Research done by Western countries authors Dunn J. (1996); Brugman D. & Weistelt M. (1992) etc. allow to judge that differences between expectation of auditors, clients and information users will remain. Auditors' expectation is formed by: (i) National and International audit standards; (ii) national audit regulation; (iii) code of auditors' professional conduct; (iv) juridical and normative acts of the Republic of Lithuania that regulate accounting arrangement; (v) theory and practice of audit. In the meanwhile expectation of the society is generally formed by the flow of public information. Due to insufficient information flow it is considered that company influences audit findings by paying high salary to the hired auditor. Direction misses internal control system and recommendations for business risk management. Audit expectation is poorly surveyed in Lithuania. Therefore it is difficult to judge expectation gaps.

It is tried to review models of audit risk management distinguishing their advantages and disadvantages in this article. It is problematical from the scientific point of view that audit process is dynamical and consists of planning and organization, management and quality control just like management theory. Historically analyzed classical, expanded (O'Reilly, 1990), risk-based audit (Bayer, 1999; Davies, 2001) risk management models do not reflect dynamical audit aspect (Beatie, Fearnley & Brandt, 2002); proposed audit risk management model distinguishes risks related to client and risks related to audit company but ABREMA (Activity Based Risk Evaluation Model of Auditing, 1995) implements both dynamical aspect and guidelines of bank marking theory. It is hardly surprising that the main principles and references of this model fulfil in all important aspects 315th International Audit Standard "Understanding Company and its Environment and Estimation of Significant Distortion Risk" and 330th International Audit Standard "Procedures Accomplished by Auditor According to Estimated Risk" that came into the force on 1st January, 2005.

Authors have accomplished research on purpose to affirm hypothesis that strategies of both knowledge management and learning adapted in field of professional service (audit companies) might be instruments of complex risk management and create cultural conditions of risk management in this business.

Object of investigation – audit risk.

Purpose of investigation – to affirm hypothesis that strategies of both knowledge management and learning adapted in field of professional service (audit companies) might be instruments of complex risk management.

Goals:

1. to distinguish gaps and asymmetry trends of conception of professional service (audit) expectations on purpose to name inadequacies of expectations of auditors and audit information users.
2. to distinguish advantages and disadvantages of risk models in the context of financial audit;
3. to formulate knowledge management and learning strategies that might be adapted in field of professional service (audit companies) and that might be instruments for complex risk management.

Methodology of investigation: a) theoretical methods of investigation – analysis, synthesis, induction, deduction, abstraction and analogy, b) practical methods of investigation – situation modeling.

Gaps and asymmetry trends of conception of professional service (audit) expectations

Audit is service business, therefore compliance with client‘s expectation is the main and the most important auditor’s task. (1) Considerable dynamism, (2) affluence of small private suppliers, and (3) specialization in consulting field is typical for international market of consulting service. Naturally the main condition of consulting service’s appearance in the international market is to adapt service under new conditions in new market. Benefit and advantages provided by consulting service are:

– knowledge is passed directly to managing personnel therefore it does not get old;

– knowledge obtained by specialists is adapted for certain business but not business in general therefore such knowledge is more attractive and easier to accept;

– innovative knowledge is transferred together with application methods therefore it is applied practically in shorter time;

– feedback allows adjusting knowledge and its practical application (experience).

Besides these services absolutely have no tangible elements. Schaffer (2002) points out that consulting helps to find acceptable problem solution much faster. Investigators of services management (Fitzsimmons, 1990; Karapetrovic & Willborn, 2000 et all.) paid attention to international market of consulting services in seventies because gross domestic product made by services industry in developed countries was about 50 % and nowadays it is 70 %. Due to the newness problems investigated by service management became scientists’ object after restoring independence of Lithuania. (Kingman-Brundage & William & Bowen, 1995; Bagdonienė & Hopenienė, 2004) indicate that the most popular services in worldwide market of consulting services are audit, business management, accounting problems, more often become and juridical services.

Majority companies directors who must choose audit company for financial statement audit for accounting year expects conceivable benefit. Idea of benefit creation explains what determine organization’s achievements (Bagdonienė & Hopenienė, 2004). However, research done by Berry & Parasuramm (1996) affirm that results are obtained only after interrelation of all elements, so and proper control, systematic attitude to research of service quality and consumers compliance are ensured. Lovelock. & Vandermerwe & Levis (1996) point out that environment of service offering (micro environment) has influence for both personnel and consumers, i.e. consumers’ satisfaction depends directly on operating personnel whom expectations might be told.

25 questionnaires were sent to companies' accountants and companies' directors and 7 filled questionnaires were received from accountants and 5 filled questionnaires were received from directors. Expectations of respondents mostly did not agree with expectations of auditors while answering these questions of ten (Fig. 1):

– Should audit company note what kind of audit services it provides? (third question);

– Could auditor consult or accomplish some other work for the company in which he is doing audit? (seventh question).

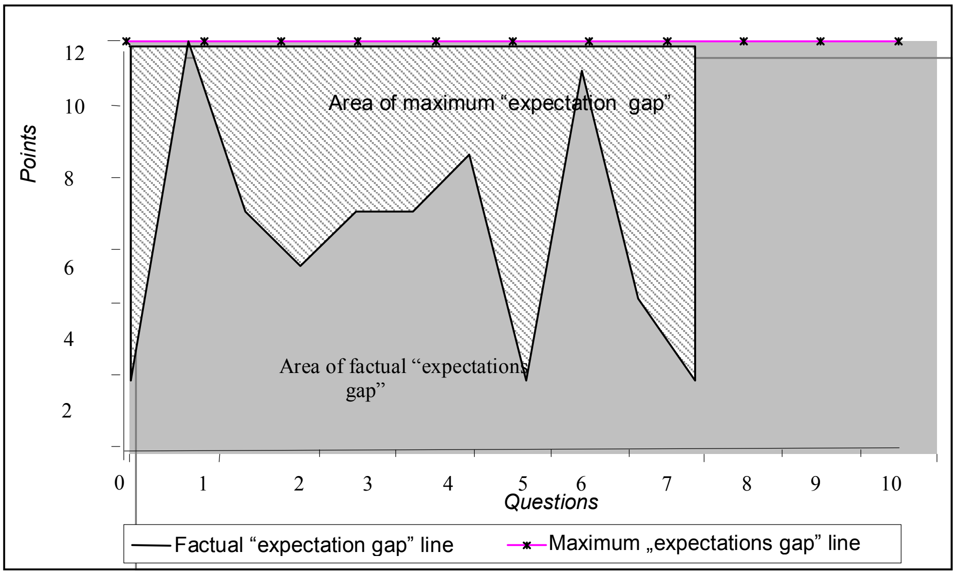

***Fig. 1**. Dynamism of factual and maximum "expectation gap"*

Results of survey showed that majority of respondents thought that auditor might consult or provide some other services for the audited company. Such opinion could be formed because of poor knowledge about auditor's rights. Majority of respondents would like audit companies to notify which audit services they provide. Meanwhile in practice audit companies generally assign audit services to other services (e.g. four biggest audit companies: "PricewaterhouseCoopers", "Deloitte and Touche", "KPMG" and "Ernst and Young"), see Table 1.

***Table 1.** Services provided by four biggest international audit companies*

Name of audit company	*Services according to business area*	*Services according to economy field*
1	*2*	*3*
"Pricewaterhouse-Coopers"	Insurance, business consultations' services; Financial consultations' services; Human recources decisions; Direction consultation services; Outsourcing of business process; Taxing services.	Consumer and industrial goods; Energy and excavations; Financial services; Services industry; Technology and entertainment.
"Deloitte and Touche"	Deloitte consultations; Management decisions; Growing markets group; Financial consultations; Problems of company risk; Human resources consultations.	Financial services; Communications; Excavations; Production; Trade; Health protection; Utilization.

Continuation of table 1

1	2	3
“KPMG“	Consultations; Taxing and juridical services; Financial consultations’ services; Insurance; Audit of financial statements.	Banks; Chemical and pharmacological industry; Communications; Consumers’ products; Elektronics; Food and beverages; Industrial products and cars’ industry; Insurance.
“Ernst and Young“	Insurance and business consultations; Taxing services; Consultation services; Corporate decisions of financially related companies; Business process; Systems’ development and technologies.	Energetics and utility services; Financial services; Insurance; Health protection; Consumer goods, retail; Travel and transport; Social sciences and chemicals; Technologies, communications and entertainment.

Besides, according to results of accomplished survey it might be affirmed that society request for wider assortment of audit services from audit companies. Poor knowledge of majority of accountants and directors who participated in the survey also increases “expectation gap” because directors and accountants due to the lack of knowledge expect more services than auditor might practically provide.

According to opinion of Haksever C. & Render B. & Russell R.S. & Mudrich R.G. (2000) quality becomes a strong factor of competitive advantage. Besides quality is significant factor determining process of service providing and implementation effect of benefit creation conception. However service quality is function of experienced service and expectations. Conception of audit quality is a new conception in theory of service management represented by Karapetrovitch S. & Willborn W. (2000) as well as Leventis St. & Caramanis C. (2005). Authors analyze “total expectations’ gap” pursuant to three individual components:

– expectations that do not meet audit standards (16 %),

– standards with shortages (50 %) and

– reasonless expectations (34 %).

– Society‘s reasonless expectations might be equated to reasoned expectations of financial statements’ users because it is possible to teach financial information users as not all society members use financial information. Society’s reasoned expectations might be determined through society’s teaching related to auditor’s role and audit standards related to this role. Annual shareholder’s meetings and other events for teaching financial information users could relieve society’s teaching about auditor’s role. It is more possible to teach financial information users instead of total society because not all society members use financial information.

Advantages and disadvantages of audit risk models in the context of financial audit

Auditor must estimate possible information distortion in financial statement of audited subject while planning and doing audit. Appearance of audit risk is caused by the fact that auditor might submit incorrect opinion about significant information distortion present in the financial statement. This opinion is accounted in both international audit standards and national audit standards of the Republic of Lithuania.

After analyzing works of both foreign and Lithuanian scientists we have noticed that majority of authors ABREMA (1995), Бычкова С.М. & Растахманова Л.Н.(2003) and Mackevičius J. (1999); Kabašinskas J. & Toliatienė I. (1997) emphasize that audit risk appears when auditor might submit incorrect conclusion about financial statement of the audited company if significant mistakes or distortion present in financial statement had not been observed during audit and so the auditor's fault relating wrongly submitted conclusion is shown up. But Arens A. & Loebbecke K. (1997) propose that while doing audit auditor assumes particular uncertainty level, i.e. audit risk that there is particular uncertainty because of received evidence and uncertainty relating efficiency of client's control system. It is also emphasized in 47th audit standard of the USA "Audit risk and significance of mistake during audit" (SAS). Auditor's chance to make mistake unknowingly offering an opinion is accented in this standard. H. Johnson (1991) after analyzing 47 th SAS propose that Board of Audit Standards chose to define audit risk only as failure to find significant mistakes or distortion in the financial statement. Scientist notices that aforementioned definition is incomplete because:

(i) audit risk is not defined when auditor might submit incorrect conclusion although financial statement is correct and evidence show that conclusion should be changed and audit procedure should be expanded but auditor decides not to change his opinion about properly submitted financial statement;

(ii) risk that is not related to exploration of mistakes and distortion after auditor's incorrect conclusion is not revealed.

6 th Audit Standard of Federation of Russia and Нитецкий В.В. & Кудрявцев Н.Н. (1996) presents wider conception of audit risk: two cases are distinguished when auditor in his submitted conclusion wrongly estimates information presented in financial statements:

(1) auditor might submit positive conclusion and significant mistakes might be found in financial statements.

(2) no significant mistakes are found in financial statements but auditor submits negative conclusion.

In any case auditor should try to reduce audit risk at the maximum while both planning and doing audit because audit risk means certain probability of damage for audit company if auditor had offered basically false opinion. This damage might come through both in terms of money (by paying client or third party as compensation for losses that audit company has caused due to its unprofessional work) and in auditor's reputation and social-moral aspect. On purpose to avoid all this it is considered appropriate for auditor to pay as more attention as possible to estimation of audit risk components and factors that cause audit risk occurrence level within audit process. After analyzing various interpretations of audit risk conception moments that must be estimated when defining audit risk were determined:

1. risk that significant mistakes exist;
2. risk that existing significant mistakes remain unobserved and the made conclusion is wrong;
3. risk that auditor presents false opinion about financial statement and significant mistakes in it.

Audit risk occurrence can not be dissociated from occurrence of its particular elements (inherent, control and detection risk). Inherent risk causes significant information distortion in company's financial statement occurring by itself because of company's business and factors irrespective of it. Control risk shows risk that company's internal control does not detect and correct or prevent significant information distortion. Inherent and control risk are combined to risk of significant distortion (i.e. risk that financial statement was pointedly corrupt before audit) in 200 th TAS "The Main Principles and Purpose of Financial Statement Audit" valid since 15 th December, 2004. Detection risk is risk that auditor does not detect significant distortion.

Auditor must consider risk of significant distortion in all levels of financial statement and economic operations, balance of account and detection and also collect enough of suitable and sufficient evidence as all this would enable auditor to offer an opinion about acceptably small audit risk present in financial statement.

It is emphasized in scientific studies that auditor might use model which mathematically express relation between audit risk components and allows estimating proper level of risk detection while evaluating audit risk.

Underwritten audit risk models are generally analyzed in scientific literature and might be used when estimating audit risk: (a) classical (traditional), (b) expanded, (c) ABREMA, (d) risk based audit, (e) V. Beatie, S. Fearnley and R. Brandt audit risk model. These models are shortly discussed hereinafter.

Classical audit risk model relates inherent, control and detection risk. Relation between components of classical audit risk model is mathematically expressed as:

$$AR = IR \times CR \times DR;$$

here *AR* – audit risk; *IR* – inherent risk; *CR* – control risk; *DR* – detection risks.

Detection risk is changed into risk of analytical procedures and independent tests in expanded audit risk model (Dodž, 1992; Robertson, 1990). Thus audit risk is expressed as:

$$AR = IR \times CR \times AP \times TD$$

here: *AR* – audit risk; *IR* – inherent risk; *CR* – control risk; *AP* – risk of analytical procedures; *TD* – risk of independent tests.

Expanded audit risk model is similar to classical audit risk model by its structure. According to J.C. Robertson (1990) this model still remains as "conceptual instrument". Therefore model's expansion does not make audit more professional although expanded audit risk model helps to understand some selection elements in audit of balance of accounts and economic operations.

Audit risk is divided into two components in ABREMA model presented by Australian scientists:

(1) risk of significant information distortion in not audited financial statement. This risk is divided into inherent risk of significant information risk (RMMi) and risk that significant information distortion is not detected by company itself (I-Pr(De)),

(2) risk that information distortion is not observed by auditor and this risk is equal to one minus auditor's detection probability (1-Pr(Da)).

Thus three components of audit risk discussed in ABREMA (RMMi, I-Pr(De), I-Pr(Da)) correspond to components of traditional audit risk model: inherent risk (IR), control risk (CR) and detection risk (DR).

While describing essence of audit risk V. Beatie, S. Fearnley and R. Brandt (2002) accent that auditor might fail to find significant information distortions or identify them after finding due to three main reasons:

(1) audit was done depart from standards, i.e. auditor is not competent;

(2) auditor does not correct or inform about notified significant information distortion, i.e. auditor has not enough independence;

(3) company's direction tries to mislead auditor on purpose.

In the last case auditor is not responsible for failure to find mistakes while two first reasons are referable to audit failure. New audit risk components such as risk of competence and independence are included into audit risk model grounding that threats able to arise from audit companies are not acknowledged in classical audit risk model as this model pays attention to finding but not solving significant information distortions. Besides (Beatie, Fearnley, Brandt, 2002) proposed audit risk estimation model includes such risk as (1) motivation risk, i.e. as understanding of direction behaviour, (2) risk of specific periods and specific transactions. According to model's authors the latter risk is important because auditor would have to pay more attention for specific accounting periods and specific transactions that depend on direction motivation.

Risk based audit model focus not only on audit risk but also on company-client business risk, i.e. risk that might influence company's profitability and might determine company's survival. Therefore the following must be found during audit:

1. how company-client works,
2. what are company-client's competitive advantages, short-term and long-term objectives, and
3. what short-term and long-term risks it meets,
4. how company's direction a) pay attention to activity's shortages, b) guarantee accuracy of financial information used when making important decisions.

In other words it is necessary to find out all business characteristics of audited company including efficiency of internal control when doing risk based audit. Emphasizing advantages of risk based audit model T.E. Bayer (1999) notifies that auditors in classical audit make all their decisions according to conception of significance while internal control of company-client is not widely evaluated for purposes of audit efficiency as the focus of attention is checking articles of financial statement. Still weak environment of control is important risk of company itself and direction should take it into consideration. While classical audit's attitude "works" with weak environment of control risk based audit identifies these shortages in the way that **direction of company-client must take actions for consolidation of internal control.**

Therefore M. Davies (2001) to some purpose accents that risk based audit risk model provides notable improvement against classical audit model in strongly changing business environment. Specifically this model has these advantages:

1. efficiency – auditor spends more time to make conclusions important for company and financial statement by paying attention to audit procedures in high risk business areas;
2. productivity – due to obtained productivity auditor spends less time for low risk areas that might be left for client;
3. value – by knowing business in all levels auditor might provide more valuable knowledge for business operations which is valuable and necessary for direction of audited company.

Every of discussed audit risk models – classical, expanded, ABREMA, V. Beatie, S. Fearnley and R. Brandt, risk based audit – might be used to estimate audit risk. Regardless that these audit risk models are expressed in simple form, i.e. formula, scheme or table, and might be used in audit process they still:

(1) provide general understanding about audit risk and its components but does not provide method for calculating these risks;

(2) exclude every component of audit risk but do not reflect reliance between components;

(3) appoint that none of audit risk components might be equal to zero because otherwise it would mean that there is no audit risk in the analyzed case;

(4) allow expressing one component of audit risk through the others and to determine significance level and amount of audit tests and procedures;

(5) do not reveal that audit risk and each of its components must be (re)estimated in every stage of audit process, not only at the level of financial statement, balance of account and economic operations (except ABREMA model);

(6) do not reflect other risks that are not included into audit risk model.

It should be noted that analyzed audit risk models (classical, expanded, ABREMA, V. Beatie, S. Fearnley and R. Brandt, risk based audit) have some general advantages and disadvantages that are summarized in table 1 (see Table 2).

Table 2. *General advantages and disadvantages of audit risk models*

Advantages	*Disadvantages*
1) present understanding about audit risk; 2) separate components of audit risk; 3) allow expressing one component of audit risk over the other one; 4) points out that none of audit risk components might be equal to zero; 5) is useful when planning audit.	1) do not provide method how audit risk could be estimated; 2) do not reflect dependence between components; 3) do not show that audit risk and its components must be overestimated within various levels of occurrence and during various stages of audit process; 4) do not include other risks that might determine results of audit.

According to Probst G., Raub S. and Romhardt K. (2006) organizational changes are determined by changes of economical situation. International economical relations and possibilities of organizations to participate in these relations radically change as information economics entrench more widely. Every knowledge organization is also sensitive to external changes and its organizational structure, functions and purposes change dynamically. On purpose to evaluate what strategies of knowledge management could be more effective to one or the other organization’s model map of organization’s knowledge is prepared, critical limitations of knowledge flow are identified and actions plan how to achieve better results in business activity using knowledge management methods is made.

Research done by Lithuania Auditors House showed that strong competition exists in audit market. So quality requirements might be ignored under conditions of audit price dumping as the main goal is quantity. Audit quality depends not only on audit company but also on client riskiness. Theoretic provisions of services management indicate ratio of quality and price for consumer as the main element of competitive advantage. Audit risk control models (classical (traditional), expanded (Dodž,1992; Robertson, 1990; O’Reilly, 1990), ABREMA (Activity Based Risk Evaluation Model of auditing, 1995), risk-based audit (Bayer, 1999), Beatie, Fearnley ir Brandt (2002), proposed audit risk management model partly identify risks of the audited organization and therefore it is necessary to model situations of employees’ knowledge management in audit companies on purpose to form audit strategy properly for every client of audit company.

Instruments of complex risk management

Audit is referable to the type of activity that is related to unavoidable risk. Audit risk means certain probability of damage for audit company if auditor had offered basically false opinion. This damage might come through both in terms of money (by paying client or third party as compensation for losses that audit company has caused due to its unprofessional work) and in auditor's reputation and social-moral aspect (Mackevicius, 2001). The loss of professional auditor's reputation has very severe consequences for audit company. Negative consequences caused by reputation risk determine profit decrease and effect activity of audit company in negative ways Leventis St. & Caramanis C. (2005)

Audit efficiency is discussed wider and wider in all countries. Questions: what should be done, what tests, procedures, actions should be taken so audit would give more use for client and it would be easier to accomplish for both auditor and audit company, are raised.

Maister D.H. (1997) thinks that audit company on purpose to guarantee as higher as possible efficiency of auditors' work must seriously appraise these problems: (1) formation of all levels audit plans; (2) risk estimation in all activity levels; (3) choosing procedures that would allow reducing risk to acceptably low level; (4) appointment of people who have experience and are able to do the provided task.

Global audit theory and practice show that the most important auditor's purpose is to provide benefit for the client. By revealing work shortages and unobserved mistakes auditors provide important and useful information for client's direction and create possibilities to eliminate shortages and increase work efficiency. Results of research accomplished by Hogan C.E. and Jeter D.C. (1999) show that client's benefit is increased evaluating those factors: (1) good work relations – they are based on auditor's understanding and going deep into client's company's organizational structure, business character, managing style, (2) understanding client's business – it is based on understanding about client's business development and its competitive environment.

According to opinion of authors of this article term “risk” might be understood differently in dynamic managerial process and therefore it is hold that this term on approach of audit is determined according to goals of auditors. Several aspects of risk are directly related to audit.

Both theoretical and empirical research shows that not always auditors manage to reveal significant distortion of financial statements. This only affirms need to manage audit risk.

These objective factors are generally given in literature (Collis D.J., Montgomery C.A (1995)) as influencing audit efficiency: (1) geographical location, (2) production characteristics, (3) production particularity. Subjective factors are: (1) properly designated pecuniary liability, (2) motivated payroll on purpose to prevent embezzlement and congruence between employees' qualification and held position, (3) efficient internal control, (4) well-appointed warehouses and accurate instrumentation for weighing and measurements, (5) accurate norms of material intake, (6) strict work discipline and liability, (7) promptly and fairly distributed employees' duties, rights and responsibility.

Definition new audit is met more and more often in the literature and it is used by authors studying risk in audit (Bayer T. (1999), Beatie V., Fearnley S. & Brandt R. (2002)). In essence new audit is common audit but using this definition a few important concerns are accented: to improve audit's quality; avoid possible dangers and troubles during audit and after it; constantly look for new audit accomplishment models; expand audit functions. Aforementioned authors denote that new audit has an important task –to estimate risks arising for clients' companies in more complicated business environment as accurate as possible and show imminences for company entering new industry. New audit, in other words "traditional audit with new approach" means that auditors must try to estimate quality of company's activity and look at the problems of business management more analytically. One of the most important tasks for new audit is that provided services would fulfil client's expectations and auditor's liabilities.

According to opinion of authors of this article strategies of knowledge management and learning adapted in the field of professional services (audit companies) might be complex instruments for risk management:

Thesis was affirmed that knowledge management and learning strategies such as notice and affirmation of honesty and moral values, importance of competence, leaders' philosophy and work style, organizational structure, designation of power and responsibility, human resource policy and practice adapted in field of professional service (audit companies) might be instruments for complex risk management.

a) notice and affirmation of honesty and moral values. Efficiency of control procedures depends on honesty and moral values of people who create, administer and observe them. Honesty and moral values are necessary elements of control environment that influence character, administration and observation of internal control parts. Honesty and ethical behaviour comes from company's moral and behaviour norms and depends on how these norms are declared and applied in practice. It depends on actions of direction that help to eliminate or reduce temptations that stimulate employees to take dishonest, illegal or unethical actions. Values and behaviour norms of the company are declared in code of behaviour norms, order guidelines and by showing example;

b) importance of competence. Competence is knowledge and skills, necessary to accomplish tasks related to certain work. Direction considers level of competence necessary for certain work, and also knowledge and skills necessary for that level;

c) appearance of summit direction. Understanding about company's control is significantly influenced by summit direction. Qualities of summit direction are: independence from directors, experience and status, amount of participation and activity's checking, actions' relevance, received information, upraised complicated questions and observing how these questions are solved by directors, communication with both internal and external auditors. Responsibility of summit direction is accepted and defined in business code and in other rules or guidelines created specially for summit direction. Other duties of summit direction are: supervision of character and effective operation of noticeable procedures and checking efficiency of company's internal control;

d) Direction's philosophy and work style. Direction's philosophy and work style have a lot of characteristics. These characteristics might be direction's attitude to business risk and its management, financial statement (choosing conservative or aggressive accounting principles, honesty and conservative approach when determining accounting valuations), information's processing, accounting function and employees and also related direction's actions;

e) organizational structure. Company's organizational structure is system where actions for realization of company's purposes are planned, performed controlled and overlooked. The main powers, responsibilities and appropriate relations of accountability are considered while planning organizational structure. Company creates such organizational structure which fulfills its demands. Proper company's organizational structure partly depends on company's size and business character;

f) designation of power and responsibility. This factor includes designation of work power and responsibility and also determination of accountability relations and powers hierarchy. It also includes order defining proper business practice, work and knowledge of main employees and remedies necessary for performing duties. Besides it includes order and notification assuring that all employees know company's purposes and understand how their individual actions are related to these purposes and help to achieve them. They also realize how and for what they are responsible;

g) human resource policy and practice. Human resources policy and practice is related to employment, deflection, teaching, valuation, consulting, promotion, and payroll and correction actions. For example, requirements and standards for employing highest qualification employees that emphasize education, work experience, achievements, honesty and ethical behaviour show company's respect to competent and trust worthy people. Training is done at special schools at seminars and it entrenches future position and responsibility and familiarize with proper norms of work and behaviour. Accomplished promotions within periodical employees' evaluation show that company agrees with transferring qualified employees to higher level of responsibility.

Findings

1. Asymmetry trends and gaps of conception of professional service (audit) expectations exist depending on expectations' validity of service suppliers, clients and consumers.

2. General risk models present understanding about audit risk; separate components of audit risk; allow expressing one component of audit risk over the other one; points out that none of audit risk components might be equal to zero; is useful when planning audit, but do not provide method how audit risk could be estimated; do not reflect dependence between components; do not show that audit risk and its components must be overestimated within various levels of occurrence and during various stages of audit process; do not include other risks that might determine results of audit.

3. Thesis was affirmed that knowledge management and learning strategies such as notice and affirmation of honesty and moral values, importance of competence, appearance of summit direction, leaders' philosophy and work style, organizational

structure, designation of power and responsibility, human resource policy and practice adapted in field of professional service (audit companies) might be instruments for complex risk management.

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