AUDIT PROCEDURES REGARDING THE INFORMATION THAT MUST BE CONTAINED IN THE FINANCIAL SITUATION OF CREDIT INSTITUTIONS

Vlad Mariana,

"Ştefan cel Mare" University of Suceava, University Street, no. 9, Suceava 720225 Romania, 0230/216147, e-mail: *marianav@seap.usv.ro,*

Vasilache Vasile

"AL.I. CUZA" University of IaşI, Carol I Street, no.11, Iaşi, 700506 Romania, 0744538413, e-mail: wasilachecristi@yahoo.com

The auditors must obtain sufficient adequate audit proofs, to be capable of issuing the reasonable conclusion upon which the audit opinion must be based on. The great majority of the audit evidence are collected from the interior of the audited entities, having as base the accounting evidence, which include in general the initial and justifiable accountancy registrations.

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Starting from the peculiarity of bank activities, global knowledge of the credit institution, as an objective of the audit plan, has as purpose not only identifying the operations, product and services offered to the customers, but also identifying the risks that can have a significant incidence upon the accounts, conditioning in this manner the initial control planning and the ulterior mission planning. In this manner, the auditor must pay attention to: conjuncture factors of the monetary market: performances and decline, main bank transactions, corresponding banks, anterior financial reports, degree of introducing and extending of informatics' technology, accounting system and internal control system, respectively: accounting policies adopted by the bank and their evolutions in the previous years, estimations contained in the audit reports of the last years, used procedures by the anterior auditors, realized tests, contained findings in the control document and their capitalization, account examination and balance sheet content, respectively: identifying the assets and liabilities by their inventory and their result capitalization, functioning of the computerized accountancy and financial information systems in order to identify interruptions, falls, errors, interior or exterior bank frauds, correct asset and liabilities representation in the balance sheet, of the capitals and of the results, establishing the significance limit and audit risk evaluation. So, the domains where the auditors and the assistants can be solicited for some knowledge are very vast and for completing the engagement, the auditor will solicit sufficient expertises on bank aspects, that must be relevant for the bank activity audit and expertises in the informatics technology system and communication networks used by the bank.

The auditor must obtain sufficient adequate audit proofs, to be capable of issueing the reasonable conclusions upon which the audit opinion must be based on. The great majority of the audit evidence are collected from the interior of the audited entities, having as base the accounting evidence, which include in general the initial and justifiable accountancy registrations as: verifications and registrations of the electronic fund transfers, bills, contracts, general journal and annual accounts book, accounting registries and other financial fittings that are not reflected in the official accounting registries; other evidences as working documents and cost calculation sheets. Among these information provided by the audited medium, the auditor must solicit collateral information, afferent to the external medium of the audited entity, based on received confirmations from commercial partners, other credit institutions, evaluative agents, etc. The procurement of the audit evidences, with the purpose of reaching some reasonable conclusions, based on which the auditor can fundament his opinion are done through audit procedures, so that the auditor could: obtain a good understanding of the entity and its medium, inclusively internal control, for evaluating the risks of some significant defalcations at the level of the financial situation, called "risk evaluation procedures", to test when it is necessary the operational efficiency of the indicators in preventing or detecting and correcting the significant defalcations of the financial situations, called "control tests" and to be able to detect significant defalcations through "fund procedures", including here all the detail tests for transactions categories, balance on current accounts and presenting information by means of the "fund analytical procedures". Regardless of the procedure chosen to collect audit evidence, rarely one of these can be the only method for obtaining an audit certainty. When it is used in conjunction with other audit evidence sources, each procedure can still provide and important part of the reliability of the audit evidences. The auditor must chose professional audit procedures and their application level, in order to optimize the audit mission, from the viewpoint of the process time but also of audit costs. In those circumstances, choosing the adequate procedures is a professional reasoning problem. Applying the audit procedures imply usually the selection of some elements out a multitude, which will be tested by the auditor, and based on which the auditor formulates his opinion extrapolating the obtained results of the entire multitude.

As a conclusion, during all his mission, the auditor seeks to obtain the proof elements that permit him to certify upon the annual financial situations, using procedures and techniques regarding the control of the justifying documents, physical observation, analytical exam. For obtaining the evidence elements, the control techniques used are the following: physical inspection and the observation, direct confirmation from a third party, examination of the documents, arithmetic control, analysis, estimations and confrontation between information and documents, analytical examination.

The credit institution accountancy has as essential function to exhaustively register economical-financial operations with the purpose of periodically obtaining and presenting under the form of a synthesis - financial documents, the patrimony situation and also the global result. There is a consensus in affirming that the financial documents must provided those who use them the necessary information needed in decision making. And still, although it is a question of an essential thing in determining the assigned objectives of the financial documents, is difficult to make a user hierarchy and to specify their own needs. The main users of the contained information in the annual financial situations of the credit institutions are: Board of Directors of the credit institutions, shareholders wishful to know the use mode of their bank contribution, National Bank of Romania as an issuance and control centre of the circulation money, financial organisms as budgetary income collecting organisms, customers, debtors and creditors, depositors in current accounts or deposits, stock market companies, other credit institutions with which the credit institution comes into credit and loaning relations, security operations or other businesses.

At credit institution level, accounting synthesis works are done periodically, consisting in general situations or on components of the economic mechanism, from which it can synoptically result the assets and passives, solvency, capitalization, debt degree and other information. The accounting synthesis papers are made according to the legal provisions, half-yearly and annually and at any time the situation asks for it, as new share issuance, merger, reorganization, change of unit's administration, etc. In an ensemble view, the annual situation is materialized in the annual financial situations (or annual accounts). According to the banking legislation in force, the credit institutions are obligated to present the National Bank of Romania their financial situations, done on individual base and, if there is the case, on consolidated base, only after have been audited by the approved financial auditors of NBR. Starting with January 1, 2006, the credit institutions must make also a different set of financial situations, corresponding to the International Financial Reporting Standards for proper information need of the users. The main components of the financial situations drawn up by the credit institutions are similar to the ones that must be done by the economic agents, as the following: the balance sheet with structures specific to the credit institutions, profit and loss account with structures specific to the credit institutions, the situation of proper capital modifications, situation of the treasury flux, annotation in the annual financial situations. The information contained in the synthesis situations are grouped in general on financial years (reporting and previous year) for creating the possibility to follow the dynamic of the patrimony evolution, types of credits and loans, in lei and in foreign exchange, on destinations, residents or non residence customer groups and depending on many other characteristics.

The diagram of the ***balance sheet*** for the credit institutions is different of that for economic agents. In this manner, the elements of the active patrimony are registered in their liquidity order. The first elements are the cash, reserves in current bank accounts, and the immobilizations are registered at the end of the assets. The liabilities contain the bonds or debts in the order of sight or term due date, and the capital with its components are registered at the end of the liability. From this perspective we can conclude that a priority attention is given to the actual and perspective solvency analysis. Besides the asked information of other international accountancy standards, the balance sheet must contain specifications, at least at the following asset and liability elements that are to be audited (see table).

ASSETS	LIABILITIES
1. Balances of account other bank	1. Deposits from other banks
2. Instruments on the monetary market	2. Deposits received from other sectors of the monetary market
3. Securities held for transactions	3. Capital and reserves
4. Other financial assets	
5. Investments in branches and associates entities	
6. Credits	

Table: Balance sheet for the credit institutions

The following audit procedures does not constitute an exhaustive list of procedures that can be taken and it doesn't even represent a minimal requirement according to which these must be taken. When auditing the *balances of account other banks*, the auditor must have in view the confirmations from third parties. If the balance held by other banks is the result of a large number of transactions, receiving the confirmations from other banks is a more convincing proof regarding the existence of the transactions and resulted inter-banking balances, than in the case of adequate internal controls. Also, the auditor takes into consideration if the accounts balances at other banks, existent at the date of the financial situations, are the expression of the good-will commercial transactions or if any significant variation towards the normal levels or stipulated reflect the transactions done mainly to form an non-natural impression upon the bank's financial position or to improve the liquidity indicators and asset rates. Where the cosmetization phenomenon appears in a form in which distorts the perfect image of the financial situations, the auditor asks the administration to adjust the balances presented in the financial situations, or to make supplementary information presentations in the annotations. If the administration cannot do this, the auditor takes into consideration the modification of the audit report. In auditing the following balance elements: *instrument on the monetary market* and *securities held for transactions,* the auditor must take in consideration the need of making a physical inspection or confirming the money amounts with the external custodian credit institutions, and also confronting the amounts with the accounting registries. Takes into consideration if he must test the corresponding registration based on engagements of the obtained income from monetary market instruments, if the relation between the owned securities and afferent input is a reasonable one, if all the significant profit and losses from selling and re-evaluations have been reported accordingly to the financial report framework. In discovering some debts and unregistered losses, the auditor tests the existence of agreements of term selling and rebuying. When they evaluate the instruments on the monetary market, will keep in mind the adequate degree of the evaluation techniques used in proportion with the issuer's creditworthiness, while in the evaluation of transactional securities, he will take into consideration the financial report framework, in which are prescribed different evaluation basis for the securities classified in the banking system, depending on the purpose for which are owned: transaction, portfolio investment or for anti-risk coverage. If the administration' intentions change, the used evaluation base also modifies, meaning that the possibility of modifying the asset classification offer the administration the possibility towards a fraudulent financial report, being available the recognition of a profit or avoiding the recognition of a loss. As a consequence, when the securities have been transferred from one category to another, the auditor should obtain sufficient and adequate evidence for supporting the statements and financial situations according to the revised intentions. *Other financial assets* are those elements that suppose some current fund investments, as the acquisition of security assets. The auditor must examine the base documentation for supporting the buying of these assets in order to determine if all the rights and obligations (as are the liabilities) have been correctly accounted. Due to the fact that there are no markets for such assets, is difficult to obtain an independent proof of their value. For that, in their evaluation the auditor must take into account the adequate degree of the used evaluation techniques as the nature and extent of any devaluation analysis that the administration has made and if the results are reflected in the asset value. In many cases, *the bank investment audit in subsidiaries and associated entities* is not different from the audit of such investments owned by any other entity. Still there are some special aspects that create some problems regarding the bank operations. So, the auditor takes in consideration if the afferent financial obligations are registered as debts of the bank and will pay attention at the implications of any legal or practical requirements so that the credit institution shall provide future financial support or ensuring the maintenance of the subsidiaries' operations and associated companies. The main audit concern is to make adequate the registered provisions for the *credit* afferent losses. For establishing the nature, extent and period of the activity to be developed, the auditor takes into consideration the following factors: the trusting degree that is reasonable for establishing the specific bank system for classifying the credit quality, ensuring procedures that all the documentation is correctly finished, internal credit revision procedures and internal audit activity, information examination based on which the bank evaluates and monitors the country risk and the criteria used for this; make up the credit portfolio, with a special attention for: concentrating the credits towards the debtors, commercial and industrial sectors, certain geographical regions, certain countries, increase for representation of the personal credits (a few valuable credits versus a lot of small value credits); credits given to the affiliate parties; for non performance credits a special attention is given to the previous years, regarding expenses and examinations done by the regulatory organisms. Besides those non performance loans identified by the administration and where is the case by the banking regulation organisms, the auditor takes into consideration the supplementary information sources for discovering the credits that could not be indicated up to then. These include: different internally generated lists, as credits presented in pursuit lists, bank loans in arrears, non engaged credits, personnel credits, etc. In auditing the depositors' deposit accounts, the auditor evaluates the internal control system upon the depositors' accounts, taking into consideration also the process of analytical procedures and confirmation of medium balances and expenses with the interests for evaluating the acceptability degree of registered deposits' balance. Also, it determines if the obligations afferent to the deposits are classified according to the regulation norms and relevant accounting principles. When the credit institution presents a risk due to the economic dependency of some important depositors or when there is an excessive due-date deposit concentration in a certain moment, the auditor takes into consideration the necessity of presenting information. The banking regulation authorities give a special attention to the capitals and bank reserves in the monitoring process at the bank activity level and determining the dimension of the bank operations. Minor changes concerning the capital or the reserves can have a great impact upon the credit institution' capacity of continuing to function, especially if there is close to the permitted minimum level of the capital indicators. In these circumstances there are great pressures on the administration to get involved in fraudulent reports by a wrong classification of the assets or liabilities or by their description as being less risky then in reality. So, the auditors take into account: if the capital and reserves are adequate regarding the regulation purposes, if the information presentations have been accounted and if these are correspondingly and according to the legislation applicable for the financial reports.

In the **profit and loss account** are presented on one side, the registered expenses in the reporting period and on the previous period (fiscal activity), in total sum or on structure, and on another side, grouped similar incomes and expenses.

In principle, based on the difference between the incomes and expenses the year result is obtained: profit and loss. Normally, two of the most important elements for determining the banks' profit are the interest incomes, respectively expenses afferent to the interests. These have a direct relation with the assets, respectively interest liabilities. For establishing the correctness degree of these relations, the auditor must examine the degree in which the reported incomes and expenses vary regarding the accounted values based on medium balances and declared rates of the banks during the year. Such an examination can determine the existence of some significant values of non-performance credits or unregistered deposits. Plus, the auditor can take into consideration how reasonable the bank declared rates are in comparison to the ones that characterized the market during the year for similar credit and deposit classes. For the deposits afferent debts, this kind of evidences can indicate the difficulties linked to liquidity or financing. In the same manner, the commission incomes, constituting also a massive component of a bank's profits, generating usually a direct relation with the obligations volume afferent to the sources that the commissions have been gained. So, the auditor must take into account if the registered value is complete and with the analytical procedure analysis must establish if the reported amounts are reasonable. Among these aspects, the auditor must verify if the incomes refer to the period covered by the financial situations and if are accounted according to the applicable financial reporting framework.

The bank must provide in the **Annotations** the following information: - the nature and sum of the irrevocable credit engagements; nature and sum of the engagements besides the balance, as: financing engagements – in favour of other banks, received from other banks, in favour of the clientele or received from the financial clientele, liability engagements given to other banks, received from other banks, given to the clientele or received from it, an analysis of the assets and liability elements, classifying them into a significant manner depending on the due-date, depending on the left period from the balance sheet to the contract due date, accounting method used for observing and get to losses of the doubtful/irrecoverable collectives; details referring the provisions' movement for irrecoverable collectives losses; the total amount representing the provision for debt losses; reserves made for the bank risk out of the gross and net profit if are presented separately, global sum of the assured liability elements, also the nature and accountancy value of the assets given for security.

Taking into consideration these requirements, the auditor must establish if the annotation at the finance situation of the bank are in correspondence with the framework applicable for the financial reports, pursuing that for each information, to control its presence and realization.

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