THE FINANCIAL AUDIT – THE GUARANTOR OF THE TRUE AND FAIR VIEW SUPPLIED BY THE FINANCIAL STATEMENTS

Boța-Avram Florin

Babeş-Bolyai University, Cluj-Napoca, Faculty of Economical Science and Business Administration, St. Teodor Mihali, No. 58-60, 400591, Romania, botaavramflorin@yahoo.com, Tel: 0740-886491

Matiş Dumitru

Babeş-Bolyai University, Cluj-Napoca, Faculty of Economical Science and Business Administration, St. Teodor Mihali, No. 58-60, 400591, Romania, dmatis@econ.ubbcluj.ro, Tel: 0264-418652

Abstract Financial audit has the finality the issue of an opinion regarding the measure in which the financial statements are in according with the supreme scope of true and fair view and the respecting the referential of relevant accounting norms. Because of the subjectivity of this concept of "true and fair view" we can't say that there are relevant instruments for measuring the level of fidelity reflected by the financial statements. Despite the fact that the auditors know that there is no formula, mathematical or other nature, through which to measure, quantify the level of the fidelity, but they have the knowledge and the capacity needed to identify at least those situations in which the true and fair view is not respected, using the professional judgment for establishing the level in which the financial statements gives a true and fair image.

Key words: financial audit, financial auditor, true and fair view, financial statements

The role of the financial auditor is to increase the trust of the users in the financial information presented in the financial statements, to give a reasonable assurance that the accounting information was managed and presented in conformity with the accounting standards and with the general accepted accounting principles. In this way, *International Audit Standard (ISA) I20 "General framework of the audit standards"* says at the third paragraph:

"… the financial statements are made and presented annually and are designated to the common needs of informing of a large number of users. Most of these users take their decision based on these financial statements, being the only source of information, because they have no possibilities to get additional information which should satisfy the specifically informational needs. So, the financial statements should be made in according with one or combination of: International Accounting Standards, National Accounting Standards; and another general framework of financial reporting compulsory and comprehensive, which was settled for using in financial reporting and which is identified in the financial statements".

For underling the essence of the financial audit, the sense of containing and his scope, we consider that one of the relevant definitions of the financial audit is that one issued by the famous American specialist[294]: *"The audit consists in collecting and evaluating some evidence regarding information, in the scope of determination and reporting the level of conformity of the information regarding to a series of pre established criteria. The audit should be realized by a competent and independent person.*"

In our opinion we consider that a definition which could completely reflects the essence of the financial audit would be:

„The financial audit is an examination realized by a competent and independent professional person, in that manner in which he can express an opinion very well argued and independently issued, regarding the validity and fairly applying of the standards and accounting principles from the initially referential system agreed and regarding the true and fair view, clearly, coherent and completely expressed in the final financial statements established and presented by a company, the supreme objective of the audit is that one to contribute at the improving of the quality of audit using."

[294] Arens A.& Loebbecke K., (2003), *Audit: O abordare integrată*, Editura Arc

The objectives of the financial audit are presented in the *ISA 200 "The objectives and general principles which governance an audit of the financial statements*" and in according with this the **objective of an audit** of the financial statements is to give the possibility for the auditor to express an opinion regarding the financial statements, if these are established respecting all the significant aspects in conformity with a framework identified by the financial report.

The expressions used in the issue the auditor opinion are **"give a true and fair view"** or **"present in a fidelity mode, respecting all the significant aspects",** terms which are equivalent. For issuing an opinion the auditor have to get the audit evidences enough and adequate, in the measure to be capable to formulate conclusions which will be base for its opinion.

The opinion of the auditor increase the credibility in the financial statements and give a higher level but not an absolutely of certification. The absolute (ideal) level of certification is impossible in audit because of few factors like:

- The necessity of applying the professional judgment of the auditor in his work;
- Using the tests for getting the audit evidence, which are mate on some sample, the testing of the whole information being very difficult even impossible;
- The most number of audit evidence available, through his nature are rather persuasive than conclusive;
- The obviously limits of every accounting systems and internal control.

Despite of increasing of the credibility in financial statements due to auditor opinion, the user of the financial statements do not have to consider the auditor opinion issued in the auditor report the absolute assurance, guarantee of the next viability of the company or of the company efficiency or its productivity generated by the management of the company. We saw the finality of the financial audit mission: the issue of an opinion regarding the measure in which the financial statements respect the supreme condition of true and fair view, and also the conformity with the relevant accounting standards.

Thinking at the fact that the defining the concept of true and fair view is a very moot situation is very hard to measure the level of the objectivity of the issued opinion of the auditor. This difficulty is generated by the fact that we do not have defined the objective instruments for measuring of the fidelity reflected by the financial statements. It is true that are issued norms and accounting standards and audit standards which applying should conduct at the true and fair view but at this moment we do not have a general formula to guarantee the quality of the true and fair view.

With this entire obstacle, the financial auditors faced this challenge having a permanent concerning for improving the method thus to obtain a high level of objectivity and assurance in expressing the opinion regarding the true and fair view. They use the principle that they have at least the necessary knowledge, they have the necessary qualities to identify those situations in which the true and fair view is not respected. To the professional judgment is assigning a major contribution in realizing their demarche in appreciating the true and fair view[295].

For a better understanding of the financial auditor role in evaluating the true and fair image supplied by the audited financial statements, we have to consider few elements specific for the financial audit which can have an influence in evaluating the quality of the true and fair view reflected by the financial statements:

- First of all, the financial auditor will check the conformity of the financial statements with some criteria defined before or much better with a referential accounting system. If this referential system includes the general accepted accounting standards than we can settle the hypothesis that respecting these norms in establishing and presenting the financial statements will assure in the most situations the respecting of the true and fair view. But we can't take to the absolute the certitude given by the respecting of the accounting standards, and this because the standards have settled some situations when it is possible to use alternative treatments, some derogation, in the context in which in this way it contributes to a better true and fair view supplied. These derogations represent the prove of the facts that standards didn't forecast all the complex situations, which could appear in daily activity of a company,

[295] McKee T.E.& Eilifsen A., (2000), W*hat is all the fuss about materiality*- Ohio CPA Journal, October-December, Vol. 59 Issue 4

and that emphasize the relative character of the true and fair view resulted by respecting the accounting standards.

- Another element that we have to consider is the fact that the financial auditor can't check or test every transaction that generates effects in the financial statements because the limited time allocated for the auditing. Because of this we have to accept from the beginning the error rate which could not be eliminated. We can notice here another aspect: **"Which is the level of this error rate which should be accepted, thereby the opinion issued regarding the true and fair view reflected by the financial statements to give a reasonable assurance level?"** The level of this error rate or significant threshold is very important, with direct effects for appreciating the quality of true and fair view reflected by the financial statements. The audit standards define the significant character of information being determinate by the effects which could have the ignorance or its inexact presentation on the economical decisions of the users of this information.
- Another important element is the link between the significant threshold and the user whom is addressed the audit report, the concrete form of the audit work. So, the auditor, when is establishing the significant threshold have to take into consideration the type of user whom is addressed the audit report, and the needs of information of this one. Practically, he has to identify the connection between the economical decisions which could be taken and the information presented in the financial statements. Depending of this connection, he will try to find that errors which if they appear they could have an important influence for the decisional process of the users of the accounting information and depending of these errors he will settle the significant threshold under that limit that the decisional process wouldn't be affected.

The importance of the right establishment of the significant threshold is important because of the next reasons:

- If it is settled at a lower level than is necessary we can have the risk that in the time dedicated to the audit mission to work much more in collecting the data and evidences which would be irrelevant;
- On the other side if the significant threshold is settled at a higher level than is necessary we can have another risk, that one when some important errors, with significant consequences on the decisions of users, wouldn't be detected and in this way the auditor to issue an opinion which assure the true and fair view of the performances and financial position of the company, but in the reality the situation is an opposite one.

The establishing of this significant threshold supposes two difficult problems like:

1. Which are the criterions which the auditor has to consider for settle the significant threshold?
2. How could be dimensioned the correct level for significant threshold for some or another audit mission?

In the most developed countries were made some empirical studies[296] for finding eventually relevant connections between accounting information supplied by the listed companies at the stock exchange and the quotation existing at the bourse. Despite of relevance of some interesting elements of these empirical studies, no one proves any utility for the financial auditors, which try to establish a level of the significant threshold which is a benchmark in the auditing of the financial statements. But these studies underline that the significant threshold is related to the level of the profit because this indicator reflects in the best way the performances of a company in a certain time.

The practical activity proves that the level of the significant threshold settled related to profit varies in an interval between 1% and 10% from the profit, considering in the same time also the criterions like: the company dimension, the specific of the developed activity and, of course, the professional judgment of the auditor. Starting from these premises appears the next question: *Which is the most relevant level of the profit whereat it should be settled the level of the significant threshold: gross profit or net profit?* But it could appears the situation when the profit for some period is out of the normal graphic of normal evolution, and in these circumstances there are used other indicators such as: total assets, total turnover, net

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[296] Gray, Manson S., (2000), *The audit process: principles, practice and cases*, Editura Business Press, ediția a II-a, SUA

assets, or a combination between these. We don't have to forget the fact that in settling the indicators that will be considered for establishing the significant threshold we have to analyze a series of aspects: the domain of activity, the level of company, the specificity of the activity of the company, the environment of every company, and of course the professional judgment of the auditor which is affected by the experience and his professional preparation.

The finality of an audit mission of the financial statement is the audit report issued in the final form. The result of the auditor work is concretized in elaborating the audit report, this representing the instrument through which the auditor communicate to the users of the accounting information the characteristics of the financial statements, his argued opinion with the audit evidences, regarding the quality of the establishing and presenting the financial statements, and, of course, regarding the true and fair view reflected by the financial position, financial performances and the changes of the company positions. The signature of the auditor on the audit report should not be underestimated, because this represents a "certificate" which assures a reasonable level regarding the quality of the audited financial statements.

Considering the audit evidences from the audit process and the conclusions after the analyzing of these evidences, the auditor can issue one of the next opinions:

1. **opinion without reserves**

An opinion without reserves has to be expressed when the auditor can conclude that the financial statements present a true and fair view (or show, regarding all the significant aspects, with a high fidelity the financial statements), in according with the general framework of settled financial reported. An opinion without reserves indicates, also, in a deductive mode, that any changes which appears in the accounting principles or in the applying methods of those, and also the effects of these changes were implied and presented correctly in the financial statements.

2. **the opinion with reserves**

An opinion with reserves has to be issued in that situation in which the auditor gets at the conclusion that he can't issue an opinion without reserves, but the effect of any dissonance with the management is not such significant and profound in that measure to be compulsory an adverse opinion or the impossibility of issuing of an opinion. Generally, there are two factors which imply the issuing of an opinion with reserves, and these are:

- Some elements that determine the auditor not to be able to apply all the audit procedures needed for getting the audit objectives, such as the situation that the auditor didn't get the confirmations regarding some liabilities of the client. If the weight of these is significant reported to the total of liabilities, than the auditor can't appreciate objectively the fidelity of the statements regarding the liabilities presented in the financial statements, in this way, being forced to issue an opinion with reserves.
- The situation in which the auditor applies all the necessary audit procedures, in conformity with professional standards, but he discovers some significant errors in the audited financial statements, errors which are not such severe that to imply the issue of the adverse opinion, but imposes the necessity of the issuing of an opinion with reserve.

It is compulsory to mention in the audit report all the significant aspects which implies the issuing the opinion with reserves. This opinion is not an unfavorable one for the client who calls for the audit of his financial statements, because it implies an interpretation like this one: the financial statements present through their assembly a true and fair view, excepting some elements, which, from the point of view of the auditor, can't be used in the substantiation of the decisional process.

3. the impossibility of issuing of an opinion

The impossibility of issuing of an opinion appears when the effect of the limitation of the sphere is such significant and large than the auditor can't get enough audit samples and in consequence he can't issue an opinion regarding the financials statements. An example, in this way, is that one where the management has a negative influence, directly or indirectly, on the process of collecting audit evidences. Another factor that can have an influence for the financial auditor to pronounce the impossibility to issue of an opinion is that situation when there are some uncertain events, which could have an important impact for the financial statements, and because of this reason appears the impossibility to issue an opinion regarding the financial statements till that event haven't place, more exactly a trial which can have the finality in wining or losing the trial and the loosing the trial determines an uncertain future for the company.

Is absolutely necessary to mention in the audit report the reasons that cause the impossibility of issue of an opinion, but without insisting with explications and justifications, for implying subjective interpretation by the user, and this will give to this report a higher credibility than it's necessary.

adverse opinion

An adverse opinion will be issued in that situation in which the effect of an discordant elements is such profound and significant for the financial statements, and the financial statements didn't respect the true and fair view, than the auditor will conclude that is not opportune the issue of an opinion with reserves in the scope of presentation of the incomplete nature or distort of the financial statements. The impact for the user's perception of the adverse opinion is very strong, the message sent being that one the financial statements are completely wrong, they don't give a true and fair view and they mislead. We can consider that the adverse opinion is a warning regarding the quality of the financial statements, and these can't be used in the decisional process.

In the next table we will try to synthesize the types of the opinion which could be inserted in the audit report and also the criterions which imply the issuing of these types of opinion:

No.	***Types of opinion***	**Criterion which implies the issuing of these types of opinion**
1.	***Opinion without reserve***	• **the audit objective was touched** • **there is no significant incertitude** • **there were respected the accounting standards from the referential system settled**
2.	***Opinion with reserve***	• **the objective of the audit was not correct touched, but is possible to be issued an opinion** • **the accounting referential settled was not totally respected or the presentation of the information in the financial statements was not the most proper one, but the auditor considers, in this condition, that the criterion of true and fair view was respected in the assembly of the financial statements.**
3.	***Impossibility of issuing of an opinion***	• **the audit objective was not touched** • **there is significant incertitude with important impact**
4.	***Adverse opinion***	• **the deviation from the reporting criterion is so high that the financial statements don't reflect a true and fair view.**

Table no.1 „Types of opinion in the auditor report"

Conclusions:

1. the financial audit gives a reasonable character of assurance regarding the quality of the true and fair view reflected by the audited financial statement, and this starts from the fact that the financial auditor in getting the audit samples, which are the base of his audit opinion reflected in the audit report, was not confronted with significant anomalies.
2. the significant character is determined by the significant threshold settled at the beginning of the mission, being obviously the connection between the significant threshold settled at the mission start and the quality of appreciating the true and fair view supplied by the financial statements
3. the level of assurance from the financial audit is reflected by the type of the opinion issued through the financial audit report, which represents a message meant to the users of the financial statements regarding the quality of the audited financial statements and the quality of true and fair view reflected by the financial statements.

4. we appreciate that the financial audit gives a guarantee for the quality of the true and fair view supplied by the financial statements, and even if this isn't an absolute one, we consider that the auditor's contribution is very important for the increasing the quality of the financial statements drawn up by the economical entities.

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