

EXIGENCIES AND RISKS CONCERNING THE MISSION OF FINANCIAL AUDIT

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Abstract: The realization of a mission of financial audit in our country is realized with the respect of the International Standards of Audit, which confers the general frame adequate to such a step. The practical activity proved however that the actual realization of the mission involves detail elements which, at the extent at which they are considered, can contribute to the increase of the quality of the audit in its entirety. Having as premise the ones exposed, within the present work we debate aspects like the assumption of some increased responsibilities and exigencies in exerting the mission, the reduction of the risk regarding the incorrect information as well as the influence exerted by the particularities of the sector of activity of the entity audited that in our opinion have to be considered by the auditors during the entire duration of the mission assumed.

Key words: accounting information, financial audit, exigencies, risks

Introduction

The financial audit represents a relatively new profession in our country that defined itself and developed significantly with the creation and consolidation of the market economy. Most of the specialists from the field admit and we agree to such opinion that the foundation of this profession has been laid as far as the actual regulations are concerned as well as regarding the insurance of an adequate frame for the exertion of this one through the Chamber of Financial Auditors of Romania. This way the professionals in the field have professional standards, an ethical code and regulations that allow them to exert the missions responsibly, objectively, professionally and independently, thing denoting that the premises necessary for ensuring the performance of the financial audit services under conditions of exigency and high quality have been created.

Despite all these, the exertion of each mission of financial audit represents a true challenge, because diversity and complexity characterize the practical reality by and the auditor has to prove his competence and experience so that the general objective of the mission is reached successfully. This assumes preoccupations regarding the improvement of the professional, theoretical and methodological knowledge adequate for the audit of the financial situation afferent to an economical entity with a certain specificity of activity, the use of the professional reason, the adequate adaptation of the procedures and instruments of work used for the accomplishment of the engagement assumed.

Increased responsibilities and exigencies within the context of the corporate governance

It is well known and accepted that the audit of the financial statements represent a service of certification by which a written report is issued and within this one it is expressed the opinion of the auditor regarding the conformity of the financial statements of an entity with certain pre-established criteria that are normally the standards generally accepted in the field. This report becomes more and more an essential instrument used in the substantiation of the economical decisions or of the ones concerning the public interest.

Although this report is useful and interesting for a large category of beneficiaries (partners, financiers, banks etc), the main users of this one are the shareholders of the entity. This ones cherish the insurance given by the auditor due to the independence from the management of the entity as well as to his knowledge in the field of the financial reports.

We think that this aspects also has to be considered from the point of view of the corporate governance and we are going to briefly present a few reasons that sustain this approach below.

As we know the shareholders of an entity are divided from the point of view of the structure in two significant categories: dispersed, encountered especially in the United States of America and in Great Britain and concentrated, specific for the European space and especially for Germany and France. When talking about the realities specific for Romania, the structure of the shareholders registers in the second category mentioned characterized by the existence of a dominating group of shareholders that have the control over the company and pay the main part in the appointment of the executive management of this one. Under such circumstances, we consider possible the existence of a relatively high level of risk as far as the managerial assertions from the financial situations are concerned meaning that there can be misrepresentations that favor the shareholders that own the majority of the shares and whose interests are most of the times different from the ones of the other shareholders or of other parties that have interests within the entity. Also, the specialty literature underlines the fact that the main problem of the corporate governance in this type of property structure is the relations between the group of shareholders that have the control and the others shareholders of the company. Within this context, we consider that for the expression of his opinion of fidelity the auditor has to obtain audit evidence that are enough and adequate as length, this way acting for the reduction of the risk mentioned by the creation and execution of some adequate work procedures that are according to the International Standards of Audit, to the legislative and regulation referential also relaying on his professional judgement, on his aptitudes and practical experience, especially as far as the nature and length of the procedures of audit is concerned. Such a demarche is even more necessary because in our country the principles of the corporate governance weren't a major preoccupation of the companies, aspect favored among others by the legislative insufficiencies like the concept of independent management that isn't found not even in the listing conditions at the stock exchange. Moreover, we can remember that the implementing of the principles mentioned within the companies among which the transparency occupies a main place, has been made very slowly in order to protect the interests of the shareholders that own the majority of the shares and who in many situations represent a single shareholder. The relevant aspects give us the right to assert that it is imposed an increases responsibility of the auditor in such situations who by his position of independence can participate at insuring the exigencies regarding the transparency and implicitly at the diminution of some undesired effects of the corporate governance. We also mention the fact that the transparency, as principle of the corporate governance, has a relatively large scope, including the operations of the entity, the process of audit on the whole and the communication regarding the financial results obtained (Morariu and Stoian, 2006).

The risk regarding the offer of incorrect information

Another important aspect for the accomplishment of a mission of financial audit is the preoccupation for the increase of the level of credibility of the information contained in the financial statements and implicitly, the significant diminution of the risk regarding the communication of distorted information. The auditor can't neglect the fact that by the opinion expressed within the audit report can influence favorably or unfavorably the decisions that can be adopted by the beneficiaries of this one, aspect due precisely to the increase of credibility given to the financial-accounting information. The risks reminded could be considerable decreased by the rigorous use of all the work procedures and techniques that are imposed, without reductions as far as the volume of work is concerned. In our opinion, this problem has to be considered in a larger context that regards one the one side the management vision over the process of audit and on the other side elements that belong to the strategy of the auditor regarding the development of his business.

The managers act within the entity as employees of the shareholders and bear the exclusive responsibility for the elaboration of the synthesis financial statements. Simultaneously they want the maximization of the incomes of the company because the personal remunerations are in close connection to these ones. Therefore they are interested in presenting annual financial statements that advantage them and they also want to have the confirmation of an independent professional that these situations don't have significant deviations from the pre-established criteria. Within this context, the managerial demarche is oriented towards the contracting of some audit services that ensure the credibility in front of the shareholders, inclusively by the independent opinion of the auditors that might not be as documented as necessary this not being able to formulate assertions that disadvantage them. We sustain that this assertion by the fact that

there are situation in the practical activity when the conclusion of the contract of audit is made with delay for each financial exercise and the conclusion of this type of continuity contract is avoided almost systematically, for more than one consecutive exercise so that the auditor can't make detailed investigations.

There also are auditors who, from the wish of developing the business easily accept such a engagement, thing leading to the increase of the risks of detecting the significant aspects that can influence the fidelity of the statements presented. In such situations there are reduced possibilities of knowing the client, of planning and adequately exerting the mission, with negative influences over the sufficiency and adequacy of the evidence obtained and implicitly over the conclusions that are reached (Staicu and Mihai, 2006). Moreover, such engagements are also characterized by relatively reduced or even insignificant honorariums that don't stimulate the making of good quality works.

Such situations that clearly don't characterize the audit services from our country are possible in the practical activity because of the fact that as it has been mentioned before, the principles of corporate governance do not represent a feature belonging to the Romanian business environment and the market of this kind of services can't be considered as active, there being some cases of obviously disloyal competition.

In such situations it is necessary that the auditor, for the fulfillment of the wish regarding the diminution of the risk concerning the communication of distorted information and for increase the credibility of the annual financial statements perform a laborious activity permanently reported to the general principles of audit and to the demands of the Code of ethics of the accounting professional issued by the International Federation of the Accountants governing his professional responsibilities. Only this way it is possible that the professional can resist any exterior pressures (Dobroteanu and Dobroteanu, 2002) and to be able to adopt decisions according to the reality investigated.

Another aspect regarding the communication of distorted information that in our opinion can be encountered frequently in the missions of financial audit regards the managerial assertions concerning the application of IFRS 1 and for this we mainly consider the application of the rules of acknowledgement of the assts, liabilities, provisions etc based on the exigencies imposed by the IFRS standards. This way the auditors have to give increased attention to the ways in which the management formulates assertions regarding the compatibility of the information, this supposing work procedures adequate for the verification of the correctness of the elaboration of the opening balance from the date of moving to the use of the IFRS referential.

Within the same general context, referring to the specific environment of the organizations from the economy of our country we remark a series of factors that can significantly influence the annual financial statements, among which we remind: the insufficiency of the personnel from the financial-accounting compartments that have to deal with the major modifications intervened within the applicable accounting referential as well as with the accounting and fiscal current operations; the insufficient involvement of the administrators in the organization of the accounting of the company; the inadequate collaboration between the financial-accounting compartment and the others compartments of the unit, with negative influence over the fulfillment of some fundamental demands regarding the registration of the operations and the balance assessment; the frequent involvement of the auditors in the drawing up of the annual financial situations with negative consequences over the independence of these ones etc.

As far as the reduction of the informational risk is concerned we also remember the fact that once created the premises of keeping this one under control through the audit done by an independent professional increases the possibility of the entity of obtaining the capital at a reasonable cost. This aspect is in our opinion very important for the business environment from our country in the near future; on this line we consider the integration within the European structures and implicitly the increase of the opportunities concerning capital obtaining. We equally consider that the increase of the exigencies of the auditors in this regard can lead to the recovery and development of the business environment therefore to the increase of the market for the audit services and to the decrease of the negative aspects presented before.

The particularities of the sector of activity

In close connection to the ones exposed before we also mention the need of giving the adequate attention to the particularities of the activity of the entity subject to the audit because it is unanimously admitted that there isn't a universally valid way that once applied ensures a complete audit and a guaranteed result. It is

very important to know those elements that individualize the entity audited as far as the nature of its activity, the organization and the operational methods used are concerned. Most opinions expressed in the specialty literature disclose that one of the best ways of satisfying those exigencies is obtaining information from the headquarters of the client, variant called “from top to bottom” (Arens and Loebbecke, 2003), meaning a close analysis of the economical strategy of this one, of the risks threatening this strategy and in the end of the mechanisms conceived by the management to answer the risks. On this line, besides the information obtained through direct observation at the headquarters of the company, it is imposed the use of the analytical procedures based on data that reflect the company on the whole and simultaneously, the performance of comparisons with the situations existing in the respective branch in the previous years and also with the prior data of the entity audited.

The utility of a good knowledge of the specificity of the activity and branch of the entity subject to the audit can be motivated with at least three elements that are presented here (Dragan, 2004).

- The detail knowledge of the particularities regarding the organization and management of the accounting, being a known fact that within many branches of activity like constructions, railway transports, chemical industry and others there are specific operations and events that need adequate accounting solutions, this way influencing the presentations within the financial situations elaborated by the respective entities.
- The identification of the risks specific for very branch that influence the way of appraisal of the risk of audit at an acceptable level as well as the making the decision concerning the acceptance of the mission. Within this context we mention that many specialists consider the branch risk as one of the most important risks. Analyzing the specificity of the Romanian economy we can consider that this factor acquires a special signification because of the deep reorganizations that take place in present, as well as because of the potential ones, seen through the near integration in the European Union.
- The identification and assessment of the inherent risks, because we can make a grouping of these ones according to the specificity of the branch of activity.
- The knowledge of the market conditions namely the follow of the demand of products, the positions of the competition, the short and middle term perspectives of these ones, of the influences exerted by the technological development etc

As far as the aspects presented are concerned, we think that the auditors from our country could adopt the solution of specialization on economical branches so that they can have the information necessary for the higher degree knowledge of the activity of the clients and this way to offer them services with higher added value, aspect that can be found within the companies with tradition in the field. This way the incomes of the auditors can be increased because of the possibility of also offering some non-audit services, at high standards.

Under such circumstances, having an adequate volume of information that allows his the understanding of the economical, social and institutional environment where they perform their mission and also applying with professionalism the general audit methods and techniques, the auditor has the possibility of expressing a correct opinion and saying on much more solid grounds if the financial statements audited offer or not a true and fair view of the financial position of the company on the date of the report, of the results of its activity and of the cash flows for the period audited, within the context of the regulations in force.

Conclusions

Although there is an adequate theoretical frame for the exertion of the mission of financial audit, the auditor has to also have in mind other elements like the ones exposed in the present work. Such a demarche is even more necessary when we can easily notice on the one side that in the field of audit there isn't yet an adequate culture and a correct understanding of its role for all the beneficiaries of information offered through the annual financial statements and on the other side that the principles of the corporate governance aren't yet a major preoccupation of the Romanian economical entities.

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