THE ROLE OF ECONOMIC AND FINANCIAL ANALYSIS IN THE PROCESSES OF CONTROL, AUDIT AND DIAGNOSIS OF ENTITY'S ACTIVITIES

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Abstract:
In the current material we have tried a positioning of economic and financial analysis in relation to the processes of control, audit and diagnosis of the activity of an entity based on the objectives and methodology specific to each process. We have also underlined and bold the major role the financial analysis plays in particular to meet the needs of decision-making of corporate governance through the processes of control, audit and diagnosis that are exercised by it. We believe that such an approach is very useful, knowing that very often in economic life these processes are not precisely defined and there are errors in the usage of these terms without a consistent and accurate correspondence with reality. We refer in particular to pairs of concepts such as analysis-diagnosis, control-audit and various combinations of these terms.

Keywords: analysis, diagnosis, control, audit, objectives, methodology, interactions.

JEL cllasification: M41, M42, G33

I. Introduction.

In an economic environment with so many unknowns, against the backdrop of major global crisis that raises many questions, economic and financial analysis comes to light through this economic thicket. It is intended to find answers to information needs of decision-making of investors, shareholders, banks, financial investment firms, business partners, employees, government and not least to information needs of corporate governance from the level of economic entities.
In the current material we have attempted to emphasis the role of economic and financial analysis from positioning it in relation to the processes of diagnosis, audit and control of a company's activity, starting from the theoretical and practical content of each such process.

II. Stage of knowledge on the basis of specific objectives of analysis / diagnosis / audit / control

To argue the differences between the four processes and emphasize the central place of economic and financial analysis within them, we will emphasize the specific objectives of each process through their conceptual definition starting from the theoretical and practical stage of knowledge existing till present.

A. The term "analysis" comes from French and has a double meaning:

On one hand, the verb "analyze" means to investigate a phenomenon or a whole through it's each item;

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On the other hand, the noun "analysis" means a scientific research method that relies on the systematic study of each element of an issue and the careful survey of a problem.(DEX on line-www.dexonline.ro)

Analysis, as a general method of research, involves decomposition or the conduct of an object or phenomenon in its component parts, in the simplest elements. Using specific methods, each component is examined, the causal relations are determined and also the factors that generated them, conclusions are formulated and the future framework is outlined.

In the opinion of renowned professors from Bucharest (M. Niculescu, 1997:22), economic and financial analysis is «a set of technical concepts and tools to ensure treatment of external and internal information in ordfer to express relevant feedback on the situation of a company, on the level and quality of its performances, on the degree of risk in a highly competitive and dynamic environment».

Other famous authors from Bucharest universities, believe that «microeconomic analysis is conducted at the level of an entity and its elements regarded as a system. Microeconomic analysis studies individual behavior or the one of an entity in its economic activity and the obtained results reveal the factors determining the shift in capital investment, in utilization of resources and obtained results.» (C. Stănescu, etal, 1996: p15).

According to the opinion of teachers flom Cluj (I. Bătrâncea etal, 2007:p23) «microeconomic analysis is investigating, using a system of related indicators, phenomena and specific mechanisms acting at the level of a company».

In conclusion we consider that the general objective of economic and financial analysis consists in studying the mechanism of formation and change of economic phenomena through the decomposition of them in component elements, factors and causes of the phenomenon studied through structural analysis, from the factors acting indirectly to those with direct action until the discovery of the final causes (primary causes). Analysis carries out the shift from appearance to essence, from general to particular, from simple to complex to explain a certain state of fact, a certain level or a specific evolution of a phenomenon. (M. Achim, 2009: p13).

Elements are part of the analysed phenomenon (result).

Factors are forces driving to the emergence of a phenomenon.

Cases are circumstances, that in certain conditions, explain the emergence of a phenomenon (a result).

The cause is a factor that can not be split, representing the final essence of the phenomenon.

The scheme of the development of economic and financial analysis process is presented in the figure below:

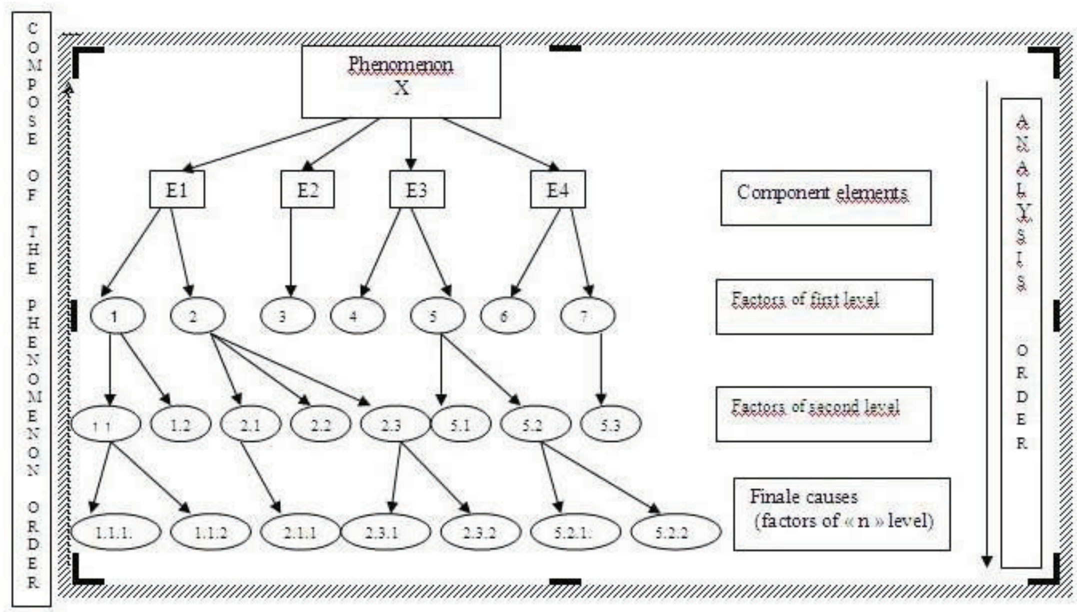

Figure. no. 1
The scheme of the development of economic and financial analysis process

As such, the phenomenon X may be addressed as a result of the combination of factors and causes summarized above.

B. The term "diagnosis" is of Greek origin and means "apt to discern".

The diagnosis process, in the general sense, represent «a broad investigation of the main aspects of the organization activity, of economic, technical, sociological, legal and managerial nature, in order to identify strengths and disruption, causes that rise them and to design some recommendations for improvement and development.» (M. Miles, 2000: p.86).

In the view of other redoubtable authors, «analysis- diagnosis involves the decomposition of a mechanism or an economic phenomenon in its component parts, determining factors of influence, measuring there influence on the components both static and in dynamic, and ultimately determining the strengths and weaknesses of the mechanism or economic phenomenon investigated and proposing practical solutions for correction of the trajectory of less functional components». (I. Bătrâncea etal: 2003:p6)

In our view, the diagnosis can be defined as a complex research of competitional, economic and financial aspects that characterize the activity of an organization, through which are identified the strengths and weaknesses, the causes that generated them and are made recommendations to eliminate or diminish the negative aspects and / or exploit the positive ones.

It may be noted that unlike the analysis of a phenomenon through its decomposition, the diagnosis involves the framing of analyzed aspects in stereotypes, by reporting them to some references, in other words making some value judgments on the analyzed phenomenon. The ultimate aim of diagnosis is to prescribe "therapy" for recovery and to track the way they are carried out.

In the formulation of a diagnosis is dashing necessary to pertain to some references. In supporting the call to spatial comparisons of different economic and financial indicators, information provided by governmental bodies, banks, consulting firms, rating companies, etc. may be used.

It can be concluded that unlike the gereral objectives of analysis, the proces of analysis diagnosis has as a general objective the sighting of symptoms, disruptions, establishing the economic and financial state of an entity, prescribing "therapy" to redress situations existing at a certain moment.

C. The term "audit" comes from the Latin word audit-auditare, which has the meaning " to listen."

About the audit process is talked from the period of Asiriens, Egyptians, from the reign of Charles the Great or of Eduard the First of England. Audit activities were conducted in Romania during all this time, but bearing other names.

Using the term audit in the currently used signification is relatively recent and is placed in the period of economic crisis from 1929 from United States, where businesses were affected by economic recession and had to pay significant sums for external auditors that exercised the certification of accounts for all businesses listed.

Major U.S. companies were already using the services provided by External Audit Cabinets, independent bodies that have the task of checking accounts and balance sheets and certifing the final financial statements.

According to regulations in force (Article 2 of Government Ordinance 75/1999 with subsequent amendments) financial audit is the examination, in order for the financial auditors to express of an opinion on the financial statements, in accordance with auditing standards harmonized with international audit standards and adopted by the Chamber of Financial Auditors fromRomania.

Audits tend to generalize to numerous areas that have no direct relationships with the financial statements of a company (social audit, quality audit, environmental audit, etc.) and, in this case, it is design as the diagnosis of the organization and management and, in particular, the control of procedures and the manner in which the body (entity) acts in relation to its tasks and objectives.

Although this term was generalized in time to other areas, the overall objective of the audit is the control of compliance in report with a system of references imposed by rules, laws, regulations such as: financial audit, tax audit, social audit, legal audit, quality audit.

D. The term "control" comes from the French word " controlẻ " which means under DEX «monitoring, analysis and permanent or periodic verification of an activity or a situation to watch its developing and to take measures to impound any risks and to improve its activity. »

Control provides detailed and thorough knowledge of economic and social realities, but is not limited only to that. It must make value or conformity judgments, interpreting states and realities established by a continuous reporting of them to the proposed objectives, standards previously established or rules of deployment fixed in advance. Control makes possible to determine deviations registered and to establish their significance and implications, the causes that generated them and the necessary measures to avoid their repetition in the future. (S. Borlea etal: 2009:p.23)

In other words, the general objective of the process of control consists of permanent monitoring of an activity to identify deviations from a base of comparison and to procede to a continuous regulation of the activity to continuosly increase the economic efficiency.

III. Interactions of analysis with the processes of audit / control / diagnosis

In a synthetic speech the methodology of financial analysis includes the following methods and techniques:

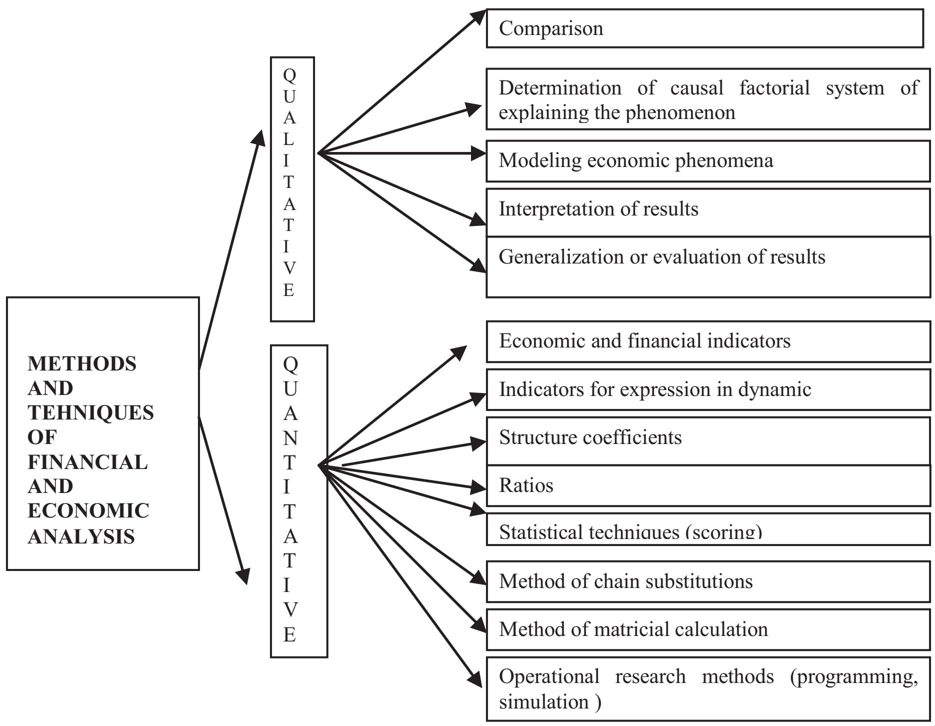

Figure no 2
Methodology of economic and financial analysis
Source: appreciations of the authors

The methodology of economic and financial diagnosis incorporates part of specific methods and procedures of financial analysis but it has additional specific methods and procedures. Among the most commonly used specific methods of diagnosis analysis we include:

SWOT Method (strenght, weakness, opportunities and threats);
Method of assessment scales;
Method based on benchmarking;
Combined methods.

The result of interaction between analysis and diagnosis in economic and financial activity of an entity will have to be materialized in emphasising weaknesses, strengths, opportunities and risks facing entity's activity and also using comparisons with the plan or with the competition to trace the path of future action built on the base of the "therapy" for recovery of its activity.

General methodology of the audit includes all methods and techniques used in the external audit (financial). The role of financial analysis is very significant in order develop relevant opinions on the compliance of financial statements with the references' system considered (Auditing Standards).

For example, if thruogh the analysis of the financial state of an entity conducted on the basis of information supplied by the financial statements the probability of bankruptcy exists, this should be reflected in the application of the principle of continuity of activity in accounting. If the evaluations of the assets did not take into consideration the uncertainties about the continuity of activity or even about its definitive discreditation, the auditor's opinion will be significantly different in the sense that it will be expressed an opinion with reserves on the relevance of informations provided by the financial statements.

It is very clear that the audit will be based on very substantial extent on the methods and tehniques of economic and financial analysis. In particular, audit also uses its own methods and techniques especially in the attempt to collect audit evidences needed to obtain a reasonable assurance of the lack of significant distortions in the financial statements. It's about using specific audit procedures as the so-called "audit tests" that can be of three categories (I Oprean etal: 2007:p.162):

- Tests of risk assessment;
- Tests of control;
- Background procedures (Tests of details).

The result of interaction between audit and analysis will have to capture whether or not the conformity of the financial statements exists in relation with a particular system of references choosen and than beeing able to determinate the auditor's opinion that can be: unqulified opinion, qualified opinion, adverse opinion or the impossibility of expressing an opinion (disclaimer of opinion).

General methodology of control includes all methods and techniques used in the activity of economic, financial and managerial control. They are divided into two broad categories:

- Specific technical methods of economic, financial and managerial control which include: verification of documents, control inventory and the use itsof own means of record and confirmation of findings;
- Common methods and procedures used in economic, financial and managerial control which include: direct observation, laboratory tests and technical expertises, methods of economic and financial analysis (such as comparison, generalization, the correlative grouping of factors and the measurement of their influence). (Borlea S. etal, 2009:pp.147-153).

As it can be observed the control methodology includes its own specific methods and procedures but also some of thespecific methods of economic and financial analysis.

The result of interaction between control and analysis in economic and financial activity of an entity has to be materialized in emphasising the deviations, determining causes and tracinge the path of action for settling the economic and financial activity.

Based on those presented so far, the positioning of analysis in relation to the processes of diagnosis / audit / control is stressed in the figure below:

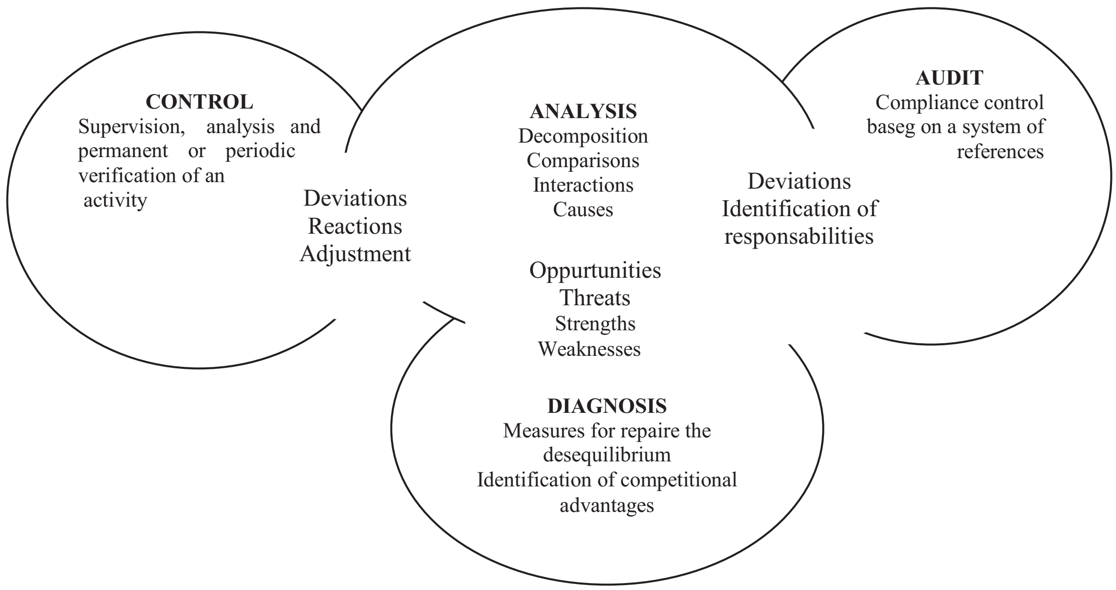

Figure. no 3
Positioning of analysis by reporting to the concepts: audit, diagnosis, control
Source: adjustment after M. Niculescu, 2003: p.30

IV. Conclusions

The increasing complexity of economic activity in the context of market mechanism has profound implications on the process of leadership that can not be done on a routine basis but on a deep research and understanding of reality. We appreciate that economic and financial analysis has a major role in the system of corporate governance of an entity. Its methods and processes have a wide applicability in the activity of control / audit and general diagnosis of the economic and financial status of an entity. Without exaggerating the role of economic and financial analysis, its absence reflects a bad management which can only result, in time, in loss of market share and ultimately in the disintegration of the business.

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