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CORRELATIONS BETWEEN FINANCIAL AUDIT AND ROMANIAN TAXATION

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Abstract: *This paper examines the correlations between financial audit and the Romanian tax system, from both an institutional and an applied perspective. The financial auditor does not replace the tax inspector; the auditor certifies the accuracy of financial reporting and, implicitly, the correctness of the computation and recognition of tax liabilities in the financial statements. Starting from the national regulatory framework – the Fiscal Code, the Fiscal Procedure Code, the Accounting Law and the legislation on statutory audit – the paper analyses the complementary roles of ANAF and ASPAAS and identifies the tax indicators with the highest relevance in planning and performing the statutory audit: the degree of timely settlement of tax liabilities, outstanding tax obligations, the ratio between corporate income tax and accounting profit, the share of value added tax in turnover, adjustments resulting from tax inspections and the frequency of changes in the tax policies applied. The analysis is placed in the context of Romania's fiscal position in 2025-2026: the highest budget deficit in the European Union, rising public debt and one of the lowest tax-to-GDP ratios among Member States. The results support the conclusion that the systematic monitoring of tax indicators strengthens audit risk assessment and increases the credibility of financial statements.*

Keywords: *financial audit; taxation; tax compliance; fiscal risk; budget deficit; Romania.*

JEL classification: *H20; H62; H83; M42*

1. Introduction

The correlation between financial audit and Romanian taxation is very close, since both contribute to the transparency, legal compliance and financial health of economic entities. The financial audit consists of the examination of an entity's financial statements in order to verify their correctness, their compliance with accounting standards and the legality of the underlying operations, the auditor assessing whether the information presented offers a true and fair view of the entity's financial position and performance (Arens and Loebbecke, 2003; Bunget, 2010). Taxation, in turn, is usually perceived as a system of taxes established and regulated through tax legislation, comprising the tax obligations of legal entities and individuals. Through the financial audit, the auditor verifies, among other things, whether the audited entity complies with the tax regulations in force. The auditor does not take

the place of the tax inspector, but certifies the accuracy of the financial reporting and thereby provides assurance regarding the correctness of the amounts owed to the state, in line with the requirements of ISA 250 concerning the consideration of laws and regulations in an audit of financial statements (IAASB, 2018).
The objective of this paper is twofold: first, to systematise the regulatory and institutional links between the financial audit and the Romanian tax system; second, to identify the tax indicators that are most relevant in the statutory audit and to place them in the context of Romania's current fiscal position, characterised by the highest budget deficit in the European Union and by one of the lowest tax-to-GDP ratios among the Member States (Eurostat, 2026a; Eurostat, 2025).

2. Literature Review and Regulatory Framework

The economic literature on tax compliance starts from the seminal model of Allingham and Sandmo (1972), in which the taxpayer's decision to declare income depends on the probability of detection and on the level of sanctions; subsequent research has enriched this framework with behavioural determinants of compliance (Alm, 2019). In the accounting and auditing literature, audit quality is classically defined as the joint probability that the auditor both detects and reports a breach in the client's accounting system (DeAngelo, 1981), while the research on the relationship between taxation and financial reporting emphasises the informational role of tax positions in the financial statements (Hanlon and Heitzman, 2010). Against this background, the tax component of the statutory audit can be understood as a mechanism that supports tax compliance indirectly, by increasing the credibility of the reported figures.
In Romania, the correlation between the two areas is anchored in a set of interconnected normative acts. The links between accounting, auditing and tax legislation can be highlighted as follows:
a) the verification of tax compliance is an important part of the audit of patrimonial entities, the auditor examining whether the entity complies with the tax legislation regarding the declaration and payment of taxes and detecting possible errors or irregularities;
b) the identification of tax risks related to erroneous estimates or to non-compliance with the applicable tax regime, thus helping companies to correct their tax returns;
c) support in the legal optimisation of the tax burden, through recommendations for a more efficient management of tax obligations;
d) transparency and credibility, since the audit increases the reliability of the financial statements and offers the tax authorities a clearer picture of the taxpayer;
e) compliance with the regulations, given that Romanian legislation imposes, under certain conditions, a mandatory financial audit, which contributes to correct tax reporting.
The main components of the relevant legal framework are: Law no. 227/2015 on the Fiscal Code, the principal normative act regulating the tax obligations of companies and individuals; Law no. 207/2015 on the Fiscal Procedure Code, which governs tax procedures, including the inspections carried out by the tax authorities; the Accounting Law no. 82/1991, republished, which regulates the keeping of accounting records and the obligation to prepare true and fair financial statements; Order of the Minister of Public Finance no. 1802/2014 on the applicable accounting regulations; and Law no. 162/2017 on the statutory audit of annual financial statements, which

transposes into national law the requirements of Directive 2006/43/EC, as amended by Directive 2014/56/EU, and ensures the application of Regulation (EU) no. 537/2014. Statutory audits are performed by authorised financial auditors, who must observe the International Standards on Auditing issued by IFAC.

3. The Institutional Architecture: ANAF and ASPAAS

Tax inspections of companies are carried out by the National Agency for Fiscal Administration (ANAF) and may include documentary checks, inspections at the taxpayer’s premises and cross-checks, all regulated by the Fiscal Procedure Code. Where irregularities are found, companies may be sanctioned according to the tax legislation, and the auditors must report the relevant elements to the competent bodies.

The Authority for the Public Supervision of the Statutory Audit Activity (ASPAAS) does not exercise direct control over a company’s taxation – this being the attribution of ANAF – but regulates and supervises the audit profession, which in turn verifies the financial statements, where taxes are also reflected. The main aspects of the role of ASPAAS can be summarised as follows:

(i) the supervision of statutory audit quality: since the financial statements include the accounts of taxes, duties and liabilities towards the state, ASPAAS verifies whether the auditors have rigorously tested the correctness and legality of these figures;

(ii) the regulation of the profession: ASPAAS issues norms and procedures which the auditors must follow; although the statutory audit focuses on the true and fair view of the entity as a whole, tax compliance is a major component, and the auditor must report identified breaches of the tax legislation that could significantly affect the financial statements;

(iii) inspections and quality reviews: within the periodic inspections of audit firms, ASPAAS inspectors verify whether the audit files contain sufficient testing of the corporate income tax computation, of the provisions for possible tax litigations and of the tax risks that could endanger the going concern of the entity;

(iv) the administration of the Public Register of financial auditors and audit firms authorised to practise in Romania; a company must use only auditors registered with ASPAAS for the audit report to be valid before the tax authorities and the investors.

The distinction between the two institutions is therefore essential: ANAF verifies directly whether the company has paid its taxes correctly and may apply sanctions, whereas ASPAAS verifies whether the auditor has audited the company correctly; if an auditor ignores obvious tax evasion or a miscalculation of taxes, ASPAAS is the institution that sanctions the auditor or withdraws the licence. In Romania, tax review as a separate service is most often performed by tax consultants, regulated by the Chamber of Tax Consultants (CCF); however, within the mandatory financial audit, the tax component is essential, and ASPAAS ensures that this verification is carried out according to the International Standards on Auditing.

4. Tax Indicators in the Statutory Audit – Research Results

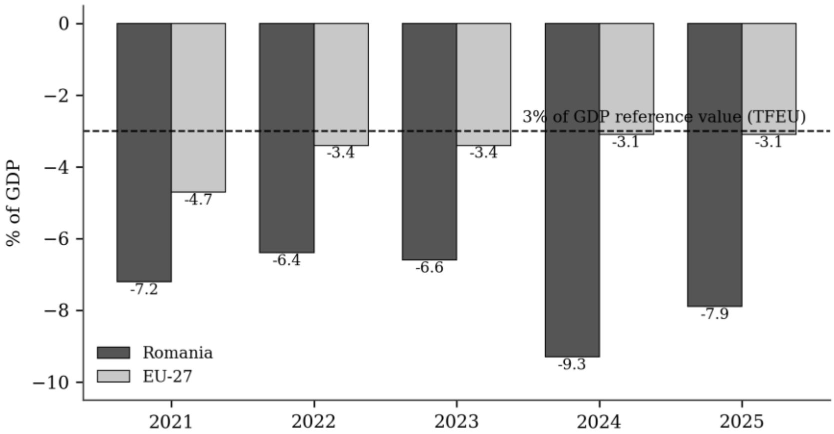
The analysis of tax indicators highlights their role in assessing tax compliance and in identifying the risks with an impact on the audited financial statements. The main indicators used in the practice of the statutory audit are the degree of compliance

with tax obligations, the level of outstanding obligations, the frequency of tax adjustments, the share of taxes and duties in total expenses and the significant variations of the tax base.
The results indicate that entities with a high level of tax compliance present a lower risk of material misstatement of the financial statements. Conversely, differences between the accounting records and the tax returns, delays in settling tax liabilities or frequent changes in the tax treatment applied are indicators of an increased tax risk, requiring the extension of audit procedures. The comparative analysis showed that the following indicators have the greatest relevance in the audit process:
– the degree of timely settlement of tax liabilities;
– the level of outstanding tax obligations;
– the evolution of the corporate income tax in relation to the accounting profit;
– the share of value added tax in turnover;
– the value of the adjustments resulting from tax inspections;
– the frequency of changes in the tax policies applied.
The relevance of the VAT-related indicators is confirmed at macroeconomic level by the size of the Romanian VAT compliance gap: according to the European Commission, Romania recorded in 2023 the highest VAT compliance gap in the European Union, estimated at 30.0% of the theoretical VAT liability, compared with an EU average of 9.5% (European Commission, 2025). This gap illustrates the magnitude of the compliance risk that the auditor must consider when planning the procedures regarding indirect taxes.
The research results confirm that the systematic monitoring of these indicators contributes to the early identification of tax risks, to the assessment of the effectiveness of internal control and to the substantiation of the auditor's opinion. At the same time, the use of tax indicators facilitates the planning of the audit engagement, by directing the procedures towards the high-risk areas and by optimising the resources allocated to the verifications. Tax indicators therefore represent an essential instrument in the statutory audit, as they provide relevant information on the entity's tax compliance, support the assessment of audit risk and contribute to the credibility of the financial statements.

5. Romania's Fiscal Position in 2025 and the Projections for 2026 in the European Context

The tax environment in which Romanian auditors and taxpayers operate cannot be separated from the general state of the public finances. Romania's fiscal situation in 2025 was characterised by a difficult process of budgetary consolidation, against the background of the largest budget deficit in the European Union and of pressures coming both from the financial markets and from the European institutions.
At the end of 2024, Romania recorded a general government deficit of 9.3% of GDP under the ESA methodology, the highest in the European Union, almost three times the EU average of 3.1%, which led to the continuation of the excessive deficit procedure initiated by the European Commission (Eurostat, 2025). In 2025, the main objective of fiscal policy was the gradual reduction of the deficit without provoking a severe recession; according to the first EDP notification of 2026, the deficit decreased to 7.9% of GDP, still the highest among Member States (Eurostat, 2026a). Figure 1 presents the evolution of the general government balance in Romania compared with the EU-27 average.

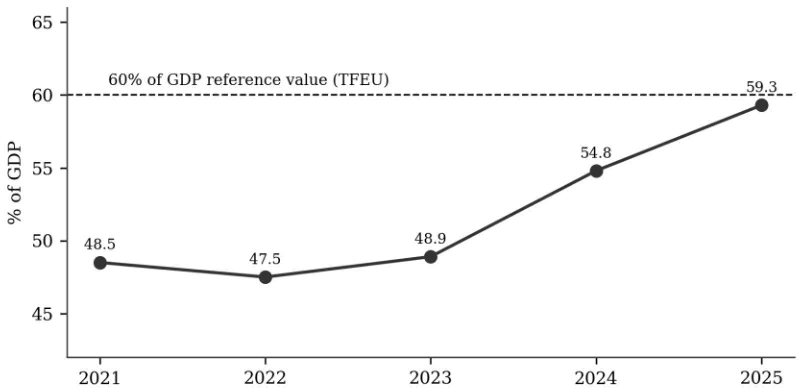
Figure 1. General government balance, Romania vs. EU-27, 2021-2025 (% of GDP)



Source: authors' processing based on Eurostat data (gov_10dd_edpt1), EDP notifications, April 2026

The repeated deficits determined the increase of public debt from 48.9% of GDP at the end of 2023 to 54.8% at the end of 2024 and 59.3% at the end of 2025, a level which, although still below the EU average of 81.7% of GDP, is approaching the 60% reference value of the Treaty (Eurostat, 2025; Eurostat, 2026a). The increase in debt implies higher interest costs, reduced space for investment and vulnerability to external shocks. Figure 2 illustrates this trajectory.

Figure 2. General government gross debt of Romania, 2021-2025 (% of GDP)



Source: authors' processing based on Eurostat data (gov_10dd_edpt1), EDP notifications, April 2026

A structural cause of the deficit lies on the revenue side: Romania collects one of the lowest volumes of taxes and social contributions relative to GDP in the European

Union, as shown in Table 1. In 2024, the Romanian tax-to-GDP ratio was 28.8%, compared with an EU average of 40.4%, only Ireland recording a lower ratio (Eurostat, 2026b). Total general government revenues stood at 34.1% of GDP in 2024, against an EU average of 46.0% (Eurostat, 2025).

Table 1. Revenue from taxes and net social contributions (% of GDP)

Territory	2023	2024
Romania	27.0	28.8
EU-27	39.9	40.4
Euro area (EA-20)	40.5	40.9

Source: Eurostat (gov_10a_taxag), 2026

In this context, the Government adopted several consolidation measures. On the revenue side, some taxes were increased, the tax base was broadened for others and the collection of tax receivables was improved; on the expenditure side, the growth of public sector wages was limited, the control of current expenditure was tightened and priority was given to investments financed from European funds. The consolidation had mixed effects: on the positive side, the reduction of the risk of a sovereign rating downgrade, increased credibility among investors and progress towards the objectives assumed in relation to the European Union; on the negative side, the slowdown of consumption, pressures on the business environment through the higher tax burden and a modest pace of economic growth, of approximately 0.7-1.3% depending on the forecast. The main fiscal risks identified in 2025 were the insufficient collection of tax revenues, the pressures for higher social spending, the slow absorption of European funds, the high financing costs generated by still elevated interest rates and the external imbalances. Table 2 summarises the overall assessment of 2025.

Table 2. Synthetic assessment of Romania's public finances in 2025

Indicator	Assessment
Budget deficit	Very high (7.9% of GDP), but decreasing compared with 2024
Public debt	Increasing, approaching 60% of GDP
Tax revenues	Improved through fiscal measures, but still low as a share of GDP compared with the EU average
Public expenditure	Under the pressure of wages, pensions and interest payments

Source: authors' synthesis based on Eurostat (2026a) and the Fiscal Council (2025)

The fiscal-budgetary projection for 2026 is built around the objective of continuing the fiscal consolidation while maintaining a high level of public investment. The deficit target is 6.2% of GDP for 2026 and 5.1% of GDP for 2027, a trajectory that is part of the consolidation programme agreed with the European institutions;

the Fiscal Council considers the draft budget compatible with the 6.2% target, but warns about the risks related to lower-than-forecast economic growth, geopolitical conflicts and energy prices, pressures on public expenditure and the need to stabilise the public debt (Fiscal Council, 2025). The main budgetary indicators for 2026 are presented in Table 3.

Table 3. Main budgetary indicators projected for 2026

Indicator	Projection 2026
Nominal GDP	approx. 2,045 billion lei
Real economic growth	1.0%
Budget deficit	6.2% of GDP (approx. 127.7 billion lei)
Budget revenues	736.5 billion lei (36.0% of GDP)
Budget expenditures	864.3 billion lei (42.3% of GDP)
Public investments	over 8% of GDP
Average annual inflation	approx. 6.5%
Average net salary	approx. 5,500 lei/month

Source: Fiscal-Budgetary Strategy 2026-2028; Fiscal Council (2025)

The most important budgetary risks for 2026 concern the difficult balance between deficit reduction and the preservation of economic growth: tax revenues below expectations, the rigidity of expenditure already committed for pensions, public wages and interest, the high cost of financing the public debt, the risk of a sovereign rating downgrade, delays in the absorption of European funds and the political sensitivity of the consolidation measures. Budget execution data for the first months of 2026 show a significant reduction of the deficit compared with the same period of 2025, suggesting that the consolidation measures have begun to produce effects; nevertheless, the performance of the first part of the year does not guarantee the achievement of the annual target, since expenditure tends to accelerate in the second half of the year. For the audit profession, this macro-fiscal context translates into a higher probability of legislative changes, of tax inspections and of adjustments of the taxpayers' tax positions – all of which are elements that increase the inherent risk associated with the tax captions of the financial statements.

6. Conclusions

The financial audit and Romanian taxation are interdependent and contribute together to a correct and compliant financial management. The auditor certifies the accuracy of the financial reporting, including the tax positions, without substituting the tax inspector, while ASPAAS, through the supervision of the auditors, contributes to greater transparency and correctness in the tax reporting of taxpayers.

The research shows that tax indicators – the degree of timely settlement of tax liabilities, outstanding obligations, the relation between the corporate income tax and the accounting profit, the share of VAT in turnover, the adjustments resulting from tax inspections and the frequency of changes in tax policies – represent an essential instrument in the statutory audit, supporting the assessment of audit risk and the credibility of the financial statements. Their relevance is amplified by the current macro-fiscal context: the year 2025 represented an inflection point for Romania's fiscal policy, with the beginning of a consolidation process after the sharp deterioration of the public finances in 2024, while the deficit remained the highest in the European Union and the public debt continued to grow towards the 60% of GDP threshold. Maintaining a sustainable trajectory of the public finances depends on the continuation of the fiscal reforms, on the improvement of tax collection – including the reduction of the VAT compliance gap, the largest in the EU – and on the efficient use of European funds. In such an environment, the tax component of the statutory audit becomes even more important, both for the users of the financial statements and, indirectly, for the quality of the public revenues.

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