

THE ROLE AND THE NECESSITY OF FINANCIAL AUDIT FOR ACCOUNTING USERS

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***Abstract:** Auditing is generally understood as the professional review of information in order to express a responsible and independent opinion on the financial statements in accordance with audit standards that are harmonized with international auditing standards by reference to a (standard, norm) criterion quality. The importance of the financial audit is to verify the credibility of the information in the financial statements, their true and fair view throughout the financial year. The review of the balance sheet at the end of the financial year is carried out by an independent auditor, a professional with a vast experience who participates in the achievement of one of the main qualities of the accounting information, namely its credibility. The faithful image responds to two imperatives: regularity and sincerity of financial statements. The financial auditor is required to express an independent opinion on annual information and statements in order to give equal consideration to the users of accounting information and the participants in economic and social life. According to the ISA 300 audit standard, the auditor should consider planning an audit activity so that the audit is conducted in an efficient manner.*

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1. Introduction

The financial audit is both important in the countries of European Union and also in the other countries, including Romania, where the audit was only enacted in 1999, knowing important steps through C.E.C.C.A.R, through the establishment of the Chamber of Auditors in Romania that has developed the Auditing Standards and the Code of Ethics in Financial Audit, according to IFAC.

The financial audit interposes between the conflict of interests between the preparers and the users of accounting information through the auditors as high-class professionals, with a superior theoretical training, with moral qualities and perfect professional ethics, as well as experience, competence and authority recognized in the field.

The most companies in Romania are audited only if they are required, but the obligation to conduct financial audit prevents bankruptcy, fraud and loss of financial resources through an undistorted, independent, correct auditor's opinion.

In general, financial audit has the role of controlling financial information that has both internal utility (enterprise management and management), and another external, third party information (ANAF, customers, suppliers, creditors, banks, etc.). Such control is in fact done in order to protect the patrimony and ensure the credibility of the information given to the public.

The final role of the financial audit is the verification and the certification of synthetic accounting documents.

I strongly believe that in order to carry out the financial audit, it is necessary to know in depth the accounting framework at national and international level, the accounting rules and regulations, the International Auditing Standards. Besides the theoretical knowledge, a vast practical experience is needed in the field.

2. Standards and regulations in the field of financial audit

The analyze of the financial audit only through the specialized literature is not enough. International Standards on Auditing (ISA acronyms) also offer a wider perspective for understanding the phenomenon, ensuring the comparability of financial audit data in various countries and, implicitly, increasing the quality of financial audit missions. The studies in the field of the financial audit and the decision-making have an extensive space in the international literature, but in the local literature they are quite limited. Although this topic raises many questions among the romanian auditors, the researchers have engaged in general studies without interfering the theoretical and legislative aspects with the involvement of practitioners in order to clarify the established problems.

3. Audit concept - short history and definition

The financial audit followed, among the time, the evolution of the accounting using the information produced by it. The term "audit" was known at the beginning of the eighteenth century, without knowing precisely the date or the geographical location.

The end of the nineteenth century marks the relationship between the auditors and the ones that are audited, chosen from the professional accountants or lawyers. Their main purpose was to certify the reality of the financial statements in order to avoid frauds of the people who manage the public money.

In the first four decades of the twentieth century, the audit was carried out by the professionals specializing in auditing alongside accountants. The works were commissioned by the state and the shareholders.

In the future, as a result of the development of the international exchanges, auditing was carried out by professionals in accounting and auditing, their objective being to certify the sincerity and the regularity of the financial statements. Due to the development of the accounting profession and of the influences on the conceptual accounting framework, the Anglo-Saxons are developing audit work on the European continent.

The "audit" term became popular in Europe in the 1960s thanks to the Anglo-Saxon accounting offices. In Romania, the audit word emerged after the 1990s, from the desire to harmonize with similar European and international regulations.

In the past, the objective of the audit was to preserve the integrity of assets, and then to certify financial statements over the years, and nowadays, its purpose is to express an objective view of the financial statements.

As far as the audit techniques are concerned, in the beginnings, the transactions were verified by the auditor, while in the present, the emphasis is set on the use of the survey, testing the efficiency and effectiveness of internal control.

Many authors in our country and also abroad have defined audit work as "the professional examination of an information in order to express a responsible and independent opinion in relation to a quality criterion."

Auditing is generally understood as the professional review of information in order to express a responsible and independent opinion on the financial statements in accordance with audit standards that are harmonized with international auditing standards by reference to a (standard, norm) criterion quality.

In the present, at international level, the audit activities take place within a set of rules developed by the International Federation of Accountants (IFAC). The stated purpose of the organization is to serve the public interest by strengthening the accounting profession and developing strong economies.

4. The role and the necessity of financial audit

The importance of the financial audit is to verify the credibility of the information in the financial statements, their true and fair view throughout the financial year. The review of the balance sheet at the end of the financial year is carried out by an independent auditor, a professional with a vast experience who participates in the achievement of one of the main qualities of the accounting information, namely its credibility.

The credibility is given by the moral-professional qualities of the producers of accounting information, the principles of sincerity, the correct application of the procedures used and the observance of the conceptual accounting framework.

The faithful image responds to two imperatives: regularity and sincerity of financial statements.

Regularity - complying with the generally accepted accounting principles provided by the IASCF's Comprehensive Financial Statements as well as the International and National Accounting Standards.

a. The principle of economic prevalence over the legal

According to this principle, all the information provided in the financial statements must reflect the economic reality of the transactions, not just their legal form.

b. The principle of significance threshold

As it concerned this principle, the materiality threshold shows the significant amount of all the items and any items that have significant value should be presented separately in the financial statements. The elements with insignificant values of the same nature or with similar functions does not need to be presented separately.

c. The principle of the intangibility of the opening balance sheet

The opening balance sheet shall be the same as the closing balance sheet of the previous exercise, except for the adjustments required by IAS.

d. The principle of non-compensation

Between the assets and the liabilities, it is not permitted the offsetting on the balance sheet, they are recorded separately in the balance sheet, as well as between the incomes and the expenses recognized in the P&L, excepting the offsets permitted by International Accounting Standards.

e. The principle of the separate valuation of the asset and liability items

For determining the total amount of a position in the balance sheet, the corresponding amount of each asset or liability item shall be determined separately.

f. The principle of the independence of the exercise

All the revenues and the expenses for the current financial year for which the reporting is made shall be taken into account, disregarding the date of the receipt of the amounts or the date of the payment.

g. The principle of the methods' permanence

This principle requires the continuity of the rules application and the norms on valuation, the accounting and the presentation of the property and the results, ensuring the comparability of the accounting information.

h. The principle of the activity continuity

It is assumed that the enterprise will normally continue its operation in a foreseeable future, without going into the impossibility of continuing the business or without significantly reducing it. If the company's managers have become aware of some uncertainties about some events that may lead to its inability to continue the activity, these elements should be presented in the explanatory notes.

i. The principle of prudence

Based on this, the value of any element must be determined. It is imperative to take into account several important aspects:

- only recognized benefits will be considered until the balance sheet date;
- all foreseeable risks and losses incurred during the current or previous years are taken into account, even if such liabilities or losses occur between the year-end and the balance sheet date;
- any value adjustments due to depreciations will be taken into account, even if the result of the financial year ends with losses or benefits.

Sincerity - requires the application with good faith of the accounting rules and the procedures, regardless the company's or group's interests, shareholders or associates.

The practice has shown that there has been a conflict of interest between those who collect and process accounting information and the users of this information. The information users need the accounting statements for their future decisions and manifest a lack of confidence in the information provided by accounting because the accounting information producers are not usually independent of the operations performed and the annual summary statements presented which casts doubt on the impartiality and the objectivity of the financial accounting system in the companies, therefore, the assessment of the financial statements must be carried out by an independent professional who performs his task without taking into account the conflicts between the information users and the audited entity.

The financial auditor is required to express an independent opinion on annual information and statements in order to give equal consideration to the users of accounting information and the participants in economic and social life (shareholders, state, employees, banks, stockbrokers, borrowers, clients, suppliers, creditors, national accounts and company managers).

The employees and the trade unions are seeking information regarding the stability and profitability of their enterprise. They are interested in information that allows them to assess the company's ability to provide remuneration, pensions, job opportunities, specializations, etc.

The managers with a leading position are responsible for preparing and presenting the company's financial statements. If they are not important shareholders, they want that through the financial statements to reflect a positive financial result so that their activity to be appreciated, but at the same time seeks to keep sources of self-financing to prevent the distribution of large dividends.

The clients are pursuing the company's continued activity if they are dependent on the enterprise and have long-term financial transactions.

The bankers assess the profitability of businesses and appreciate the risks of lending to them. The enterprise must have positive financial results, a high liquidity and, in general, a positive net treasury.

The shareholders and the associates want to know the inherent risk of transactions and the benefits of their investment. The shareholders want complete transparency in the terms of heritage status, size of profits and how it is distributed. A company that does not distribute sufficient dividends gradually loses the trust of the shareholders in the efficiency of the placement and, as a result, they express their dissatisfaction with the board of directors or try to disengage from the company. At the same time, the distribution of dividends leads to a diminishing of the financing sources needed for development.

The tax authorities are interested in the size of corporation tax and other taxes and the duties owed by taxpayers.

5. Drawing up the audit engagement plan

According to the ISA 300 audit standard, the auditor should consider planning an audit activity so that the audit is conducted in an efficient manner. "Planning" means building a general strategy and a detailed approach to the nature, the duration and the extent of an expected audit coverage. The auditor plans to perform the audit in a timely and efficient manner.

The auditor should prepare an overall audit plan that includes:

- a. Knowing the activity of the entity;
- b. Understanding the accounting and internal control system;
- c. The risk and significance threshold;
- d. The nature, duration and extent of the procedures;
- e. The coordination, guidance, control and review of information.

The overall audit plan must be designed in such manner to have sufficient details to facilitate the development of the audit program. The form and content may vary depending on the specific methodology, the audit complexity, the size of the entity, and the manner in which it is used. In this context, the financial auditor increasingly proves his role as a judge on managers' declarations of business, statements made in the financial statements. This role, seconded by the guarantor of the fidelity of the information in the financial statements, where the auditors conclude that the entities are doing well what they are doing and what they can do next, is an additional gain in the auditing process that calls for the application of the standards and regulations issued by International Federation of Accountants (IFAC), Chamber of Financial Auditors of Romania (CAFR).

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