CONSIDERATIONS REGARDING THE AUDIT OF FINANCIAL STATEMENTS

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Abstract: *In a business world situated on a market that is becoming more and more active both on an international and national level, the audit of financial statements embodies a veritable varied research domain and with favorable advantages for the Romanian business society, as well as for the interest of the business society located outside the Romanian space.*

From the result of the auditing of financial statements of an entity, various pieces of information may be obtained which are used by different groups that present opinions, knowledge and divergent interests such as: managers, investors, financial creditors, commercial creditors, clients, suppliers, employees, the government and its institutions, bankers, financial analysts, the public, the business community and other entities who base themselves on the objectivity and integrity of the financial statements audited.

Key words: *audit, financial audit, auditor, financial statements, audit report.*

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The word *audit* has its origin in the Italian word "audire"- to listen; it is a word of Italian origin which became known and used from the beginning of the 18th century. Being transformed during Anglo-Saxon practice, it presently symbolizes, in a strict sense the account control performed by independent experts called auditors, who express their professional, responsible and independent opinion concerning the preparation and presentation method of the financial statements of an entity.

At the beginning, the audit was a set of methods, procedures and techniques. After the year 1970, audit has become a mature and developed domain that opened numerous methods of research.

The audit of financial statements is a domain of action in the financial accouting.

In Romania, the activity of financial audit was legislated by the publishing in the Official Gazette of the Emergency Ordinance no. 75/01.06.1999 that constitutes a legal framework for organizing the activity of financial audit and the independent performance of the profession of financial auditor. The Romanian Chamber of Financial Auditors, an independent legal entity, was also founded by means of the Emergency Ordinance no. 75/1999 in its capacity of professional organisation for public use without profit.

The room of Financial Audit from Romania adopted the International Standards of Audit elaborated by the Accounting International Federation.

From this perspective, the financial accounting audit is interposed between the producers and users of accounting information, by high class professionists (auditors) who assume the responsibility of certifying financial statements by relating them to a standard or legal quality norm.

OMFP no. 403/22.04.1999 regarding the approval of the accounting regulations harmonized with the 4th Directive of the European Economic Community and with the International Accounting Standards, the obligation to perform the accounting financial audit for all trading companies, independent administrations, public institutes, banks, investment funds, etc., that fulfill certain criteria stipulated in this Order. Thus, by performing the audit on the financial statements, many entities may prevent insolvency, liquidation, bankruptcy and loss of financial resources by the exact, correct, real and honest informing of all participants concerning the social and economic life.

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Initially, the word *to audit* signified the verification of the financial statement of a company, but gradually the word *to audit* acquired the meaning of studying a company as to apreciate its transformation processes, transactions and financial statements (financial audit), in order to improve its performances (operational audit) or to make a judment concerning the management (management audit).

The financial audit **–** implies any analysis, control, check and study concerning a section or a certain part of accounting or financial statements.

By financial audit, a judgement concerning accounting accounts is elaborated that will lead to the auditing of the financial statements of an entity.

The professional judgement of the financial auditor plays an important role, various relative theoretical frameworks in the decision making process regarding the audit of financial statements being borrowed from psychologists.

Operational audit **–** developed in the countries from the framework of the European Union aims at analysing the risks and deficiencies that exist in an entity as to grant advice, recommendations or to propose new strategies as to improve performance.

Management audit**–** is the most frequenly met in the audit activity from the Anglo-Saxon world and aims at finding convincing evidence which lead to fraud, or at having a critical opinion concerning the management operations or the performaces of an entity or a group of entities that are responsible.

Auditors are authorised professionists, members of the Romanian Chamber of Financial Auditors, who obtained the quality of being financial auditors. The legal framework specifies passing the access test to the traineeship (some persons can be exempted according to the collaborating protocols completed with CAFR), conducting the practical training (for the CECCAR trainees there is a protocol completed between the two regulatory bodies which regards the recognition of the first year of training conducted at CECCAR under the conditions stipulated in the protocol) and passing the professional competence exam formed of 3 assessments.

By the audit activity we understand the expression of a professional opinion from an auditor concerning the faithful image of the annual financial statements. Auditors bring their contribution to the maintenance of integrity and eficiency of financial statements presented to financial institutions as to obtain credits.

The opinions expressed by the auditors concerning the financial statements were established under every significant aspect in conformity with an identified referential accountant. Thus, for expressing his/her opinion, the auditor regularly uses the phrases "gives a faithful image" or " sincerily presents under every significant aspect" these formulas being equivalent.

Annual financial statements according OMFP 3055/2009, the financial statements are consist of: balance, profit and loss account, statement of cjanges in equity, cash flow statement and the explanatory notes of the annual financial statements.

Financial statements must be prepared as to supply useful, concrete and real information as to adopt economic decisions, in order to decide the moment for purchasing or selling a capital investment, to evaluate the deficiencies in managerial responsibility, to evaluate the capacity of the company to pay and offer other advantages to its employees, to evaluate the guarantees for the credits offered to the enterprise, to determine the taxation policies, to calculate profit and to distribute dividends.

The financial statements are presented annually and intended for the commun needs of a large range of interested users. Fot the interested users, they present the only source of information regarding the satisfaction of their own needs.

Financial statements are prepared and elaborated after certain international and national accounting norms as well as after other recognized accounting references.

The International Standard on Auditing no. 200 (ISA200) “General objectives of the independent auditor and developing an audit in accordance with the International Standard on Auditing” aims at improving the confidence level of the financial statements of the target users, as well as establishing norms and instructions for professionals in order to audit the financial statements.

By auditing financial statements, their reliability is increased in the eyes of the users, without understanding that the opinion of the auditor represents a certainty of the future efficiency of the entity or the management of the entity audited.

In view of auditing financial statements, the auditors check and make various checks, and obtain adequate and sufficient evidence which will allow them to draw conclusions. During the auditing task, the auditor communicates with the internal auditor according to ISA 610, who closely knows the situation of the audited entity.

Thus, by meetings with the other members from the management of the audited unit, the auditor may obtain more information concerning the entity audited, regarding both the activity developed in the current fiscal year as well as the previous fiscal years.

In view of auditing financial statements, the auditor must verify and observe:

- whether the documents made available are correctly, concretely and coherently drafted;
- To verify the field of activity of the entity audited and also keep in mind the social and economic environment in which it develops its activity;
- whether during the fiscal year, the accounting principles and the regulations in force were respected and correctly applied;
- whether before the preparation of financial statements, the evaluation methods were respected and applied, where necessary;
- whether the bookkeeping of the economic and financial operations was prepared in a systematic and chronological manner;
- whether the inventory of the patrimony was performed, as well as its valorisation by recording in the account bookkeeping of the inventory results;
- whether the amount represented in the balance sheet by synthetic accounts corresponds to the amounts from the analytical accounts;
- whether there were changes during the fiscal year in the structure of the capital and if they were recorded in the bookkeeping;
- whether the financial obligations were correctly calculated, retained and transferred to the state budget;
- whether the depreciation norms for fixed assets were observed;
- whether lists with suppliers and clients were drafted and if they were confirmed;
- whether a schedule of debts collection and for cashing the receivables was set;
- whether the receivables and debts were evaluated in foreign currency;
- whether the crediting situation was correctly prepared, contracted both from the banking companies as well as from non-banking companies;
- whether the incomes and expenses were correctly recorded and are based on supporting documents;
- whether the income tax was correctly calculated, taking into account the non-deductible fiscal expenses, as well as the fiscal losses from the previous years;
- whether the preparation of financial statements was achieved based on the closing balance at the end of the fiscal year;
- whether the accounting policies and notes were correctly prepared;
- whether in the accounting notes, the distribution of the accounting profit or the coverage of the accountancy loss was decided;

- whether the profit and loss income was prepared in conformity with the incomes and expenses in the balance sheet;

- whether the situation of fixed assets corresponds with the balance sheet;

- whether the situation of cash flows was correctly analysed;

- whether the opening balance corresponds with the closig balance of the previous fiscal year;

- whether during the fiscal year, the accounting principles were observed, as well as the continuity of the activity, the precautionary principle, etc.

In view of auditing financial statements, the auditor must observe if the documents made available by the management of the entity audited correspond both qualitatively and quantitatively, if they supply concrete, correct and exact information as for all these evidences to lead to a more faithful and complex image regarding the entity audited.

The financial auditor is obliged to verify if the balance, profit and loss account, the statement of changes in the equity, the cash flow statement and the notes of the annual financial statement were correctly done according to OMFP 3055/2009. If they contain important and necessary information in view of analysing and easy understanding of the users interested by the situation of the entity audited. Within the auditing actions, the auditor of the entity observes the conceptual accounting framework in conformity with the International and National Accounting Standards.

The auditor must observe if the activity of the audited entity also continues in the next fiscal year. Thus, the balance sheet must offer the compatibility of patrimonial elements on at least two fiscal years; the evaluation and presentation methods used are identical with those from the previous year, and if there are modifications, they should be recorded and justified in the notes attached to the balance sheet (Stoian 2009).

Subsequent to the audit of financial statements , the auditor regroups the assets and liabilities resulted from the inventory and records them in the inventory register both the quantity and value, thus proceeding to a comparison and expression of an opinion upon the book values and the values resulted from the inventory.

The financial auditor in an audit mission does not register in his/her inventory register and does not express an opinion regarding the inventory, but regarding the financial statements.

The closure of the auditing activity is performed by drafting an *Audit Report*, which is destined to future users that present divergent interests and levels of knowledge.

By the Audit Report, the auditor expresses the results obtained subsequent to the auditing and draws up letters of recommendation, confirmation of accoun balances.

Subsequent to the performance of the auditing task, the auditor may express his/her opinion regarding the financial statements audited.

According to ISA 705 “Opinion changes of the independent auditor’s report” there are fout types of opinions:

- Qualified opinion;
- Unqualified opinion;
- Adverse opinion;
- Disclaimer opinion

Conclusions

The audit activity is regarded as a professional examination of information and it offers an augmented responsibility of the users, which rely on objectivity, integrity and the professionalism of the financial auditor who performed the audit of the financial statements. By auditing financial statements we understand a professional independent (auditor) accountant’s expression of fidelity of accounting and financial representations, he/she representing the key base for proof and credibility of financial transactions set out in the financial statements offering the guarantee of quality accounting information through the checking and certification of the audited entity.

The audit of financial statements consists in providing an insurance that the financial statements examined are completed and established accurately and that the economic operations were performed according to the regulations in force.

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