

ANALYSING THE AUDIT REPORT AND POSIBILITIES OF ITS IMPROVING

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ABSTRACT: The social and economic environment is in a continuous change, placing the specialists in front of some concrete situations, full with conflicts and uncertainty which ask for decisions and action. Nowadays, reality is a process of facts being continuously developing therefore a standard of utilities becomes absolutely necessary.

The present discourse refers to the audit report- as a final result of the external auditor's work and to the possibilities of improving this report – so as to contribute to a better financial stability in the actual context of the economic crises. The strength of the auditor is essential to re-establish the trust in the market.

The methodology of research is a qualitative one, because the data have been gathered without quantifications or other works. I have tried a deep look into the matter, realizing a synthesis of the opinions connected to the efficiency of the auditor's report, as a means of communication between auditors and the users of the accounting information. ISA 700 has been analyzed, worked out and compared to the economic reality and the specialty literature in the field, referring several times to the Green Book "The policy of the audit : crises lessons ".

Keywords: statutory audit, audit report, reasonable assistance, modified opinion, the role of the auditor

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Introduction

"The financial communication unites the members of society, including the organisations, into a dialogue of knowledge and efficient actions in the field of economic activity."(Domnişoru S., Briciu Sorin, I.E. Popa, O.C. Bunget, Financial audit magazine no. 7/2010).

The finality of the auditor's work is made by emitting a report, by the means of which, he expresses his opinion on the audited firms, so that any user of these information to be able to make decisions based on it. „The

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Audit Report represents the means by which the auditor communicates to the shareholders and to any other interested users, the degree in which he is satisfied by the way in which have been made the financial situations.” (L. Dobroţeanu, C. L. Dobroţeanu, 2002, page 306).

It is therefore a commercial document in which it is shown the length of the made audit works realised by the auditor and the professional opinion reached by the auditor as a result of the financial analyses. It represents the final product of the auditor’s work and the only document by which can be appreciated his professionalism. It results that the biggest negligence that an auditor can do is to write wrongly the audit report the single public document that is emitted by him and which presents in fact the conclusions of his work.

The International Audit Standards nr. 700 state that „Formulating an opinion and its reporting regarding the financial situation” establish the procedures and the fundamental principles together with the way of applying them regarding the form and the content of the independent auditor report. Most of this standard’s laws can be adjusted in the case of some different missions from the basic one.

The purpose of an audit is to improve the degree of trust of the users of the financial situations. This thing is obtained by stating an opinion by the auditor...” (ISA 200). The problem is that most of the times are expected from the auditors certain answers which these, according to their tasks are not supposed to give. „The opinion of the auditor regarding the financial situations treats the way in which the financial situations are prepared, on all significant aspects according to the general applicable frame of financial reporting” (ISA 200).

ISA 200 also defines the term of general applicable frame of financial reporting, as being „a general frame of financial reporting adopted by the management and where is the case by the people designed with writing of the financial situations, which is acceptable by the nature of the entity and of the objectives of the financial situations or which is imposed by the law or regulations”.

In order to formulate an opinion „the auditor must reach a conclusion regarding the reasonable obtained assurance by the auditor regarding the way in which the financial situations on the whole do not contain lies caused by fraud or error“ (ISA 700). ISA 200 defines the reasonable assurance as being „a high assurance level but not an absolute one”.

Concretely, as shown by ISA 700, the auditor must evaluate the way in which:

- „The financial situations present adequately the significant accounting policies selected and applied;
- The significant accounting policies selected and applied are consequent inside the general applicable financial reporting frame;
- The realised accounting estimations realised by the management are reasonable;
- The presented information inside the financial situations are relevant, believable, comparable and intelligible;
- The financial situations supply adequate presentations which allow the users to understand the effect of the transactions and the significant events on the information comprised in the financial situations;
- The terms used in the financial situations including the title of every financial situation are adequate” (ISA 700).

The fact that the financial situations of the companies are audited does not mean that the auditor must guarantee that there is no devaluation in the audited accounts. Still when there is a reporting of the fact that the financial situations present a clear and correct image the auditors give a “reasonable assurance” of the fact that the financial situations, in their assembly, do not contain significant devaluations caused by fraud or errors. The auditors try to reduce the risk that the financial information contains significant devaluations.

The lacks of the actual reporting system

The basic responsibility for presenting some solid financial situations comes to the management of the audited entities. The auditors can contribute by the active interrogation of the management, from the user’s point of view and considering the “professional scepticism” across the audited entity.

The actual practice indicates the fact that by the audit report, the “reasonable assurance” is less orientated towards the guarantee that the financial situations give a clear image being orientated by the guarantee of the fact that the financial situations are being made according to the applicable financial reporting frame.

The crises from the banking field demonstrated the fact that inside the audit report must be stated the fact that the fond is beyond the form,

which is also stated in the International Standards of Financial Reporting (IFRS). The auditors from the European Union repeatedly refer inside the audit report at the conformity with the IFRS, without insisting on the made analyses from the accounting or audit point of view.

At the international level the theme on the ROLE OF THE AUDIT presents a high interest and it was intensively debated. The central point of these debates was the cases in which were emitted clean reports and still the audited firms bankrupted. Here started the mistrust in the real significance and utility of the audit.

The existence of some important irregularities which have not been signalised by the audit, lead to the question: which is in fact the role of the audit? The answer to this question is not as simple as it seems and therefore it is noticed at the international level a higher distance between the position of the auditors and that of the users of information.

Some users of the audited accounting information have expressed their mistrust regarding the real audits inside the business environment. They simply cannot understand how the financial institutions can reflect the idea of “reasonability” and “solidarity”. Even if the same institution has some financial difficulties it has been demonstrated several times that the users do not know the limits of an audit and here i mean the significance threshold, sampling techniques, the management’s responsibilities, etc. From the perspective of the user, the auditors must offer to the interested parts a very high level of assurance regarding the components of the accounting balance and their evaluation at the datum of the accounting balance writing.

There should be clarified the difficulties that come against understanding the social efficacy of the audit, as a result of a lack of understanding of the objectives or of its limitations. There must be known the laws that come together with this activity and three aspects must be clarified:

- The audit represents a technique which by the help of some specific procedures helps to obtain a professional opinion on the financial situations. It is not an exact science whose product is indisputable;
- The audit checks whether the financial situations are being made according to the present laws and if they reflect the clear image;
- The audit is being made only on some accounting available documents, presented by the audited firm.

It is important for people to be aware of the fact that the audit does not mean to be remade all the accounting information. It uses sampling techniques and signification thresholds to check the transactions or the analyses of the indicators so that to be able to form a professional opinion. This way can be expressed the opinion towards “reasonability”, “solidity” or “clear image” even if the firm is on the edge of financial difficulty.

The existent limitations make that some wrong statements from the financial situations to not be detected. The past discovery of some significant error does not mean that the auditor has acted with less professionalism. It must be appreciated the conformity of the used procedures in the present circumstances.

The role of the audit is to plan his work so that to be impossible to lose some important information. This represents the “art” of this job. The auditor must be a very informed person who must combine the intelligence with the professional experience in order to obtain a fair result.

Concerning the assurance on the future of the firm against the bankruptcy so the continuity of the activity - this is an objective is the field of the financial analysts. There is a series of incontrollable external factors which can affect the activity of the firm, such as: the national and international economic stage the fragility of the principles or the accounting norms applied when the bankruptcy is involved, the fraud of the management, the lack of the ability of the management to adjust to change, the presence of a dominant general manager and of a stupid administration board, the lack of own money or external financing, etc.

We speak here of what it is called in the Anglo Saxon literature the „audit expectation gap” or the existent difference between the nature of the audit and what the users of accounting information expect from the auditors. It is very necessary for the two expectances to get closer- that of the professionals and that of the clients. There are in general three collectives interested in the auditor’s activity:

- The clients of the audit firms;
- The users of the accounting information - collaborators, rating firms, banks, financial analysts, media, the state authorities, etc;
- The auditors themselves.

The role of the auditor in front of the fraud is the theme that has created the biggest difference of opinion between the three collectives. From here we should deduce the great social importance given to the audit and the trust of the society in the fact that the auditor represents their interests.

Therefore i think that the audit firms shouldn't pass over these aspects and eventually to enlarge the area of responsibilities, to look for new methods or procedures to come as a support to their work.

As we can notice, ISA 700 establishes the form and the content of the Audit Report. The basic elements that cannot miss from its structure are:

- The title;
- Addressed people of the audit;
- Datum and the period covered by the financial situations;
- The responsibility of the management;
- The responsibility of the auditor;
- The fact that the audit has been made according to the IAS and/or the national standards;
- The statement regarding the opinion of the auditor- which has to present very clearly if the financial situations offer a clear image and a complete one on the assets, results and the financial situations;
- The complete address of the auditor;
- The datum of the completing of the report;
- The signature of the auditor- in the name of the audit firm or of the independent auditor.

The opinion of the auditor stated inside the audit report can be as follows:

- Opinion without reserves;
- Opinion with reserves;
- Unfavourable opinion;
- The impossibility to express an opinion.

Every time when the auditor states a report, other than a report without reserves, it must include in his report a description of all the reasons that justifies its decision. The standard that treats the responsibility of the auditor in elaborating a Report with a modified opinion is ISA 705 „Modifies of the opinion of the independent auditor report” the standard says that „when the auditor modifies the opinion on the financial situations, the auditor must...include a paragraph...which offers a description of the aspect that has determined the modifying. The auditor must place this paragraph right before the paragraph of the opinion”.

Another problem of the audit environment is the negative perception that is generated by the reserved audit report. This way a paradigm has been perpetuated “all or nothing” in which the “the reserves” from the audit report represents a taboo both for clients and for the auditors. The question

is whether it should be revised this perception, or if the shareholders and other users of the accounting situations should be really preoccupied by this aspect. I think that, if the transparency would grow regarding the reporting made by the managers, if more detailed information were offered combined with the explaining the ratio of the external audit that has emitted the reserved report could clarify more the investors or the users of the accounting information. These would have no reason to be dissatisfied by the information they have, being able to take decisions completed aware of it. "A good financial situation can show the strength of a business, determining the trust of the public...the lack of transparency of a company regarding its financial results determines suspicions from the public..." (Domnişoru S., Briciu Sorin, I.E. Popa, O.C.Bunget, Financial Audit Magazine no. 7/2010).

Moreover it is noticed an exaggerated tendency of standardising of the text inside the audit report, fact that hides the users the content of the audit. There have been noticed at different commercial societies audit reports almost identical. All of them have followed the audit procedures, without any personalisation or any proof of the depth of the made papers.

The users of the audited accounting information want extra information and financial and non financial clarifications. The audit must bring a value add to the business by supplying transparent information, absolutely necessary to taking decisions.

Inside the preliminary Project of the study group „the audit policy” which refers to the Green Book „Audit policy: lessons of crises”, it is shown that, European Commission „wishes to analyse the perspective of coming back to simplicity, approach based mainly on checking of the balance sheet and less on conformity and the functioning of the systems, tasks that should come back, mostly on the responsibility of the client and be the object of the internal audit.... To present a „clear and correct image”, the auditors must assure themselves that the fond is above the form”.

Conclusions and possibilities of improving the audit report

Lately more and more has been discussed the problem of improving the general communication process of the auditor to the external environment. For example, „The United Kingdom has revised the model in order to have more précised audit reports and has in consideration in favour a more informative character of its. The French commercial code states that the auditors must public justify, together with the report on the annual

accounts, the audit opinion. This justification comprises the appreciation on the choices made by the company, on the accounting methods, on the important accounting estimations and if necessary, regarding the internal control procedures.” (The Economic and Social European Committee, 2011).

From this perspective, it must be analysed in what way the public interest information that the auditors have can be revealed to the users, without exposing the audited firms to certain risks regarding the future events or without affecting the intellectual property.

Still to come at the users of audited accounting information support it comes the problem what other extra information could be given by the auditors and how? From this perspective must be seen if all the informative aspects such as- the potential risks, the evolution of the sector, the risk connected by the prime materials or the risk of exchange, together with the audit report or as part of it, can bring added value to the interested parts.

Let’s not forget the fact that the audit report represents the means by which the auditor communicates with the shareholders and the management of the audited firm. There has to be a permanent communication between them in order to make sure that there is no syncope in the general cover of the conformity, of monitoring the risks and on checking the actives, the debts, the incomes and expenses. ”The German legislation offers a good example from this perspective by the fact that it imposes to the external auditor presenting an extending report in front of the surveillance board. Such a report, which is not available to the public, resumes the fundamental conclusions of the audit much more detailed than the auditor report and deals with the hypothesis of continuing the activity and the monitoring systems, the future evolution and the risks at which is exposed the company, the significant elements the discovered irregularities, the used accounting methods” (The Economic and Social European Committee, 2011).

Another aspect that must be considered is represented by the frequency of the communication between the shareholders and the auditor, as there are several voices which state the fact that the opinion of the auditor from the audit report is „late and insufficient”. Other users consider adequate the reporting terms, insisting on the short character of the audit report. The auditors generally make short statements which do not tell exactly the results of their research or the ratio that lead to those results. Therefore most users consider that the Audit Reports are not relevant, as they do not reflect the effective work of the auditors.

Even if the research at the international level has been intense, few are the resolved problems. As a proof, the European Commission by the Green Book has initiated an ample debate at the European level on the role of the audit in the conditions of the actual economic crises. One of the conclusions states that: "it is, clearly necessary the revise of the role of the auditors" (Economic and Social European Committee, 2011). It is considered that it has been given only a limited attention to the way in which the audit task can be consolidated to contribute to a higher financial stability.

The actual economic environment indicates the necessity of revising the role of the auditor. The Economic and Social European Committee proposes itself „a series of modifications of the Directive regarding the audit and revising of the conduit code according to the orientations proposed by the Financial Reporting Board of the United Kingdom". This has proposed some modifications regarding the reporting report, by which: "a higher quality reporting, especially regarding the business strategy and the risks managing", or "more information regarding the audit process both for the audit committees and for the investors and extending the responsibilities of the auditor". It also refers to the "annual reports which are more accessible due to the technology".

It is also considered that it is very good that the role and the applying domain of the audit activity to be analysed in the general context of the reglementations report of the financial market. The audit and the surveillance activity and the corporative governance should contribute to the financial stability and reducing the risk of devaluation in order to reduce the risks of bankruptcy. We notice that it is stressed the fact that the management of the firms should be more and more responsible and the external auditors regarding the transparency of the accounting information and the complete character of it, and also on the bigger authority, on expending the role of the audit committees or the surveillance ones.

It is important to concentrate our efforts in order to know diversity that there exists in the international context regarding the expectances of the audit and its role, to extend comparative studies, detailed on the audit practices in different countries, in order to learn from their experience.

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