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Study on Indicators of Economic Efficiency Used in Auditing Financial Statements

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Abstract *This paper presents the results obtained from the implementation of indicators of economic efficiency when carrying out the mission of changing situations auditing financial statements of a company, with which the auditor can easily calculate the economic efficiency of the company subject to audit activity. The aim of implementation, during the engagement, indicators of economic efficiency is the actual financial results, which will lead to the improvement of future economic performance and to increase the credibility of the public interested in the economic activity of the company audited. Research methodology, data collection consists of financial statements of fiscal year 2018 from the level of a company in Romania, and uses these data to obtain the efficiency of economic indicators. During the audited financial statements, it will be examined carefully the data contained in it to see that they are not significantly flawed accounting misstatements, which could negatively or positively affect the calculation of economic efficiency indicators. The results of this research can be harnessed for a better improvement of the financial audit process in large enterprises in Romania, facilitating the development of new perspectives by using indicators of economic efficiency within the financial audit.*

Keywords Indicators, economic efficiency, audit, economic performance

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1. Introduction

Due to the intensity and complexity of operations and transactions effectuated by the economic entities, as well as the development of business economic environment, have determined decisively the evolution of audit activity. The word audit has its origin in the Latin “audire”-which means“ to listen and to transmit forward”, in English language it has been taken over as being “checking or accounting revision (Thomas, 2009).

Originally the word had the meaning to an audit of the financial statements in a company but the word “to audit” has gained gradually the signification of studying a society in order to appreciate its transformation process, transactions and financial statements (financial audit), to improve performance (operational audit) or to make a judgment on management (management audit).

The Audit activity has been defined by the auditors as being a professional examination of information for the purpose of expressing an opinion in relation to responsible and independent quality criteria. According to a national audit of the financial statements the audit mission aims to express an opinion whether the financial statements have been established in all their significant aspects, according to international accounting references (Berheci, 2010). *„The data was analyzed using descriptive and inferential statistics”* (Njimu *et al.*, 2018). Today social economic phenomena are complex and cannot be analyzed to clarify certain aspects multilateral only using specialist high moral and professional integrity.

2. Literature Review

During the economic crisis of 1929 in the United States of America, the use of the term audit appears in the current definition, when the economic entities were affected by the economic downturn and had to call on auditors who offered their services to certify the accounts of listed entities. On the stock exchange. The causes and effects of the economic crisis in the United States of America led to the establishment of the Securities Commission in 1934, which aimed to develop more formalized procedures for accounting standardization and to draw up consolidated financial statements, in addition to annual reports. by the listed companies. After the end of the economic crisis, the auditors played an important role in providing information to the audited entities, using various techniques and knowledge as well as tools specific to the financial-accounting field. In the United Kingdom, in 1939, the first regulations were issued regarding companies that are listed on the London Stock Exchange, which are obliged to draw up consolidated financial statements. In 1941, the Institute of Internal Auditors was created in Orlando, Florida, USA - I.I.A.I. It is an internationally recognized professional body to which other auditors from countries such as Norway, Great Britain, Sweden, Denmark, and other countries have joined. The international trade, between 1940 and 1970, is developing and is dominated by the relations of exchanges between states of services and goods, the mandating auditing entities broaden the scope of the audit activity on banks, employers and other financial institutions generated by the effects of capital markets.

The audit activity was carried out by professionals in accounting and audit services, and their objectives were aimed at rendering financial statements a high form of attestation and certification of their sincerity and regularity. In the United Kingdom, in 1991, the Institute of Internal Auditors through the voice of Internal President Joseph J. Mossis stated the same remark, in a much more precise explanation: "it is clear to those working within the Internal Audit function that it plays a vital role. To judge, helping the management to take the grips of internal control". After 1970, professional accountants will be established in professional organizations, independent in the form of audit and expertise companies. At the level of the European Union, the audit of the annual financial statements or the audit of the consolidated annual financial statements, is regulated by the Directive 2014/56/EU issued by the Council and the European Parliament on April 6, 2014, which amended the "Directive 2006/43/EC on the legal audit of the situations. Annual financial statements and consolidated financial statements "and" VIII Council Directive", no. 84/253/EEC and Recommendation 2001/256/EEC, regulations that have been transposed in the national regulations. Through the activity carried out, auditors analyze the facts, documents, operations and formulate opinions that certify the true and faithful image of the accounts, the degree of correctness of the internal control, by observing the regulations and protecting the entities against fraud at national and international level.

3. Methodology of Research

The research methodology aims to clarify the importance of the need for financial audit on economic entities, merger and awareness of the participants in the economic life. The present research focuses on the systematization and synthesis of the notions contained in the specialized literature, both legal and financial-accounting, of the regulations elaborated by the state institutions and by professional bodies both at national and international level. In order to carry out the research, we used a deductive and inductive methodology, to identify the method of carrying out an audit activity by using economic indicators. The verification key in this research is presented by the methodology applied by making a financial statement using the financial economic indicators, which tries to capture and validate the accounting information presented in the financial statements of an entity.

4. Study on effective economic and financial indicators was performed on the financial statements of a commercial company on 31.12.2018

During my research I noticed that the audit work was conducted in compliance with:

- Auditing Standards, issued by the Chamber of Financial Auditors of Romania, which are based on International Standards on Auditing (IFAC, 2009);
- O.U.G. 75/1999 on financial audit, as amended and supplemented (OUG, 1999);

- Order M.F.P. No.1802/2014 for approval of accounting regulations in accordance with European directives (Directive VIII and 2014/56/UE of the European Economic Community), as amended and supplemented (OMFP, 2014).

In order to achieve the study of implementing the efficient indicators it has been carefully studied these accounts that make up the financial statements: balance sheet ended on the date of 31.12.2018; profit or loss; data; situation of fixed assets; statement of changes in equity; cash flow statement; explicative notes at the financial statements.

The responsibility for the preparation and presentation of these situations the management of the company must prepare it.

The main financial indicators mentioned in the financial statements are:

- Total equity = 22,334,889 lei
- Turnover = 27,421,553 lei
- Net profit = 39.007 lei

In order to achieve the study on economic efficiency indicators we examined the financial statements on the date of 31.12.2018.

Table 1. Balance sheet ended on the date of 31.12.2018

No.	The name of the element	Balance on 31.12.2018 (lei)
ASSETS		
1	Intangible immobilizations	4.966
2	Physical immobilizations	26.297.659
3	Financial immobilizations	6.300
A	**Immobilizations Assets-total**	**26.308.925**
4	Stocks	57.426.578
5	Receivables	862.788
6	Short term investment	233.664
7	Bank accounts and cashier	234.336
B	**CIRCULATED ASSETS-TOTAL**	**58.762.366**
C	**SPENDINGS IN ADVANCE**	**507.849**
TOTAL ASSETS (A+B+C)		**85.579.140**
LIABILITIES		
1	Capital	7.079.025
2	Capital prime	1.000
3	Revaluation reserves	13.730.085
4	Reserves	983.636
5	Reported result	502.136
6	Exercise's result	39.007
7	Profit's repartition	0
D	**OWN CAPITAL–TOTAL**	**22.334.889**
E	**PROVISIONS**	**0**
8	Loans and similar debts	37.709.510
9	Suppliers	7.390.365
10	Clients. Creditors	0
11	Other Debts	18.106.119
F	**DEBTS – TOTAL**	**63.205.994**
G	**Income in advance**	**38.257**
TOTAL LIABILITIES (D+E+F+G)		**85.579.140**

Table 2. The profit and loss account on the date of LA 31.12.2018

No.	The name of the indicators	Balance on 31.12.2018 (lei)
1	Turnover	27.421.553
2	Income from operations	38.805.511
3	Operating expenses	34.875.637
	Operating result - PROFIT	**3.929.874**
4	financial income	1.837.553
5	financial expenses	5.371.122
6	Financial result - Loss	**- 3.533.569**
7	total revenues	40.643.064
8	total expenditure	40.246.759
9	GROSS RESULT	**396.305**
10	INCOME TAX	**357.298**
11	NET RESULT	**39.007**

Based on the above accounting documents, the auditor in performing the audit mission can quickly determine the economic evolution of society on the basis of efficiency indicators.

Main indicators of economic efficiency, calculated based on the financial statements are:
- liquidity ratios;
- indicators of financial balance;
- management indicators;
- indicators of profitability;
- indicators of solvency;
- the working capital;
- working capital requirements.

I. Liquidity
- general liquidity;
- immediate liquidity;

General liquidity = Current Assets/Current Liabilities = 58.762.366/55.815.629 = 1.05

The overall liquidity means how current assets can cover current liabilities.

In order for the society to have a good overall liquidity, this should be more than 1.3%.

This 1.3% liquidity presents the situation in which the company cannot fully cover current liabilities from current assets.

Immediate liquidity = (Assets - Inventories)/Current liabilities

Immediate liquidity = (58.762.366-57.426.578)/55.815.629 = 0.02

Liquidity destination is on how total debt outstanding may be covered by liquidity or deposits.

Taking into account the small percentage of 0.02% related to the immediate liquidity means that the company cannot cover the total debts due from liquidities and deposits in sight

II. Annual financial balance
- financing rate of stocks;
- equity ratio over assets;
- rate debt;
- rotation speed of debts;

a) Financing rate stocks = (Shareholders' equity - assets)/Inventory X 100

Financing rate stocks = (22.334.889-26.308.925)/57.426.578 x 100 = - 6.92%

It measures the financing capacity of stocks using the net working capital. Within this company, the indicator is sub-unitary which means that the company has a low capacity to finance stocks with the help of working capital.

b) Equity ratio over assets = Equity/Assets X 100

Equity ratio over assets = 22.334.889/26.308.925 x 100 = 88.70%

This indicator shows the extent to which equity is used to finance the company's assets. In this case, the purple capital can finance the company's assets of 88.70%.

c) Debt rate = Total Liabilities/Total Assets X 100 = 63.205.994/85.579.140 x 100 = 73.86%

This indicator highlights the extent to which the company finances its activity from sources other than its own (loans, state debts and suppliers). The indicator is the inverse of the equity solvency, the sum of the results of the two indicators must be 100%. Under normal conditions of activity the degree of indebtedness should be around 50%. A limit below 30% indicates a reserve in appealing to loans and loans and over 80% a dependency on loans, alarming situation.

In this case the indicator is 73.86% which indicates a dependence on the amounts borrowed from various business partners.

d) Turnover = Average total debt liabilities/Sales x 365 days = 63.205.994/27.421.553 X 365 days

Turnover = 841 days

Express the number of (theoretical) payments of the total debts in the turnover. An extremely low turnover should not raise questions about the company's ability to pay because all debts, including those with a due date (over a year), are included in the calculation. In this situation it results that the debts are paid within 841 days, which indicates a low financing capacity from the turnover of the total debt.

III. Management Company

- speed of rotation of working capital;
- rotation speed asset;

a) Turnover of working capital = Current assets/Sales x 365 days

Turnover of working capital = 58.762.366/27.421.553 X 365 days = 782 days

Express the number of (theoretical) replacements of current assets using turnover. In this case there is a heavy rotation of 782 days of current assets in turnover.

b) Total asset turnover = Total assets/Sales X 365 days

Total asset turnover = 85.579.140/27.421.553 X 365 days = 1139 days

This indicator expresses the number of (theoretical) replacements of the total assets using the turnover. A rotation of 1,139 days indicates a very difficult situation at the company level for the rotation of the total assets in relation to the annual turnover.

IV. Rate of return

a) Return on = Gross Profit/Equity x 100 = 396.305/22.334.889 x 100 = 1.77%

It measures the gross performance of permanent capital (equity + medium and long term debt). It must be continuously increasing and exceed the interest rate in the medium and long term. In this case, a rate of economic return equal to 1 means that the company has a low share of the gross profit in relation to its own capital, which indicates a low degree of the company to be feasible.

b) Return on equity = Net income/Equity x 100 = 39.007/22.334.889 x 100 = 0.17%

It measures the net performance of the company's capital, those brought by investors, current and unrealized profit (in the form of reserves and non-distributed profit). It has to cover the current interest rate. The low value of this indicator of 0.17% indicates a fact that the shareholder does not have to mobilize to adapt the share capital to the business dimension. It is used as a reference threshold for current interest because it is the most accessible and easiest way to make investments.

c) Rate of return of resources consumed = Net income/Total expenses x 100

Rate of return of resources consumed = 39.007/40.246.759 x 100 = 0.09%

The 0.09% percentage indicates a rate of return on consumed resources.

d) The rate of profit = Gross profit/Sales X 100 = 396.305/27.421.553 x 100 = 1.45%

The patrimonial solvency highlights equity share in total assets.

It can be considered a gross profit margin but applied to the turnover. It is not influenced by the tax rate and for this reason it is useful in multi-period analysis. The contention must be increasing and exceeding at least 5%, in this case it is 1.45% which shows a low level of accounting profit in relation to the turnover.

V. Solvency indicators

- global solvency;
- Patrimonial solvency;

a) Global Solvency = Total Assets/Total liabilities = 85.579.140/63.205.994 = 1.35

It represents the possible total coverage by the company of the total debts with total assets. For overall solvency ratio to be good it has to be closer to 2. In this case, the global solvency is an acceptable one, which indicates that the company has no major difficulties in paying the donors.

b) Solvency patrimonial = Equity/Total assets x 100 = 22.334.889/85.579.140 x 100 = 26.09

In this case the equity has a weight of 26.09% in the total assets; this presents a good situation of the company relative to the equity.

VI. Working Capital Fund VI (WCF)

Working capital = Current assets = 58.762.366 lei

This indicator is equal to current assets. The working capital has the greatest importance in terms of analyzing the long-term financial balance. It represents the permanent resources remaining after the permanent need is reduced, respectively the permanent capital after the financing of the net fixed assets. Depending on the result, the net working capital can be negative, positive or equal to zero. If it is negative, it means that a percentage of the fixed assets are financed from the current debts, that is to say, an inability of the permanent resources to finance the permanent need.

VII. Working capital requirements (WCR)

This indicator represents the resources used by the company to finance current activity.

For necessarily quite working capital to be optimal it must have a value greater or equal to 0.

The need for working capital = (Current assets - Treasury) - Current liabilities

The need for working capital = (58.762.366-234.336) – 55.815.629 = 2.712.401 lei

In this case, the company can finance its debts from current assets. Applying these indicators of economic efficiency in the implementation audit helps the entity to achieve its objectives by evaluating processes management risk, control and governance, and making proposals to improve the effectiveness and efficiency of management of the entity's management. The Audit of financial statements is to provide assurance that the financial statements are complete and prepared accurately and economic transactions were conducted in accordance with the regulations. Thus upon audit of the financial statements, many entities may prevent insolvency, liquidation, bankruptcy and loss of financial resources through a correct, accurate, true and honest information to all participants in economic and social life.

In the pursuit of the accounting activity a useful tool is the financial audit, this involves the promotion and implementation of some methodologies well harmonized and implemented the entities both at European and on a global level. Thus audit is a top area of economic and financial theory and practice, and plays a vital role in the functioning of the economic entity. The audit of the financial statements is attesting the legal provisions, the principles of performance management, namely efficiency and effectiveness of the audited entity.

5. Conclusions

Applying certain economic indicators to the financial statements can give auditors a clearer picture of the financial performance of the audited economic entity in a shorter time. The indicator expressed the extent to which the own sources, left by the shareholders of the company, cover the long-term investments made. If the indicator is negative it means that the company has also used other long-term sources (loans and deferred payment of other debtors' suppliers) to finance the fixed assets.

The objective of the audit program is to give a sufficiently precise description of the activities to be carried out. Tracking and calculating these indicators can lead to obtaining information on the profitability of the entire economic activity and making strategic and operational decisions, which can help increase the performance of the audited economic entity.

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