

Audit Report the Final Product of the Auditor Work

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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 ".

Originality / the value of the research. The theme has been approached as a panoramic view over the problems concerning the audit report. It is an actual theme, which has become a concern for the auditors and for the users of the accounting information in this transition époque and economical crises.

This type of research supposes getting new knowledge, contributing to enrich of the theory of the financial audit and to identifying new problems of this profession in order to find an answer to them. Improving the quality of accounting information offered by the auditors represents a gain both for users and society in general, contributing to the development of the profession and to promoting of the good name of the external audit.

The purpose of this presentation is oriented towards the discovery of the problems concerning the discovery of the problems concerning the report of the external audit- as an instrument of communication between the auditor and the users of the accounting information in the actual economic context, trying to identify possibilities for its improvement.

Key words: statutory audit, audit report, ISA 700, general financial reporting applicable frame, reasonable assistance, modified opinion, the impossibility of expressing opinion, the role of the auditor.

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1. Financial audit – statutory audit

At the international level there has been, over the years, powerful discussions over which are or are supposed to be the functions or the role of the auditors. I mean the syncope which exists between reality and the work realized by the auditor.

In Romania the audit's activity is realized according to H.G. 79/1999, O.U. no 90/2008, and the Law 26/2010. For a better understanding of the actual situation it is necessary to make a distinction between the financial audit and the statutory audit.

The Law 26 from 2010 which completes and modifies HG 75/1999 defines the Financial Audit this way: "it represents the performed activity by the financial auditors as to express an opinion over financial situations or to some parts of these, performing other missions of assurance and professional services according to the international standards of audit and other rules adopted by C.A.F.R."

O.U. 90/2008 refers to the Statutory Audit which is being defined this way: The Statutory Audit represents the audit for annual financial situations or for the consolidated annual financial situations as it is for community legislation adjusted to the national legislation.

Sorin Domnişoru makes a wider and more complete definition of the statutory audit saying that by it we understand "the examination made by a professional- named or at least at the action level, authorized and independent- over the financial situations of an entity made by leadership in order to express a motivated opinion over a clear image and a complete one of the position, situation and financial results according to the accounting frame and adequate financial report".

The Law 26/2010 clarifies some of the terms in this field among which the terms of financial audit underlining clearly that "the financial audit also includes statutory audit developed according the law".

The statutory audit is the only type of audit at the European level, imposed by a law and which is a part of the companies' status. The activity of the statutory audit is developed according to the International Standards of Audit (ISA) elaborated by the Committee for International Audit and Assurance Standards (IAASB), and the auditors who develop statutory audit activities have been authorized by CAFR and are registered in the Public Register for auditors having a personal registration number. The Statutory Auditors will work only in missions of statutory

audit of the annual financial situations and consolidated annual situations in those expressed situations which are according to the law.

The phrase “financial audit ” is much wider.

Practically any verifying or examination of financial information can be considered financial audit. For example, the audit of financial situations for commercial society which is not forced by law to examine its financial situations represent a financial audit but not a statutory audit .It is therefore an optional audit to which can be done by larger circle of specialists on the condition that they are accepted by the firm. In their actions of checking the information they can respect ISA but they are not forced by the law to do it.

2. Audit report

“Financial community unites the members of society and also the organizations into a dialogue of knowledge and efficient action in the field of economic activity “(Domnişoru, 2011).

The finality of the auditor’s work is made by writing a report, by the help of which it expresses an opinion over the audit financial situations so that any user of this information is able to take decisions based on it. “The report represents the means by which the auditor tells the holders and to any other interested users, the way in which it is satisfied by the way in which the financial situations have been made”(Dobroţeanu, 2002).

It is therefore a commercial document in which it is shown the length of the done audit papers by the auditor and the professional opinion that he/she has reached as a result of analyzing financial situations. It represents the final product of the auditor’s work and the only document through which can be appreciated the professionalism. To conclude we could say that the only mistake that can be done is to formulate incorrectly the audit report, the only public document which is written by him/her and which represents the conclusions of his/her work.

In what the size of the audit report is concerned we could identify the following types of reports:

- Audit report and global certification of the balance sheet
- Audit report and limited certification of the balance sheet
- Special audit reports- which refer to some posts from the balance sheet, to some special operations or concrete situations asked by the beneficiaries.

The International Standard of audit (ISA) number 700 “Expressing an opinion and reporting on financial situations”(Manual of International Standards, 2009) establishes the procedures and the fundamental principles concerning and the ways of applying concerning the shape and the content of the report of the independent auditor. Most of the directives of this standard can be adjusted even in the case of some different missions from the basic mission.

The purpose of an audit is “to improve the degree of trust of the users across the financial situations. This thing is obtained by expressing an opinion by the auditor...”(Manual of International Standards, 2009). The problem is that, most of the times it is expected for an answer from the auditors which shouldn't be given according the law. “The opinion of the auditor concerning the financial situations treats the way in which the financial situations are prepared, in all significant aspects, according to the general frame of applicable financial report”(Manual of International Standards, 2009).

ISA 200 defines the term of general frame of applicable financial report as being a “general frame of financial report adopted by the management and where necessary by the persons in charge with writing the financial reports, which is acceptable by the nature of entity and of the objectives of the financial situations or which is imposed by the law or regulations”.

By expressing this opinion “the auditor must reach a conclusion regarding the reasonable assurance obtained by the auditor concerning the measure in which the financial situations, taken on the whole, do not contain significant devaluations caused by fraud or by mistake”(Manual of International Standards, 2009). ISA 200 defines the reasonable assurance as being “a high level of assurance, but not an absolute one”.

Concretely as shown in ISA 700 the auditor must evaluate the measure in which:

- “the financial situations present adequately the significant accounting policies, selected and applied;
- the significant accounting policies are selected and applied and whether they consequent with the general frame of financial report applicable;
- the accounting estimations made by the management are reasonable;
- the information presented in the financial situations are relevant, trusty, comparable and intelligible;
- the financial situations give adequate presentations which allow the users to understand the effect of the transactions and the significant events on the information stated in the financial situations;
- The terms used in the financial situations, including the titles of every financial situations to be properly used”(Manual of International Standards, 2009).

The fact that financial situations of the companies which are studied are analyzed does not mean that the auditor has the obligation to guarantee that there is not a problem in the studied accounts. When the auditors state that there is a correct image they give a “reasonable assurance” of the fact that the financial situations do not contain mistakes due to the fraud or errors. The auditors try to reduce the risks that the financial information contains significant misunderstandings.

The gaps of the actual reporting system.

The basic responsibility to present some solid financial information gets to the management of the controlled units. The auditors can contribute by the active interrogation of the

management from the users' perspective and based on the "professional scepticism" towards the controlled entity.

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

The crises from the banking system has demonstrated that in the audit report must be stressed the fond over the form, perspective sustained by the International Standards of Financial Report (IFRS). The auditors from the European Union repeatedly refer when writing a financial report to the IFRS without insisting on the analyzed made from accounting or audit point of view.

At the international level the theme about the Role of the Audit presents a great interest and has been deeply discussed. The central point of these discussions have been the cases in which have been emitted clean audit reports and the still the controlled firms have bankrupted. This was the starting point for mistrusting the true significance and utility of the audit.

The existence of some important fake facts which have not been stressed by the audit has lead to the question which is in fact its role? The answer to this question is not as simple as it looks; therefore it is noticed at the international level a deeper distance between the position of the auditors and the users of the information.

Some users of the accounting information expressed their mistrust over the auditors in the actual business environment. They can not understand how the financial situations of some institutions can reflect the idea of "reasonable" and "stability" even if the same institution is having big financial difficulties. It has been demonstrated the fact that the users do not know the limits of the audit – and I mean the threshold of the significance, sample techniques, management responsibilities, etc. From the user's perspective the auditors must offer to the interested parts a high level of assurance regarding the balance sheet and their evaluation when the balance sheet is being made.

There should be clarified the difficulties which come in front of the social efficiency of the audit because of the lack of objectives or its limitations. There have to be known the legislation points of this profession and clarified three aspects:

- The audit is a technique which by the help of some simple specific procedures helps getting a professional opinion on some financial situations. It isn't an exact science whose final product cannot be discussed;
- The audit verifies if the financial situations are made according to the legislation and if it reflects the clear image of it;
- The audit is being done on the available accounting documents presented by the audited firm.

It is important to get conscious of the fact that the audit does not mean remaking all the accounting documents. It uses sample techniques and significance thresholds in verifying the transactions or analyzing the indices so that a professional opinion could be formed. This way can be expressed the opinion of “reasonable” and “solid” or “clear image” even if the firm has some financial difficulties.

The existing limitations make that some wrong statements from the financial situations not to be detected. The following discovery of some significant error does not mean that the auditor hasn't worked professionally. It must be appreciated the procedures that have been used in the existing circumstances.

The role of the auditor is to plan his work in such manner not to miss any relevant information. This is in fact the real art of this job. The auditor must be a very good informed person, well trained and must combine intelligence with professional experience to get the best results.

As for the future of the firm in front of the bankruptcy in order to continue the activity this is an object that comes in front of the financial analysts. There is a series of external uncontrollable factors which could affect the activity of the firm, such as the economic study national and international, the fragility of the accounting norms applied in the moment of the bankruptcy, management's mistakes, the lack of ability to change of the management, a sick board of administration, the lack of internal funds or external finances, etc.

We are talking here of what it is called in the Anglo-Saxon literature “Audit Expectation Gap” or the existent difference between the nature of the audit and what the users of the accounting information expect from the auditors. It is necessary to unite those two expectations – the professionals' and the clients'. There are generally three very interesting communities interested in auditors' activity:

- the clients of the audit firms;
- the users of the accounting information- collaborators, rating firms, banks, financial analysts, media, 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 communities. From here we should understand the social importance that is given to the audit and the trust of the society that the auditor represents best his interests. Therefore we strongly believe that the audit firms should be extremely conscious of these facts and to enlarge the sphere of responsibilities, to look for new methods or procedures which will help them in their work.

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

- The title;
- The destination of the audit;
- The date and the period of the financial situations;

The responsibility of the auditor;

- The fact that the audit has been made according to the IAS and/or the national standards
- The paragraph of the auditor's opinion – which should clearly present whether the financial situations offer a clear image over the assets, the results of the financial situations;
- The complete address of the auditor;
- The signature of the auditor – in the name of the audit firm or the independent auditor;
- The opinion of the auditor can take several shapes:
 - Opinion without reserves;
 - Opinion with reserves;
 - Unfavorable opinion;
 - Impossibility to offer an opinion.

Every time the auditor writes a report, other than the one without reserves, he must include in his report a clear description of all the reasons that justify his opinion. The standard that treats the responsibility of the auditor when writing a report with a modified opinion is ISA 705 "Modifies of the opinion of the report of the independent auditor" (Manual of International Standards, 2009). The standard says that "when the auditor modifies an opinion regarding a financial situation, the auditor must...include a paragraph....which offers a description of the aspect which has determined the modification. The auditor must place this paragraph right before the paragraph of opinion"(Manual of International Standards, 2009).

Another problem of the audit is the negative perception which is generated by the reserved audit report. This way has been generated the paradigm "all or nothing" in which the reserves from the audit report represents a taboo both for clients and for auditors. The question is whether this perception should be reconsidered or if the users of the accounting information and the holders should be really preoccupied by this aspect. We think that if the transparency would grow in which the management' reports is concerned, if detailed information would be offered together with the explanation of the reasons of the external audit which has emitted the reserved opinion, would be clarified the details for the investors or for the users of the accounting information. These wouldn't have any reason to be unsatisfied by the information they get, being able to take decisions having all the necessary details.

"A good financial communication can show the solidity of a business, determining the trust of the public...the lack of transparence of a company regarding its financial results determines a mistrust from the public...."(Domnişoru, Briciu, Popa, 2010).

Moreover it is noticed an exaggerate tendency to standard the text in the audit report which hides the users the content of the audit. It has been noticed at some commercial firms, very different, audit reports almost identical. In all of them it is stated that have been followed all the necessary proceedings, without any personalization or proof to testify a depth of the work that has been done.

The users of the accounting information that have been audited want extra information and clarifications whether they are financial or not. The audit must add a plus of value to the business by transmitting transparent information, absolutely necessary to take a decision.

In the preliminary Report of the study group "Policy of Audit" which refers to the Green Book "Policy of Audit: the lessons of crises", it is shown that The European Commission "wishes to analyze the perspective of returning to simplicity, approach based on verifying the balance sheet and less on conformity and function of the systems, tasks that should be mostly belonging to the client and to be the object of the internal audit...To present a clear image, the auditors should make sure that the fond is prior to the form".

3. Possibilities of improving the audit report

Lately has come into discussion more and more often the problem of enriching the general process of communication of the auditor with the external environment. For example "the United Kingdom has re- analyzed the model for the audit reports be more precise and takes into consideration that they should be more informative. The French commercial code says that the auditors should justify in public their reports on annual accounts, the audit opinion. This justification comprises their appreciation concerning the choices that the company has made, of the accounting methods, of the important or sensitive accounting estimations, and, if necessary, concerning the procedures of internal control" (Proiect preliminar, 2011).

From this perspective it must be analyzed in what measure the public interest information that are given to the auditors can be made public and communicated to the users, without exposing the firms to some risks concerning the future events or without affecting the intellectual property.

Still to come in the users support it raises the problem of what type of extra information could be given by the auditors and in what way? From this perspective it must be weight whether for example the informative aspects such as the potential risks, the sector's evolution, and the risk connected to the prime stuff or the risk or the risk concerning the exchange course, expressed by the auditor in the auditor's report or part of it, can bring added value to the interested parts.

Let us not forget that the audit report represents the way in which the auditor communicates with the holders and with the managers of the audited firm. Between these persons must be a permanent dialogue to guarantee that there is no syncope the general covering of conformity, of monitoring the risks and checking the actives, depts, incomes and expenses. "The German

legislation gives us a good example by the fact that it imposes the external auditor to present a large report in front of the surveillance board. Such a report, which is not available to the public, summarizes the fundamental conclusions of the audit in a bigger detail than the report of the auditor and treats the hypothesis of continuing the activity and monitoring systems, the following evolution and the risks at which the company is exposed, the significant elements, the signed misunderstandings, the accounting used methods" (Proiect preliminar, 2011).

Another aspect that must be taken into consideration is the promptitude and the frequency of communication between the auditor and the holders, because there are several voices which sustain that the auditor's opinion, which comes out from the report is late and insufficient. Other users consider that the terms of reporting are adequate and insist only on the short character of the Audit Report. The auditors make in general in the Audit Report short and precise declarations which do not give very detailed results of the research or the reasons that have lead to those results. Therefore many users consider that the Audit Reports are not relevant, because they do not reflect the effective work of the auditors.

Even if the research at the international level by this theme has been intense, few problems have been solved. As a proof the European Commission by the help of the Green Book has promoted an ample debate at the European level on the role of the audit, in the actual conditions of economical crises. One of the conclusions states very clearly the fact that: "it is clearly necessary to reanalyze the position of the auditor" (Proiect preliminar, 2011). It is considered that it has been given a limited attention to the way in which the audit position could be consolidated in order to contribute to a bigger financial stability.

The actual economical environment indicates the necessity of re-considering the position of the auditor. The economic committee and social European "proposes itself a series of modifications of the directive concerning the audit and the acting code according to the orientations proposed by the Council of Financial Report of the United Kingdom". This has proposed some modifications about the report among which: "a higher quality report, especially about the business strategy and the risk management" or "more information about the process of audit, both for the audit commissions and for the extent of the responsibilities of the auditor". It also refers to the "annual reports more accessible by using technology".

It is considered that the role and the applying of the activity of audit be placed into discussion and analyzed in the general context of the reform and the reglementation of the financial market. The audit together with the activity of the surveillance and corporative governance should contribute to the financial stability and reducing the risk of not telling the truth, to reduce the cases of bankruptcy. We also notice that it is stressed on the fact that the responsibility goes to the management of the firms and to the external auditors in what the transparency of the accounting information and the complete character of this, but also on the higher authority, on extending the role of the audit committee or the surveillance one.

It is important to us to concentrate our efforts in knowing the diversity that exists in the international context regarding the expectations of the audit and its role, to extend

comparative studies, detailed ones on the audit practices in different countries, to be able to learn from their experience.

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