

# The Evolution and the Perspectives of the Audit

**Drd. Pop (Grigorescu) Ioana Iuliana**

Ph student, University 1 Decembrie 1918 Alba Iulia, Romania, Faculty of Sciences, Cotutoring  
Lleida University Spain, Faculty of Law and Economics

## **Abstract**

The present scientific article presents the evolution and the actual status of the concept and objectives of the financial audit, trying to foresee the immediate future of these. The hypothesis from which starts this research is the fact that the financial audit progresses and perfects itself at the same time with the economic development, as a response to the challenges of the society it works for. The research methodology is a qualitative one, because the data have been picked without any quantifications or rework. I have tried to overlook profoundly, realizing a synthesis of the opinions connected to the concept and the objectives of the financial audit. I have also analyzed, interpreted and compared the economic reality to the present legislation and specialty literature in the field.

Originality / the value of the research: The originality of the research is about the fact that the theme has been approached as a general view on the evolution of the financial audit, on the concept and its objectives, realizing a synthesis of the opinions from the specialty literature connected to this theme. This type of research supposes acquiring new knowledge, contributing to the enriches of the theory about the financial audit and to the identification of new directions of the profession as to solve them.

**Key words:** Evolution of the Audit, Concept of Audit, Objectives of the Financial Audit, Statutory Audit, Integral Audit, On-line Audit.

## **1. Introduction**

The audit is one of the most dynamic areas of the accounting sciences. While the accounting has suffered little change in time, the audit has permanently evolved, answering to the changes in the environment and modifying its objectives starting the middle age, passing through the industrial revolution up to the 21<sup>st</sup> century.

The hypothesis from which starts this investigation is the fact that the financial audit progresses and perfects step by step to the economic development, as an answer to the societies challenges for which it works.

The objectives of the research are to analyse the evolution in time of the financial audit, of the concepts and its objectives and to foresee in a logical manner the future of this profession.

## **2. The Evolution of the Audit**

Explaining the historical evolution of the audit involves an exhaustive and expanded study. In order to demonstrate that the audit has progressed and perfection step by step to the

economic development, as an answer to the necessities of the society it works for, we will make a short presentation of the historical evolution of the audit.

It is almost impossible to talk about the evolution of the audit without getting closer to the study of the history of accounting, because these two professions have common roots.

Even from the pre-historical period the human being found in some fundamental situations for life, has felt the necessity of listening and communication. In that moment appears a behaviouristic way which leads towards reflection, analyse, observing and choosing the best option. When the human being has realised this thing, in a way the basis of the financial audit has been settled, because the human being was realising actions of diagnoses, revision, evaluation, control or it recommended a follow-up strategy, in order to get a well state for the primitive society it was part in.

In Antiquity, 5000 years B.C. appears the first writings, developing new forms of organisation, new socio-economic formations, and philosophical, cultural ones. Once to these has appeared the necessity of improving the economic situation of the tribes or kingdoms. Therefore this task has been given to a member of the community, who knew how to write and dominated the numbers to realise activities of organising the data and figures, which would allow an evaluation of the economic situation, which would allow taking a decision.

Here we can notice the beginnings of the accounting, meaning the making the first balance sheets asked by the governors or the kings of some peoples as Phoenicians, Egyptians, Mesopotamians, Hindus, Chinese, or later the Greeks, the Romans, or other memorable peoples which, because of the realised scientific development but also because of their power of organisation have transmitted through generations and made possible the actual study of civilisation.

From the antiquity period are the first documents about the commercial transactions such as the cheque, the exchange letter, the first goods registers or information about the production processes. As commerce form was the exchange.

From the Roman period we have the first real accounting registers "Codex Tabulae", which on one side were registering the cashing "acceptum" and on the other side the expenses "expesum". After 235 A.D. the accounting was highly important in the Roman Empire. We can observe the running of a Register for house operations "el Adversaria" and a register for all the other operations "el Codex", by whose help the Romans have a precise control on the estate. The bankers from this period have been the ones who have developed mostly the techniques of the accounting.

During the Middle Ages appears a new economic system of organisation, spiritual and social one in which a great importance for the development of the accounting has had the catholic church which in the VIII th century was leading documents of annual inventory of the estate. In Italy and France the accounting activity has become a prestige profession, made by the intellectuals "escribanos", developing essential values for the professional ethics – such as honesty and correctitude.

In the Modern period have taken place events which have made possible the development of the accounting and audit. In the XV th century have generalised the arab numbers, the imprint has been discovered, the monk Benedetto Cotrugli is the pioneer of the double game, using the Big Book, "Cuaderno Mayor", the Journal Register "Giornale" and "el Memoriale", and Luca Paciolo publishes in the Venice of 1494 "Summa de Aritmetica,

Geometrica proportioni et proportionalita”, where it gives a clear and detailed explanation about registering in double and about the necessity of leading a sincere accounting.

In the XVI century the accounting activity gets a great importance in the economic and social sector. A great importance has had Grammateus in Germany, Tagliente in Italy, Salcedo y Felipe II in Spain. Up to XVIII century the auditors had the role of discovering or preventing the fraud and they had a certain social status and they were either priests or accounts having high moral values.

In the XVII and XVIII centuries it gets birth the Mercantilism in France and in England appear the big commercial and industrial empires, which impose the accounting as a professional activity, independent and free. The auditors came from the best accounts, their works being asked by the state, shareholders or banks. Napoleon Bonaparte in 1805, imposes that the practitioners of this profession to be rigorously examined.

The Contemporary Époque has been marked by historical events such as the Industrial Revolution in England and Europe ( the classic liberalism of Smith and David Ricardo) or the Ideological Revolution in France ( the individualistic philosophy of Hegel and Kant), who settled the basis of economic rebirth in Europe and of the spectacular change, of the technique of the accounting.

Between 1881 and 1895 appears the economic blockage in England, and the United States get the leadership in what the inventions are concerned. The accounting machine appears on the market which will help in counting the figures, the clock which marks the schedule, the system of holed targets. The accounting is also recognised as an academic activity at the University from Pennsylvania and as a professional activity by AAA (Associacio, of Public Accountants) in 1886, in Edinburg in 1854, in France in 1891, in Austria in 1895, in Holland in 1895, in Germany in 1896 and in Italy in 1893.

At the beginning of the XIX century the auditors are already well- known professionals as different specialisation of the accounting. The generalisation of the term of audit comes from the XIX century, when it took place a delimitation of the competences and responsibilities of the managers or the executive principals of the firms, from that of the owners (associated or shareholders). The level the business reached so far this period, the globalisation and the complexity of the transactions did not allow the owners to have a complete control on their societies. Therefore leading the business and taking care of the estate goes to the managers, ability persons for it. At the beginning the owners were checking their managers personally but in time they had to appeal the services of some professional independents to check the honesty, correctitude and the way in which their property was ruled by the managers.

In England the first audit cabinets appear, and the checking persons have been named financial auditors, who were taking care of the administering the goods of the firms which were bankrupt.

At the beginning of the XX century appear the first Accounting Associations which start to establish their own normative and conventions to practice this profession– in 1899 in Sweden, in 1916 in Switzerland , in 1917 in Japan. Between 1930 and 1950 it has been checked and published by AAA everything that is connected by the accounting principles.

In the United States, after the economic crises from 1929, the firms were looking for solutions in order to reduce expenses and raise the efficacy. Therefore they started to appeal the services of external audit cabinets, but in time they organized internal audit departments.

So we can state that the external and internal audit have organised under the pressure of the public, owners and other users of the accounting information, who have manifested a certain mistrust in the correctitude or the competence of the managers.

At the same time the managers have felt the need of organising the departments of internal audit, because of some socio-economic factors which were acting in that period: decentralisation of the activity of the big firms on geographical areas or activity sectors, raising the complexity of the managerial act, diversification of activities, raising the competition. In order to control the risks and reach the objectives the managers needed the services of some consultants who could also give managerial assistance.

At the end of the economic crises from 1929, the owners and investors have accused the accounting and the firms' management for the lost suffered. "It is appreciated that this crises has not been just an economic one but also a quality crises of the information supplied by the accounting"<sup>1</sup>.

The information did not present the real situation of the estate; they were irrelevant, insufficient and too optimistic. The managers were trying to present beautiful situations, deceiving to the owners. Therefore the national and international legislation ( the standards) the value stock market have started to impose to the commercial societies the obligatorily publishing of the financial situations and the reports to be made by competent and independent persons.

Therefore the persons who take the economic decisions appeal to the assurance services referring to the quality of information which are supplied, of some independent professionals who are named financial auditors. The development of the international exchange, realising some complex accounting papers needed large knowledge of analyses and evaluation, which these professionals have had.

After 1970 the cabinets of audit have reorganised under some international networks of audit, obtaining in short time homogeneity in the methods of work and the quality of it. They are very different as size and they are characterized by a strong specialisation of the employees on domains or groups of elements, promoting team work and shortening this way the necessary time for an audit mission. A special attention is paid to the aspects connected to the International Standards of Audit, using high accounting techniques. The first professional associations are settled.

The contemporary period is marked by a speeded development of the financial audit, determined by the continuous changes of the capital markets, of globalisation and technological developments. All these impose the permanent actualisation of the International Standards of Accounting, the International Standards of Audit and of the continuous perfection of the techniques and auditing methods.

### **3. The concept of audit**

The word "AUDIT" has latin origins (audio, audire, means listening). During time this word has known a lot of definitions and classifications. In general it is a synonym to control, check, inspect, and revise.

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<sup>1</sup> Niculae Feleagă, Accounting compared systems, Second edition, Volume 1, Economic Edit, Bucharest 1999, page 152

Cañibano [1993, page. 49] defines the audit as being, in general terms, “to examine and check information, check information, register, processes, circuits, et cetera.....having as an object to express an opinion over the beneficiations and its viability”.

On the other hand, Mautz and Sharaf [1961, page. 14] in their book “The Philosophy of Auditing” establish the characteristics which differentiate the audit from accounting. They show that the audit critically examine the accounting information, having an analytical and investigating character. It has its own control methods, having as an objective getting evidence and searching justifying elements in the annual financial situations. According to these two authors “the audit does not have its roots in accounting,..., but in logic, from where it has obtained most of its ideas and methods”. They do not consider the audit as being a subdivision of the accounting.

The audit examines documents, annual financial situations using own methods and techniques. It crosses math, statistics, behavior science and ethics.

Mautz [1970] sees the audit as a “practical and logical exercise”.

Most of the authors underline the fact that the audit is a process which gives credibility and viability to the economic information. This way Schlosser [1986, page. 4] shows that the audit tries to “bring a valid degree of the revised object”, which justifies the fact that the audit “it is not a subdivision or a continuation” of the accounting.

Carmichael and Willingham [1989, page 5] shows that “the audit is structured into activities that follow a logical sequence’, and Sánchez F. De Valderrama [1996, page. 396] says that “each of these sequences is constituted as the previous and necessary for the next ones”. Therefore in its development the audit passes through some steps, which put together form a complex process. They consider the audit as being the final phase of the accounting process.

According to Wallace [1995, page. 4] the audit is “planned and conditioned by the accomplishment of some technical norms”. Therefore it does not happen at random, according to the auditor’s mood without any defined methods.

Lopez Casuso [1995, page. 20-21] shows that the financial audit “must be the result of a strategy carefully conceived”, and for Arens and Loebbecke [1994] the audit represents “acquiring and evaluating the evidence about countable information of some economic unit to determine and inform on the degree in which these information match the established criteria”.

It is therefore noticed a kind of evolution in defining the audit, evolution which is marked by the new economic conditions. There are differences between the old philosophy and the modern philosophy of the audit.

In practise we meet a lot of audit types: operative or administration, internal, of system, of quality, fiscal, environmental, informatics and financial audit.

If we enter in the legislation of different countries, for example in Romania, according to the OUG nr 75/1999 the financial audit “represents the activity of examination, in order to express by the financial audit, of an opinion over the financial situations, according to the audit standards, fit in to the international audit standards and adopted by the Chamber of the Financial Auditors from Romania (CAFR)”.

The new Law 26/2010 to modify and complete O.U.G. nr. 75/1999 regarding the activity of financial audit shows that this “represents the made activity by the financial auditors to express an opinion over the financial situations or to some components of this, doing other

missions of assurance and professional services, according to the professional standards of audit and other regulation adopted by CAFR". The financial auditors can be physical persons or audit firms, which have gained the quality of CAFR members.

We notice that to complete the first definition with the fact that the activity of audit as well as other co-activities, according to the international standards or other regulation in the field, such as International Normative, European Normative or the National Normative.

The Spanish legislation, by the revised text of the Law of the Financial Audit in article 1.2 shows that the financial audit is "the activity which is based in revising and checking the financial situations,... and other accounting documents..., if that activity has as a purpose emitting a report on the viability of the documents, which can have an influence in front of the users". Then in article 2.2 it is shown that the compulsory audit is the "audit of the financial situations or the consolidated financial situations, asked by the legislation of the European Union or the national legislation".

These definitions have been criticised because they define the financial audit as a simple activity.

The international professional corporations and the auditors from the countries with a longer tradition in the matter of audit refer to it as a "professional activity" or name it simply a job, a profession.

If we refer to the European Norms, we notice that the 7th directive refers to the audit as a "professional activity".

Authors such as Cañibano [1993, page. 57] says that "the financial audit is a professional activity, not a mechanical activity, because it asks for a professional judgement, a solid and mature one, and involves at the same time a specialised technique".

From the American Accounting Association [A.A.A., 1973] perspective the financial audit or accounting one is a "systematic process of obtaining and objective evaluation of the evidence referring the statements regarding documents or events with economic character in order to appreciate the degree of conformity of these with pre-established criteria, to communicate the results of the interested parts".

This systematic process supposes that the audit is partially based on "discipline or philosophy of a scientific method" we observe that for over three decades this definition represents a reference point to analyse the audit process.

- "The statements" represent "the implicit or explicit declarations made by the management and which are comprised in the financial situations" as shown in the "Financial audit 2008" – terms glossary. The same term it is used in the International Norms of Audit having the same meaning but the used word is "assertions".

- "The systematic process" of obtaining and evaluating some statements is obtained by collective evidence, used to get conclusions and writing the audit opinion, so as it is shown in ISA 110.

- "The pre-established criteria" refer to the accepted norms in the business environment from that country, which gives a high trusting degree for the users.

- The final objective for the audit mission is to communicate the Audit Report to the interested users, but the exclusive responsibility is for the management of the entity, as they are the ones who have made the financial situations.



In Romania the National Audit Norms emitted by the C.E.C.A.R [1999] define the audit as being a “professional examination of some information as to express a responsible”, the final objective being “to improve the usage of information”.

The new European Directive 43/2006/CE<sup>2</sup> refers to the legal audit which “means an audit of the annual accounts or the consolidated accounts as it is stated in the communitarian legislation”. Therefore there is only one type of audit for which there are official texts and European legislation: the legal audit or the legal control or the statutory audit.

The statutory audit is the only type of audit which is adapted at the European level and which has, as a rule, by the laws of the companies and the papers that are made by these (their status). The auditors are named accounts commissars in France, auditors-commissars in Belgium, statutory auditors’ in United Kingdom, auditores în Spain, etc.

By statutory audit we understand: “the examination made by a professional – named, at least at a main level, of investor, authorized and independent - over the financial situations of some elaborated entity of management, as to express a motivated opinion on a clear image, and a complete position, situation and financial results, according to the accounting frame and the adequate financial reporting one”<sup>3</sup>.

To conclude the statutory audit is the one at which the organisations are forced by the law, it is made by a authorized professional, named by the investors and who makes the audit according to the International Standards of Audit. “The statutory audit besides the fact that it is authorized by the law, must have all the necessary qualifications to understand the used criteria and must be competent enough to know(determine) the types and quantities of gathered evidence so as to reach at an adequate conclusion after he will have examined all the evidence”<sup>4</sup>

From all the presented things we come to the conclusion that “financial audit” is much more comprising than that of “statutory audit”. The financial audit is that audit to which “the organisations can appeal without being forced by the law and which can be made by a larger circle of professional experts”<sup>5</sup>. The simple name of “financial audit” can be used to name numerous missions such as for example: the financial audit of the informatics procedures of the

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<sup>2</sup> Directive 43/2006/CE of the European parliament from may 17th 2006 regarding the legal audit of the annual accounts and consolidated accounts ,of modification of the Directives 78/660/CEE and 83/349/CEE of the Council of abrogation of the directive84/253/CEE, published in the official journal nr. 157/9 June 2006

<sup>3</sup> Sorin Domnisoru, (2011), Audit statutory audit and financial communication, vol. I, Editorial Economic, Bucharest

<sup>4</sup> Domnişoru, Sorin.; Briciu, Sorin; Popa, I.E.; Bunget, O.C., (2010), Statutory audit versus financial communication. Why and how, Financial Audit Magazine nr. 7 /2010, page. 3-13

<sup>5</sup> Sorin Domnisoru, (2011), Audit statutory audit and financial communication, vol. I, Editorial Economic, Bucharest

accounting, the financial audit of the exchange, the financial audit of accounting social expenses, the financial audit on the tax situation.

As it could be noticed, in almost every historical stage of the humanity there was an accounting form, strictly connected to the socio-economic stages of the moment, but also of we know today as audit, contributing to the development of these civilisations.

Therefore we can state that the audit as well as the accounting have appeared from specific objective needs, perfection and progressing in time, once with the realities of the economic life.

**4. The objectives of the audit**

The objectives of the financial audit have not always been the same. They evolved in time, at the same time with the events that have been produced in the economic plan.

Up to the Industrial Revolution the economy has developed on the base of some familiar firms, in which the owners were the ones who lead their firms. Therefore it was not felt the need for an independent, external audit. Moreover it was not imposed by the law.

Once with the appearance of the big firms, the owner quality and that of administer of the firm become two separate things. In this moment appears the need for an external auditor, independent, who can guarantee the holders and the users all the accounting information offered by the administrators.

The audit was born in England due to the fact that from here also started the Industrial Revolution. Nowadays we could say that the United States have taken the leadership at the world level in what the audit is concerned.

At the beginning the first OBJECTIVE in the audit activity was discovering and preventing the fraud, the mistakes or irregularities. The method of work was to see all the transactions on the whole, which made it from the economic point of view inefficient. The image of the auditor was that of a “hunting dog”, which checked the figures in the search of a human mistake. The audit report included the checking balance, and the auditor’s responsibility was complete.

In the following table it is presented the evolution of the objectives of the financial audit between 1700 until after 1990.

*The evolution of the objectives of the financial audit*

Period	Audit ordinates	Auditors	The objectives of the audit
Up to 1700	Kings, emperors. Churches and the state	People of the state or scribes	.The punishment of the thieves for the funds changing direction Protecting the assets
1700 - 1850	States, Courts and shareholders	Accountants	Repressing fraud and punishment of the authors Protecting the assets
1850 - 1900	The state and the shareholders	Professional accountants or lawyers	Avoiding fraud and errors and attesting the viability of the balance sheet
1900 - 1940	The state and the	Professionals in audit and	Avoiding fraud and errors and attesting the viability of the



	shareholders	accounting	historical financial situations
1940 - 1970	The state and the shareholders	Professionals in audit and accounting and counselling	Attesting the honesty and regularity of the historical financial data
1970 - 1990	The state, the third and the shareholders	Professionals in audit and counselling	Attesting the quality of the internal control and respecting the accounting norms and the audit norms.
După 1990	The state, the third and the shareholders		Attesting the clear image of the accounts and the quality of the internal control in respecting the norms. The protection against international fraud

Source: Collins Lionel et Valin Gérard – Audit and internal control Dalloz printing Paris, 1992, page. 17

At the beginning of the 20th century the audit addressed the big corporations, which were investing to the stock market, the only one which could afford the high costs of an audit, to give confidence to those interested to invest in them. The auditor followed if all the transactions were registered, if they were reflected correctly in the registers and then in the balance sheet.

At the half of the 20<sup>th</sup> century there have been important changes in the objective of the external audit. This has expanded over the firms of different sizes. They start to develop and go deeper through concepts such as: planning, analysing the internal control systems, sample techniques, statistic procedures, audit proofs, growing this way the efficiency of the process. The checking will be made only on representative transactions, considering the significance threshold and the probable risk. Therefore the working hours become lower and the global cost of the audit too.

In this period the main objective it is not the discovery of the fraud and errors, but that of offering a reasonable guarantee on the correctitude of the information given for the users. The auditors become more preoccupied by the evaluation of the internal control, uses the techniques of random checking, and the practices of audit become more standardised and harmonized at the international level.

T.A. Lee and R.H. Parker [The evolution of corporate financial reporting, 1979] show the causes which have determined the change of the main objective of the audit. These are:

- the auditors couldn't handle the huge amount of work they were dealing with;
- the cost and the time for the exhaustive checking become quite big;
- the managers of the firms start to accept some responsibilities regarding the detection of the fraud.

This way the Law of the commercial societies from 1929 from the United States has not foreseen the detection of the fraud by the auditors. It starts to be changed the objective of the auditors, going towards the emitting an opinion about the correspondence between the checking balance and the real assets situation of the firm. Slowly it will enter in the activity sphere of the audit the results Account and of the situation of the cash flux.

In the year 1950 the appearance of the computers will influence the work of the auditors by introducing the statistic practices and quantitative techniques.

Around 1960 a considerable expansion, connected to the general economic development. There will be developed analytical audit techniques and new work methods. The auditors group in order to follow better their professional interests and to develop their methods of work. It will pass towards an exhaustive checking, a total one, at sample techniques, based on the trust given to the internal control system. The American audit used the "audit tests" as procedures adapted to the rhythm of expansion of the business. The British techniques were already too expensive and they were consuming too much time. It also starts the technique of checking the transactions by confirmation of a third part. It is recognized the importance of the internal control and it is established a connection between its efficiency and the length of the audit procedures.

The American experience has had a significant influence over the audit practices and techniques and they are the ones who started the uniformity and standardization of it.

If initially the auditor was checking the honesty of all the persons who were dealing with the other people estate, at present he is a professional man who must have knowledge of accounting, management, and tax and law ones, analyse and ethics.

AICPA emitted "The Generally Accepted Auditing Standards" (GAAS), which governs the audit with little changes till today. In Canada, The United States of America and England it is applied the audit of the three "e", efficiency, economy and efficacy - especially in the governmental institutions - starting the year 1970.

If we refer to the international actual normative they describe the objective of the audit as being:

SAS nr. 1 [AIC 73] establishes that the object of the audit is "expressing an opinion about the reasonable way in which the financial situations are presented, the transactions results and the changes from the financial situation of the firms according to the Accounting Principles Generally Accepted".

The Technical Norms of Audit [ICA, 91 a] say that the objective of the audit is "emitting a report which will underline a technical opinion about the Annual Financial Situations, if they express under all significant aspects the clear image of the patrimony,...., according to the Principles and General Accepted Accounting Norms".

Starting 1990, in the American continent, the accounting and audit specialists started to wonder participating to conferences and congresses: what should the audit of the 21<sup>st</sup> century include?

The existence of a world globalised economy grows to an extreme the complexity of the firms, which should answer immediately to the changes, to adapt, otherwise they risk disappearing. The 21<sup>st</sup> century is characterized by the effects that the technological revolution has produced, the scientific research, the incredible growth of knowledge, the perfection of the information systems, the internalization of then markets, the develop of the quality concepts,

competitively. The phenomenon of globalization seems not to have limits, generating a massive diversification of the operations the firms do.

The introduction of a bigger number of taxes, the obligatorily of the firms to give more information on their activity have determined accounting registration more and more complex, leading in the end at the development of the analytical and synthetic accounting. These data had to be validated by the financial control and by the financial auditors.

In this context, the International Standards of Accounting emitted by IASC (International Accounting Standards Committee) have been reputed into function and modified at the IOSCO (International Organization of Securities Commission) request, getting the name of IASC2000. The same way International Standards of Audit (ISA) emitted by IFAC (International Federation of Accountants) have been checked again and reputed into context.

This way the process of financial audit becomes more complex, being oriented towards answering the environment's tasks involving more efficient procedures and lower costs, to handle this way the conditions of competition both for the audited firms and for the audit firms. This way the essence of the new is represented by the integral knowledge of the of the audited business, the evaluation of the risks taking into consideration the economic environment which is in a continuously change, a profound strategic plan and the extensive use of the new technology of informing and communication, which will have an influence on the audit applied procedures.

In this century the objectives of the audit follows: if there is a system of internal control and if this functions efficiently, if there is an adequately evaluation of the risks (the audit of the internal control), if the firm administers efficiently, efficacy and economically the human resources, the financial and material ones (the administration audit), if the financial operations, economic or administrative ones that have been done have followed the proposed institutional objectives taking into consideration at the same time the present norms from the labored, economic, financial and environmental (the conformity audit) and if the financial situations reflect the clear image of the entity's assets, and agree to the accounting norms general accepted (the financial audit).

The present objective of a financial audit missions is to express the auditor's opinion if the financial situations have been made in all the significant aspects according to the pre-established criteria. The auditor uses one of the following formulas: the financial situations "give a clear image" or "sincerely present all the significant aspects".

Therefore we can, today, talk about an integral audit, by which we can understand the audit of the internal control, the administration audit, the conformity audit, and the financial audit, which taken together, as a system and not as a simple sum of four audits. It is like a system composed by four subsystems which work together to produce a stronger effect. This way the reason of the auditor is produced taking into consideration all the data, as a whole.

This way, we can appreciate that the traditional term of "financial audit" is insufficient for this époque of constant changes. Today we cannot talk about the audit as a synonym for financial audit, but we have to specify the type of audit we are talking about.

The audit service which is for the firms forced to be audited - meaning the statutory audit, legal - is in fact an integral audit.

When we talk about financial audit, voluntary, should be specified the type of audit we are dealing with. In this respect there have appeared in the specialty literature different types of audit, whose concepts are related to the area which is to be audited:

- the regularity audit - both in the public and private sector which refers to the examination from the financial point of view but also from the legal part of the transactions and conformity with the present norms [González, 1995].

- the social audit - which evaluates both public entities and the private ones their responsibility in the social life of the country or area they are part of, of the role they have in this society [González, 1995].

- the global audit-is a multidisciplinary audit, which includes exams of empresario ethics, social equity, and protection of the environment [González, 1995].

- the quality audit - checks the degree of implementing and efficacy of the quality system (ISO norms) in the life of the society and if the results are similar to the planned ones [Arter, 1993].

- the environmental audit- represents the evaluation of the way in which the firms use, protect and preserve the natural resources and the environment.

- the audit of the internal control – evaluates the accounting system and internal control of the firms, determining the level of trust that can be given to them [Blanco Luna, 1997].

- the administration audit – is done to determine the efficiency which was administered with, in relation to its general objectives and its position on the market [Blanco Luna, 1997].

Today the purpose of the audit is to “improve the degree of trust of the target users of the financial situations. This thing is obtained by expressing an opinion by an auditor...” [ISA 200], which these according to the tasks they have are not supposed to give. “The opinion of the auditor regarding the financial situations deals on the way in which the financial situations are prepared, considering all the significant aspects, according to the general applicable financial report frame” [ISA 200].

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

In order to formulate that opinion “the auditor must reach a conclusion regarding the reasonable assurance obtained by the auditor regarding the measure in which the financial situations taken as a whole do not contain significant devaluations, caused either by errors or fraud” [ISA 700]. 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 accounting significant politics selected and applied;
- The accounting significant politics selected and applied are consequent to the general applicable financial report frame and they are appropriate;
- The accounting estimations made by the management are reasonable;

- The information presented in the financial situations is relevant, believable, comparable and readable;
- The financial situations give adequate presentations which allow to the users to understand the effects of the transactions and of the significant events on the information found in the financial situations;
- The terms used in the financial situations, the title for the financial situations included, is adequate [ISA 700].

The basic responsibility for the presentation of some solid financial information comes to the management of the audited entities. The auditors can contribute by the active interrogation of the management, from the users' perspective and the professional pessimism across the audited entity.

The fact that the financial situations of the companies are audited does not mean that to the auditor comes the obligation of guarantee the fact that there is not a found devaluation in the audited accounts. When it is reported that the financial situations present a clear and correct image the auditors give a reasonable assurance of the fact that the financial situations, on the whole do not contain significant devaluations caused by fraud or errors. The auditors minimally reduce the risk that the financial information contains significant devaluation.

## **5. The future of the financial audit**

The globalisation of the economy is considered the main impulse of the process of accounting harmonisation, as to obtain a higher comparable degree of the financial information, in the international context. This harmonization became bigger inside the ambit of the financial audit.

The main objective followed by the common market of the European Union is the elimination of the barriers for the free circulation of the goods, services, capital and work force. This can be obtained in the conditions of an adequate transparency of the financial information. Establishing some rules and normative inside the European Union pretends obtaining the harmonization inside the Community States. In this perspective it has been voted for the elaboration of the Directives.

By adopting the Directive 2006/43/CE in the national legislations it was imposed to the member states and therefore to the "legal auditors and audit firms to make legal audit according to the International Audit Standards adopted by the Chamber".

Adopting the European Directives, of the International Accounting and Audit Standards represents new steps made by the financial audit in the progress and perfection process. They have represented essential conditions to the modernising of this profession, in the conditions of internalisation and globalisation of the economy.

The changes generated by the evolution of the informatics' society to a society based on knowledge – process that supposes the progressive transformation of the entire economy to a digital one- impose a new treat of the audit and the necessity of creating a new work frame, able to answer the new qualitative tasks of the audit's objectives.

The audit will focus on the management and delivery of the electronic device, which supposes fluxes of electronic device and procedures of treatment specific associated. We think that the greatest part of the classical procedures will be replaced with procedures able to assure the audit in the digital context, a form that expands in present.

This way it imposes the creation of a new model of the audit. The classical audit will change its approach and content and will base mostly on informatics technology and communication, by adopting new concepts and advanced methods: online audit, e-audit, and computer assisted audit.

On-line audit for example, is an advanced form of audit extremely necessary to the audit institutions, where they can get information and collect audit evidence from the distance, all over the mission. The advantages would be the short time to get information, the rapidity of their work and lower costs. Using IT instruments is good for the financial audit, as most of the entities keep the accounting information in electronic device.

The new model will evolve towards integrated solutions of the different types of audit: the financial audit, the performance audit, IT audit, organizational audit, conformity audit, these developing in the same mission in different combinations, according to the objectives and the complexity of the mission.

As a way of work, we think that the auditors must be prepared to team work, in virtual teams, and to adopt new styles of work- distance audit, audit of the electronic documents, using an instrumental support based on the computer.

Important factors which will influence the new objectives of the audit refer to the security of the information and systems, the protection of the personal data, the access to some data bases with an informational sensitive character.

All these will need a legislative frame, a conceptual, methodological and adequate procedural: the actualisation of the legislative frame, creating the frame of interoperability of the institutions in Romania, integrating in the European system, preparing the auditors for it, re-projecting the management of the audit, the assurance of the quality of the audit, the assurance of the instrumental support and methodological one for the auditing process.

We must not forget that the European Commission will soon present a new Directive to define the audit activity, as a constant consulting realised at the end of 2010, by the help of the Green Book. We find ourselves in the position in which, the users are interested not only by the financial situation of the firm, but also by the strategy of the firm, the risk policies, the impact on the environment and society, etc. These economic-financial information and mostly nonfinancial ones of any type, but which can be useful to the different groups of users, will be insert in an INTEGRATED REPORT. The basic conditions will be that the presented information to be more relevant, comparable, accessible, better structured and of course checkable- fact that strikes directly in the new objectives that are opened to the audit profession.

## **6. Conclusions**

As we have demonstrated, the financial audit has progressed and perfected itself step by step with the economic development, as an answer to the challenges of the society. It has also progressed from historical point of view, being present in different forms in all the periods, from the concept point of view and mostly from the objectives point of view. That is why I believe that the auditors and the audit firms shouldn't ignore the social importance which is given today to the financial audit, the position obtained today to enlarge the area of responsibility, to look for new methods or procedures according to the present needs, which would come as a support of their work.



Today we can say that the audit passes through new crises, similar to the one in the 30's when the bankrupt of the Enron firm was produced. At the world level it can be noticed a mistrust of the investors, of the users of the accounting audited information. This crises forces to rethinking of the form in which the audit is executed, to its future, so as to answer the necessities of the 21st century firms and not to be dammed to vanish as inefficient.

Therefore, the concept and the objectives of the audit is necessary to evolve continually, step by step with the changes imposed by the actual economic crises, with the society and the modifications of the economic life.

"We appreciate that for a better realisation of the role of statutory audit – a warning system for the financial problems of an organisation - are necessary conceptual clarifications or convergences of the used vocabulary and/or mediatise regarding the position of the main actors in the financial communication frame of the organisation with the universe"<sup>6</sup>.

It is extremely necessary the existence of a common conceptual basis at the European and international level, concerning organising and functioning of the audit firms. This condition is necessary to guarantee the uniformity while understanding and using the concepts is concerned in the audit field – uniformity which will insure the comparability of the accounting data at the international level, transparency, and viability of the accounting information-essential things in the conditions of globalisation and economic internalisation

With this vision and without the pretend "to reinvent the wheel", I have finalized the objective of elaborating this paper. I have followed the evolution of the concept and the objectives of the financial audit, trying to foresee in a logical way of it - not foreseeing it but trying to help for its creation following Gary Hamel which said "the future cannot be predicted, it must be created".

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