

A Comparative Study on the Norms that Regulate Determining the Signification Threshold in Romania and Spain

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Abstract

The present study refers to the signification threshold, as a basic element which influences the development and quality of the whole financial audit process. At the beginning of this article we have determined the way in which have been taken over the ifs of the Directive 2006/43/EC regarding the taking over of the International Audit Standards in the national legislation in Romania and Spain. Next, I have realised a comparative analyses between the International Audit Standards referring to the signification threshold which is applied in Romania and the Technical Audit Norms which are applied in Spain, analyses where I have identified a series of differences. I have also underlined the news that is introduced by the International Audit Standards compared to the Technical Audit Norms in Spain regarding this theme.

In the end of the article it is stated that adopting clarified ISA is not enough to improve the way of determining the signification threshold and it is underlined the necessity of appearing some regulations which would guide the auditors in framing the professional reasoning and establishing at least some minimum limits, which will lead to establishing a more homogenous signification threshold.

Keywords: signification threshold, Technical Audit Norms, International Audit Standards, professional reasoning, materiality, error's size.

Introduction

The financial auditors because of the nature of their job accept a certain "error margin" in doing the mission's papers. The basic problem is the "error's size" that can be accepted. "The size of the error's margin determines the signification threshold" (Dobroțeanu, 2002, page 148), so that this not to have a significant character, meaning to influence the "truthful image" of the financial situations.

The General Frame for drawing up and presenting the financial situations, emitted by the Committee for the International Accounting Standards states that the signification threshold "represents the relative importance of the element or errors, judged in the specific circumstances of the omission, or wrong declaring".

The hypothesis from which this research starts is that in Romania and Spain have been made important steps in harmonising the financial audit process, so that the juridical and professional frame of the two countries presents several similitude, the differences being less significant.

To demonstrate this hypothesis we propose ourselves the following objectives:

- determining the way in which have been adopted the European Directives in the Romanian and Spanish legislation, regarding adopting the International Audit Standards;
- realizing a comparative analyses between the International Audit Standards referring to the signification threshold which is applied in Romania and the Technical Audit Norms which are applied in Spain regarding determining the signification threshold inside a financial audit;
- highlighting the news introduced by ISA compared to the Spanish Technical Norms;
- highlighting the fact that the way of determining the signification threshold is based almost entirely on the professional reasoning of the auditor, fact that determines the appearance of some significant differences in establishing the level of the signification threshold and therefore of the level of the audit papers made by different auditors;
- evaluating the fact if the introduction of ISA are enough to improve the way of determining the signification threshold;
- proposing solutions for reducing this effect.

In order to realise this study I have chosen two different countries, Spain and Romania. In Romania starting December 2009 have been introduced the Clarified Audit Standards, and in Spain, a country with a longer tradition than Romania, these Standards haven't been introduced yet, and still function the Technical norms emitted at the beginning of 1991.

In Romania it is used the term, "signification threshold" as it suggests the fact that it is about a maximum tolerable limit of the "measures in which the financial situations can be distorted, but acceptable from the stakeholders point of view" (Domnişoru, 2011, page 209). In Spain the term signification threshold is named "relative importance" (*importancia relativa*) or "materiality" (*materialidad*). The term materiality refers to the fact that "the measure in which the problem raise

in its relative importance becomes material too" (Domnişoru, 2011, p. 209), meaning that it reaches an irregularity concrete degree, which cannot be neglected.

Different international organisms have manifested their preoccupation towards the different way of applying or a wrong one of the signification threshold (SEC, AICPA, IFAC). Therefore, the importance of the signification threshold inside the audit missions represents an intensely debated theme in the last decades. As evidence are the empiric studies developed starting the years 1950-1960-1970 which still continue today. These studies are reunited at the international level in the specialty literature in four articles which realise a synthesis of all the realised studies, specifying the results and obtained conclusions. These four articles belong to the following authors: Holstrum and Messier (1982), Isakander and Iselin (1999), Messier, Bennie and Elifsen (2005) and the most recent one is that of Montoya, Martinez and Fernandez (2008).

From studying the four articles I could clearly state that the auditors differently mark the signification threshold and that the taking decisions process for its establishing are influenced by some financial and non-financial factors. Therefore, the qualitative factors are considered as being the main determinants of the signification threshold, and they are influenced by different non-financial factors, such as:

- the characteristics of the audited firm - the size of the firm, of the sector, firm's culture, the financial situations, used accounting policy, management's characteristics, the internal control and of the audit Committee. Also it has been stated that the auditors are more permissive with the big firms and with those in which there is an efficient internal control.
- the characteristics of the audit firm - the size of the audit firm, its structure, the auditors' experience. For example it has been demonstrated that the auditors having a bigger experience base on a single factor in determining the signification threshold this being the net profit, an the auditors from the very structured firms use a higher number of factors.
- the individual characteristics of the auditors - the experience level, the understanding ability, the dependence towards fees, the age, disposition and gender. This way the auditors with a bigger experience are stricter towards complex transactions, working with higher levels of the signification threshold. Also, the manager auditors establish a signification threshold lower than the senior auditors, and between the professional auditors it has been noticed a much higher consensus degree than the senior auditors regarding the using the same factors for establishing the signification threshold.

Also in the Spanish specialty literature I have identified multiple preoccupations of the university professors and professional auditors connected to the International Audit Standards, which still haven't been adopted in this country. Moreover personalities from the Accounting and Audit Institute in Spain and from the Professional Corporations continuously publish normative

comments in the specialty literature, referring the International Audit Standards and the impact that their adopting would have in Spain.

The Methodology Of The Scientific Research

The research methodology is a qualitative one. To demonstrate the proposed objectives I have realised a serious documented research, and after that I have realised a comparative analyses between the International Audit Standards referring to the signification threshold which is applied in Romania and the Technical Audit Norms which are applied in Spain.

The comparison is present along the research. This article refers to the Clarified International Audit Standards and to the Spanish Technical Norms, which regulates the signification threshold and underlines the news introduced by the Clarified Audit Standards.

The Legal Basis

In the member states of the European Community all the legal audits had to be made based on the International Standards of Audit. The Directive 2006/43/ CE by art. 26, imposes to the member states and therefore to “the legal auditors and audit firms to do legal audits according to the International Standards of Audit approved by the Commission”. They add that “the member states can apply a National Standard of Audit as long as the Commission does not adopt an International Standards of Audit referring to the same problem” and the fact that the member states “can impose procedures or extra tasks....or can eliminate some parts, but only in the case they come as a result of an internal specific need”.

In Romania the regulation is transposed exactly by the chapter V, art. 28 of O.U. 90/2008, where it is mentioned the fact that the International Standards of Audit will be taken as translated in their totality. Also it was emitted the Council CAFR nr. 152/23 from September 2009 by which the Chamber has adopted clarified which entered into vigour in December 15th 2009 ISA.

In Spain the situation is different. Before adopting the International Standards of Audit used to work very well the Technical Norms of Audit, elaborated by the Professional Corporations and approved by ICAC in 1991. Real Decreto nr. 1/2011 by which is approved the Revised text of the Financial Audit Law (TRLAC) art. 6(2) states that the audit norms, which had to be respected in Spain are the same to those comprised in TRLAC, in the Regulation that develops TRLAC, “in the International Standards of Audit adopted by the EU and the Technical Audit Norms(in Spain) for those non-ruled aspects of the international norms”.

From our point of view, from this paragraph, it clearly results that from the moment of publishing the new Financial Audit Law, the International Audit Standards (ISA) have priority to the Technical Norms emitted by ICAC in Spain.

We notice the continuous presence of the "International Standards of Audit adopted by EU". The problem is the term "adopted". The ICAC official communication or the other organisms from Spain and specialty magazines interpret the ones in art. 6(2) from TRLAC:

- Directive 2006/43/CE introduces the International Standards of Audit which EU will "adopt";
- The National Technical Audit Norms remain available until the International Standards of Audit will be "adopted";
- The Directive establishes the possibility that the Technical Norms of Audit and those that will be emitted continuously to introduce additional audit tasks which will not apply some aspects from ISA which will contradict the national legislation.

For a detailed statement "ISA adopted by EU" we go to the Directive text 2006/43/CE, which states in the 13th paragraph that "The applying measures of applying the Standards in the Community which had to be adopted according to the Council's Decision 1999/468/CE from June 28th 1999, of establishing the executing competences given to the Commission".

Also the Directive 2006/43/CE states that "a technical committee or an audit group must assist the Commission in evaluating the ISA technical quality and also to involve the organs public surveillance system of the member states".

"To adopt by the Commission of ISA which should be applied at the Community level" this group will analyse the following conditions: "this has to be generally accepted at the international level and to have been elaborated with the full participation of the interested parts by an opened and transparent procedure" and moreover "to the general European interest".

Next, the art. 26 from the Directive 2006/43/CE states that: "the adopted International Standards of Audit are published in all the official languages of the Community in the Official Journal of the European".

If we study what the Directive 2006/43/CE states and what the Spanish publications say it results that ISA still have not been adopted at the community level, so they do not have a compulsory character for the member states. Still some states such as Romania have adopted them completely, and Spain tries to adjust the existing Technical Norms to the International Standards of Audit or at least not to come in conflict with these.

Art. 6 from TRLAC states that "the technical audit norms...will be elaborated, adapted and revised, so that to agree to International Standards of Audit adopted by EU". There can be added "additional tasks", or, there can be declared inapplicable those ISA parts which come into contradiction to the national legislation, respecting the legal procedures. The additional can be introduced by ICAC Resolution or emitting new Technical Norms.

The position of the Spanish officials concerning the audit is favourable to ISA. The way of expressing this position in the Spanish legislation is still not clear enough, generating confusion among the financial auditors, which in present do not know exactly what have to apply- International Standards of Audit or the Technical Norms in Spain.

While the new Law of the Financial Audit (TRLAC 2011) in article 6(2) states that the audit norms which had to be respected in Spain are those comprised in “The International Standards of Audit adopted by the EU and the Technical Norms in Spain for those aspects non reglemented by the international norms”, still ICAC and the specialty literature from Spain considers that ISA haven’t been “adopted” officially in EU and wait for this before applying them. That is why they continue to apply The Technical Audit Norms emitted in 1991.

Concretely, the actual situation in Spain is presented this way: ICAC has introduced in 2010 and 2011 the following modifications to the Technical Norms so that they do not enter in contradiction to ISA:

- The Resolution from October 7th 2010 on “The reasonable value”;
- The Resolution from December 21st on “Figures and comparative financial situations”;
- The Resolution from December 21st 2010 on “The audit report”;
- The Resolution from June 27th 2011 on “The relation between auditors”;
- The Resolution from October 26th 2011 regarding “The internal quality norm for auditors and audit firms”.

This last Resolution is the only one which has effectively translated after ISQC1 (International Standard on Quality Control), and the rest of the resolutions reminded here have been “adapted” not “adopted”. All the other technical norms emitted in Spain starting the year 1991 are still into vigour.

We notice therefore a significant difference in the way of applying the European Directives concerning the juridical and professional frame in the two countries.

Next we will realise the analyse and effective comparison between the International Audit Standards with the Technical Spanish Norms regarding the Audit Report.

A Comparative Study Between The International Audit Standards And The Technical Spanish Norms Regarding The Signification Threshold

To realise the Audit Strategy and the Audit Plan the auditors must determine the signification threshold. This is determined for the financial situations on the whole and for certain transaction classes or balance accounts.

The activity of determining the signification threshold is regulated in Romania by ISA 320 "The signification threshold in planning and developing an audit"¹ and ISA 450 "Evaluating the falsifications identified along the audit"², and in Spain by "The Technical Audit Norm on the concept of signification threshold"³ from 1999 and in "Technical Norm on executing the works"⁴ from 1991.

Along the years there have been many critics regarding the financial audit, on the way it is applied practically the concept of signification threshold. A clear example is the SEC⁵ president's discourse Arthur Levitt "The number game", whose result was publishing "SAB 99: Materiality". In this document it is underlined the importance of the qualitative factors in establishing the signification threshold.

As a result of the received critics, IAASB⁶ has initiated the revising process of the International Audit Standards, which was materialised by publishing ISA Clarified and which become available starting the end of 2009. These contain two standards which refer to the signification threshold, namely ISA 320 "The signification threshold in planning and developing an audit"⁷ and ISA 450

¹ International Audit Standards nr. 320 "Evaluating the falsifications indicated along the audit", The International Accountants Federation, "International Audit Standards Manual and quality Control- financial audit 2009", Irecson Publishing House, Bucharest, 2009, page 353

² International Audit Standards nr. 450 "Evaluating the falsifications indicated along the audit", The International Accountants Federation, "International Audit Standards Manual and quality Control- financial audit 2009", Irecson Publishing House, Bucharest, 2009, page 419

³ Norma Técnica de auditoría sobre el concepto of "Importancia Relativa", edited in the Boletín Oficial del Instituto de Contabilidad y Auditoría de Cuentas nr. 38 and approved by the ICAC Resolution from June 14th 1999

⁴ Norma Técnica sobre Ejecución del Trabajo, edited in the Boletín Oficial del Estado from May 7th 1990 and approved by the ICAC Resolution from January 19th 1991

⁵ Securities and Exchange Commission

⁶ IAASB – International Auditing and Assurance Standards Board

⁷ International Audit Standard nr. 320 "the signification threshold in planning and developing an audit", the International Accountants Federation, "International Audit Standards and Quality Control- Financial Audit 2009 Manual", Irecson Publishing House, Bucharest, 2009, page. 353

”Evaluating the identified falsifications along the audit”⁸. It is considered that these two standards bring significant qualitative improvements to the financial audit process, regarding the usage of the signification threshold.

Differences Between ISA 320 And The Spanish Technical Norms Regarding The Concept Of Signification Threshlod

From the comparative analyses of the content of these norms have come a series of differences. They have been synthesised in the following table:

Table no. 1 Differences between ISA 320 and the Spanish technical norms regarding the signification threshold

	ISA 320	The Spanish Technical Norm
Applying domain	Refers to the signification threshold in the planning and executing stage of the financial audit.	Refers to the signification threshold in the planning and executing of works ,evaluating the significant falsifications, and emitting the Audit Report
Defining the significance threshold	Does not contain a defining of the significance threshold but sends to applicable Financial Reporting Frames.	Refers to the definition given by the Technical Norm on executing the works from 1991 and defines the significance threshold as: ”the size or nature of an error (or of an omission) from the financial information which individually or together with others and in the context they develop, determine the judgement of a reasonable person who trusts the offered information, not to be influenced of affect his decision as a consequence of the error or omission”.

⁸ International Audit Standard nr. 450”the signification threshold in developing and developing an audit”, the International Accountants Federation,”International Audit Standards and Quality Control- Financial Audit 2009 Manual”, Irecson Publishing House, Bucharest, 2009, page. 419

<p>Users of the audited accounting information</p>	<p>Defines in paragraph 4 a series of basic characteristics that the users of the accounting information should have and says that they are the ones who should:</p> <ul style="list-style-type: none"> ”- have a reasonable understanding regarding a business, at the economic and accounting activities ... - understand the fact that that the financial situations are prepared presented and audited at the level of the significance threshold. -admit the incertitude that appear when evaluating the sums based on using estimations ... - take reasonable economic decisions based on the information from the financial situations”. 	<p>The exposed characteristics are to be met only partially in the Spanish Technical Norm, which refers to a “reasonable user” defined as being “the group of cautious persons, with a basic understanding on the financial situations and on what they represent”.</p>
<p>Using the significance threshold</p>	<p>ISA 320 states that the significance threshold is used in the following stages:</p> <ul style="list-style-type: none"> - planning and executing the audit; - evaluating the significant deficiencies; - determining the significance of a decision; -balances the basis to determine the moment, nature and length of the audit processes and evaluating the risks; - identify and evaluate the risk of the existence of the significant falsifications. 	<p>The Spanish Technical Norm states that only part of these stages namely in the paragraph 3.2 refer more to:</p> <ul style="list-style-type: none"> - determining the significance of a deficiency; - balances the basis to determine the moment, nature and the length of the audit procedure and evaluating the risks;
<p>Benchmarks and percents for the establishing the significance threshold</p>	<p>In Romania ISA 320 in paragraphs A2 – A11 states some examples of percentages applied to some benchmarks, chosen as starting points in establishing the significance threshold, according to the specific circumstances of the entity.</p>	<p>In Spain “The Technical Audit Norm on the concept of significance threshold” from 1999 exposes in the Annexes to the Technical Norm orientate quantitative parameters which can be used to evaluate the significance threshold according to the firm’s situation .</p>

Individual significance thresholds	According to the progress of the audit process, the inferior significance threshold established for different transactions, balance accounts or relevant information will have to be REVISED when new information appear that might modify their.	It is not stated in the Technical Norms .
The concept of "functional significance threshold"	In Romania it is also used the term functional significance threshold . ISA 320 states that it is used in the final stage of the audit when the auditor will sum up the value of all the found errors to see if taken together surpass the established significance threshold.	In Spain there is no term "Functional significance threshold".

Source: self processing

From analysing the specified normative acts we have noticed that both in Romania at the International Audit Standards and in Spain at the Technical Norms level, it has been noticed the lack of some basic criteria, with a compulsory character regarding determining the signification threshold. ISA 320 in paragraph 6 draws attention that there mustn't be a minimum limit as a settled value, under which any falsification can be considered insignificant, but there has to be taken into consideration the nature or the particular circumstances in which they have been produced and how they affect the financial situations. The same thing is stated by the Spanish Technical Norm in the 1.4 and 1.5.

The signification threshold is expressed in a qualitative form (low or raised level) but mostly in a quantitative form. There are several studies which try to explain which would be the most suitable criteria to establish the signification threshold and how this should be dimensioned at the audit mission's level. The empiric studies have demonstrated that in practice the most used is the size of the raw profit, in a level comprised between 1 and 10%.

In Romania, ISA 320 in the paragraphs A2 – A11 specifies some perceptual examples applied to some benchmarks, chosen as starting points in establishing the signification threshold according to the specific competences of the entity. They refer to elements of the financial situations such as total actives, total incomes, debts or own capital. Also it refers to net actives, the profit before taxation, business figure, ordinary result, financial result, etc. Both in choosing the benchmark and in determining the applicable percentage the most important thing is the professional reasoning of the auditor.

In Spain, the Technical Audit Norm on "The signification threshold concept" from 1999 exposes in a table "the orientate quantitative parameters", which can be used to evaluate the signification threshold.

Table no.2

The orientate parameters in Spain to evaluate the signification threshold

THE FIRM'S SITUATION	BENCHMARK	PERCENT
Firm with normal benefits	The results of the ordinary activity (the exploiting results + the financial result)	5 – 10%
Firm with loss or a low level of profitability	Business figure Total actives Own Founds	0,5 – 1%
Firms in the development stage	Own Founds	3 – 5%
SME	The result of the ordinary activity Business figure Total actives	5 – 12% 1 – 3% 1 – 3%
Non-profit firms	Total incomes Total expenses Total actives	0,5 – 1%

Source: Extract from the Annexes of the Technical Audit Norm on the "The signification threshold concept" from 1999

It is true that every auditor establishes the significance threshold subjective, according to his professional reasoning. There are auditors who sustain that for establishing the significance threshold it is used mostly a percentage of 0, 5% on the business figure, and others who state that the most used method is applying a percent of 5-10% on the net profit. The quantitative establishing of these significance thresholds can lead to the situation in which the auditor does not check the insignificant quantitative differences, but they can have from a qualitative point of view a special relevance.

The signification threshold plays an important part inside the audit process influencing all its stages:

- in the planning stage it is used to establish the nature, length, the applying moment of the audit procedures;
- executing stage of the audit works the established signification threshold influences the level of the tolerable error, meaning the maximum limit of error acceptance, influencing this way the length of the different procedures on different work areas;
- in the final stage it is used to evaluate the importance of the found errors during the audit, influencing therefore the expressed opinion inside the audit Report.

We notice that the signification threshold is applied in several stages of the audit mission. Therefore, ISA 320 refers to the planning stage and executing the financial audit, and ISA 450 to the evaluation of the falsifications discovered along the audit and explains the evaluation way, the communication way and correction of it. The Technical Audit Norm regarding the concept of signification threshold sums up in a concentrated manner the ifs of the two ISA.

Establishing the significance threshold in the planning stage of the audit is important as it determines the quantity of the work that the auditor will continue to do. An estimation of the global significance threshold at a very low level determines the risk of collecting too much evidence, probably not necessarily, but if a very high level is established we get into the situation when certain errors could remain undiscovered, influencing this way the trustful image of the financial situations. It is therefore necessary a reasonable estimation, which would represent a balance between the work in the conditions of efficacy and a global significance threshold which might be accepted in case of a litigation, avoiding this way the posture of "professional inadvertent".

ISA 320 in paragraph 10 and N.T. Spanish from 1999 in paragraph 3.2 establish that, besides the global plan the auditor must evaluate the existence of the transactions, of the counts balances or the additional relevant information which might influence the users' decisions. For these specific cases the auditor can establish inferior levels of the significance threshold. This will be "sub-divided" subsequently into individual significance thresholds, proportionally to the counts and transactions. It will be taken into consideration their value, but also other aspects too such as nature and their significance in the general context, the fraud suspicion or applying the internal control.

The allocated sum for the significance threshold of an account is called "tolerable error" for that account. In practice it is quite difficult to anticipate which of the accounts presents a higher error probability. Therefore, this distribution of the significance threshold on accounts can be made in different ways. It can be distributed equally on each account, but this modality does not take into consideration only the fact that an account can be more important than other by its value, or the number of transactions that it makes.

Another modality is distributing the significance threshold equally to the accounts value, or the auditors can take into consideration the experience of the past years in order to appreciate which accounts contain more falsifications, which are touchier to falsifications than others and can act under this impulse.

In Romania it is also used the term functional signification threshold, which ISA 320 defines this way: "it represents the sum or sums established by the auditor at a lower level than the signification threshold for the financial situations as a whole, to reduce at a low adequate level the probability that the non-corrected falsifications or the non-detected aggregations to surpass the signification threshold for the financial situations as a whole". It is used in the final stage of the

audit when the auditor will sum up the value of all the found errors to see if together they surpass the established signification threshold.

In Spain the term "Functional signification threshold" is not used. Still in the Technical Audit Norm, on the "Concept of signification threshold" from 1999 it is stated that "the relative importance from the planning stage must be inferior to the one that the auditor uses to express his", fact that refers to what ISA 320 calls functional signification threshold.

A very important thing established by ISA 320, but which is NOT stated by the Spanish Technical Norm is the fact that, according to the progress of the audit process, this inferior signification threshold established for different transactions, accounts balances or relevant information will have to be REVISED when new information appear indicating the fact that there might be falsifications, which taken together with the cumulated falsifications might modify their level. In this case it will be applied an inferior level, closer to the new circumstances, fact that will also determine the modifications of the established audit procedures.

Differences Between ISA 450 And The Spanish Technical Norms Regarding The Concept Of Signification Threshold

Table no. 3 Differences between ISA 450 and the Spanish technical norms regarding the signification threshold

	ISA 450	The Spanish Technical Norm
Applying domain	It refers to evaluating the significant falsifications discovered during the audit and explains the evaluation way, the communication one and correcting the identified falsifications during the audit, so that not to surpass together with the functional signification threshold the established global signification threshold for the audit mission.	It refers to the signification threshold in the planning stage, executing the works, evaluation of the significant falsifications and emitting the Audit Report.
Defining the "falsification"	ISA 450 defines the falsification as being "a difference between the sums, classification, presentation that is asked for the element to be according to the general frame of applicable financial reporting frame. The falsifications can appear as a result of an error or fraud." The non corrected falsifications are the	All these concepts are not in the Spanish Technical Norm from 1999.

	<p>ones that “the auditor has accumulated along the audit and which haven’t been corrected” by the audited firm.</p> <p>According to paragraph 5 from ISA 450 these falsifications will be classified according to the objectivity degree, as being separate according to paragraph A3 of ISA 450 into effective falsifications that are connected to judgement and projected falsifications.</p>	
Evaluation	<p>ISA 450 in paragraphs 10, 11 and A11 at A20 state that in order to evaluate if a falsification is significant or not, individually or cumulated, together with other falsifications of inferior size of the signification threshold, the auditor has to have into consideration both the size and the specific circumstances in which these have been produced and the actual and previous time.</p>	<p>The Spanish Technical Norm does not state this situation.</p>
Significant falsifications	<p>ISA 450 in paragraph A16 presents a list of eleven conditions in which the falsifications are considered significant, even if their value cannot reach the established signification threshold, but the list can be completed with other situations.</p> <p>The enumerated situations by 450 are: when are not respected the regulations dispositions, contractual clauses connected to debts or the consequent applying of the accounting policies, when it is masked a change in earnings, when are falsifications the used ratios for evaluating the financial situations, when the falsification has as an effect raising the management’s compensation, when it refers to elements that involves other parts or when the omitted information, though it is not asked particularly by the financial reporting frame can affect the understanding of the users connected to the situation or the financial position, the cash fluxes or any other</p>	<p>The Spanish Technical Norm from 1999 contains some examples of qualitative nature which can influence the decision on the relative importance.</p>

	communicated information by the help of the financial situations .	
Communication	<p>ISA 450 presents new responsibilities for the auditor and this will have to:</p> <ul style="list-style-type: none"> - inform the firms administrators, according to paragraphs 8, A7 and A9, about the falsifications gathered during the audit and ask for their correction. ISA 450 states that in the case in which they refuse to correct the errors, the auditor will ask filling in a written statement in this respect in which they will explain the reasons for refusing the correction (paragraphs nr. 14 and A24), situation which will modify the auditor's opinion. - to inform the Administration Board of the firm about the uncorrected falsifications both in the present period and in the previous period including the effect they have on the final audit Report. It will be presented a copy after the firm's administrator. (paragraphs. nr. 12 and A21-A23). 	The Spanish Technical Norm does not refer to these aspects.
Documentation	<p>In the work documents the auditor will have to write:</p> <ul style="list-style-type: none"> - the minimum value used as a signification threshold, under whose level the events have been considered insignificant; - all the accumulated falsifications along the audit process and when have been corrected; - the conclusions on the signification level of the falsifications of the uncorrected falsifications, taken individually or together (paragraphs 15 and A25). 	The Spanish Technical Norm states only partially these obligations.

Source: self processing

As a general difference we notice that the International Standards give several definitions, offer several conceptual clarifications and refer to the actual terms, according to the new tasks of the financial audit, such as the term falsification, uncorrected falsification, uncorrected errors, undiscovered errors, undiscovered errors or functional signification. Adopting ISA at Spain level

would ensure the existence of a conceptual common basis, which ensures the comparability of the audited financial situations.

Also we notice how ISA make several statements connected to the documents that the auditor has to make referring to the establishing the signification threshold or tied to the basic characteristics which the users of the audited accounting information should have.

Moreover, ISA give fair concrete examples of situations in which the falsifications can be considered significant, even if they do not reach the level of the signification threshold established by the auditor. This represents the news introduced by the Clarified Audit Standards, which should produce the biggest effects in the auditors reasoning on the signification threshold. It was stated with the purpose of revolutionising the auditors' criteria when deciding upon an element, if it is significant or not, no matter its value, taking into consideration the nature or circumstances in which it was produced and its influence upon the audit opinion. This way they try reducing the subjectivity degree of the auditors.

The Spanish Technical Norm from 1999 contains several examples of qualitative nature circumstances which can influence the decision on the relative importance, but they are not as clear and explicit as those presented by ISA 450.

The International Standards contain elements connected to the communication of the auditors with the management of the audited firm and with the Administration Board of the firm, which the Technical Norms do not contain. Moreover ISA 450 in paragraphs 10, 11 and A11 at A20 state that in order to evaluate if a falsification is significant or not, individually or cumulated, together with other falsifications of inferior size of the signification threshold, the auditor has to have into consideration both the size and the specific circumstances in which they have been produced and the present and previous time. The Spanish Technical Norm does not have this situation.

At the end of the audit mission the auditor will have to evaluate the total value of the errors which might have remained undiscovered or uncorrected. In the case in which:

$$\Sigma \text{ uncorrected errors} + \Sigma \text{ undiscovered errors} \geq \text{signification threshold},$$

The auditor will have to reduce the risk of the audit by extra procedures, or will ask the firm's management the correction of the financial situations according to the discovered errors. If the management considers those insignificant falsifications, the auditor will have to ask for written explanations, according to ISA 580 "Written statements" (IFAC, 2009, page 635).

The same ISA 450 states that the following stages in developing the identifying activities and risk evaluations:

- are identified and the risks of significant falsifications is evaluated, according to ISA 315 Identifying and evaluating the risks of significant falsifications by understanding the entity and its environment” (IFAC, 2009, page 295);
- it is determined the nature, the moment and the applying domain of the extra audit procedures according to ISA 330 “The auditor’s answer to the evaluated risks” (IFAC, 2009, page 363);
- it is evaluated the effect of the uncorrected falsifications, if there are, on the financial situations according to ISA 450 “Evaluating the identified falsifications during the audit” (IFAC, 2009, page 419) and on formulating an opinion and reporting regarding the financial situations according to ISA 700 “Formulating an opinion and reporting regarding the financial situations” (IFAC, 2009, page 719).

Conclusion

The hypothesis from which has started this research is that in Romania and Spain have been made important steps in harmonising the financial audit process, so that the juridical and professional frame of the two countries presents several similitude, the differences being less significant. To demonstrate this hypothesis I have established the first objective of the research which has referred to determining the way in which have been adopted the European Directives in the Romanian and Spanish legislation regarding organising a financial audit mission. The result of the research of this objective was discovering a *significant difference* in the way of understanding and applying the states of the European Directive concerning the taking over the International Audit Standards. To conclude, I consider that demonstrating the hypothesis was only partially realised.

In Romania was realised an *adopting* of ISA, a complete taking over in the way of the full translation of it, while in Spain it was realised a *partial adapting* of the Technical Norms at ISA.

From here results a series of differences between the two countries, which have been discovered because of establishing the second objective of the research, which refers to realising a comparative analyses between the International Standards of Audit and the Spanish Technical Norms regarding determining the signification threshold. The found differences *do not* have an absolute significant character, because Those Technical Norms which entered into a direct contradiction with the International Standards of Audit have been “*adapted*”.

As it could be noticed along the article, the International Audit Standards are more detailed; they give more conceptual clarifications than the old Audit Norms from Spain. Moreover they introduce news that could produce effects on the auditors reasoning when establishing the signification threshold. That is why we underline the necessity of introducing as quickly as possible in Spain of the International Audit Standards, to ensure the comparability at the European level. Still, in our

opinion the news introduced by Clarified ISA are not enough and that is why we ask for introducing norms or regulations to guide the auditors in framing the professional reasoning as uniformly as possible.

We consider as necessary both in Romania and in Spain:

- establishing at least some limits and minimum criteria, which would help to establishing a more homogenous and uniform signification threshold;
- giving extra attention to circumstantial changes produced along the audit;
- detailed documentation of the works connected to the signification threshold;
- giving extra attention to the inferior figures to the established level of the signification threshold and their corroboration with the functional signification threshold.

Therefore we propose establishing some quantitative benchmarks minimum to the signification threshold, which it cannot be lower, to determine a minimum quantity necessary as audit evidence. The absence of some compulsory common norms give birth to this lack of consensus between the auditors, fact that stops the establishing of a system which would allow the complete comparability of the financial information published by the firms.

Even if there are these differences between Romania and Spain regarding the way of understanding and applying the European Directives, we consider that it is important the orientation of the two countries towards the same objective, the acceptance of the International Standards of Audit as an international model which stays at the basis of uniformity the financial audit process. Anyway we consider that their taking over in their totality at the level of Spain is just a matter of time.

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