

Positive Research Regarding the Implementation of International Audit Standards at Romanian Entity Level

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Abstract:

The research was based on critical analysis, in time and space, of the theoretical references underlying the organizational and methodological framework for the performance of financial audit, international auditing standards, as well as the integration of international and European requirements in the financial audit activity of our country, the scientific approaches in the field of auditing the financial statements, elaborated by the revision of the specialized regulations and in the second part, the stages of the organization of the financial audit activity, the methods and currently used techniques in the financial audit for obtaining the evidence elements, are provided.

Keywords: Study, Audit, Financial Statements, Entities, Methods, Techniques, Query;

1. Introduction:

The research has a starting point, the general idea acquired from the regulatory and legislative revision, according to which *the organising framework of financial audit missions from Romania* should improve in order to respond to international and European audit. This is a major hypothesis of the achieved study.

The pursued purpose through the report from theory to practice, is attached by an empirical investigation which we wish to analyse by the solution to the exigences, both national, European and international given by the organising framework improvement and to achieve financial audit missions by methods and techniques on financial statements auditing *and implementing the international audit standards at Romanian entities*. This study is also based on the IAASB's tendency to improve the International Standards on Auditing, which, following the completion of the draft clarity, has initiated the monitoring and monitoring of the implementation of the revised standards in entities subject to the auditing process,

including at our country level, in the basis of feed-backs obtained from them.

2. Study on auditing activity of commercial companies in Romania

Adoption of International Auditing Standards through audit engagements over entities that are subject to this activity and reporting in accordance with accounting regulations harmonized with European directives or IFRSs are intended to strengthen the current trend of the reform to clarify requirements for the audit of financial statements. The in-depth study of the financial audit activity in our country leads to the necessity to develop national audit standards that meet both the requirements of the European directives and the International Auditing Standards issued by IFAC, the result being the take-over and implementation by the Chamber of Financial Auditors.

By correlating with the abovementioned general hypothesis, interest is directed towards determining the best solutions and g answers to the following sub-hypotheses:

- Sip.1 Establishment of conceptual fundamentals, principles and general rules of financial audit in accordance with IAS and European Directives;
- Sip.2 Research on how to apply national rules in financial auditing, in accordance with IASs and European Directives;
- Sip.3 Completion of financial audit missions in accordance with IASs and European Directives;
- Sip.4 Revision of the audited financial statements and verification of the quality of the audit engagement, in accordance with IASs and European Directives;

In order to analyse the hypotheses mentioned above, we used, as a form of research - the statistical survey; and as a research tool - the query which objectively leans on the research work done so far.

The survey technique reduced both costs and time to formulate conclusions and opinions.

I chose to use this query method because of its financial benefits, the lack of accessibility, time and minimum subjectivity in the submission of responses by stakeholders to the questions.

In the empirical research, the database used was made up of the following informational pillars:

- The electronic public register of auditors - natural and legal persons available at: <https://www.aspaas.gov.ro/registru-public-electronic>
- National Trade Register Office available at: <https://www.onrc.ro/index.php/en/>;
- MFP database: www.mfmante.ro (www.listafirme.ro), containing detailed information about the companies registered in Romania
- Database of the National Institute of Statistics, from which we took over the elements of the statistical research, the methodology and the ways of interpreting the obtained results.

Therefore, we've trained a database of information and data with companies and individuals - Liberal professionals from Vâlcea County. Because the target entities (total) that I initially wanted in the research were large (550 entities), I limited myself to the target entities of Râmnicu Vâlcea and the

neighbouring localities, 240 entities, which I ordered then alphabetically.

The research was meant to be exhaustive, but out of the 240 queries sent, we received only 182 queries.

The research assumptions and the answers to the query questions generated feedback on how to prepare and present the financial statements that have become necessary for an increasingly diverse group of users, especially potential investors from other countries. Thus, the reasons for the use of International Auditing Standards in audit missions according to European and international requirements, extended to our country, are becoming more and more stringent. Those who regulate, prepare and use financial statements come with some pressure to apply audit standards and audit them.

Finally, a gradual layering could be carried out before the final conclusions were formulated and the layering would be considered in drawing up the action plans.

Overall, looking at the results obtained, following the launch of the query and in spite of the informational limits and those imposed by the size of the sample, the results obtained allow us to formulate a series of conclusions:

- the emergence of new rules or regulations providing for new conditions for the statutory audit of the financial statements of entities;
- We consider that the contractual clauses that limit the freedom of choice of the audit firm to be objectively restricted and extend the freedom of choice of the auditor and to remove property restrictions must be partially prohibited.
- small entities should not be subject to the obligation to audit the Annual Financial Statements, as this certification may be an administrative burden in addition to other costs;
- in the Audit Report, the methodology used must provide sufficient information, in particular data on the balance sheet, if it has been verified and analysed from the point of view of system and compliance, the

determination of the significance threshold applied to the audit, the main sections of the financial statements that may contain material misstatements, and whether the statutory audit activity was aimed at identifying fraud.

The general hypothesis, namely, *"the solution to the national, European and international requirements is given by the improvement of the organizational framework and the accomplishment of the financial audit missions through the methods and techniques regarding the auditing of the financial statements"*, is fully confirmed.

This general hypothesis developed sub-hypotheses; the first hypothesis analysed being:

Sip. 1 Establishment of conceptual fundamentals, principles and general rules of financial audit in accordance with IAS and European Directives;

- We consider that a correct personal attitude from the members of the audit team is not sufficient in relation to third parties because they are interested in the compliance of the auditor's actions and deeds with the rules of the profession and with the principles of ethics, principles whose taxation and observance must or evidence, both in form and in substance;
- Financial auditors in the audit engagement must review the mission-specific requirements, employee profile at all relevant levels and partner, considering significant issues arising during the mission and their implications, continuing customer relationship if they feel they can provide services consistent with ethical requirements.
- In the case of listed entities, the auditor shall, by means of a statement, communicate to the persons entrusted with governance the compliance with the relevant ethical requirements regarding the independence of the team on the mission.
- In order to preserve independence, financial auditors must be subject to a rotation process (external rotation), not later than 7 years from

the date of appointment, not only the key partner responsible for the statutory audit (internal rotation), but whole team;

- In the event of major negligence, the exercise of the mandate by an auditor requires the establishment of a system of liability, but the maximum limit being set at European level;
- *The sub-hypothesis according to which: The establishment of conceptual fundamentals, principles and general rules of financial audit in accordance with IAS and European Directives is partially validated.*
- I believe that we are in a permanent process of change in this area due to the international markets to which Romania has joined.
- Thus, we intend to analyse: The research of the way of applying the national norms in the financial audit activity, according to the IAS and the European Directives
- considering that the economic environment is in constant change and diversification and requires quality audit services, most of the audited entities consider implementing the standards more positively now than they did in previous years;
- the potential benefits of reporting to ISAs are much appreciated by auditors because they help them achieve a more accurate image of overall performance, presentation of financial information, and obtaining information from those who are part of the governance of the entity;
- as a result of the responses received to the survey, it results that the persons charged with governance have not been presented with the auditor's findings in the audit engagement regarding the suspected or suspected fraud affecting the entity or the non-compliance with the law and regulations, detected during the audit engagement, other than those that are inconsistent.
- requirements regarding the auditors' responsibility for detecting frauds and errors in the audited financial statements were the

request but only to the same extent as the management of the audited entity;

- it was found that audit auditors did not interview the management and other corporate governance officers in the entity to understand the controls in place to authorize and approve significant transactions and agreements with affiliated parties;
- the auditor during the audit engagement does not retain professional scepticism because in order to issue an opinion on the entity's ability to continue its activity, it should have obtained from management personnel estimates of fair values and depreciation of goodwill, other intangible assets or relevant future cash flows.

In view of the above, it follows that sub-hypothesis 2, according to which, the research of the way of applying the national norms in the financial audit activity, according to IAS and the European Directives, is partly validated.

Sub-hypothesis 3. The finality of the financial audit ministry in line with IASs and European Directives.

In accomplishing this sub-hypothesis, we have followed through our study the compliance of the data and information presented in the audit reports with the European and International requirements in force.

- it is very important that the audit engagement be performed in accordance with ISA's, the information presented in the audit report seeks to promote credibility on the global market by facilitating the identification of those audit engagements that have been performed in accordance with globally recognized standards. In the audit report it is possible that the formulation of a modified opinion and the description of the changed basis of the opinion cannot be stated, and there is no consistency between the two, it has repercussions on the auditor, being considered desirable.
- the auditor who performs the audit of the financial statements is usually sufficiently independent to issue opinions in which users

can trust, although it may be compromised given that the reporting entity is the one that pays the services. An Audit Report provides a high level of assurance on the audited entity, but cannot be an absolute guaranty to the audience concerned;

- In the Audit Report, "reasonable assurance" is more geared towards providing the union with the assurance that the financial statements are prepared according to the applicable financial reporting framework, and less is directed to providing a fair and accurate picture of the financial statements. In the issue of this insurance must prevail the fund on the form, this premise also supported by IFRS;
- in the Auditor's Report, the responsibility for the preparation of the financial statements' rests with the entity's management and internal control, which certifies to the entity that the financial statements are free from material misstatement due to errors or frauds;
- the audit report is important to be addressed exclusively to shareholders to indicate the auditor's overall independence vis-à-vis the entity and the board of directors, but it addresses the audited entity.
- the management's refusal to review the other information in the documents underlying the preparation of the audited financial statements puts the auditor in the position not to specify in the Report an explanatory paragraph describing the significant inconsistency according to ISA 706 although it expresses an amended opinion and considers it necessary to review those documents;
- it is imperative to issue an unqualified opinion in an explanatory paragraph when the auditor concludes that there is substantial doubt about the entity's continuity of activity. The purpose of an audit mission is not to assess the financial status of an entity. The auditor, by issuing an opinion, has the primary role of supporting shareholders' confidence in the accuracy of financial statements, strengthening the position of the audited

entity at the level of the capital market, if quoted on the stock exchange;

- by applying the Standards, an exaggerated standardization of the text in the audit report is observed, which hides users, the real content of the audit. Thus, we notice that companies with different business areas have almost identical audit reports. In the reports, there is no personalization or proof of the work done in the missions, but only that they were drawn up according to the legal framework;
- entities subject to the query would like the audit report to provide more detailed explanations about the provision of a guarantee. Although audit standards provide a number of explanations regarding the level of assurance, Reporting Standards do not require the auditor to present in the audit report issues that give users a guarantee of the audited entity.

Based on the responses received and the relevant conclusions, the partial validation of the sub-hypothesis *"Completing the Financial Audit Missions, in compliance with the IAS and the European Directives"*

Sub-hypothesis 4. Revision of the audited financial statements and verification of the quality of the audit engagement, in accordance with IASs and European Directives;

- In this hypothesis, we tried to analyse the importance and the effects of the implementation of the statutory audit service quality control, which is due to the need to clarify some aspects, notions and principles, given that the audit missions were carried out in compliance with the quality control, and now they are done in line with international audit standards.
- As a result of the answers received from the query entities to questions 29 and 30, it is noted that at their level, the "ISQC1 and IAS220 requirements regarding the quality control policies and procedures of audit work" are implemented, meaning that they draw up

and follow the procedures and policies to implement the quality control system. It also notes that financial auditors comply with procedures that keep the documentation for a sufficient period of time, as established by quality control, written and formalized, providing for the way they are put into practice, permanently updated, communicating to the entire team their content in a frequent;

- At entity level, there are people who monitor quality control policies and procedures, these people are not involved in designing and implementing or reviewing mission quality control reviews. This is a challenge for micro-entities, in which there is no independent person qualified to perform this role. The ultimate responsibility for quality control is the steering committee, which promotes an internal culture that places great emphasis on quality as an essential aspect of how audit practice works, on the basis of policies and procedures designed to that end and which are embedded in appointing persons with operational responsibilities for quality control;
- the independent auditor, who has the skills and knowledge in the field, is the one who performs the audit on the quality control of the audit engagement. The study found that entities did not have policies and procedures in place to maintain the auditor's objectivity if he or she could be consulted about the assignment, namely, replacing it in case of diminishing its ability to perform an objective review;
- In the opinion of the respondents, financial auditors should produce transparency reports providing financial information on "the turnover in which fees charged for statutory auditing, other types of audit, financial and tax advisory services are reflected, other professional service", these reports should also include the situation of public-interest entities audited for the previous financial year, and as regards the auditor's ownership of corporative

governance that is registered notes that they do not apply the relevant information at the level of this governance, which is why entities carrying out audit missions must state this aspect;

- Considering the above, we consider that the objective choice of the auditor is to increase the degree of transparency regarding the quality of the audit services offered, as well as to establish quality certification systems for these services provided by the audit entities;
- On the answer to the question "Do you consider it necessary to establish the Public Supervisory Authority for the Statutory Audit Activity in Romania?", the respondents believe that there is a need for an authority in the field of supervision because it comes to replace the Council for Public Interest Supervision of the Accounting Profession, and at the same time assumes some of the attributions of the professional body of the Chamber of Financial Auditors in Romania;

The results of the research undertaken confirm that at the level of the audit entities and at the level of the audit missions, the quality control policies and procedures and the International Auditing Standards are not implemented according to the expectations and the norms in force. We believe that financial auditors to assimilate and integrate fully within missions, European and International Standards on International Auditing Standards, need continuous theoretical and practical training.

Sub-hypothesis: "Review of the audited financial statements and verification of the quality of the audit engagement, in accordance with IAS and the European Directives", verified on the basis of the items tested above, is partially validated.

As a result of the empirical study "**Conceptual and Empirical Research on Financial Auditing and Auditing of Financial Statements in Romania**" we conclude that the fence of understanding and implementation of the International Auditing Standards at the level of the audit missions performed by the Romanian entities is at a medium level, which is still a mismatch between the auditing specialists and the entities that put them in practice.

We believe that carrying out a financial audit mission at the level of the International Auditing Standards by professionals requires continuous professional development to meet the requirements of international regulations.

Acknowledgements:

These and the Reference headings are in bold but have no numbers. Text below continues as normal.

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