



BABEŞ BOLYAI UNIVERSITY CLUJ-NAPOCA  
FACULTY OF ECONOMICS AND  
BUSINESS ADMINISTRATION  
ACCOUNTING AND AUDIT DEPARTMENT



EXTERNAL AUDIT - SOURCE OF INFORMATION  
OR MIRROR OF THE ACTIVITY  
OF COMMERCIAL ENTERPRISES

Doctoral supervisor:  
Prof. Dumitru Mătiş, Ph.D.

Ph.D. student  
**Ovidiu Vasile Cernea**

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*Financial Audit, internal control, internal audit, external audit, professional ethics, corporate governance, ethical principles, professional qualities, international audit standards, the significance threshold, audit risk, sample, methods for determining the audit risk, code of ethics, quantitative factors of the threshold of significance, qualitative factors of the threshold of significance, auditor, audit offices.*

## **INTRODUCTION**

The starting point of any scientific approach is understanding the starting point of research and admitting the fact that the results of the research may or may not have scientific or foreseeable results. Considering this fact, we are aware of the difficulty of the chosen topic, and that this will spark a series of controversies. This causes us to be more responsible for the amount that we will contribute to the scientific basis that has already been created by those who have treated in previous research the controversial topic of external financial audit. Any research carried out provides added information, a step further on the performance scale, enabling the development of the research perspective.

At this time of economic development, the rules of the globalized economy are in the process of redefining themselves; the information presented by the companies to the economic environment, to analysts and investors and to the general public, have a crucial role in decision-making of the various persons and institutions which come into contact with those economic entities. The need for information is becoming increasingly critical as the development of the world economy is moving very rapidly toward an aggregation of the market, of the demand and of the competition. This phenomenon leads inevitably to changing the requirements concerning the presentation and structuring of information, access to relevant information has become the key to a healthy development of a

business, and often, the key to successfully deal with the new market conditions caused by the global economic crisis.

Taking into account the macroeconomic context, quantity, but especially the quality of the information provided by the various actors of the economic environment, the various persons and institutions with whom they come into contact, gets more than an indispensable condition for the attainment of various objectives. Therefore, the people involved in the development and oversight of such information - (external) financial auditors - have an essential role in ensuring the fairness of the financial statements in order to reflect the truth about the economic progress. This task becomes a prerequisite for providing accurate, reliable, transparent and especially comparable financial information, on the basis of which the best economic decision possible can be made. Among those involved in the attainment of this aim, we find several occupational categories: accountants, internal auditors, company managers, and on the other hand the regulatory and supervisory bodies, especially financial analysts and financial auditors whose work represents the central element of this thesis.

Through our scientific approach we propose to continue existing research in the field of (external) financial audit, focusing on audit and its importance in the work and the decision-making process of the main actors of the economic environment, as well as of the general public. However, in order to reach to this point it is necessary to study the concept of financial audit and its relationships with a number of related activities (internal audit, internal control, corporate governance) as a general concept, as well as from varied professional perspectives to be able to identify general elements which define and characterize the process of issuing professional judgments.

The need for relevant and precise information has always existed within all economic activities, social or otherwise, but the importance of this became evident in the last decade, with the financial scandals in which several large corporations were engaged, starting from 2001 (the Enron case), 2002 (World Com, Quest Communications, Adelphia, Global Crossing), and culminating in 2008 with the bankruptcy of Lehman Brothers. After this, news on the bankruptcy of some major companies has become an increasingly common phenomenon (Washington Mutual, CIT Group, General Motors, MF Global). All these events had a strong impact on the global economic market,

enhancing the possibility that a part of the investors would lose total confidence in companies' management and their investments.

In this context, the role of auditors in general, but especially that of financial auditors becomes a very important one, namely to provide credibility of accounting information for a decision-making process based on reliable information, in order to ensure the functioning of the financial flows of the capital markets and the economy as a whole. A number of authors show that in the absence of financial information certified by the Auditors, the capital cost would be substantially increased due to the risks which would automatically reflect in the declining of living standards in general (Wallman, 1995). At the same time researchers in this field show that auditors responsibility with respect to fraud and errors detection are one of the most controversial issues in auditing, and an ample subject debated in the media (Gay et al., 1997).

On the other hand the European Commission initiated a comprehensive process of consultation between the European Union Member States with regard to the role of financial audit in the current economic climate, the independence of auditors, the relevance of the information provided in the audit report, the audit market concentration inside the big audit firms (Big Four) or issues related to corporate governance. There are studies that argue the need for financial audit and its rules of professional bodies, taking into account the protection of users of capital markets (Ricol, 2008) and (Humphrey and others, 2009), Horomnea (2010).

Regarding the term "the gap between expectations and audit" or "expectation gap", there are studies to support the need for educating the public on the limits of the financial audit (Fowzia, 2010) and (Porter, 2009). In Romania, in the latest period, together with the increasing economic crisis emerged a series of articles and studies in specialized magazines, which emphasize the importance of the work of the financial auditors, as well as the relevance of their work to the general public. We will mention some of these: "Explorarea statistică a pieței de audit având ca scop aprecierea auditorului" (Jaba, Raffi, 2011) refers to the relationship and direct effect of the independence of the auditor with the financial performance of the firm of auditors; "Auditorii financiari și guvernarea corporativă sub impactul crizei financiare" (Dobroțeanu et al., 2011), which deals with the role of external audit and corporate

governance in ensuring the credibility of the audit report; "Dinamica percepțiilor privind auditul extern sub impactul crizei financiare" (Dobroțeanu et al., 2011) an empirical study about the degradation of a group of students perceptions relating to "the gap between expectations and audit" before and after the start of the financial crisis.

Most economic decisions are based on financial and non-financial information. But, as the decision-maker, having information at the appropriate time is not everything. This information should contain a number of elements which would give the user a higher degree of confidence in their quality. This is the role of the professional accountant, that can meet such a request. Why is this needed?

The role and the relevance of information offered by the public auditors through the audit report is a controversial topic, which in recent years has generated much discussion among specialists in the field and among financial analysts. With the economic changes caused by the global crisis, the risks to users of the information provided by the auditors have increased and have diversified considerably. The tendency of economic entities to improve their results and to present a distorted picture of their financial statements also slows down the work of auditors in order to obtain a reasonable insurance. These regrettable attitudes are based on an exacerbated desire of enrichment, ignoring risks management, neglecting auditors' recommendations and seizing an extensive financial territory (Horomnea, 2010).

The reaction of professional bodies from around the world to this miserable economic performance consisted in the modification of existing regulations and standards in order to avoid future economic disturbance. However, professional standards may be considered as having a general nature, giving auditors the freedom to make decisions and issue opinions in accordance with professional reasoning.

The relations of any socioeconomic entity with the economic environment determine the emergence of special information needs, of which the main features are relevance and pertinence. Firstly, because the activity of a company is complicated and involves many transactions, therefore the collection and processing of relevant and authentic data on the economic activity of the company is the key factor for the achievement of the service/section, and finally of the firm.



Secondly, users of this information are somewhat isolated in time and space of the accounting records and lack the experience of professionals in this field, often the users of this information not having specialised knowledge in the field concerned.

Thirdly, (not necessarily the latest) the consequences of decisions taken by managers, depending on the size and status of the enterprise may be of economic and/or politico-strategical importance.

In a world and an economy in which the audit report has become a compulsory element in taking any decisions (compulsory for banks, companies listed on the stock exchange or in other cases stipulated by law) the quality and relevance of the audit report becomes one of the essential elements in economic and social development both at the national level, but also at the macroeconomic level. If we add to these ethical aspects the financial ones (significant costs for most of the time) involved in auditing, we can understand why financial audit has become a term so often discussed and commented on. Financial audit and the analysis of the results has yet to find a broad action field at a national scale, although such a business card (favourable audit report) may facilitate the path to new business opportunities, business card without which a company, especially in the international economic environment. This, even more so if the "warranty certificate" for "good behavior" comes from one of the big international companies.

Investigating the perception of the issuers of the audit report and of the users of this information constituted the object of study for the last chapter of this thesis. By applying a questionnaire, we watched the testing of consensus between auditors' decisions and perceptions of the general public concerning the relevance of the information contained and the usefulness of the audit report. The assumptions we made include a selection of the factors we wanted to test, this selection being needed since the literature has a large number of elements whose validation by a single study would have been virtually impossible. The results of the study in *Chapter five* are, on the one hand surprising for us because some of them contradict our expectations (e.g. low importance granted by the Romanian economic environment to the information contained in the audit report, in formulating economic decisions), but on the other hand contribute to the transparency of the work of active financial auditors in Romania. The context and the

statistical tools used for the conduct of the study offer an increased credibility to the research undertaken and, implicitly, to the results obtained.

The main ideas of the doctoral thesis "External audit - source of information or mirror of the economic activity of economic entities" being drawn, we consider timely initiation of scientific approach, assuming success of us both ample activities and parties that can be improved through scientific research.

## **THE METHODOLOGY OF SCIENTIFIC RESEARCH**

Performing any work of scientific research assumes by default combined application of a number of research techniques and processes, through which the researcher is trying to get as much conclusions, on the basis of previous research, supplementing with personal experiences and results, for the purposes of formulating a final conclusion on the topic which was analyzed. Thus, the etymology of the Greek word itself *methodos* (*road, path*) and *logos* (*science*), guides us towards the same meaning. Often, even if these methods and techniques are well established at the beginning of the research process, it is possible to indicate the need to change them, under the influence of external factors which may require the adoption of methods of study or waive some already adopted.

Implementation of any effective research implies the use of active methods which involves thinking, fosters the understanding of concepts and ideas, as well as methods that determine critical reflections and making value judgments.

Over time, scientific research has been the subject of debate of many works, but analyzing these investigations we conclude that each research process contains several steps that are essential in order to be able to truly bring a contribution to the theoretical progress and to facilitate a better understanding of the phenomena studied for the experts in the field and for the general public. Thus the essential elements of the research (Howard and Sharp, 1983) are the field of research, the purpose of research, the approach (of the research methods) and the results of the research.

This thesis takes a positivistic scientific stance complemented by personal opinions and interpretative approaches, with critical elements that give the thesis its note of originality and professionalism. The quality of the work is ensured by the large number of figures, graphs, tables and structural schemes whose purpose is to facilitate understanding and assimilation of the information presented.

Choosing the quantitative method allowed us to select and analyse a wide range of bibliography, both Romanian and international, from articles from international journals and international databases, books, thesis, legislation and audit standards, to web pages of various national and international professional bodies in the field of financial audit.

In terms of structuring, the thesis follows a thorough format for each chapter, starting with a summarized presentation of the objectives of the chapter, the research methods and the main conclusions of the research. The purpose of the research within each chapter was to pursue its objectives through the use of methods of scientific research.

The scientific research methodology used in this work, falls within *the principle of unity between quantitative and qualitative research*. The first part of the thesis comprises a broad *qualitative research* (chapters 1-4), punctuated with a series of debates and points of view related to the basic concepts of the field under study.

The most used in these chapters is the *comparative method*, since by this method we were able to identify the main elements of the theoretical and practical concepts of financial audit and professional ethics, on both national and international level. Within these chapters was also used *the document analysis method*, in particular in the analysis of studies and reports published by various national and international bodies, as it allows a more effective analysis of the contents of the topic as well as the evolution studied over time, and also in terms of the place of manifestation.

The main objectives pursued within those chapters were:

- a) Studying the concerns raised by the different approaches for the concept of financial audit;
- b) Analysing the relationship internal control - internal audit - (financial) external audit and its importance;

- c) The role of financial audit in ensuring faithful representation provided by the financial statements, namely the role of the auditor in the new economic context;
- d) Determining the role of professional ethics, as well as the condition of ensuring faithful representation and development of the profession of auditor;
- e) The role of financial audit role in providing information to the public, and the extent to which it meets its expectations;
- f) The role of corporate governance in enhancing the quality of information provided by the financial audit.

Analyzing the coverage of financial audit of the commercial entities, the relationship of financial audit with internal audit and audit committees, research has been addressed both in terms of aspects treated in the literature as well as in terms of regulations of the activity of the functions of auditing.

The last chapter is dedicated to quantitative research, in this chapter we examined the perception of main groups of producers and users of information provided by the financial audit reports in relation to their importance in informing the decisions of the management of the various management companies, investment decisions or the general public. To accomplish this, I used *the questionnaire technique*, questionnaire that included a series of questions designed to allow analysis of the results obtained.

The goal pursued in this chapter was the perception analysis on the role of auditors and the significance of the financial audit report compared to the perception of the main groups of users of the information provided by the financial audit report: auditors, managers, administrators, financial analysts within the main commercial banks in Romania, as well as independent financial and investment analysts.

The main stages of this process were:

- a) Presenting the rationale of the research topic;
- b) Formulating the objectives and developing the hypotheses;
- c) Establishing the methodology and the data collection techniques;
- d) Justification of the selected samples chosen for the study;
- e) Analysis of the results obtained from the study.

The questionnaire used in this part of the work has been designed after an analysis of existing previous research, and after an analysis of the role of the audit reports, in accordance with the audit standards.

The questionnaire contains a series of questions in the Linkert system with a scale of five points, closed questions with choices from "total agreement", up to "total disagreement", as well as an open question to allow the responder to express their views with regard to possibilities for improving of the audit reports.

Summarizing, the results of the qualitative research from the first four chapters and the quantitative research of Chapter 5 we can say that the main achievements of the present thesis are:

- Presentation of the theoretical and practical aspects of the usefulness of the information provided by the reports of financial audit in economic decision making, nationally and internationally, also perspectives of their future development;
- Emphasizing the role of determining the professional ethics of auditors as well as corporate governance in providing real, transparent and especially relevant information, within the financial audit report;
- Presentation of the results of research and connecting them with the results of similar research carried out at international level;
- Conducting a complex research on the perception and the degree of understanding of the role of the audit report, in the light of the main categories of users of the information provided by the financial audit report.
- Conducting research that indicates how the importance and the usefulness of the financial audit is perceived in the decision making process of the main categories of users of this kind of information.

Following the analysis we conclude that the main categories of users (auditors - academics, investors - financial executives) of the information provided by the financial audit report, have different perceptions regarding the quality, relevance and usefulness of the information provided by the auditor through the financial audit report.

The conclusions and prospects of the research highlight the scientific contribution of the author through this thesis, summarise the results and outline future research directions. The method used for laying out these ideas is the interpretative method.

## **SYNTHETIC PRESENTATION OF THE CHAPTERS**

We will make a brief presentation of the chapters' contents, of the main results obtained, and the conclusions reached at the end of our research.

### **Chapter 1**

#### **GENESIS AND EVOLUTION OF THE CONCEPT OF AUDITING**

*The first chapter* of the present thesis is a radiography of the various conceptual and professional interpretations to capture the essence of the concept of financial audit, and to identify the main areas of action that may be assigned to it. Additional to the elements characterizing the financial audit, chapter one also presents a comparative picture of the main developments of the concept both internationally and nationally. Considering the many missions of audit (the statutory audit, financial audit, public audit, legal audit) in the introductory part we considered necessary a clear delimitation of the type of auditing we are referring to - (external) financial audit in the context of this thesis.

Knowing the literature is extremely important for the understanding of any phenomenon, the present approach to the literature includes a dynamic analysis of the elements discussed in scientific studies and related to the professional reasoning process. We have found that there is a strong bond between financial audit and the socio-economic environment as demonstrated by the importance that was given to the domain and to those working in this field since the past centuries to the present day. Changing the relatively recent perception on financial audit, on the quality and professional ethics of those involved in this activity. This change is due to the growth and development of the economic environment that, at present, is strongly affected by the economic crisis that has hampered the work of auditors to evaluate and certify the financial statements of the audited entities, while raising a number of questions regarding the usefulness and relevance of the information provided.

The thesis includes a number of references to the literature that aims to identify changes in the complexity of the financial audit. More precisely, we watched the evolution of the elements which can be directly attributed to the audit process, and the

use of this information, noting that they have seen a broad diversification from the early studies in the 1960s to the present.

Currently at international level auditing is carried out under a set of rules developed by the International Federation of Accountants (IFAC). The declared goal of the organization is to serve the public interest by strengthening the accounting profession and the development of a strong economy.

Within IFAC an independent standards body was established, the International Auditing and Assurance Standards Board (IAASB) whose objectives are:

- Developing high quality audit standards and certification;
- Improving quality and consistency of audit practices;
- Increasing the confidence of the general public in auditing practices.

Analyzing financial audit only through literature, however, is not sufficient. International Standards on Auditing (ISA) also offers a broader perspective for the understanding of the phenomenon, to ensure comparability of the data provided by the financial audit in different countries and thus increase the quality of the financial audit missions.

Studies in the field of financial audit and the decision-making process take up a vast space in the international literature, but in vernacular literature, however, they are not so many. Although this topic poses many questions among Romanian auditors, researchers have been engaged in studies of a general nature, without interfering with legislative and theoretical implication of practitioners in order to clarify any issues. In this regard, we wish that through our work to bring added value to national research focused on the topic of financial audit, which includes a comprehensive study to clarify the theoretical aspects of the legislative and financial audit, but also how it is perceived and applied at a practical level.

Credibility of the arguments presented in scientific procedure can be increased only by means of the presentation of evidence certified and approved such as professional standards governing auditors' activity or investigations from the literature. Any idea objectively justified can be regarded as an additional information which contributes to the understanding and deep knowledge of the phenomenon being studied.



## CHAPTER 2

### THE PURPOSE OF AUDIT IN ECONOMIC ACTIVITY

External auditor's role in working with companies is a vital one, the auditor being the one who through his opinion with regard to the financial statements of the company, should give a high degree of confidence to the economic environment, to the public or private institutions, to the general public in the quality of management and economic process carried out in the audited units. This particularly complex role falls to the auditor, "because his entrusted to harmonization routing of the figures on movement of means and resources of a firm, which ordered on certain categories, after a well established diagram, can demonstrate at a given moment the situation - no matter how complex - of a firm." (Toma, 1993)

To ensure the quality of work of auditors and of the reports made by them, companies must provide true and complete information in a timely manner. Between the financial auditors and the audited company there must be a permanent dialog.

The external auditor relies mainly on a set of specific tools of his profession, in order to offer users of the information a picture as real as possible of the audited enterprise. At the same time the external auditor has a relationship of collaboration with both the compartment for internal audit (by leveraging and analysing data supplied by this), with the internal control department, but especially with audit committees established at the level of the enterprise level.

*The second chapter* of the thesis includes an analysis of the literature which is aimed at identifying changes in the complexity of the financial audit and the elements with which it interacts in the formulation of opinions relating to the audited entities, namely, internal audit, internal control and audit committees. More specifically, we studied the relationship between external financial audit and internal audit, namely financial audits and internal control. The aim was to identify the main elements that are common, but most of all elements of differentiation and how each of these activities shall use the information provided by the two other types of activities - the audit committees - in order to provide a correct picture on the quality of the financial statements drawn up by economic entities.

Thus, external financial audits is called upon to express an independent opinion on annual accounts or on other situations and information, which is aimed to defend evenly all the users of accounting information, all participants in the socio-economic life (shareholders, Government, employees, banks, stock agencies, debtors, customers, suppliers, creditors, national accounts and business administrators).

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A good relationship between internal audit and external audit is clearly desirable, since it leads in most cases to a reduction in audit costs. Depending on the quality of the internal audit, the external auditor may use some of these results, reducing the volume of work of the external auditor (recommendation included in the IIA audit standards-2050).

The internal audit function was born by breaking away from the external audit activities. In fact, the two functions are differentiated, but at the same time, there are also relationships of complementarity. External financial audit carries out certification of regularity, honesty and faithful image of the accounts and the financial statements, while internal audit conducted on the financial and accounting function of the entity evaluates the internal control system and presents conclusions and recommendations for improving its functioning to the management unit. The relationship of interaction between the two types of audit, i.e. internal control, is meant to ensure efficient management of the risks to which the company is subjected. This interaction can be improved at all times - Palazzesi and Pfyfer (2004).

On the other hand, after the conclusion of the financial audit contract and the evaluation of external accounts, the auditor goes to stage of internal control analysis. This is one of the objectives of the external audit and thus, generically speaking, external

audit becomes a "control of controls" and the methods used to achieve these objectives are its specific principles, techniques and staff.

Thus, if internal control exists in the company, the external financial auditor proceeds to an in-depth study and an assessment of it to determine the degree of confidence and, in consequence, to determine the importance of the tests procedures for the financial audit. In fact, internal control and external audit are two distinct concepts, which complement each other, but which are distinguished by the method of implementation.

The quality of the relationship between the audit committee and the external auditor of the company, determines the extent to which the auditor communicates more or less completely matters of interest for governing the respective companies. These problems (CAFR, 2005) may relate to the scope and limitations of the financial audit, accounting practices which may have an effect on the financial statements of the entity, significant risks which could affect the quality of the significant financial situations, shortages of the system of internal control or management.

We believe that a quality governing process requires good cooperation between the audit committee, the supervisory board, the board of directors and managers. The common element that the three management structures have in common is the external financial audit, on its quality and on the information provided by it depending the quality of the economic decisions that companies take, their economic future and hence the future of these companies and of the employees of the companies with which they interact. Therefore, on the training and ethics of the members of the audit committee, which appoints the external auditor depends the quality of the information provided by the external financial auditor.

In this section, we considered necessary an analysis of the status of the auditors from commercial companies, in the context of the present economic crisis, i.e. developments which take place in the process of corporate governance and financial audit, the conclusion being that their role has become a purely formal one, obsolete and useless in an organizational chart. In the current context, activities that were intended to be carried out by them are carried out in a much more professional manner by the other factors involved in the process of financial audit, corporate governance, respectively. In

these circumstances, we consider that it is necessary to adapt existing legislation in this respect and even to sack the profession of auditor, but with the assimilation of true professionals within the profession of auditor (internal or external), following stages of training needed, opinion shared by the former President of the CAFR, Ion Mihăilescu, since 2007.

In this way you can achieve a better demarcation of the hierarchical levels of management, control, and financial reporting to the shareholders, or to the general public. Last but not least, a source of fraud, i.e. the handling of the company's shareholders is eradicated.

### **CHAPTER 3**

#### **PROFESSIONAL ETHICS AND FINANCIAL AUDIT**

In this section, we have chosen to perform an analysis on the contents of professional and ethical standards in order to highlight the role and their implications for the conduct of an audit. More specifically, we have identified the most important factors that influence the activity of financial auditors from an ethical perspective and the consequences on the information provided by means of the audit report.

Ethics in the accounting activity appears under the conditions in which it is intended for the construction of the image of the reality with the aim of informing different beneficiaries, which depend on how the judgment of those involved. Ethics can be approached in from a financial-accounting perspective inasmuch as it is used to inform various beneficiaries. In circumstances where the temptations are high, only professionalism and conscience of those involved in the business accounts can guarantee the search for truth, by formalizing a concrete economic reality.

The code of conduct and professional ethics, in the field financial audit reveals that the objective of the auditor profession (internal or external) request professional financial audit standards in order to achieve public interest requirements. Ethics is a set of principles or moral values to which people relate and act in a certain way.

Ethical principles as defined by US Institute of Ethics are (Arens & Loebbecke, 2003): independence, credibility, respect, responsibility, fairness, empathy, civic spirit.

Economic practice often requires services for which the financial auditors do not have expertise to realise: technical knowledge, technical evaluations, specialized legal assistance, insurance etc. Technical guidance required to achieve all the objectives of the audit is performed by calling the **experts** specialized in certain new areas. In such situations, the auditor must take account of the fact that the professional service remains in its task, in order to meet the requirements of ethics.

Financial auditors have an important role to play in society. Investors, lenders, employers and other segments of the business community, Government and the wider public are based on financial auditors with respect to accounting and financial reporting, effective management and competent consulting for a variety of business-related issues and taxation. The attitude and behaviour of auditors, in the process of provision of such services will have an impact on the economic well-being of the community and the country.

On the other hand, the requirement that the audit firms show the real face of the analyzed public company is placed in the shadow, because of the tendency, we can say natural, of maximising the number of paying customers, which causes an interest on the part of the audit firms to show a financially positive situation. Some voices argue that auditor's reliance on compensation and customer satisfaction limits the independence of the activity.

One of the essential requirements of the auditor profession is "**keeping professional competence**", which stands out for its permanent research on the latest knowledge, rules, guidelines relevant at national and international level in the field and accounting and audit in the field of his profession. A financial auditor's program must be "directed toward ensuring quality control performance of professional services" (IFAC Code of Ethics, 2009)

Financial audit standards specify general marks of the activity of the financial audit which adds up to *fulfilment of the requirements of the public interest and obtaining a high level of performance* once in compliance with international accounting standards (IAS), the International Financial Reporting Standards (IFRS(s) issued by the Committee for International Accounting Standards (IASB), independent body established to issue

accounting standards to be applied at global level. This standard is the basic requirement of a detailed financial audit, namely *credibility*.

In our country, the Romanian Chamber of Financial Auditors (CAFR), the body that coordinates the work of auditors, has developed the framework of ethics and professional conduct in the financial audit filed function of users' requirements as beneficiaries of professional services. The number of audit companies registered at the Chamber of Financial Auditors of Romania, that operate on the territory of Romania has increased from 121 in 2001 to 475 in 2003, and then to 840 in 2009 and in 2012 are recorded over 920 auditing firms, a fact that attests increased importance of financial audit activity in the life of economic entities.

On the background of numerous financial scandals and of the crisis which has been established at global level, importance given to ethics in audit activity has become increasingly important. The bankruptcy of many companies has turned out to be due to poor quality audit services which led to the submission of a false image of their financial statements.

Starting from here, we found appropriate to carry out an *empirical study* on ethics in audit activity from a new perspective, different from the rest of the research in the field. *The goal* proposed aimed at identifying a relatively possible link between the principles of ethics and their promotion, and the financial crisis that is still present. *The methodology of research* has been based on *regression analysis* and resulted in the identification of possible *correlations* between the variables specifically chosen for this purpose as a result of a review of the most important views and approaches within the specialty literature of the Romanian magazine "Audit Financiar", and the "International Journal of Auditing".

As a result of this study it can be concluded that, once with the amplifying effects of the financial crisis, the attention of auditors as well as the recipients of the information provided by these was oriented towards the ethical aspects of the auditor profession, fact reflected by the significant increase in the number of articles on this subject at both national and international level, the main topics dealt with referring to the need for ethics in auditing, auditors independence and quality of audit work.

Some specialists (Porter, 2009), consider that accounting professionals involved in audit activities, could constitute the primary key in ensuring corporate responsibility in front of the general public which follows with great interest their activity. Thus the concept of social responsibility (corporate accountability) is becoming increasingly mentioned in the literature as an expression of the growing pressures from the public about the willingness of companies to assume real responsibilities, as well as questions related to the effectiveness of mechanism of corporate governance. It also reveals an intensification of pressure and voices to support greater involvement of auditors in identifying clearer alarm signals in order to prevent economic phenomena similar to those in recent years. This is also apparent from the increasingly prevalent idea of approaching audit in a wider framework, being identified as a series of connections and relations which should exist between auditing, corporate governance and social responsibility of corporations (Benson, 2009)

The existence of audit standards, and ethical codes for the professionals in this area are intended to create the framework for the formation of high quality audit opinions, but those rules and principles do not provide a universal valid solution, much less to guarantee the quality of the image offered by the financial statements. All these "guides" give expected results only to the extent that those who carried out financial audits proved to have a high degree of professionalism and morality.

#### **CHAPTER 4**

#### **AUDITING FINANCIAL STATEMENTS BETWEEN REQUIREMENT AND NECESSITY**

Currently in Romania, but also on a global level, despite the implementation of international standards on auditing and codes of professional ethics in audit, the quality of audit services provided by the financial auditors has experienced a continuous depreciation, due to the financial scandals and bankruptcies of companies that just a few years ago were considered to be of the most stable. All these events have led to the spreading of a sense of distrust of the public towards the quality of audit work and the morality of those who perform it. In these circumstances it is hardly surprising that gradually, financial audit, which was in the past a mirror of the audited company's

activity, becomes in the eyes of many analysts, financial executives, investors, or generic said, in the eyes of users, only one of the sources of information which they

Audit evidence represents all information used by the auditor in order to be able to deliver the "audit opinion". These include information supplied by the accounting system of the company being audited, financial statements issued by it, but also a range of information or documents obtained from the economic environment in which the company operates. In drawing up the plan of the Audit Board, the auditor also requires an acceptable level threshold of significance of audit evidence, so that it can detect quantitatively significant erroneous information.

Summarizing, we believe that the financial auditor has the obligation to inform with respect to the real situation of the company, to assess the quality of the corporate governance process, to analyze the structure and the quality of the internal control system, the quality of the internal audit system and as a result of these assessments to make an estimate of the risks being faced with in the flow of the process of financial audit. The auditor also has to document situations which are important in order to provide evidence to support the audit opinion and evidence to show that the audit was conducted in accordance with the standards.

We believe that the activity of financial auditing needs to take into account the financial indicators because, by examining their evolution in time, the financial auditor can understand the latest events and the condition of the unit audited. The result of the financial analysis is used by the financial auditor to identify potentially problematic areas, which will be examined in detail and tested during the financial audit activity, but also to identify economic problems which will need a different type of consultancy.

For this purpose, we have chosen to analyze the analytical procedures of financial audit based on calculating and analysing the main economic and financial indicators of S.C. OMV PETROM S.A., and present them here, according to accounting regulations harmonized with International Accounting Standards.

Choosing this company as an object of study has come up because OMV Petrom is the largest private company in Romania, with a particularly complex activity, involving the use of a significant amount of information.



The ultimate goal was to trace the evolution of information provided every year by the audit report (audit opinion) and to analyze the manner in which the opinion of the audit report was influenced or not by the evolution of the main economic and financial indicators.

In our opinion, Romanian companies have not yet reached a full degree of necessary consciousness or, in some cases, have no interest to resort to professional financial audit services only insofar as they are required by legal regulations. This explains the general lack of interest in financial audit (with the exception of big companies), as a means of reflecting the manner of compliance with the provisions of IFRS and the fair presentation of the financial results obtained.

So in the case of OMV PETROM, the financial auditor maintained year after year a favourable opinion on the evolution of the company's financial situation. However a closer examination of the figures from different positions of the financial data suggests that the first part of the studied range a deterioration of several financial indicators occurred, which normally would have had to raise questions to the auditor, as this development is not a natural one. However the audit reports of the analysis period do not contain any additional explanations for maintaining a favourable opinion, without any reservations.

Also in the second part of the time interval studied, we can notice an improvement in the company's situation, which is reflected in the report of financial audit also by a favourable opinion. It would have been desirable, both to the improvement of the economic situation, and especially in the case of deterioration, a deeper analysis from the auditor, to capture in a language accessible to the general public the causes that have led to these situations. In this way, for example, investors on the Bucharest Stock Exchange could have made a decision of buying-in Petrom shares, which would have resulted in a better economic outlook for the company.

This situation comes to once again show that the opinion expressed by the auditor through the report, is not, or does not seem to be correlated with data contained in certain financial circumstances (financial position), and therefore automatically this financial audit report is not a mirror of the economic activity carried out by the company being audited, but possibly just one (more) source of information.

We believe that a better presentation and explanation of data within the audit report, by professional bodies, but also by legislature, can contribute to a revival of public confidence in the financial auditor's professional, but above all ethical qualities. In the absence of such an approach, we believe that there is even a risk that in a relatively short time we could witness a discrediting of the auditor profession and even its disappearance.

In order to get the best strategic decisions that serve the interests of their entities, interested parties require certification of financial statements reported by the listed companies providing information that is easily understandable, relevant, reliable and comparable (Hayes and al., 2005). In order to guarantee quality, the financial auditor is required to be objective, independent and competent.

To ensure the comparability of financial statements over time, the financial auditor has an obligation to ensure the general public and the audited entity's management that the entity complies with the regulations in force and that financial reporting does not use alternative accounting methods, thus ensuring the comparability of their performances with companies in the same field, even from different countries. If the permanence of methods is the way by which the comparability over time is provided, in order to ensure comparability between different companies, uniform accounting rules are needed that would allow a single accounting treatment for similar situations. On the other hand, the nature of the information used by auditors and the threshold of significance assigned to them are the main factors influencing relevant information.

Therefore, the audit report cannot be considered as an insurance policy or a "blank check" (Horomnea, 2011) to the company audited, but we believe it is by far, central axis of financial analysis of the situation of the entity audited.

Concluding, the author considers that the role of (financial) external audit consists of expressing an opinion on the true reflection of the patrimonial situation and of the results of the financial and accounting documents and not on the future economic performance of the audited unit.

In our opinion, with the worsening of the financial crisis, auditing has become more and more an obligation imposed by the legislative and not a service meant to bring added value to the company which is audited, with the emergence of more and more

signs of suspicion relating to the degree of independence and professional qualifications of auditors.

Synthesizing, the accounting profession and the auditing profession in particular are linked to redefining and reinventing the profession of auditor on new bases, with a higher degree of transparency and communication with the general public, to ensure a better understanding of the scope and the limitations of auditors in carrying out their work. In the absence of a "rehabilitation" of the profession to the public, here is a risk that the auditor's profession to disappear, or that its role to become a purely formal one.

I believe that one of the possible future developments of audit may represent a transition from an audit of financial statements to an **audit of performance**, to an audit of the way in which the economic entity is managed, which should provide an opinion as to the fact that financial statements are in accordance with a specific standard, but also the fact that managerial policies, the manner in which decisions are taken in the economic entity are the correct ones, in the interests of shareholders and the general public.

In the same direction, in conditions of the existence and operation of the optimum conditions of the audit committees and boards of directors within a company, the activity of a financial auditor becomes much easier, the financial auditor activity becomes much more easily achieved, given the role of overseeing the quality control processes and existing internal audit, focusing primarily on ways to improve them. The financial auditor thus becomes a partner of the board of directors, an active factor in the process of corporate governance, and the existence of a permanent relation between financial auditor and the board of governors will mean an advantage in achieving strategic objectives of the company.

## **CHAPTER 5**

### **PERCEPTION OF FINANCIAL AUDIT IN ROMANIA - AN EMPIRICAL STUDY**

Responsibilities of auditors in relation to fraud detection and prevention are often misleading or poorly interpreted. Over the years many authors have tried to capture the general public's perception regarding the duties and obligations of auditors. (Dixon, 2006 in Egypt, Leung & Chau - 2001 in Hong Kong, Fadzly & Ahmad 2004, Burlaud, 2009, Manolescu & Mocanu 2010).

According to these studies, many users of the information provided by the auditors through the audit report believe that the main purpose of the auditors and their obligation is to detect any irregularities in the company audited. This perception is wrong and shows the gap that exists between expectations and the results provided by the audit report. In this regard, in chapter five we conducted an empirical study, based on questionnaires designed to highlight the way of assessing the information provided by the audit report, both by its authors - the auditors, as well as by major users of such information - investors, analysts, but also by members of the academic body.

In relation to the present study, the stated goal was to investigate the extent to which the results of the financial audit, the information provided by the final result of the audit report are understood and used by various user categories for justification of their decisions, the extent to which the beneficiaries of the information provided by the auditors consider this information as relevant. Thus, the central question that we addressed to the participants to study was "is external audit a mirror of economic activity for the users of the information provided or is it just a source of information?" At the same time we tried to note the importance that various professions give to the work done by auditors.

Concerning the subjects of the study they were representatives of the main categories of users of information provided by financial auditors through the audit report, namely: investors and financial analysts (142 analysts, intermediaries on the stock exchange, investment companies); financial managers (84 persons); financial auditors (436 persons at the level of each county) and academics (121 members of the main university centers - Bucharest, Iași, Cluj, Timișoara, Craiova). The average response rate

was 14%, however, although the response rate obtained is superior, one cannot consider that these results can be extrapolated automatically to all members of the category chosen for sampling, namely at the level of all the analysts, financial managers, auditors etc., from Romania.

The data collection method used was the questionnaire, a technique of data collection that contains a set of questions designed to allow provision of conclusions on the objectives of the research. The questionnaires sent through e-mail were accompanied by a letter through which we presented the essential elements of this study: the objective to be achieved and the initiators.

In order to ensure the greatest possible representation of the study, within each questionnaire we included introductory questions relating to professional experience of the respondents in the field of financial reporting.

The findings of this study can be summarised by each category of respondents:

- Investors and analysts understand the role of financial audit for certification of the information contained in the financial statements, but do not consider financial audit a mirror of the economic activity of the audited company, investors and financial analysts perceive the role of the audit report in terms of the user, being oriented to obtain information with a high degree of applicability, due to the relatively low degree of understanding of the information provided by the audit report.
- In the vision of the majority of the financial directors the audit report represents only a source of information and not a mirror of the economic activity carried out by the company being audited.
- As opposed to financial executives, the vast majority of auditors consider the faithful image a principle to be respected, a goal of the financial statements. One of the most important aspects which must be referred to in following the completion of this study is that the auditor does not guarantee through the audit report the quality of the audited financial statements, but he only expresses an opinion on their quality and not in respect to the performance of the company in a near future. At the same time more than half of the respondents consider that the audit report is too standardized.

- In the same way as the auditors, the members of the academic environment emphasize that the financial audit report does not generate estimates of economic development of the entity audited, but expresses only a public opinion on the financial statements that have been audited.

## **CONCLUSIONS AND PERSPECTIVE OF RESEARCH**

The finality of any endeavour represents a moment when the objectives and the results achieved as well as any unanticipated elements are assessed. In our scientific approach we started from a question about the way in which must regard external audit and the audit report in terms of various categories of users. Although the question was simple, in carrying out our research we have found a complexity of contexts, factors, differences and opinions resulting from this activity.

Carrying out a research on "External audit - source of information or mirror of the activity of economic enterprises" took into account the concerns of the increasingly intense current economic context of obtaining information on the quality of the information provided by the various companies' financial statements.

In a world in which the term of globalization tends to become obsolete, in which the dynamism and the complexity of economic and financial operations have reached levels very difficult to predict a decade ago, and which faces now the effects of certain economic decisions influenced by a number of factors of the professional and ethical nature, financial audit through its outcome, the audit report can and should become one of the pillars leading to decision-making of companies, but especially in the investment environment, in order to ensure correct execution of the workflow at the level of capital markets, and in the global economy as a whole.

Unfortunately over the past few years, we are facing a continuing deterioration of its image as well as that of financial auditors, after waves of scandals and bankruptcies of some financial institutions, in which auditors had a more or less important role. All this has led to an intensification of efforts by professional and regulatory bodies to regulate the audit activity, to analyse the causes of these phenomena, in order to be able to identify

and to impose a range of measures designed to restore this lack of credibility that is becoming more prevalent.

In order to succinctly present the results and findings of the research conducted, we indicate briefly the main directions pursued:

1. Fundamental theoretical research - chapters 1-4, in which we analyzed a series of debates on specific accounting concepts and in particular financial audit;
2. Empirical research, within Chapter 5, meant to emphasize perceptions of different groups which have a direct or a less direct relationship to the results of the work of auditors, that might be in relation to the role, the quality and the relevance of the information provided by the audit report;
3. The relevance and the contribution of the results of the scientific research to the development of the research of the topic being addressed.

In what follows we aim to provide a concise and at the same time whole image of the main conclusions drawn as a result of the research undertaken within the framework of this thesis.

In the first part of the work we set out to do a basic research, were we found a series of debates on concepts specific to the field in which the research was carried out. The importance of this section of the work is given by the fact that by studying the origin and development of the concept of financial audit we can have a better picture of the role of it, and by watching different approaches at both national and international level and coordinating this information with current phenomena, we can infer the future development of this concept so controversial during these turbulent times.

The current financial crisis, but especially an increase in the number of disputes and accusations of auditors, raises an essential question "how well do users of the information supplied by external auditors understand it, or what additional information should auditors provide for quality economic decision-making?"

On the basis of this question we chose to analyze more closely a dilemma: "is (external) financial audit a source of information or is it a mirror of the activity to the operators?"

According to our opinion, financial audit is aimed at enhancing the use of accounting information and at examining the need for registration of economic operations

in bank accounts, accurate and up-to-date, in such a way that the information resulting from the accounts to comply with reality. All this information is needed for the entity's economic partners.

As regards the role of auditors there are some views according to which audit has not been well-defined from the outset (Alleyne & Howard 2005), but after events like the Enron and Worldcom cases, at the start of the 2000s, ISA regulations are clear: the auditor's role is to "identify and assess significant risks by understanding the entity and the environment in which it operates".

We believe that the vast majority of the users of the information provided by external auditors have not understood the meaning of reasonable assurance, and implicitly its limits. From this fact resulted a series of expectations of the users, that the audit report should detect the frauds and errors of the unit audited, and even more there are voices that require auditors to assume the role of a financial forecast of the evolution of the companies that are being audited.

In order to meet this goal - providing a reasonable assurance to users on the quality and reliability of the data provided by a company, we analyzed both the context in which the profession of financial auditor developed, and also its connections with internal audit, and internal control. In Chapter 2 we conducted a demarcation of the concepts of internal control, internal audit, external audit, as well as an overview of how they work together to obtain pertinent information on the work carried out by the economic entity. In this section, we have carried out an analysis of the concept of censor, of its role in the current economic context, considering that this concept is an obsolete one, and could be disposed of through the takeover of their duties by financial auditors, as this would give more relevance to the information presented.

All these aspects as well as the manner in which the auditor interacts with the audit committees, as an element of corporate governance include the manner in which the public perceives the usefulness of the audit report and the quality of the opinions expressed by the auditor. Researchers (Hun-Tong & Terrence, 2003) have found that the existence of a well structured audit committee, had a positive influence on the opinions expressed by the financial auditor and on its relationship with the representatives of the company audited, in the process of corporate governance.



In order to illustrate the trends occurring in the process of implementation and improvement of ethical principles of the financial audit, within Chapter 3 we considered necessary to perform an empirical study in which we have analyzed the evolution of topics covered in the main audit journals both at national level - Revista Audit Financiar, as well as at a European level - International Journal of Auditing. By analysing these publications over a period of 6 years (2005-2011) we found an exponential increase in articles that were raising series of questions relating to the faithfulness of the presented image, issues related to audit quality, the professional level and professional ethics in this field. A series of articles refer directly to audit reports on financial statements of companies that have had to suffer important losses from the financial crisis, stressing the importance of ensuring a high level in the ethics within the profession of financial auditors.

With the outbreak of the financial crisis, the authors of articles both in Romania and in Europe, analyse the issue of *independence in auditing, and hence how to respect the ethical principles of auditors. This means an increase in concerns about professionalism and quality of auditors, due to cases of bankruptcy of companies in banking and financial sectors.*

Under Chapter 4, for exemplifying the way in which financial audit reflects a company's activity, we carried out a study of the audit reports on the financial statements of one of the largest companies in Romania - OMV Petrom, for a period of 6 years. The ultimate goal was to trace the evolution of information provided every year by the audit report (audit opinion) and to analyze the manner in which the opinion of the audit report was influenced or not by the evolution of the main economic and financial indicators.

Even though the financial auditor of OMV Petrom maintained a favourable opinion on the evolution of the company's financial statements, a closer examination of the figures from different positions of the financial data suggests that the first part of the studied range a deterioration of several financial indicators occurred, which normally would have had to raise questions to the auditor, as this development is not a natural one. However the audit reports of the analysis period do not contain any additional explanations for maintaining a favourable opinion, without any reservations. This situation shows that the opinion expressed by the auditor through the report, is not, or

does not seem to be correlated with data contained in certain financial circumstances (financial position), and therefore automatically this financial audit report is not a mirror of the economic activity carried out by the company being audited, but possibly just one (more) source of information.

To achieve this goal, we express our a modest opinion, that it is appropriate for the empowered national bodies, but primarily for the Romanian Chamber of Auditors, to manifest concerns demanding pursuits, both in collaboration with experts from the European Union and in the world, as well as the permanent and operational improvements of the regulatory framework of the financial audit of our country.

A matter of novelty in audit is effective supervision by the public of the profession of audit as a critical element in maintaining and increasing confidence in the function of audit. The current lack of confidence is partly based on the public's perception that a self-regulated profession leads to the emergence of serious risks caused by conflicts of interest in solving the problems which arise. Therefore, ensuring the credibility of the financial audit as an element of public supervision of economic entities is crucial. But, those who govern the public oversight system should have sufficient knowledge in the field of accounting and audit.

From all these considerations, it can come off the idea that the countries that have joined the European Economic Community, as well as the accession countries, comply with and implement the guidelines imposed by the Community *acquis* relating to financial auditors' professional conduct.

Thus, the existence of financial audit in the Romanian economic landscape leads to the obvious improvement in performance of economic entities, to streamline work, reduce costs, and avoid losses arising from fraud or from insufficient exploitation of the resources of the firm.

In terms of the ethics of the profession of auditor, the mission of the ethical code is to guide the manner of exercise of the profession in terms of rights and duties of the members of the profession and in their relationships with customers and with the public. This profession has common values which can be summarized as follows: *mastery of specific intellectual abilities* obtained by learning and maintaining professional training,

*compliance with the values* laid down from the professional body (discipline), *recognition of the duty* to the public as a whole.

Above self-interest, the accounting professionals must turn their attention to the general interest and the quality of the services they provide.

The role of serving the economy should not be contested and must be recognized by all actors participating in economic life: from customers, governments to investors, actors who show a particular interest for quality, and financial transparency. Conflict of interest can occur frequently when the financial auditors also offer related services to the economic entities audited. Therefore, examination by specialists would be necessary for this issue to decide if further measures are required, which can lead to total prohibition for an auditor to provide non-audit services to its customers.

In the event of non-compliance with the code of ethics and professional conduct disciplinary measures should be stricter and lead to withdrawal of authorization of the auditors or audit firms.

During the last years, the profession has been confronted with numerous problems, in particular because of financial scandals which are known all over the world, and who imposed the measures designed to strengthen the control of its members.

Beyond the difficulties, the promotion and adoption of broader international rules ensure professional integrity. Taking into account that the work carried out by the auditors ensures a competent and independent control of the public authority and the entity assets, it is necessary to increase the role of external financial audit in the Romanian economic environment and shaping of responsible and morally indisputable professionals.

The fact that financial auditors, through their opinion authenticate and legitimate financial statements and information provided by entities patrimony, presents a guarantee to foreign investors required for them in order to place their capital on the Romanian market.

As a result of the research carried out, we consider that a number of measures aimed at increasing the interest of the Romanian economic agents are necessary for the opinions expressed by auditors, and to increase the demand for financial auditing services, among which:

- establishing systems of remuneration of auditors, which take into account their high professionalism and the need of being independent and objective;
- encouraging, through legislation, the free practice of the profession and a particular protection from the state bodies, especially in situations of *interest games* which have arisen in the course of audit activity;
- proper sizing of the objectives and scope of expansion of financial audit work so as to ensure the independence of the statutory auditors;
- better communication between the financial auditors and the audited entities' managers;
- in developing the work of synthesis and financial audit reports, taking into account the information to be correct, legally documented, thus providing the security necessary to the business partners of the entity audited.

The financial crisis and globalization change the world in a dramatic way, which implies an overview of how the economic environment will look like in the future. Management companies should be able to understand how this new environment will have an impact on the risk profile of the company, as well as the viability of its strategy and business model. At the same time the auditors must abide at all times to the principles and rules of International Financial Reporting Standards (IFRS), given the potential scope and scale conversion.

Certification of the information provided by auditors is, without a doubt, truly significant, but for knowledge of a general diagnosis of the unit it is necessary to consider a deeper analysis of the economic environment, of the external factors effecting the activity, but at the same time to operate a system of reporting, which should contain actual information related to accounts, in other words, the existence of a powerful financial management to ensure that shareholders and the public offer a representative image of the economic reality.

The national and the international economic environment currently pass through a series of radical changes, and shortcomings in the accounting systems used are one of the causes of these changes. Global economic interests involve finding solutions through which the accounting profession as a whole, and the auditor in particular, should meet

again information needs of all categories of users, or in other words to "restore credibility".

In Chapter 4 we presented the audit process stages, its role in the prevention of fraud and in ensuring a higher degree of utility and relevance of the information provided to the audited entity's management or to the general public, as well as the links between financial audit and corporate governance, expressing an opinion that an awareness of the need to increase the quality of corporate governance in audited entities should contribute to increase the quality and relevance of the information supplied by the auditor through the audit report. Here we also presented the opinion that in the future **financial audits should become an audit of performance**, which in addition to a certification of the financial statements should respond to two stringent questions for most people who want to find out more information about the activity of entities (shareholders, investors, financial institutions), namely:

1. Did the company's management make a quality work?
2. Have the best decisions been made in achieving the objectives of the entity?

By responding to these questions in an accessible language and detailing any components that may raise question marks, which is not easy in the current economic climate, financial auditors, who have become performance auditors could bring confidence to the general public, and could be able to provide a more complete picture, closer to reality of the direction in which the economic entity is heading. The audit report will become a mirror of the economic entity, a business support in economic decision-making, for the entity's management, shareholders and investors, analysts and financial institutions.

Based on these aspects we have considered necessary to develop an empirical study under Chapter 5, which should indicate more precisely how the various categories of users of the information provided by the auditors (financial analysts and investors, CFOs, auditors, members of the academia), understand that information and use it appropriately in economic decision making. The survey was carried out using questionnaires, drawn up in accordance with the international research methodology on these topics.

In the following we will present the main conclusions reached following the completion of the study:

- in the opinion of the group of investors and financial analysts who participated in the study conducted, audit is too standardized, and audited financial statements have a low degree of confidence in the decision-making process of the audited company. Also, in their opinion, financial statements do not give a true and fair view of the company, and the ethics in the profession of auditors is relatively low;
- As opposed to the group of investors and financial analysts the CFO respondents do not consider audit reports have a too standardized character, their subjective load is reduced and the importance of these reports for management companies is high. An interesting aspect of the group's responses showed that this group of respondents is estimating that the purpose of the audit report is not fully understood by the users;
- With regard to the auditor respondents to the study, they believed that audited financial statements confer a high degree of confidence in the decision-making process, that is to say a true and fair view of the company, and the audit process is not too standardized;
- Respondents from the academic consider that the audit report does not have a too standardized character, the degree of subjectivity being rather low and having an important role in the decision-making process.

Summarizing we can say that the analyzed groups:

- There are no major differences of perception between professional groups (financial analysts and investors, financial managers, financial auditors, members of the academic environment) for the concept of financial audit;
- The other two groups consider that audit reports have a too standardized character and cannot be easily understood by the users.
- All the samples of the groups analyzed have stressed the need for permanent deployment to improve the quality of the work of auditors, as well as ethical standards, in order to restore the auditor profession and to increase confidence in the quality of financial statements drawn up by the

companies. This could play a part in restoring the confidence in the world economy, and could lead to a recovery of the economic environment.

The author of this work considers that, in the present economic context, on the basis of results obtained from this empirical study, it is necessary to reinvent and to adapt the concept of financial audit, and implicitly of the information contained in the report of the financial audit. The public becomes more and more interested in the connections of companies to other companies or financial groups, which through their actions could lead to negative developments of the entity being analyzed.

Financial audit and the manner in which the report of the financial audit is conducted at present does not provide users a mirror of the economic activity but represent only one of the sources of information for the users.

The contributions of this thesis to the research are as follows:

- It presents the importance of providing quality accountancy, to be certified through the audit report so that their users can have an accurate picture of the situation of the company being audited;
- It reviews the main professional bodies and regulations on audit in the countries with the most representative results in audit activity, including Romania;
- It shows the relationships between the main concepts used within the financial audit process;
- it proposes a rethinking of the concept of censoring, through its acquisition in audit;
- It presents a possible future model of development for the profession of auditor in the context of the current financial crisis;
- It identifies a series of differences between perceptions of those who carry out the audit report and its end-users, with respect to audit activity and in particular as regards to the information provided by external auditors through the audit report (expectation gap);
- It emphasizes the critical role of audit in the company as an element of certification, designed to give confidence to participants in the economic life;

The current economic crisis has an atypical pattern, being caused by an indebtedness of companies, based on a series of extremely optimistic scenarios on future developments in the economic environment. Those optimistic scenarios, in combination with a number of financial investment products (derivative), whose regulations and use we consider that have been limited, but can offer substantial gains, led to the emergence of the crisis and later to the bankruptcy of financial institutions and banks. Unfortunately, this type of extremely optimistic conduct prevailed and at national levels, which, in their sustained economic increases have steadily increased public indebtedness without a proportionate reflection in the real economy for these loans. In this context we believe that the same policy and principles of thrift and healthy growth of the companies must be taken at the state level, in order to ensure a return to economic growth, on a solid basis. Financial audit was not able to adapt its means of work to identify those aspects of its financial statements, which carefully examined could raise questions about the ability of financial statements to reflect as representative a picture as possible of the economic activity carried out.

The major challenge for the accounting profession, and in particular for the auditor, is to establish and develop accounting regulations and auditing standards in such a way that in the medium term to re-establish trust in view expressed by external auditors in connection with the carrying out of an audit. This requires a concerted effort of all the institutions involved, regardless of the geographical location in which they operate, because the dimensions of the current crisis requires a global solution with application-specific to different areas or countries.

We believe that in the absence of joint efforts of all factors involved, the risk of irreparable damage in confidence in the economy and the factors that should ensure its proper functioning - auditors, professional organizations, banking systems, and ultimately national governments, may give rise to a series of street protests and to the establishment of a status of anarchy.



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