

## CONCEPTUAL APPROACHES TO COMMUNICATION IN THE AUDIT OF FINANCIAL STATEMENTS

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### Abstract

The purpose of this paper is to present some aspects of communication in the activity of financial accounting audit. Audit builds on two pillars: reporting and communication. The audit report is the main means of communication between the auditor and the users of the audited financial statements and undergoes significant global transformations. The end result is a new and improved audit report that provides more transparency on the important aspects of the audit and better describes what the audit is and what the auditor does.

**Key words:** governance, auditor, international audit standards, annual financial statements, communication.

The present document is arranged so that it can financial audit is a process that involves collection of items followed by an evaluation of the evidence on which the opinion of the financial auditor is based, according to predetermined criteria.

The financial audit refers to the statements made by the entity's management statements that may be included in the financial statements and which correspond actions that have occurred or are likely to cause significant changes in management's statements (Boynton W. C., Hohnson Raymond N., 2006).

The purpose of financial audit is to improve users' confidence in the information provided by the financial statements.

This is achieved by expressing an opinion by the auditor that the financial statements are presented fairly, in all material respects, or provide a true and fair view in accordance with a applicable financial reporting framework.

For this, financial auditors collect evidence that supports the opinion (Dănescu T., 2007).

Expressing an opinion on the accurate presentation of the information in the financial statements results in associating the name of the financial auditor with the financial statement in question.

If it is subsequently proven that the financial statements don't present a true and fair view, then the financial auditor may need to demonstrate that

audit was appropriate and the conclusions are correct, according to presented evidence.

The Financial Auditor isn't an absolute guarantor of fidelity on financial statements, but he is responsible for opinion expressed on basis.

Evidence collected so as is properly inform the users of the financial statements about the correctness of the information contained therein.

In order to perform the financial audit - in order to manage the financial audit engagement well, to facilitate the division of tasks between the members of the audit team, the accounting split of the financial statements.

Each part is treated separately but also correlated with the other (eg fixed asset audit correlated with the audit of payments made for fixed assets).

There are several ways to fragmenting the accounting cycle (Loebbecke A., 2003), such as:

✓ different treatment of each balance in the financial statements. It is not very effective because it addresses the separate auditing of balances that can be closely correlated with each other;

✓ treatment by categories of transactions and closely related balances - Cycle method.

The segmentation is based on how the operations are recorded in journals, in the large book, in the financial statements (Florea I., Florea R., Macovei I.C., Berheci M., 2008, Standarde de audit intern, 2005).

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## MATERIAL AND METHOD

This study is a synthesis evolution of audit concept focusing primarily on the audit report and the methods of communicating the information provided by the financial statements

## RESULTS AND DISCUSSIONS

The overall objective of a financial audit is to provide assurance that financial statements examined are complete and accurate and that the economic operations have been performed in accordance with the relevant laws and regulations in force.

Achieving this goal under conditions of absolute certainty, even if it is feasible, involves expensive activities.

To reduce these costs, however, there is a possibility to carry out the tests based on tests. In this context, the auditors, through their reports, seek to provide reasonable assurance - not absolute assurance - that the financial statements examined are complete and prepared in accordance with the relevant laws and regulations in force.

In order to perform an effective audit, financial auditors need to understand the management's statements in the financial statements so that they can analyze them, compare them with the default criteria. In fact, the financial auditor has the primary responsibility to determine the fairness of the financial statement management statements, which is why the financial audit objectives are closely related to the management's statements in financial statements

The objectives of the financial audit provide auditor with a reference framework, guidance in the planning and orientation of the audit, the same for auditing all structures of the financial statements, but the evidence is different depending on the circumstances.

Financial auditors collect evidence of the turnover of the operations that make up the cycles but also of the composition of the accounts balances in order to provide a reasonable assurance of the audited financial information.

Even if the original balance of the accounts has been audited, it is necessary for the reasonable assurance that the entity's operations are reasonable assurance that the financial auditor will examine, together with the operations carried out during the period audited, the final balances of the accounts in which those operations were recorded. For both the during of operations period and the balances of the accounts associated with the operations, there are several objectives of the financial audit which

it directs its activity to conclude at the end of the audit engagement.

In order to comply with reporting standards, the audit report must have the following features:

The audit report should be simple and use as clear a language as possible to make it easily accessible to recipients. If technical terms, abbreviations or acronyms are used, they will be defined in detail in a separate glossary

The report should be based on sufficient, relevant and robust evidence.

The scope of the audit, the methodology, the procedures and the findings must be described with precision.

Any inaccuracies in the audit report may have implications by creating doubts about the validity of the entire report or distracting attention from important issues.

The report should include all the information necessary to ensure understanding of the audit findings (Dobroțeanu L., Dobroțeanu C., 2002).

According to the International Standards on Auditing INTOSAI, the audit report must be "independent, objective, loyal and constructive". The impact of an audit report is significantly higher when audit evidence is presented in an objective and impartial manner.

The existence of any conflict of interest with the audited entity may create suspicions and may affect the credibility, independence and objectivity of audit reports, auditors involved, and the institution itself.

The audit report must be convincing and credible. The information provided will be sufficient and relevant to convince its users of the reality of the findings, the reasonableness of the findings and the beneficial character of the implementation of the recommendations. (Accounting International Standards Board, 2005, Audit financiar 2006. Standarde. Codul etc)

The audit report should only include findings that are supported by sufficient and relevant audit evidence.

The auditor will ensure that his / her opinion and findings are expressed accurately and without the possibility of erroneous interpretation. For this purpose, it is recommended to use standard formulas that have a generally accepted content and meaning. The report must have a logical structure and the facts and conclusions must be presented with precision.

The right subtitles make the report more accessible and easier to understand. Tables, charts, and charts will be used to synthesize complex information.

The audit report should be concise and contain only matters relevant to the scope of the

audit without including insignificant details that may affect its accessibility and credibility.

After the completion of each audit, the auditor prepares a written report in an appropriate form. This includes, in particular, the findings, conclusions, recommendations and, possibly, an opinion on the financial statements.

The report must include a statement that the audit has been planned and conducted to obtain reasonable assurance that the financial statements give a true, true and fair view and do not include material misstatement or misstatement.

This section will also include a statement from the auditor stating that the audit conducted provides a reasonable basis for opinion.

In our country the problems related to the auditing of the annual financial statements as well as the auditors' communication obligations are found in the accounting law and in other normative acts (Horomnea E., 2008, 2010).

All these provisions lead to an understanding of the issues of the audit communication process.

The annual financial statements must be accompanied by a written statement by the directors, under which they assume responsibility for the preparation of the financial documents, thus confirming that the accounting policies used in the preparation of the annual financial statements are in accordance with the applicable accounting regulations, the legal person carries out its activity under conditions continuity and the fact that the financial statements provide a true picture of the financial position and performance of the firm establish and communicate to those persons, from the beginning of the mission, the related issues for expected content of the communications and their placement in time.

The International Auditing Standard (ISA260) communicates with the persons in charge of governance issues to improve the communication process between the auditor and those charged with governance (Barry J. Epstein, A. A Mirza, 2005)

The participating parties should discuss the purpose of the communication, the forms in which of communications will be made, the persons who will make the communications as well as the auditor's expectations regarding the reciprocity of the communication and the fact that they will be communicated relevant aspects for the audit and not the way action and reporting on issues communicated.

The four aspects of communication are (I.C. Chersan.2013):

#### 1. The auditor's responsibilities for the audit

of the annual financial statements.

The information communicated relates to:

- the responsibility of auditor is to perform the audit in accordance with international standards for express an opinion on the financial statements

- the responsibility of auditor is to communicate certain aspects provided by the law or the regulations in force, in agreement with the economic entity.

#### 2. Plan and timing of the audit

The communicated information aims at:

- applying the significance threshold concept in the context of audit

- how the auditor proposes to address the risks of material misstatement either as a result of errors or fraud

- the extent to which the auditor will use the internal audit activity

- the auditor's approach to internal audit relevant to the audit

#### 3. The independence of the auditor

The information provided is the following

- the statement that the mission team or other persons within the company and entity respected the ethical requirements relevant to the dependency

- all aspects between the firm and the entity that could have an impact on independence

- protective measures that have been applied to eliminate identified threats to independence or to reduce them to an acceptable level

4. The important findings of the audit are highlighted in 4 subgroups:

##### a. on accounting practices

- identifying the items in the financial statements that are affected by the choice of a significant accounting policy

- the effect of significant accounting policies in controversial or emerging areas

- the effect of placement over time and the adoption of a change in accounting for the entity's current and future income

- the effect of timing transactions in relation to the period in which they are recorded

##### -b. on disclosures in financial statements

- the neutrality, clarity and consistency of the presentation of the information in the financial statements

- the issues involved and the rationale used to formulate particularly sensitive presentations in the financial statements

- c. with a view to accounting estimates the process adopted by management in making accounting estimates

##### Signs of significant denaturation

##### d. on other issues

- the effect on financial statements of significant risks and uncertainties

-the way in which the factors affecting the accounting value were selected and how the selection of some alternative factors would have affected the financial statements

Selective correction of distortions (Toma M., 2007)

-if the financial statements are affected by unusual transactions and if such transactions are disclosed separately in the financial statements.

I may also be subject to discussions or correspondence with pregnant persons such as:

-concerns about management consultations with Introduction.

other accountants on accounting or auditing issues

-the initial designation of the auditor, fees for audit services or other services

-business conditions affecting the entity, as well as business strategies that may affect the risks of material misstatement.

-communication may be in written form, if the audience considers verbal communication to be inappropriate without making it mandatory for this communication to include all aspects of the audit.

## CONCLUSIONS

Timely placement of communication depends on the significance and nature of the aspect to be communicated, the possible action of those charged with governance, their expectations, the control environment, the legal obligations of communication, and the timing of the auditor's identification of the issues will be the subject of communications

If the communication was inappropriate without the situation being resolved, the auditor should proceed with the appropriate ISA 260:

- change his mind

- get legal advice

- communicate with third parties

- to withdraw from the mission if possible

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