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FINANCIAL STATEMENTS – OBJECT OF THE FINANCIAL AUDIT

Emilia VASILE, PhD Professor
Athenaeum University, Bucharest, Romania
rector@univath.ro

Ion CROITORU, PhD Associate Professor
Atheneaum" University of Bucharest, Romania
ion.croitoru.ag@gmail.com

Abstract: *Financial information is useful both inside the organization (management) and outside it (customers, suppliers, creditors, banks, investors, etc.), which plays an important role in making financial, managerial decisions and the development of a business. Currently, the demand for relevant and real financial information is increasingly stringent, and access to correct and relevant information is in many cases hampered by misreporting. The financial statements must present a true and fair view of the assets, liabilities, financial position, financial performance, cash flows, results of the management of the resources and the profit or loss of an economic organization. The purpose of the financial audit is to examine the financial statements of an organization and to express a responsible and impartial opinion on the true and fair view, ie whether all transactions and economic transactions underlying the recording of information in the financial statements are accurate and consistent. the legal provisions in force. In this regard, the financial audit is responsible for providing management information to the organization to assist it in making decisions and optimizing them, to evaluate the operations and economic transactions carried out by the organization and to implement corrective measures to eliminate existing malfunctions, as well as to to issue an opinion on the reality of the financial statements issued by the organization.*

Keywords: *financial audit, financial auditor, financial activity, financial information, audit risk, financial statements, users of financial information*
JEL Classification: *M40, M41*

Financial statements - summary documents of the financial activity

The financial statements are official documents presenting the situation of an organization's assets, prepared in national currency, according to the legal regulations in force and which present the financial position, financial performance and cash flows. Based on these documents, users obtain financial-accounting information about the organization, necessary for decision making. The financial statements contain the balance sheet, the balance sheet income statement, the statement of cash flows, the statement of changes in the structure of assets / capitals, annexes to the financial statements, the budget execution account.

The balance sheet shows the assets, liabilities and equity of the organization at a given time (the date on which it is closed). Current assets and liabilities are presented separately from non-current assets and liabilities. Equity called net assets is determined as the difference between assets and liabilities. The balance sheet includes information on the structure of the elements that generated that result, namely the statement of income, financing and expenses during the current year.

The statement of cash flows includes cash flows from operating activities, cash flows from investing activities and cash flows from financing activities. The statement of changes in the structure of assets / capital includes information on the structure of equity, influences resulting from changes in accounting policies, influences resulting from revaluation of assets, calculation and recording of depreciation or correction of accounting errors (Order of the Ministry of Public Finance No. 2876/2019).

The annexes to the financial statements include the accounting policies and explanatory notes that contain information not found in the financial statements.

The budget implementation account contains financial transactions relating to revenue received and payments made.

The main data source for the preparation of financial statements is accounting, which is the basic tool for knowledge, management and control of assets and results obtained by an organization (Feleagă & Ionaşcu, 1998) and which has as general objective of prepare and prepare financial statements.

The role of the financial audit is to issue an opinion on the financial statements or of some of their components, respectively if the economic operations that were the basis for the elaboration of the financial statements are correct and in accordance with the provisions of the law. The financial audit also gives users confidence in the accounting information and ensures that the accounting information is processed and presented in accordance with generally accepted accounting regulations and standards.

The financial audit verifies and certifies the financial information, on the one hand, in order to issue an opinion on the reality of the financial statements, and on the other hand, in order to protect the assets and ensure the credibility of the information provided.

The information in the financial statements, in order to be credible, must be validated or compiled in accordance with generally accepted accounting standards and principles and be certified by financial auditors.

Fidelity of financial statements - object of financial audit

Financial reporting provides financial information about an organization's economic situation. This information made available to the various investors, lenders or creditors may make decisions as to whether or not it is in the interest of the organization concerned. Those decisions may relate to the purchase or sale of capital, debt, the provision or settlement of loans or other forms of credit.

The regularity and sincerity of the financial statements are not enough to give a true and fair view of them. In this situation, the strict application of the rules and the sincerity of the financial statements provider fully ensures the objective of a true image (Toma, 2012).

In this context, the professionalism and sincerity of the persons responsible for the preparation of the financial statements, as well as of the persons who endorse and approve the financial information, also contribute to achieving the objective of a true image.

Financial auditors, if they monitor and evaluate whether the regulations in force are correctly applied, become responsible for the veracity of the information contained in the financial statements, which leads users to trust that they use complete, verified and certified information. If the information is not complete and correct, users, through the decisions taken, may record losses (Rittenberg & Schwieger, 2005).

The financial auditor who evaluates the financial statements prepared in accordance with IFRS, in order to ensure the efficiency of the audit activity, respects the risk-based approach. They direct their audit work towards key, significant risks, where the probability of errors in transactions and account balances is high or if the risks are distorted in the financial statements is significant.

To be credible, the information in the financial statements must be validated in accordance with generally accepted accounting standards and principles. It entails professional responsibilities, compliance with the code of ethical and professional conduct in the field of financial audit, as well as carrying out the financial audit mission independently and in compliance with the relevant ethical requirements.

The financial auditor, in carrying out his mission, assumes that the responsibility of the organization's management is to prepare and present the financial statements in accordance with the financial reporting framework, and the financial auditor's responsibility is to formulate and express a correct opinion on the financial statements. In this regard, it collects and evaluates evidence and expresses its opinion on the sincerity of financial information, as well as on the clarity and completeness of assets.

In conclusion, it can be considered that the financial audit is an examination of the financial statements of an organization by an independent professional, who formulates a responsible and impartial opinion that economic operations and transactions are fair and in accordance with the law.

The role of the financial audit is also to give users confidence in the accounting information and to ensure that it has been processed and presented in accordance with generally accepted accounting regulations and standards.

Audit risk in auditing financial statements

In order to improve the quality of the accounting information provided by organizations, it is important that users of this information also have an overview of the risks to which the organization is exposed and the measures to manage them (Vasile & Croitoru, 2018).

Audit risk, in the practice of financial audit, is inevitable and represents the risk that the financial auditor will formulate a wrong conclusion, but which he assumes. According to international auditing standards, audit risk can have three components: inherent risk, control risk and non-detection risk.

The inherent risk is the likelihood that an account balance or a category of transactions will contain a misstatement that could be material, individual or cumulative with the misstatements in other balances or categories of transactions, assuming that there were no adjacent internal controls.

Control risk is the risk that a misstatement, which may occur in the balance of an account or in a category of transactions and which may be significant individually, or when combined with other misstatements in other balances or categories, it cannot be prevented or detected and corrected in a timely manner by the accounting and internal control systems. Undiscovered risk is the risk that an auditor's substantive procedures will not detect a misstatement that exists in the balance of an account or category of transactions and that could be significant individually, or when combined with misstatements in other balances or categories of transactions.

It often happens that the management of the organization deliberately chooses to omit some significant financial aspects or even to apply accounting policies that misrepresent information in the annual financial statements. This practice is known as creative accounting in the literature and accounting practice and is generated by certain deficiencies or ambiguities of accounting norms or standards (Shah, 1998).

Generally, creative accounting occurs when managers, who have knowledge of financial reporting and structuring operations, manipulate financial statements in order to mislead certain stakeholders about the organization's financial performance or to influence some contractual results that depend on the figures. reported financial. This practice affects users of financial information by providing incorrect information.

During the financial audit mission, greater attention should be paid to increasing the credibility of the information contained in the financial statements and significantly reducing the risk of misrepresentation. The financial auditor must maintain an attitude of professional skepticism throughout the audit, apply audit procedures that are effective in detecting errors and fraud, and carefully verify accounting documents and records to ensure their authenticity.

The contribution of financial audit to improving financial statements

Users of financial information have access only to published financial information, and their decisions depend on the accuracy of the reported financial statements. In many cases the reported financial information can be manipulated and its users misinformed.

In these situations, users of financial information rely heavily on financial audit, which aims to reduce the risk of information and to verify and certify financial information. The financial auditors shall verify the information received from the organization and ensure that it does not contain elements of fraud or error.

Thus, we can appreciate that auditors do not have a direct influence on economic risk, but they have a significant influence on information risk (Oprean, 2010).

Improving financial audit practices is necessary and useful because, together with a modern accounting system, they can withstand economic crisis situations that may affect the global economy. The financial audit identifies inconsistencies in the conduct of activities and their causes, and through corrective and preventive measures applied, can avoid non-compliance and keep under control the processes carried out by the organization.

An organization with a weak internal control system is exposed to major uncontrolled risks, while an organization that has implemented an effective internal control system has identified and maintained significant risks within acceptable limits, a situation that leads to credibility, profit and competitiveness. the market in which it operates.

The financial audit must progress in relation to the changes that affect economic life, to anticipate, prevent and provide explanations and recommendations to the problems that the organization, with which it has a committed commitment, faces.

According to international auditing standards, the value of an organization is given by customer relations, employees and innovation, operational performance, intellectual property, brand reputation and the organization's chain and distribution lines (IFAC, 2015).

Non-financial aspects are not included in the financial-accounting reports. The financial statements are based on maintaining and increasing transparency and investor confidence and less on adequate and sufficient information on the activities carried out. Under these conditions, the financial-accounting function must be efficient and contribute greatly to the success of the organization, respectively to provide a credible perspective, a performance analysis, a risk management, an efficient communication, as well as trust, integrity and professionalism. (IFAC, 2019, A Vision for the CFO & Finance Function). The demand for relevant and real financial information is increasingly stringent, and access to accurate and relevant information plays an important role in the development of an organization. The financial information must provide a complete, real and accurate description of the economic activities carried out by the organization.

Despite all the efforts made by the bodies responsible for accounting, to increase the quality and transparency of financial information, there are still some practices of improper application or even willful breach of the rules.

In these situations, the role of the financial audit is essential, it must professionally verify the information provided by the organization, as its reputation, integrity, sincerity and objectivity may be jeopardized. If the financial auditor violates these fundamental principles that govern their work, the result is a lack of trust in users in the quality of the information provided.

The persons interested in the financial audit report are represented by creditors, governments, employers or employees, investors, the business community, etc., and they are based on the objectivity and integrity of financial auditors in formulating their opinion on the quality of financial information provided by the organization.

An essential role in ensuring the reputation of financial auditors is generated by the good preparation, the quality of the work performed, their integrity and objectivity manifested in professional practice, as well as compliance with current legislation, application of relevant standards and directives issued in this regard.

Improving the financial audit report contributes to the relevance of the information contained in the financial statements and to increasing the level of transparency, which allows users of financial information to better appreciate the value of the financial audit.

Conclusions

The financial auditors in their work have the responsibility to correctly apply the regulations in force and the standards of good practice, in order to become guarantors of the veracity of the information provided by organizations and to contribute to increasing users' confidence in reported financial information. The financial auditors respect the risk-based approach in auditing the financial statements, which ensures the efficiency of the audit activity. The objectives of the financial audit mission are aimed at high-risk, significant activities, where errors in transactions and economic operations may lead to distortions of the financial statements.

By applying specific audit procedures and techniques and respecting the general principles of financial audit and code of ethics, the financial auditor can reduce audit risks and help increase users' confidence in using complete, verified and certified information.

In addition to the financial information contained in the financial statements, it is necessary for users to have access to forecast information. In addition, in order to improve the quality of the accounting information reported by organizations, users must have an overview of the organizational risks to which the entity is exposed, including the management measures applied.

The responsibility of the financial auditors is to ensure that the accounting information of the financial statements of the audited organization is true, given that on the basis of this information external users make various decisions that may affect them. In this context, the improvement of financial audit practices is necessary and useful, and financial auditors should show an attitude of professional skepticism, especially in situations where they find errors and inconsistencies in the conduct of audited activities.

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