

THE ACTIVITY OF FINANCIAL AUDIT IN ROMANIA

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Abstract: *In a market economy in the midst of the globalisation era, being in a continuous evolution and being influenced by all the modifications which take place world widely, from an economical, political, social and technological point of view, the activity of financial audit is used as an instrument for increasing the level of trust of the users of economic information, provided by the entities which produce these information. Worldwide, there are organisations of accounting profession, specialized in adapting it to the new requirements which appear in the society, for keeping and increasing the level of trust of the users of the information provided by the entities. Such an organisation is The International Federation of Accountants (IFAC) which, through its projects, identifies the areas which require improvements within the accountant profession, thus responding to the public needs. In Romania, the professional organisation which is identified with the activity of financial audit, being a member of IFAC, which has as objective the continuous development of the financial auditor profession, and which offers a high level of trust in the activity that they develop by assimilating the International Audit Standards, and the Code of Ethics of Accounting Professionals provided by IFAC and ensuring the assimilation of all legislative modifications which appear in the European Union, is the Chamber of Financial Auditors in Romania (CFAR).*

Key words: *audit, financial audit, statutory audit, CFAR.*

JEL Classification: *M42.*

1. Introduction

Participating in the market economy after 1989 and being a Member State of the European Union starting from the 1st of January 2007, Romania had to offer its own economy, the strings needed for being able to realize this adaption. Financial audit is one of the instruments necessary to be used within the market economy, being a relatively new profession for our country. This has been constituted through OUG 75/1999 concerning the activity of financial audit, the professional organization which manages this activity has been appointed, namely the Chamber of Financial Auditors in Romania (CFAR).

According to ISA 200, the purpose of an audit is to increase the level of trust of the users regarded in the financial reports (IAASB, IFAC, CAFR, 2016, p.81). By offering this service, financial audit becomes an important instrument in the economic relations, offering the insurance on the fact that the information provided by the entities which produce them are in accordance with their specific reporting frame.

The audit process is made by natural or juridical person legally qualified, named auditors who revise and evaluate in a professional manner, the information referring to a certain entity, using specific techniques and procedures, in order to obtain samples, named audit samples, through which the auditors have emitted a document called audit report and an independent and responsible opinion, using the evaluation criteria which result from legal regulations or from well practices widely approved in the domain in which the audited entity develops its activity (Todea and Stanciu, 2009, p.218).

For offering the highest level audit services, it is necessary for the audit organization to permanently train its members on all the modifications which appear in the profession world widely and at the European level.

The purpose of this scientific approach is to present the moment after which the Chamber of Financial Auditors in Romania was constituted, the main modifications which the profession bore from a legislative point of view but also as a result of revising the International Audit Standards and the code of Ethics of Accountant Professionals, and to provide an analysis of the activity that it develops based on the annual reports of activity which are posted on the professional organization's website.

2. Methodology

The methodology of the scientific research used for accomplishing the intended purpose, implies the presenting of the circumstances after which the Chamber of Financial Auditors in Romania was constituted, the modifications which took place within the profession, by consulting the specialty literature, but also presenting an analysis on the activity of financial audit by analysing the data offered by the activity annual reports of CAFR, pertain to 2009-2016.

3. Activity of Financial Audit in Romania

The activity of financial audit in Romania appeared and was influenced by the country's economical – political affiliations, respectively after 1989, the economy has gone from a centralized one, controlled by the state, at a market one. Due to this change, the modification of the legislation was necessary in order to bring to the new economy the needed instruments for being able to function within a market economy in the globalization era.

The first moment of enactment of the financial audit profession in our country took place based on the Decision of National Conference of CECCAR no. 3 from October 1995, when a paper entitled: *Financial Audit Norms and Certification of the Balance Sheet* (Berheci, 2010, p.275). Four years after the decision of the National Conference of CECCAR no. 98/24 of 27 January 1999, the National Auditing and Related Services Norms, in which the International Audit Standards are almost textually poached, published by the International Federation of Accountants (IFAC) (Florea et al., 2008, p.139).

Due to pressing need of external financing, in May 1999, Romania's Government asks the World Bank a loan for structural adjustment (PSAL I), destined to increasing the role of private sector in the economy. For doing this, Romania's Government engaged in implementing the accounting and audit standards internationally admitted, and in parallel it engaged in constituting the Chamber of Financial Auditors. Therefore, as a response to these requirements, the enacting of the financial audit in Romania is finalized in 04.06.1999, through the releasing of Government Emergency Ordinance number 75/04.06.1999 concerning the activity of financial audit (Dănescu, 2007, pp.33-34).

Once with the constitution of Chamber of Financial Auditors in Romania (CFAR), based on OUG no. 75/01.06.1999, the actual audit activity is enacted and coordinated by a professional organisation, separate by CECCAR. Its Provisory Committee has decided to assimilate the International Audit Standards of IFAC, as a base of implementation of the financial audit in Romania (Berheci, 2010, p.277).

As a result of Romania's adherence in the European Union the amortization of audit activity with the requirements in the domain at the level of community, took place.

In the European legislation, through the eighth Directive, lately replaced by the Directive 2006/43/ CE, is acknowledged a single type of audit – statutory audit (legal audit). Thus, the concept of statutory audit was introduced by OUG no. 90/2008 concerning the statutory audit of the annual financial reports and of the consolidated financial reports, therefore transposing in the national regulations, in the requirements of Community legislation (Lapteş, Popa and Dobre, p.810).

The last major modification at the legislative level was made through law 162/2017 concerning the statutory audit of annual financial reports and of the consolidated annual financial reports, and of modifications of certain normative acts, published in MO no. 548 from the 12th of July 2017. This fulfils the alignment of the legislation with the new requirements imposed by the European Union, respectively, the implementation of the Directive 2014/56/CE which modifies the Directive 2006/43/CE concerning the legal audit of the annual financial reports and of consolidated financial reports and of the Regulation

(UE) no. 537/2014 concerning specific requirements referring to statutory audit of the public interest entities.

CFAR, in this period, has translated and published each modified edition of the Code of Ethics of Accountant Professionals, and of International Audit Standards realized by IFAC, therefore, their last translated editions were the ones from 2015. The modifications brought upon the audit standards had usability along with the elaboration of financial reports in 31.12.2016. These modifications aim the auditor’s report, intending a more detailed presentation of the major aspects discovered by the auditor in auditing the financial reports and a more evident presentation of his responsibilities, being necessary in order to help the final users of financial reports for ensuring a more complex understanding of the auditor’s activity.

4. Analysis of the Activity of Chamber of Financial Auditors in Romania

A modality through which an analysis upon the activity of financial audit in Romania can be made is studying the annual reports of activity CFAR, pertained to the period 2009-2016, these being available on the Chamber of Financial Auditors in Romania’s website.

A first important indicator in the analysis of the activity of financial audit is the evolution of CFAR’s number of members, legal or physical persons, and trainees this being presents in the Figure no.1.

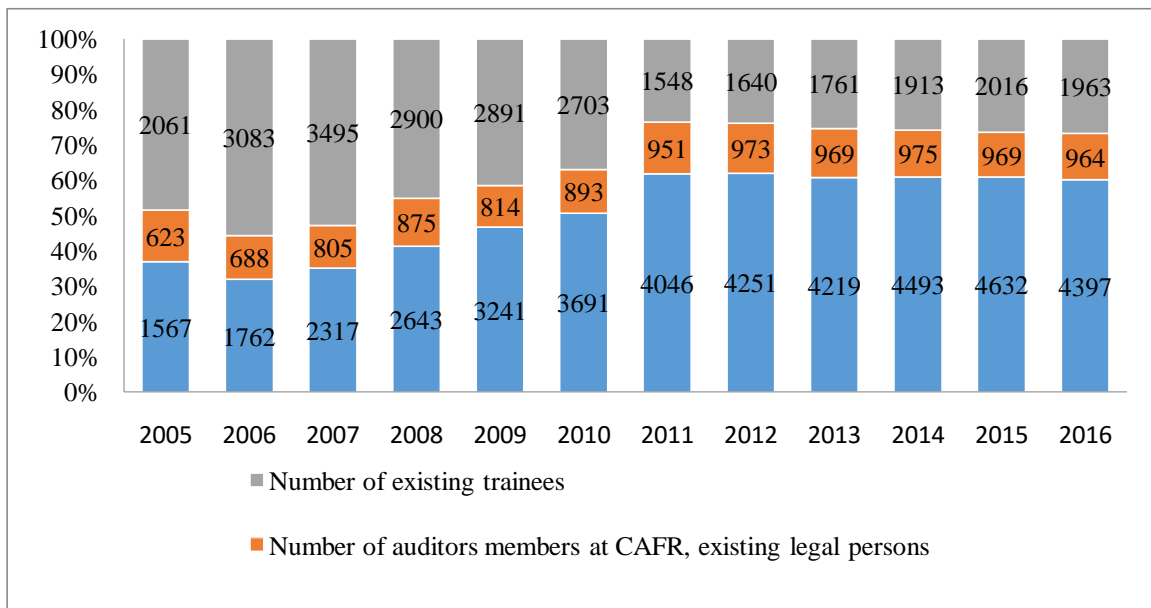


Figure no.1. Number of auditors members at CFAR

Source: Own processing based on CFAR’s Annual Reports 2009-2016, Chamber of Financial Auditors of Romania, 2018. *Professional education*. [online] Available at: <<https://www.cafar.ro/sectiune.php?id=491>> [Accessed 1 March 2018].

Concerning the number of the audit members, physical or juridical persons, we can observe a relatively constant increase along the analysed interval, respectively 2005-2016, 2015 registering the greatest number of CFAR members. Regarding the number of CFAR trainees, one can observe that 2005 – 2009 are the years when the most trainees have been registered, as reference being 2008 and 2009, thus reaching a number of 3000 trainees. In between 2010-2016, a smaller number of trainees have been registered, the greatest

number being in 2015. This evolution may be also owed to the fact that the profession is relatively new, and in this period, accountant professionals could observe the opportunities which come once with the affiliation to such a professional organisation. The market requirements for audit services have intensified as a result of Romania's Adherence to the European Union on the 1st of January 2007, but they may also be owed to the changes that took place in the Romanian economy for adapting to the requirements of a market economy in the globalization era.

After presenting the number of the chamber's probationers, another analysed important indicator, presented in Figure no.2, would be the status of the passing of the entrance examinations in the internship, but also the status of passing of the final examination, after which the probationers become financial auditors, CFAR members.

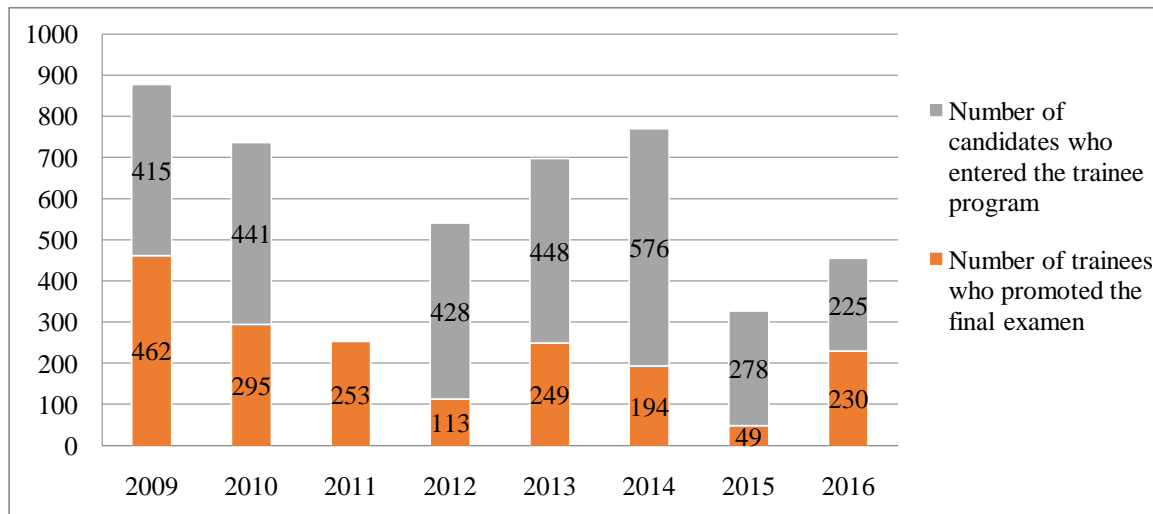


Figure no. 2. Exams passing

Source: Own processing based on CFAR's Annual Reports 2009-2016, Chamber of Financial Auditors of Romania, 2018. *Professional education*. [online] Available at: <<https://www.cfar.ro/sectiune.php?id=491>> [Accessed 1 March 2018].

In the analysed period 2009-2016, we can observe the fact that the greatest number of candidates which passed the entrance examination in the internship was registered in 2009-2014, and the years with the smaller number of candidates which have passed it was 2015 and 2016. The only year in which the report of activity developed by CFAR did not foresee this number was the year of 2011. Concerning the number of candidates who passed the final examination, we can notice that in the year of 2009 it was registered the greatest number of graduates, between 2010-2014 significant fluctuations have been registered among these, and in 2015 the smallest number of graduates have been registered, but starting 2016 it can be observed a much larger number of graduates as compared to 2015, increasing from 49 to 230. This thing is due to the probationers' training courses along the three years of the training stage as well as to the training corpus for this exam published by CAFR.

In each trimester, through the Monitory and competence Department of CFAR, a certain number of auditors are subjected to an inspection which considers the evaluation of the way in which the quality control is internally made, for ensuring the fact that the auditors respect the requirements of the chamber regarding the developed activity for providing some services with a high level of quality which are not to diminish the trust of the final users and not to damage the profession. Therefore, as a result of these inspections,

the auditors receive qualifiers, and in the case of Figure no. 3 there are presented the qualifiers obtained from the total amount of inspections realised during a whole year.

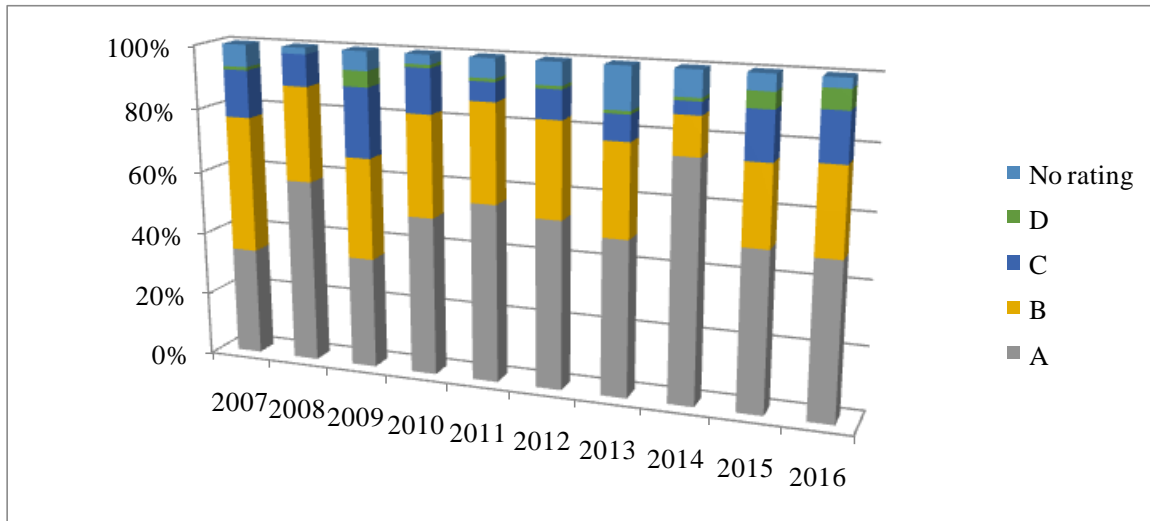


Figure no. 3. The percentage of qualifiers obtained from the total amount of the inspected auditors

Source: Own processing based on CFAR’s Annual Reports 2009-2016, Chamber of Financial Auditors of Romania, 2018. *Professional education*. [online] Available at: <<https://www.cfar.ro/sectiune.php?id=491>> [Accessed 1 March 2018].

Concerning the analysed period, respectively, 2007-2016, we can notice the fact that the most significant percentages from the total amount of obtained qualifiers are mainly the ones for the A qualifier, and then for B qualifier.

In the same time, in the case of inspections undertaken by CFAR, it is also important to analyse the total number of analysed auditors in this period. This situation is presented in Figure no. 4.

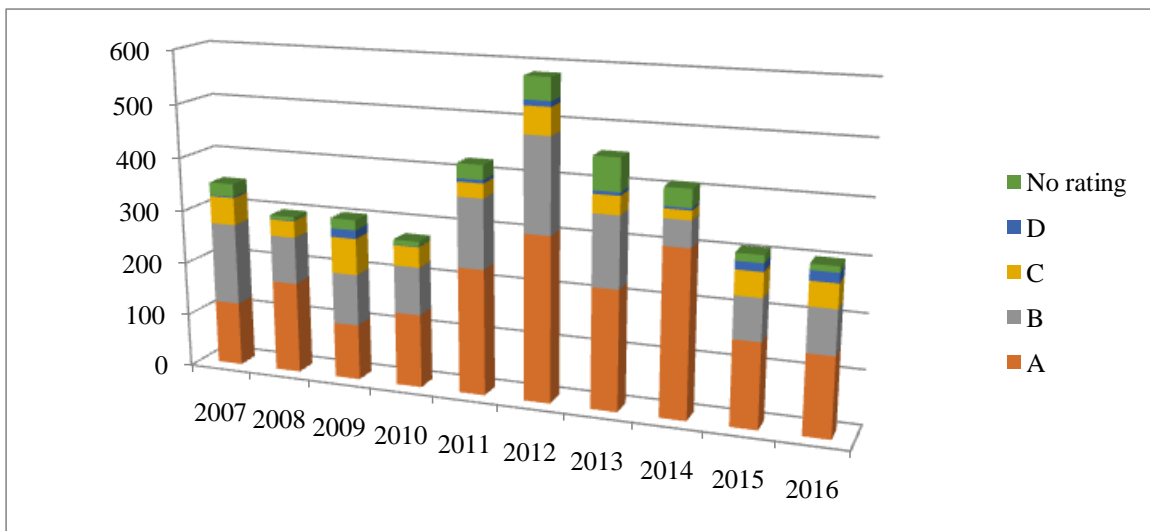


Figure no. 4. Number of qualifiers obtained from the total amount of inspected auditors

Source: Own processing based on CFAR’s Annual Reports 2009-2016, Chamber of Financial Auditors of Romania, 2018. *Professional education*. [online] Available at: <<https://www.cfar.ro/sectiune.php?id=491>> [Accessed 1 March 2018].

We can observe that from the total number of inspections, the most have been registered in 2012, and after this year, until 2016, a constant decrease have been registered. This depreciation was owed to the larger number of hours allotted for the verifications during the inspections, but also to modifications of revising norms of the activity developed by auditors, which have also anticipated the necessity of verifying the reasoning used by the inspected auditors for accomplishing the audit missions starting with the inspections made from the 1st of October 2016.

Another important aspect in realising this analysis is presenting the CFAR's patrimony evolution, and this may be seen in Figure no. 5.

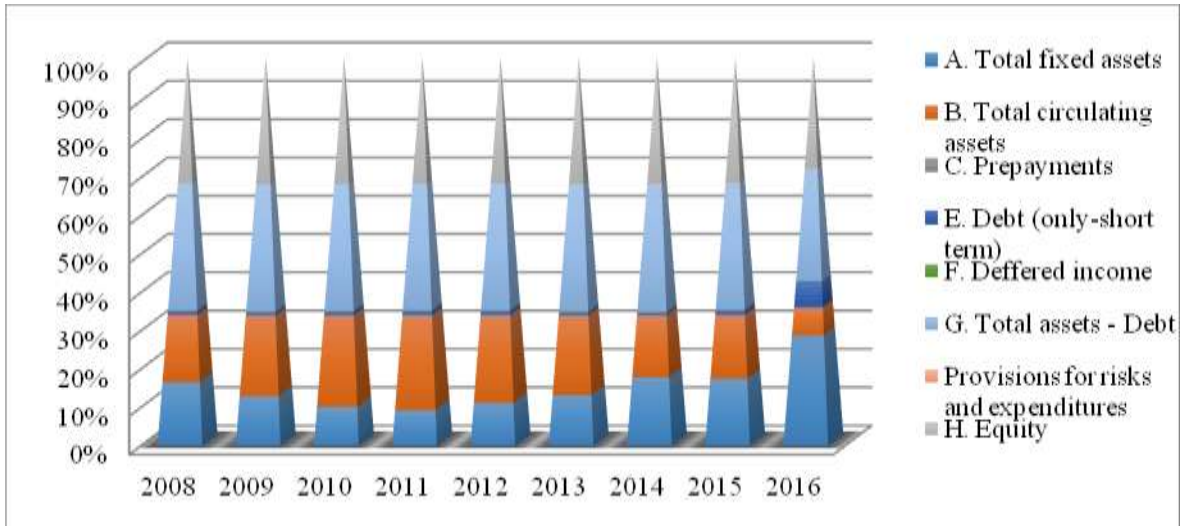


Figure no. 5. CFAR's patrimony evolution

Source: Own processing based on CFAR's Annual Reports 2009-2016, Chamber of Financial Auditors of Romania, 2018. *Professional education*. [online] Available at: <<https://www.cafr.ro/sectiune.php?id=491>> [Accessed 1 March 2018].

From the total analysed patrimonial elements we can observe the fact that the assets detain the most part. In 2008 the current and fixed assets register about the same values, then we can observe an increase of the current assets until 2011, and from 2012 a constant increase of fixed assets, registering the greatest balance in 2016. The smallest balance belongs to current debts, having a more significant percentage at the end of 2016.

An extremely important indicator in the reflecting the activity of financial audit in Romania is presenting the balance of the main types of incomes registered by CFAR, this being shown in Figure no. 6 in the period between 2008-2016.

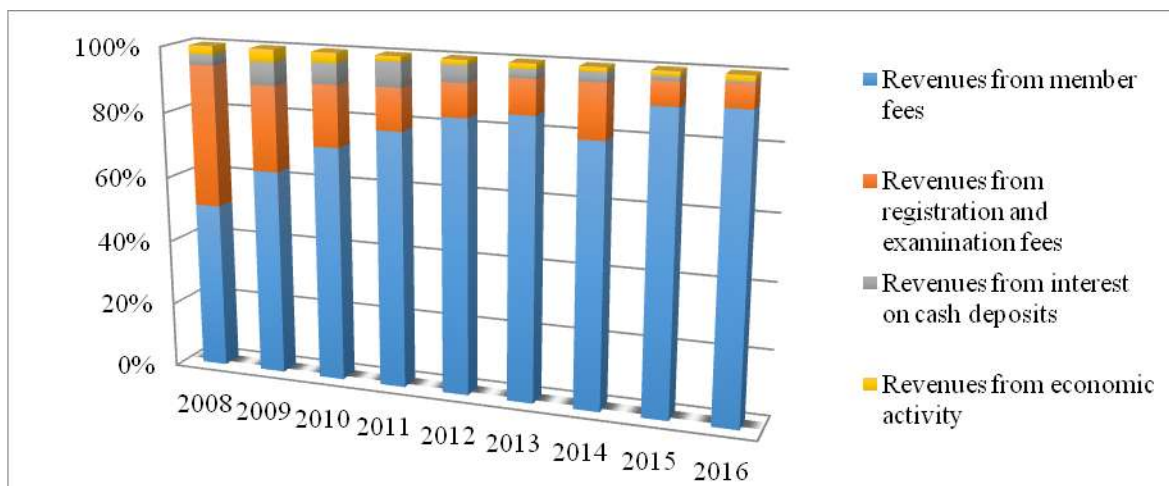


Figure no. 6. Main registered incomes

Source: Own processing based on CFAR’s Annual Reports 2009-2016, Chamber of Financial Auditors of Romania, 2018. *Professional education*. [online] Available at: <<https://www.cfar.ro/sectiune.php?id=491>> [Accessed 1 March 2018].

We can notice that in 2008 the incomes with the greatest registered balance are the ones coming from exams registrations and enrolment taxes, as well as from fees, then one can observe a constant increasing of fees incomes until 2016 and a major decrease of the ones resulting from registration and enrolment taxes. These modifications may be due to the decreasing of candidates’ number within CFAR, therefore a decline of exams registration and enrolment taxes, but also to the increasing of the number of members in the chamber within the analysed period. In the total amount of income we can also identify, with a considerable small balance in the total income amount, incomes from economic activity and incomes from interests from liquid assets placement.

The last indicator taken into account is the one concerning the incomes and expenses evolution, all presented in Figure no. 7.

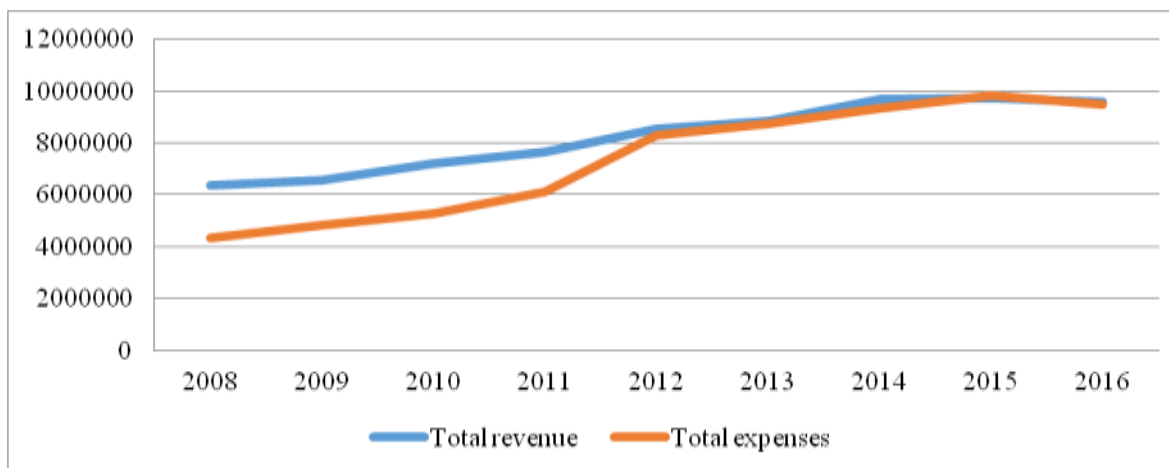


Figure no. 7. Incomes and expenses evolution

Source: Own processing based on CFAR’s Annual Reports 2009-2016, Chamber of Financial Auditors of Romania, 2018. *Professional education*. [online] Available at: <<https://www.cfar.ro/sectiune.php?id=491>> [Accessed 1 March 2018].

We can observe the fact that starting from 2008 until 2011 a significant difference has been registered between the total amount of registered incomes and expenses. From 2012 the expenses' value increased reaching an approximate equal level to the ones of incomes and maintaining this level until 2016.

5. Conclusions

Looking upon the history of our country we can notice the difficulty of economical adaptation from a centralized one from the communist period, led by the state, to a free one, a market one. One of the necessary instruments in order to function within a free market economy is financial audit. The professional organisation responsible with the activity of financial audit is the Chamber of Financial Auditors in Romania.

Analysing the CFAR's reports of activity between 2009 and 2016, we can see different aspects connected to the activity of financial audit. For instance, the fact that a major influence in the evolution of members' number were the opportunities that the accountant professionals have noticed that they could have from such a organisation, especially after Romania's adherence at the European union on the 1st of January 2007, when certain European funds needed to be audited. Regarding the periodical inspections made by CFAR to its members, we can observe that after 2012 the number of inspected members has constantly decreased due to the large number of hours allotted to these inspections, and from October 2016 the necessity of evaluating the auditors' professional reasoning within the audit mission, has also been added.

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