APPROVAL OF FINANCIAL ACCOUNTANCY IN CORRELATION WITH FINANCIAL AUDIT

Ph.D. Marian ZAROSCHI
”Valahia” University of Târgoviște, Romania
E-mail: marianzaroschi@yahoo.com

Abstract: *Accounting has arisen as man began to engage in economic activities both individually and economically to measure and record the activity performed as a social requirement. At the beginning of the 20th century, accounting began to be considered science by some specialists and management techniques by others. At the same time, the generally accepted accounting principles were developed and the auditors used the wording that the accounting statements represent the true image of the company's financial position and the results of its operations in accordance with the accounting statement represented by the generally accepted accounting principles. Accounting is considered both a social and an applied science, determined by the economic, financial, political, legal, social and cultural environment. Accounting is currently recognized as a field of scientific knowledge, which is based on methodologies, principles, and rules, which should lead to the development of a theoretical support for economic decision making in the economic environment. By admitting accounting as a science we must also accept that this science is based on three types of research: fundamental accounting research, applied accounting research, fundamental normative research. Accounting standardization is a social necessity required to present as accurately and as close to the truth as possible the information resulting from accounting and which are mainly represented by the financial statements. Normalization should meet the information needs of the following groups of users: internal users and external users. In accepting Romanian specialists in the field of accounting, normalization is a process through which the synthesis documents, the conceptual framework, the accounting methods and the terms ensure maximum generalization and harmonization. Normalization provides for the definition of postulates, principles and accounting rules. Based on the analysis, we tried to redefine accounting. approached the financial audit in correlation with accounting and historical milestones. I presented the justification of the need for audit based on three theories accepted by specialists: insurance theory, agency theory and motivational theory, theories interfering with accounting. We have determined that the financial audit is a tool that complements accounting*

Keywords: *accounting, science, financial audit, research, paradigms, methodology, postulates, principles, knowledge, audit, theories, users, norms.*

1. The emergence and historical evolution of accounting

Accounting has emerged at a certain point in human development as man became "homo oeconomicus," and began to engage in economic activities, both individually and economically, and thus the economic activity led to a measurement, but also a record of the activities carried out.

The need for measuring and recording economic activities was determined by those who held power, on the one hand, and those who exchanged economic goods on the other hand, in order to have a measure of the reality of these economic activities.

These first attempts to record economic exchanges are set by historians in the Middle East (Mesopotamia) in the period from 10,000 to 3,000 BC. Specialists in writing history and accounting historians have accepted the theory that "accounting was the one that determined abstract writing and computing" (Ionescu, 2003, p.14).

The representative civilizations of antiquity, such as the Greek, Roman and Egyptian civilizations, had specific forms of accounting that made it possible to record commodity exchanges, to show social relations, and to identify a relationship between two parties (debtor and creditor) and establish ownership (who owns the good and what can he do with it).

The medieval period then followed, which had as its specificity at the starting point an economic structure of the fields around the castles and cathedrals, which were mainly based on self-consumption.

After the crusades, there is an increase in trade (due to these crusades), which will lead to a considerable development of Western European accounting.

This development of West European accounting was the result of practical needs for shopkeepers and bankers who needed to know and record credit operations by practicing account-based book keeping that contained information about liabilities or debts to those with whom they had business relationships.

The emergence and development of capitalism in Western Europe generated an increase in the complexity of businesses that have led to several processes as follows:

1. Separating the person managing the business from the owner of the capital;
2. The emergence of the economy based on monetary exchange relations and profit-making
3. The creation of an instrument to meet the new economic requirements and this was "double-entry accounting", which was, is, and will still be, for a significant period, an adequate tool for modern capitalism accounting.

In the early part of the 20th century, accounting began to be considered a science, by a part of the specialists, and by others, it was considered as a management technique.

In the beginning of the 20th century, the first incipient forms of the theories approaching accounting as a science appeared, through the emergence of a process of defining and detailing accounting principles accepted by all the involved social entities that constituted what was synthesized through, “generally accepted accounting principles".

From this point on, the auditors used in their report the statement that the financial statements "present the true image of the company and the results of its operations in accordance with the accounting statement represented by the generally accepted accounting principles."

The industrial revolution led to the separation of the administrators from business owners and as a result the process of financing the factories by investors emerged, and thus the necessity of auditing and auditors appeared.

2. Accounting approach

2.1 Approach to accounting as an applied science

Accounting is a science that has evolved from simple to complex. It has emerged as a necessity at a time of development of exchange relations within society. Accounting is in our view, both a social science and an applied science.

In the approach of a part of the specialists it appeared that in the history and evolution of accounting there were several paradigms. The existence of several paradigms, sometimes competing, leads to the conclusion that the fully mature status of accounting as a subject can now be confirmed.

The system of scientific knowledge can be detailed according to a part of the specialists in the following categories:

- Natural sciences, which in turn is subdivided into the following sciences: Physics; Chemistry; Biology;
- Social sciences, which are subdivided into the following sciences: Legal sciences; Economic sciences; Management sciences; Political sciences; History; Sociology.

In their turn, management sciences include: Marketing; Finance; Management; Accounting. Accounting as an applied social science is determined by the economic, financial, political, legal, social and cultural environment.

We are witnessing a phenomenon of globalization of activities, capital markets and economic entities, which, for analysis, need an essential information communication tool that is offered by accounting.

Accounting, in our present, is recognized as a field of scientific knowledge, which is based on concepts, methodologies, principles, rules that must lead to the elaboration of the theoretical support necessary for the economic decision making for the economic environment.

Lately, the importance of accounting research has increased, so the impact of theoretical research has been significant on accounting practices.

Currently, the methodology, which is significant in accounting research, is mainly based on the mathematical-statistical tool, methods used by other social sciences (for example, history). Depending on the paradigms accepted by the accounting research, two main and representative trends emerged: the American school on positive accounting theory and the French school.

According to researcher Bernard Colasse, a promoter of the French school, three basic functions are distinguished in accounting research (Feleagă and Ionaşcu, 1998, p.20):

1) Accounting practices are based on theoretical approach and classification;

2) Accounting adapts to new information needs and extends the scope of accounting;

3) Evolution of knowledge in accounting.

Taking into account that we have approached and accepted accounting as a science, we will also accept that this science is based on three types of research:

- Fundamental accounting research,
- Applied accounting research,
- Normative accounting research;

Fundamental research (basic research) in accounting consists of experimental and theoretical works of broad generality, concerning the definition of accounting concepts, methods and functions and contributing to the increase of the degree of knowledge in this field. This type of research is reflected in the analysis of accounting as a social, organizational, historical phenomenon.

Applied accounting research is geared to a virtually established goal or purpose and pursues new knowledge that leads to a limited number of systems or methods and operations. This applied research aims to modernize the tools that accounting is based on, based on the accounting practices required by the existing economic environment at a time of reference.

Normative accounting research contributes to the development and improvement of accounting principles, methods, rules and practices in relation to the requirements of accounting information users and in the existing socio-economic context. The existence of this type of research that completes accounting as a science is based on normalization bodies that issue norms and rules that are based on studies and preparatory papers.

The three forms of research that underpin the science of accounting are recognized by both Bernard Colasse, a representative of the French school of thought and a large number of Romanian specialists (Jianu, 2012, p.18).

In support of normative research, specialists in the field of accounting have developed, and others have accepted, the normative accounting theory which is made up of three elements:

- Generally Accepted Accounting Principles;
- National accounting plan;
- Conceptual accounting framework;

These theoretical approaches explain how accounting, which transforms into accounting norms or standards and which determines the accounting practice (Ionescu, 2003, p.67).

2.2 Approach to Normalization in Accounting

Normalization in accounting is a process that manifests itself in most countries of the world and contributes to the foundation of accounting theory.

Normalization is a social necessity required to present as accurately and as close to the truth as possible the information resulting from accounting and which are mainly represented by the financial statements of an economic entity.

Normalization should meet the information needs of the following groups of users:

a. Internal users who are mainly represented by managers, to monitor the achievement of production, investment, and profit objectives, who are then aware that they need to be analysed by the owners, according to some general rules on how to manage resources and results of companies.

b. External users who are represented by investors, creditors, customers, suppliers, state bodies and other interested users, each of whom has their own interests in the economic entity.

The generalization of the global market economy has generated accounting normalization which must ensure the organization of operating rules for the accounting information market in the first phase and then in the second phase optimize the communication of accounting and financial information.

Globalization of the economy and the diversity of economic agents contributed to the creation of a market of accounting information and thus created another need for harmonization of accounting standardization in order to compare the information for different economic agents in the territory and under the jurisdiction of different states.

In the opinion of an important part of the Romanian specialists in accounting, normalization is a process through which the synthesis documents, the conceptual framework, the accounting methods and the terms, ensure maximum generalization and harmonization.

Normalization provides for the definition of postulates, principles and accounting rules. The highest degree of generality is in accounting postulates. The accounting postulate represents an assertion (sentence) whose acceptance is required to make a demonstration. Accounting postulates are based on rational observations made on:

- Economic, legal, social and political environment;
- Identification of users interested in financial information and their information requirements;
- Objectives of financial information.

All rational observations considered to have utility, which have been attributed the postulate quality, will be stored, processed and used for the elaboration of accounting principles and norms (Feleagă, 1998, p.259).

The accounting principles have a lower degree of generality than postulates and are defined as conceptual elements that coordinate normalization and normalizing bodies in conceptualizing accounting rules based on accounting postulates.

Figure no. 1 shows the degree of generality between postulates, principles and accounting rules in accordance with the effect of determining each component of the accounting normalization system.

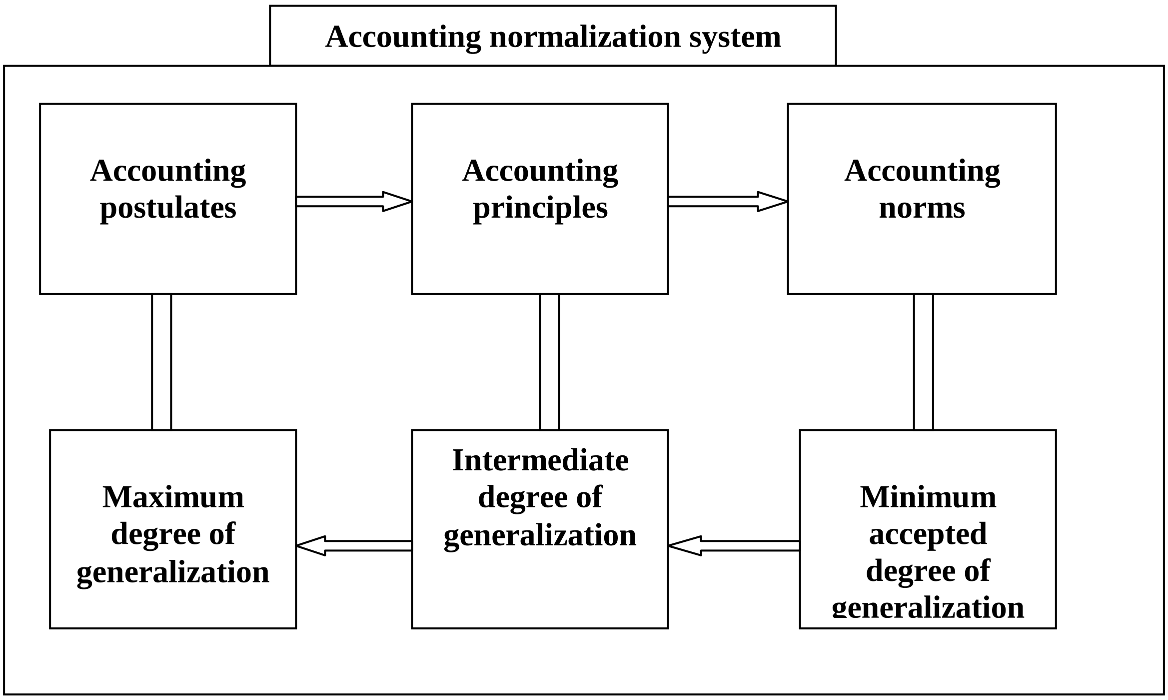

Figure no. 1. The accounting normalization system and the component generalization degree

In the opinion of a part of Romanian specialists, normalization of accounting has the following objectives:

- To improve bookkeeping through accounting practice regulations;
- To ensure users can make decisions in line with reality while using accounting information;
- To determine through regulated rules that there is a climate of trust between owners and administrators;
- To ensure a fair balance between generators of accounting information and auditors who express an opinion on them and which determines the credibility of the accounting information to the interested persons.

In the above-mentioned context, the national normalization body defined accounting as a specialized activity which must ensure:

- Measurement, evaluation, knowledge, management and control of the assets of the economic entity's debts and capital
- Measuring the results obtained by an economic entity
- Chronologically and systematically recording, processing and maintaining information on financial position, financial performance and other relevant information related to the entity's business, for the requirements of stakeholders (managers, investors, creditors, clients, state institutions).

Under the above-mentioned conditions, the normalizer has conceptualized two fundamental qualitative features of financial information, namely: relevance and exact representation.

Financial information is relevant if it has the ability to determine users to make the right decisions and to describe an exact representation if they are complete, if they are neutral and error free.

Following these definitions, the normalizer has further defined a set of characteristics that have the character of an amplifier of the first two fundamental qualitative features. These are: comparability, verifiability, timeliness and intelligibility.

a) Comparability allows users to perform a comparative analysis between entities of the same type in the branch or other different branches and so the information becomes more useful;

b) Verifiability helps users understand that information accurately represents the proposed economic phenomena;

c) Timeliness ensures that financial information reaches the decision-making factors at the most favourable time to make optimal decisions;

d) Intelligibility ensures: the classification, characterization and presentation of financial information as clearly and comprehensively as possible so as to be easily understood by users with specific knowledge of economic activities and analysing financial information with due care.

In Romania's normalization activity, a set of 10 general principles based on which the financial information and statements (annual or consolidated) are prepared and presented were defined. The 10 defined principles are:

a) Business Continuity Principle: Assumes that the entity continues its business normally without going into liquidation or without any significant reduction of activity for at least one year from the date of the financial statements. It is the most important principle and if not followed, the other principles can no longer be applied;
b) The principle of the permanence of methods;
c) The principle of prudence;
d) The principle of engagement accounting;
e) The principle of intangibility;
f) The principle of separate evaluation of assets and liabilities;
g) Non-Compensation Principle;
h) Accounting for and presentation of balance sheet items and profit and loss account taking into account the economic substance of the transaction or commitment in question;
i) Principle of valuation at acquisition cost or production cost;
j) The principle of significance threshold;

On the basis of the elements presented so far, we will try to define accounting. Accounting is a complex and aggregated scientific system of the utmost generality, including: postulates, principles, accounting rules and appropriate accounting policies that an economic entity must apply for the preparation of financial statements so as to meet the users' requests for such information and to present economic phenomena as close as possible to the economic reality of the entity.

3. Approaching financial audit in relation to accounting

3.1 Audit history

The financial audit arose after accounting appeared in the ancient period, and its evolution is closely correlated with the evolution of accounting. In developing the audit, we can identify several historical steps that follow the development of accounting:

a) Antiquity - 1905, when the audit was aimed at detecting fraud, the way of verification was detailed, and the importance of internal control was not recognized;
b) 1905-1933, when the audit objective was, in addition to detecting fraud and determining the degree of sincerity in reporting the financial situation, the verification process also began to rely on testing and there was a slight recognition of internal control,

c) 1933-1940 where the audit objective is retained as at the previous stage, but the verification mode is based on tests and an increase in the importance of internal control has been observed;
d) 1940-1960, where the objective of the audit is preserved as at the previous stage, the way of verification is the same as in the previous stage, but the emphasis on internal control increases;
e) After 1980, the central objective is focused on internal control at the level of the economic agent and on compliance with standards.

The purpose of the audit is to verify whether the principles, evaluation bases, conventions, rules and practices have been correctly applied and the information contained in the financial statements is prepared in accordance with the applicable accounting reference and do not contain material misstatement.

3.2 Theories justifying the financial audit process

A significant part of the specialists asserts that there are three theories justifying the financial audit (Dobroţeanu, 2002, pp.30-33): a) Theory of Assurance; b) Theory of the Agency; c) Motivational theory.

a) The theory of assurance is based on the following two principles:

a1. The assurance principle, which assumes that the auditor provides the persons concerned with assurance on the information used and which they have been audited,

a2. The principle of information, according to which the information contained in the financial statements is more credible and useful to the users most interested in making the decision (and they are represented by investors and managers).

Auditing is also necessary because:

- There is a conflict of interest between those who prepare and draft financial statements, management and other users of accounting information in the decision-making process;
- In general, users of accounting information (for ex. owners, financiers) in rare cases have specialized training;
- Reduces the risk that the information presented in the financial statements is not accurate.

b) The Agency theory is based on the fact that the shareholders and financiers do not have full confidence in the administrators or managers that they will use the resources available for the achievement of the approved objectives and believe that they could reach other destinations without participating in the achievement of the objectives;

The Agency theory is also justified by the following aspects:

- The two categories of users of accounting information have an objective tendency to maximize their wealth;
- Administrators and managers tend to present the information in the most favourable financial statements in order to obtain bonuses and trust of owners, and in this case the owner tends not to trust managers' information;
- There is a converging tendency for both managers and owners to accept that the information contained in the financial statements is certified by an independent person and involves acceptable costs;

c) Motivational theory justifies the necessity of financial audit by the fact that those responsible for the preparation of the financial statements will perform better quality work, knowing that these situations are subject to a financial audit. Specialists believe that auditing the financial statements is more credible and it is appreciated that for reasons of motivation; added to them is the added value of the information contained. Due to the fact that those who prepare the financial statements know that they are audited, making distorted statements is deterred.

In conclusion, the financial audit establishes control over the quality of information because:

- Motivates those responsible for preparing financial statements by organizing their work according to the user criteria, having the information that the financial statements will be reviewed by an independent external auditor;
- An independent verification of the information contained in the financial statements is ensured, according to previously established criteria that assume that they are in accordance with the wishes and needs of the user;

Financial audit is an instrument that complements the application of accounting, which validates accounting in the form of significant aspects, makes a verification of compliance with accounting principles, accounting rules and policies.

The audit activity is carried out on the basis of normalization (regulation) by each state by its own rules, just like accounting. At national level, regulations are in line with those at European and international level. Government Emergency Ordinance No. 75/1999, approved by Law 133/2002, stipulated the financial audit activity and the Chamber of Financial Auditors was established as a professional body. The GEO 90/2008 on the Statutory Audit of the Annual Financial Statements and the Consolidated Financial Statements, which transposed the EU Directive 2006/43 EC, followed chronologically.

Also, the Chamber of Financial Auditors of Romania adopted the Code of Ethics and the International Standards on Auditing, Review, Other Assurance missions and Related Services developed by IFAC as well as those on quality control.

The Parliament adopted in 2017 the Law no. 162, which regulates the statutory audit of the annual financial statements and the consolidated annual statements, and which establishes the manner of supervision of the audit;

4. Conclusions

Accounting has emerged as a necessity, as the economic activity of the human society developed, and witnessed a significant development since the early decades of the 20th century, and financial audit has followed the same trend. We have accepted accounting as a social science, but it is, in accordance with the analysis undertaken, above all an applied science. Based on the analysis of data, we have tried to define applicative accounting as “a complex and aggregated scientific system of the utmost generality, including: postulates, principles, accounting rules and appropriate accounting policies that an economic entity must apply for the preparation of financial statements so as to meet the users requests for such information and to present economic phenomena as close as possible to the economic reality of the entity".

Based on the analysis, we have established that “financial audit is an instrument that complements the application of accounting, which validates accounting in the form of significant aspects, makes a verification of compliance with accounting principles, accounting rules and policies". Both accounting and financial audit are subject to normalization, depending on each country's economic development and knowledge development.

References:

1. Arens, A.A., Loebbecke, J.A, Elder, R.J, Beasley, M.S., 2003. *Audit, o abordare integrată*. Bucharest: Ed. Arc.

2. Beau, C. and Pigé, B., 2007. La normalization de l' information comptable dans le processus de gouvernance. *Association Francophone de Comptabilité/comptabilité-controle-audit*, 13, pp.57-76.
3. Berheci, M., 2010. *Valorificarea raportărilor financiare*. Bucharest: Ed. CECCAR.
4. Bogdan, V., Boloș, I.M, Farcane, N. and Popa, D.M., 2011. *Raportarea financiară la nivelul grupurilor de societăți.* Bucharest: Ed. Economică.
5. Calu, D.A., 2005. *Istorie și dezvoltare privind contabilitatea din România*. Bucharest: Ed. Biblioteca de Contabilitate.
6. Collasse, B., 2009. *Encyclopédie de comptabilité, contrôle de gestion et audit*, 2 e edition. Paris: Economica.
7. Dănescu, T., 2007. *Audit financiar convergente între teorie și practică*. Bucharest: Ed. Irecson.
8. Delesalle, F.E. and Delesalle, E., 2003. *Contabilitatea şi cele 10 porunci*. Bucharest: Ed. Economică.
9. Dobroțeanu, L. and Dobroțeanu, C.L, 2002. *Audit, concepte si practici*. Bucharest: Ed. Economică.
10. Dumontier, P. and Teller, R., 2001. *Faire de la recherche en comptabilité financière*. Paris: Fundation naţionale pour l´enseignement de la gestion des enterprises.
11. Feleagă, N. and Malciu, L., 2002. *Politici şi opţiuni contabile (Fair Accounting versus Bad Accounting)*. Bucharest: Ed. Economică.
12. Feleagă, N., 1999. *Sisteme contabile comparate*, Ediţia a- II-a, vol. I. Bucharest: Ed. Economică.
13. Feleagă, N. and Ionaşcu, I., 1998. *Tratat de contabilitate financiară*. Bucharest: Ed. Economică.
14. IFRS, 2005. *Interpretarea și aplicarea Standardelor Internaționale de Contabilitate și Raportare Financiară*. Bucharest: Ed. Publishing House.
15. Ionaşcu, I., 2003. *Dinamica doctrinelor contabilităţii contemporane*. Bucharest: Ed. Economică.
16. Jeanjean, T. and Ramirez, C., 2008. Aux sources des theories positives: Contribution a une analyse des changements de paradigme dans recherche en comptabilité. Association Francophone de Comptabilité - Controle-Audit, 14, pp.5-25.
17. Law no. 82/1990, published in the Official Gazette no. 265/27.12.2001 republished.
18. Law no.162/2017, published in the Official Gazette no. 548/12.07.2017.
19. Lemarchand, Y. and Le Roy, F., *L'introduction de la comptabilité analitique en France: de l'institutionnalisation d'une practique de gestion*, pp.84-106.
20. Morariu, A., Radu, G. And Păunescu, M., 2005. Contabilitate *şi fiscalitate de la teorie la practică*. Constanța: Ed Ex Ponto.
21. Neagu, R., 2000. *Reforma contabilităţii româneşti, între modelele francez şi anglosaxon*. Bucharest: Ed. Economică.
22. Neamțu, H., Roman, A.G. and Țurlea, E., 2012. *Audit financiar misiuni de asigurare și servicii conexe*. Bucharest: Ed. Economică.
23. Nicolescu, O. and Verboncu, I., 1999. *Management*. Bucharest: Ed. Economică.
24. Novac, L.E., 2008. *Fundaments of audit*. Bucharest: Ed. Cavallioti.
25. OMFP no. 881/2012, published in the Official Gazette no. 857/ 18.12.2012.

26. OMFP no. 1802/2014, published in the Official Gazette no. 963/30.12.2014.
27. Pitulice, C., 2007. *Teorie și practică privind grupurile de societăți*. Ploiești: Ed. Contaplus.
28. Pop, A., 2002. *Contabilitatea financiară românească armonizată cu directivele contabile europene, standardele internaţionale de contabilitate*. Deva: Ed. Intelcredo.
29. Popa, S. and Ionescu, C., 2005. *Audit în medii informatizate*. Bucharest: Ed. Expert.
30. Popper, K.R, 1984. *Logica cercetării*. Bucharest: Ed. Ştiinţifică şi Enciclopedică.
31. Rispol, M.H., *La mèthode des cas Application á la recherche en gestion*. Paris: De Boeck Université.
32. Rusovici, A., Farmache, S. and Rusu, G., 2008. *Manager în misiune de audit*. Bucharest: Ed. Monitorul Oficial.
33. Toma, M,. 2005. *Inițiere în auditul situatiilor financiare ale unei entități*. Bucharest: Ed. CECCAR.