

Analysis of the Amendments to the Independent Auditor's Report Starting with the Auditing of the Financial Statements as at 31.12.2016

Mortură Laura-Alexandra
„1st December 1918” University of Alba Iulia
mortur_laura@yahoo.com

Abstract

In an ever-expanding and changing market economy, audit is a tool that can provide some stability at the economic and social level, but over time there have been various cases of financial scandals and economic and financial crises that questioned the work of the auditor and led to a decrease in the confidence of the intended users in the auditors work. As a result of these events, there have been changes in the way the auditors work.

One such example is the amendment of the International Standards on Auditing in 2015, applicable in our country starting with the auditing of the financial statements on 31.12.2016, being an effect of the last economic and financial crisis. Changes have been made following the projects initiated by the International Auditing and Assurance Standards Board (IAASB), aiming at identifying ways to improve the International Standards on Auditing in order to restore the confidence of the intended users in the work of auditors.

Key words: audit, independent auditor's report, intended users, SWOT analysis

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1. Introduction

Analyzing the evolution of the market economy, we can notice that there was always a need for assurance regarding the information contained in the entities financial statements, especially those of public interest. These needs can be met through audit services. However, over time there have been various cases of financial scandals and economic and financial crises that have had major economic influences, always questioning the work done by auditors, lowering the confidence of the intended users in the actions taken by auditors to issue an opinion on the financial statements in the independent auditor's report.

Audit in general, is a systematic process of objectively obtaining and evaluating the information or statements to assess their degree of compliance with predetermined criteria, and communication of results to interested users. The audit consists of checking and certifying the financial statements by an independent expert to provide an opinion on the facts and accuracy of the data contained therein. The role of audit is to provide users with information on the principles and accounting practices and accounting and presentation of financial statements accurate image, clear and complete financial position and financial performance of the company. (Petraşcu, 2010, p. 239).

The instrument through which the conclusions of the auditor's work are presented in the form of an opinion based on sufficient and adequate audit evidence gathered during the audit engagement is the independent auditor's report.

The interest for the form and content of the audit report is higher than ever, and it represents a reaction to the financial crisis and financial scandals of recent years. Investors are cautious because of accounting frauds, so their requirement for a revised audit report and a quality audit is considered justified. Regulators (International Auditing and Assurance Standards Board) and researchers have focused their attention on this issue, and the reforms are to appear quickly as the revised standards have been published at the beginning of 2015 and will come into effect from 2016. With these revisions, the degree of transparency of information has also been amended,

thereby increasing the degree of assurance on compliance with the code of corporate governance of the entity. (Kiss, Fulop and Cordoş, 2015, p. 10)

The purpose of this scientific approach is to identify those elements that have provided improvements to the independent auditor's report and any possible negative aspects that could not be eliminated, and these are being analyzed through a SWOT analysis of the amendments to the International Standards on Auditing, namely ISA 700 *Forming an opinion and reporting on financial statements*, and changes made to it through ISA 700 (Revised).

2. Methodology of scientific research

In order to accomplish the present scientific approach, the methodology of the scientific research used presumes the presentation of the general theoretical aspects regarding the independent auditor's report by consulting the national and international literature and the conduct of a SWOT analysis to identify the positive and negative aspects brought by the new amendments to the International Standards on Auditing, notably the standards regarding the Independent Auditor's Report. Their applicability was made with the drafting of the independent auditor's report for the financial statements prepared on 31.12.2016.

3. General aspects regarding the independent auditor's report

The main purpose of the work carried out by both accountants and auditors is to act in the public interest. The purpose of the audit is to increase the confidence of intended users in the information provided by the financial statements of the audited entity.

The objective of the financial statements is to present information related to an economic entity in order to substantiate the users' decisions, but their purpose may differ from one case to another due to the non-compliance with the economic events on the basis of which they were generated or because they are misunderstood, either because of the variety of factors that influence the preparation of financial statements, which will lead to different decisions. Different user requirements make it difficult to meet their informational needs. However, the risk of conflict between users of accounting information may be diminished by means of a quality reference, as well as auditing financial statements. (Berheci, 2010, p. 256)

The audit report is the document where the auditor issues his/her opinion on the financial statements of the audited entity, such that this opinion is regarded by society as having a public character. The audit report is often regarded as a "barometer" for the entity's financial situation and not only as a document that reveals reliability on the financial statements, such that the audit report is the climax of the audit process through which the auditor issues his/her opinion on the audited financial statements or the reasons not to issue them. (Heliodoro, Carreira, Lopes, 2016, p.182)

In addressing international regulations, the audit report has a triple role (Horomnea, 2010, p.225):

- Instrument for communication with users of the financial statements prepared by the entity, mainly with shareholders and the public, for substantiating economic decisions;
- A tool for confirming the confidence of shareholders and the public in the financial statements presented by the entity;
- Identification tool of responsibilities for auditor and for the management of the audited entity.

The auditor's report is the key deliverable communicating the results of the audit process. Investors and other financial statement users have asked for a more informative auditor's report—in particular for auditors to provide more relevant information to users. Research, public consultations, and stakeholder outreach, including global roundtables, indicate that enhanced auditor reporting is critical to influencing the perceived value of the financial statement audit. <https://www.iaasb.org/new-auditors-report> (Accessed on November 10th, 2017)

The main reasons for the report's lack of understanding are as follows (Heliodoro, Carreira, Lopes, 2016, p.182):

- Standardized report: as the structure of the report is according to the norms, regardless of the activity sector it is applied to, it becomes more a symbolic document than a communication

between the auditor and the user, which leads to the users not reading the audit reports.

- Technical language: the commission for the auditor’s responsibilities (Cohen Commission) enhances the use of a highly standardized language which results in an ambiguity for most of the users who often lack the accountant or audit skills.

In addition to this lack of understanding the independent auditor’s report, there is also an audit expectation gap that represents the discrepancy between the activities that users expect auditors to carry out and the actual activities undertaken by them. All amendments to the independent auditor's report through the revision of the International Standards on Auditing aim to determine solutions to diminish or eliminate these problems and to restore the confidence of intended users in the work of the auditors.

4. SWOT analysis of the amendments to the independent auditor's report

In order to highlight the main positive aspects of the new amendments to the International Standards on Auditing in 2015 and to the independent auditor's report respectively, that were applied with the auditing of the financial statements as at 31.12.2016, as well as the issues that can be further improved, I chose to make a SWOT analysis. In this regard, we have analyzed the examples provided by the International Standards on Auditing related to ISA 700 *Forming an opinion and reporting on financial statements* and ISA 700 (Revised).

Table no. 1 SWOT analysis of the amendments to the independent auditor's report

Strengths	Weaknesses
<ul style="list-style-type: none"> • Reordering the issues presented in the independent auditor's report in order to present the information in a more appropriate way to the intended users, for example one of the biggest changes is that the first paragraph of it is the paragraph on the auditor's opinion. • Introducing a paragraph to present the key aspects of the audit, namely those issues that required significant attention during the audit, and which can provide a more complete image to intended users on certain aspects of the audited entity. This paragraph is mandatory for public interest entities. • Inserting <i>The basis for opinion</i> paragraph where there are provided information regarding the auditors compliance with the International Standards on Auditing, independence from the audited entity and compliance with the general audit principles, as well as assurance on obtaining all adequate and sufficient audit evidence underlying the issued opinion. At the same time, the possibility of presenting situations from the activity of the audited entity, which attracted the auditors attention that can generate some significant uncertainties and influences on the going concern of the audited entity, namely the fact that these aspects have changed or not the auditor's opinion. • More explicit wording of the <i>responsibilities of the audited entity</i>, namely the responsibility of management of the audited entity to prepare the financial statements in accordance with the general financial reporting framework, to assess the going concern and to conduct financial reporting supervision. 	<ul style="list-style-type: none"> • Obligation to present the key issues encountered in the work of the auditor, only for public interest entities. • All the changes made do not eliminate the audit expectation gap that represents the discrepancy between the activities that users expect auditors to carry out and the actual activities undertaken by them, but only diminish it.

<ul style="list-style-type: none"> • One of the most important improvements to the new report is the more detailed presentation of the <i>auditor's responsibilities</i>, containing, for example, elements regarding the use of skepticism and professional reasoning, how the risks of material misstatement were identified, knowing the internal control of the audited entity, obtaining audit evidence to justify compliance by the audited entity with the entity's going concern, evaluating the fair presentation of the information contained in the financial statements, as well as communication between the auditor and those responsible for governance 	
Opportunities	Threats
<ul style="list-style-type: none"> • Increasing the confidence of the intended users in the auditor's work. • Making the best decisions by the intended users based on the provided audit reports that comply with this new form as set out by the International Standards on Auditing. • Reducing the audit expectation gap that represents the discrepancy between the activities that users expect auditors to carry out and the actual activities undertaken by them so that the auditor can issue an opinion in the independent auditor's report on the fair presentation of financial statements in accordance with a general financial reporting framework. 	<ul style="list-style-type: none"> • The possibility that the changes made do not really meet their main purpose, namely increasing the confidence of final users of financial reporting. • The possibility that future modifications to the International Standards on Auditing and to the Audit Standard 700 will be required to meet new needs of the intended users if the present changes prove to be insufficient.

Source: personal adaptation from ISA 700 and ISA 700 (Revised) (IAASB, IFAC, CAFR, 2016, 730-1046)

5. Conclusions

Currently, the global economy is constantly changing, being influenced by the changes made at the social, political and legislative level. An instrument created by the needs of participants in the economy to provide assurance on the quality and reliability of the information provided by the entity's financial statements is the audit. As a result of the auditor's work, based on the audit evidence collected, he formulates an opinion on the information analyzed, being expressed in the Independent Auditor's Report.

The subject of the Independent Auditor's Report is the financial statements, providing information about audited entities to different categories of users. The purpose of the Independent Auditor's Report is to provide reasonable assurance that the financial statements are free from material misstatement due to fraud or error, in order to increase the confidence of the intended users in the information provided as they will use this information in the decisions taken that will thereby influence the activity developed by them.

Among the steps taken by the *International Auditing and Assurance Standards Board (IAASB)* to amend the International Standards on Auditing, there is also a review of the Standard 700 *Forming an opinion and reporting on financial statements*, which makes significant changes in the drafting of the Independent Auditor's Report. The main purpose of these changes was to restore the confidence of the intended users in the work done by the auditors and to reduce the audit expectation gap that represents the discrepancy between the activities that users expect auditors to carry out and the actual activities undertaken by them.

The effect of these changes can only be identified after auditing more than one financial exercise, when the opinion of the intended users on the new form of the Independent Auditor's Report can be analyzed, and then identifying new improvements that can be made to the report, in order to maintain and even to increase the confidence in the work of the auditors.

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