

Amendments to the Audit Report for the Review of International Standards on Auditing

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Abstract

As a result of the last economic and financial crisis, the auditors' impact on its triggering was questioned, as the opinion expressed by the auditors directly influenced, the decisions taken by the users of the financial and accounting information, namely the investors. The sign of question on the auditors' work was also due to a lack of knowledge of the auditors' responsibility by the users. The opinion issued by the auditor provides reasonable, but not absolute, assurance on the information provided by the financial statements, in which case the auditor's responsibility is limited. To mitigate these discrepancies, the International Auditing and Assurance Standards Board (IAASB) has developed projects that have generated solutions to improve International Standards on Auditing. Thus, in 2015, the IAASB issued a new edition of the International Auditing Standards, which made changes in the drafting of the audit report.

Key words: audit, audit report, users, ISA financial – accounting information.

J.E.L. Classification: M42

1. Introduction

Economic and financial crises, due to the globalization of the market economy, produce negative effects that have repercussions and influence the society, both at macroeconomic and microeconomic level, each individual feeling these effects. The only advantage and positive aspect of these can be considered the analyzes made by the specialists in the field, in order to determine more precisely what were the factors that generated these crises, and at the same time what measures can be implemented to eliminate the consequences produced and to streamline and improve the areas that led to their emergence, first of all. The effects of the latest economic and financial crisis have revealed some deficiencies in the work of the auditors, so the International Auditing Standards Board has produced projects, following which the International Auditing Standards have been revised, the new amendments being applied starting with the audit of the financial statements prepared on 31.12. 2016.

The purpose of the financial audit is to express an opinion on the image of the financial statements, namely the extent to which it is true, in all material respects, in compliance with the general accepted accounting principles. Thus, financial auditors collect evidence that supports the formulated opinion. The Financial Auditor is not an absolute guarantor of the fidelity of the financial statements, but he is responsible for the opinion expressed on the basis of the evidence collected so as to correctly inform the users of the financial statements about the correctness of the information from them (Dănescu, 2007, pp. 106-107).

The auditor's opinion is very important, it is considered that the statutory audit report should provide more transparency as to what actions the statutory auditor carries out on an audit mission and how it reaches the results of his work. The new regulations issued in January 2015 of the International Auditing and Assurance Standards Board (IAASB) have emerged in this context. These are intended to develop the audit report in order to provide more information on what the auditor considers most relevant in the audit. These IAASB regulations are an important first step to address the needs of users who want to get a more comprehensive picture of the performed audit

(Kiss, Fulop and Cordos, 2015, p. 4).

The purpose of this paper is to present the changes made to the independent auditor's report following the review of the International Standards on Auditing. The need of such a review is a consequence of the effects of the last economic-financial crisis, which revealed certain deficiencies in the work of the auditors, deficiencies that played an important role in triggering it.

2. Methodology of scientific research

The methodology of scientific research used for writing the paper was the theoretical presentation, general aspects related to the independent auditor's report by revising the specialized literature, the presentation of the differences in drafting the independent auditor's report of the revision of the International Auditing Standards, applicable with the drawing up of the financial statements on December 31st, 2016, but also the presentation of an auditor's report that complies with the requirements of the new amendments.

3. Theoretical Aspects of the Audit Report

The role of the auditor, in particular the external auditor, is to increase the user's confidence in the accounting information, to bring more safety on the fact that the accounting information was obtained, treated and presented in accordance with generally accepted accounting standards and principles, thus is able to provide reasonable assurance that financial statements are not materially misstated as a result of errors or frauds and can therefore be used with sufficient confidence in the decision-making process (Neamțu, Roman and Țurlea, 2012, p.17).

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).

Based on the results and conclusions of the audit, an audit report is prepared to provide the audited entity with an opinion on the true image of the financial position, results, cash flows presented in the audited financial statements. Expression of opinion in the audit report is made only after the final financial statements have been prepared, following the audit activities based on the conclusions of the examination of audit engagement evidence, the auditor does not require the management of the audited entity to modify certain statements, statements presented in the (Dănescu, 2007, p. 312).

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.

Management employs an auditor who shall ensure that the financial statements are reliable. If, ultimately, it is found that the financial statements are incorrect, the auditor may be held responsible (sued) by both the users of the information and the managers of the entity that hired him. There is no doubt that the auditors have a significant legal responsibility for the psychological impact produced by users of financial information verified by them (Domnișoru, 2011, p. 61).

To enhance the confidence of users of financial and accounting information, the International Auditing and Assurance Standards Board (IAASB), following the developed projects, revised the International Auditing Standards, thus making certain changes in the layout of the audit report.

Table no. 1 The comparative analysis of the elements of the audit report before and after the review of ISA 700 "Making an opinion and reporting on the financial statements"

ISA 700	ISA 700 (Revised)
One Title	One Title
One Addressee	One addressee
An introductory paragraph identifying the audited financial statements	A section on Opinion, containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used for the preparation of the financial statements.
A description of the management's responsibilities for preparing the financial statements	Identifying the entity's financial statements that have been audited.
A description of the auditor's responsibilities to express an opinion on the financial statements and the audit area	A statement stating that the auditor is independent of the entity, in accordance with the relevant ethical requirements of the audit and that the auditor has fulfilled all ethical responsibilities in compliance with those requirements.
An opinion paragraph containing an opinion on the financial statements and a reference to the applicable financial reporting framework, for the preparation of the financial statements	Where appropriate, a section that refers to "Significant uncertainty about business continuity.
Auditor's signature	Where appropriate, a section for the Limited Opinion or for the Counter opinion.
Auditor's report date	Where appropriate, a section that includes the information required by ISA 701 or additional audit information.
Auditor's address	Where appropriate, a section referred to in auditor's report to identify other information obtained by the auditor before the date of the auditor's report, a description of the auditor's responsibilities for other information, and an explicit statement of the results of the auditor's work in this sense.
	A description of the management's responsibility for preparing the financial statements and identifying the persons responsible for overseeing the financial reporting process.
	A reference to International Standards on Auditing and Law and Regulations and a description of the auditor's responsibilities for an audit of financial statements.
	For the audits of complete sets of financial statements with general purpose for listed entities, the name of the mission partner.
	Auditor's signature
	Auditor's report date
	Auditor's addressee

Source: personal adaptation from ISA 700 and ISA 700(Revised) (IAASB, IFAC, CAFR, 2016, pp. 970-1129)

As a result of the comparison we can see an improvement of the audit report by increasing the transparency of the information provided by it, changing the structure of the report in order to increase the confidence of the users of the financial statements in the work done by the auditor and clearer clarification of the auditor's responsibility in an audit of the financial statements.

4. Case study on the preparation of the audit report in accordance with ISA 700 (Revised)

In order to prepare the audit report for the financial statements prepared by SC BETA SRL, as of December 31st, 2016, the statutory auditor applies the new provisions of audit standard 700 (Revised) "*Opinion formation and reporting on financial statements*" (IAASB, IFAC, CAFR, 2016, pp. 994-1046), as well as the ISA 700 report model (revised) provided by the Chamber of Financial Auditors by the Statement of Auditor's Report on Financial Statements as of December 31st, 2016 <http://www.cafr.ro/comunicate.php?id=309> (accessed on April 26th, 2017).

Independent Auditor's Report

To the shareholders of SC BETA S.A.,

Opinion

We have audited the accompanying financial statements of the company BETA SA which comprise the balance sheet as of December 31st, 2016, the profit and loss account, the statement of changes in equity and the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes. These financial statements mentioned above refer to:

- Net asset/Total own equity: 9.179.315 lei
- Net profit/net loss of the fiscal year: 190.165 lei

In our opinion, the accompanying financial statements give a true and fair view of the Company's financial position as of December 31st, 2016 and the results of its operations and cash flows for the year ended in compliance with the Order of the Minister of Public Finance no. 1802/2014, for the approval of the Accounting Regulations on the individual annual financial statements and the consolidated annual financial statements, as amended ("OMFP No 1802/2014").

Opinion basis

We have conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under these standards are described in detail in the section "Auditor's Responsibilities in an Audit of Financial Statements" in our report. We are independent of the Company, according to the professional ethics requirements relevant to the audit of the financial statements in Romania and we have fulfilled all other professional ethics responsibilities, according to these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Highlighting some aspects

We draw attention to Note 9 of the financial statements, which describes the analysis of the main financial indicators, resulting in a low rate of return, worth 0,046. Our opinion is not altered on this aspect.

Significant uncertainty about business continuity

We draw attention to Note 4 of the financial statements, according to which the Company recorded a net profit of 190.165 lei during the financial year ended on December 31st, 2016 and, at that date, the Company's current debts exceeded its total assets by 2.040.319 lei. As noted in Note 4, these events and conditions, along with other issues presented in Note 9, indicate that there is significant uncertainty about the Company's activity but which does not affect the continuity of the business. From the analysis of the operating result, it results that, compared to the previous period, the expenditures for basic activity increased by 421.043 lei and the indirect expenses increased by 231.505 lei, while the turnover decreased by 401.235 lei compared to the same period. Our opinion is not altered on this aspect.

Other information – Administrators' report

Other information includes the Administrator Report. Administrators are responsible for preparing and presenting the Administrators' Report in compliance with the OMFP no. 1802/2014, paragraphs 489-492 of the Accounting Regulations on the individual annual financial statements and the consolidated annual financial statements and for those internal controls that the administrators consider necessary to allow the preparation and presentation of the Directors' Report that are free from material misstatement due to fraud or error.

The Administrators' report is presented on page 1 to 1 and is not part of the financial statements. Our opinion on the financial statements does not cover the Administrators' Report.

In relation to the audit of the financial statements for the year ended on December 31st, 2016, it is our responsibility to read the Administrators' Report and, in this regard, to assess whether there are significant discrepancies between the Administrators' Report and the Financial Statements if the Administrators' Report includes in all material respects, the information required by OMFP no. 1802/2014, paragraphs 489-492 of the Accounting Regulations on Individual Annual Financial Statements and Consolidated Annual Financial Statements, and if based on our knowledge and understanding gained in the course of the audit of the financial statements regarding the Company and its environment, the information included in the Administrators' Report are significantly erroneous. We are asked to report on these issues. Based on our activity, we report that:

- In the Administrators' Report we have not identified information that is not consistent, in all material respects, with the information presented in the accompanying financial statements;
- The above mentioned Administrator's Report includes, in all material respects, the information required by OMFP no. 1802/2014, paragraphs 489-492 of the Accounting Regulations on Individual Annual Financial Statements and Consolidated Annual Financial Statements.

In addition, based on our knowledge and understanding of the financial statements for the year ended December 31st, 2016, regarding the Company and its environment, we did not identify information that was included in the Administrator's Report that was materially misstated.

Management's responsibilities and those responsible with the governance of the financial statements

The Management of the Company is responsible for the preparation of the financial statements that give a true image in accordance with OMFP no. 1802/2014 and for the internal control that management deems necessary to enable the preparation of financial statements without significant misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing the Company's ability to continue its business, to present, where appropriate, business continuity issues and use of business continuity accounting, unless management liquidates the Company or stops operations, or has no realistic alternative outside of them.

The persons responsible for governance are responsible for overseeing the financial reporting process of the Company.

Auditor's responsibilities in an audit of financial statements

Our objectives are to obtain reasonable assurance that the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to the issuance of an auditor's report that includes our opinion. Reasonable insurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with the ISA shall always detect significant misstatement, if any. Distortions may be caused either by fraud, or by error and are considered significant if reasonable assurance can be given that they, individually or collectively, shall influence the economic decisions of users made on the basis of these financial statements.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism during the audit. Also:

- Identify and assess the risks of material misstatement of financial statements, whether caused by fraud or error, designing and executing audit procedures in response to those risks and obtaining sufficient and appropriate audit evidence to provide a basis for our opinion. The risk of not detecting significant misstatement caused by fraud is higher than the failure to detect a material misstatement caused by error, as fraud may imply secret, false, deliberate omissions, false statements, and avoidance of internal control.
- We understand the internal control relevant for audit, in order to design audit procedures that are appropriate to the circumstances, but without the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- We assess the appropriateness of the used accounting policies and the reasonableness of accounting estimates and related disclosures of information made by the management.
- We formulate a conclusion on the adequacy of management's use of accounting based on the continuity of activity, and we determine, based on the audit evidence we have obtained, whether there is significant uncertainty about events or conditions that could generate significant doubts about the ability of the company to continue its activity. If we conclude that

there is significant uncertainty, we must draw attention in the auditor's report to the accompanying disclosures in the financial statements or, if those disclosures are inappropriate, to change our opinion. Our findings are based on audit evidence obtained by the date of the auditor's report. However, events or future conditions may cause the Company not to carry out its business on the basis of the principle of continuity of activity.

- We assess the presentation, structure and content of financial statements as an overall, including information disclosures, and the extent to which the financial statements reflect the transactions and events underlying them in a manner that results in a true presentation.

We communicate to those responsible for governance, among other things, the planned area and timing of the audit, as well as the main audit findings, including any significant internal control deficiencies that we identify during the audit.

5. Conclusions

The last economic and financial crisis has brought to light many deficiencies within the entire market economy system, including the influence of auditors' work on generating it, as a result of their certified information, with consequences for decisions made by end-users of financial-accounting information.

In order to identify possible solutions, in order to eliminate the deficiencies encountered in the work of the auditors, the International Auditing and Assurance Standards Board (IAASB) has launched projects in this regard. As a result of these projects, the International Auditing Standards have been revised, the new amendments being applicable with the auditing of the financial statements as at December 31st, 2016.

Among the amendments to the Review of International Standards on Auditing include those on Audit Standard 700 "*Opinion Formation and Reporting on Financial Statements*". The form of the new Independent Auditor's Report is more complex, generating greater transparency in the information provided by the auditor. The purpose of changing the structure and content of the report is to increase the confidence of users of financial statements in the auditor's work and to more clearly present the auditor's responsibilities in an audit of the financial statements.

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