

Study Concerning Exercising an Adequate Professional Reasoning in Developing the Evaluation and Audit

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Abstract

Economical –financial information represent the key to substantiating the economical – financial decisions, made by different categories of users, both for macroeconomic and microeconomic levels. In order to be able to have a well grounded base in decision making, the information must respect the quality requirements, and this thing is only possible if the patrimonial items, to which this information refers to, are subjected to a process of pertinent evaluation.

Even though there are regulations which clearly specify the way in which an evaluation process, respectively an adequate audit process must take place, for a good management of encountered situations and difficulties, the evaluator, respectively the auditor must exercise an adequate professional reasoning.

Key words: professional reasoning, evaluation, audit, economical – financial information

J.E.L. classification: M40, M41, M42

1. Introduction

In the economical domain, for reflecting the entities' trusty image it is resorted to the evaluation of the patrimonial items, thus establishing their actual value.

Broadly, evaluation is an analysis, an opinion or a conclusion referring to the nature, quality, value or utility of certain interests or aspects of a property, expressed by an impartial persona, who is specialized in property analysis and evaluation. In a narrow sense, evaluation is the estimation process of a certain type of value, for a certain property, made at a certain date and materialized in the evaluation report. (Anghel et al., 2010, p.16). Evaluation is a form of quantification through which the accounting method determines the size of wealth elements, in a natural expression and expresses this size with the help of currency. In this way, through evaluation, all the asset items, all liabilities and own capitals are homogenized, are expressed by the same standard and are centralised. (Todea, 2009, p.114).

The information resulted from the evaluation process are presented to the different categories of users through financial reports. In order to increase the users' trust in the information reflected in financial reports and for providing a certification of the fact that these reports have been made in accordance with the regulations in effect, one applies to audit.

Generally, through audit one understands a professional examination of information, made by a competent and independent specialist, for expressing a responsible and independent opinion by retrospection at quality criteria (standard / norm or a regulation). (Toma, 2012, p.24). The audit represents the process developed by a natural or legal person being legally empowered, named auditors, through which information connected to a certain entity are analysed and evaluated, using specific techniques and procedures, for obtaining certain proofs, called audit samples, and specific

procedures for obtaining certain proofs, called audit samples, based on which the auditors issue in a document, named audit report an a responsible and independent opinion by applying to evaluation criteria which result from the legal regulations or from the good practice which is unanimously recognized in the domain in which the audited entity carries out its activity. (Boulescu, Ghiță, Mareș, 2001, p.11).

The main users of the information presented in the audit report are: shareholders, investors, managers, employees, providers, creditors, financial banking institutions, state institutions, stock.

Both in the evaluation process, as well as in the audit one, a major influence is given by the evaluator's, respectively the auditor's capacity to manage the encountered situations and difficulties. But this thing is not possible only when an ethical adequate professional reasoning is exercised.

The reasoning is a logical chaining of reasoning, which leads to a conclusion; a chain of arguments which one uses in judging a thing or for sustaining his own point of view. . <https://dexonline.ro/definitie/ra%C8%9Bionament> (accessed on October 07th, 2017).

Conceived and structured on a complex matter, this scientific approach is considering the presentation of the importance of exercising an adequate professional reasoning in developing the evaluation and the audit.

2. Methodology

The purpose of this scientific research is to present both theoretically and practically certain aspects concerning the importance of exercising an adequate professional reasoning in making the evaluation and audit. The methodology we have used in accomplishing this scientific approach is based on a theoretical research concerning concepts of evaluation, audit, professional reasoning an regulation in this domain, accompanied by an empirical research through which we have pointed out peculiar aspects concerning the approached concepts. We have applied to studying the papers from financial accounting and audit domains, elaborated by specialists and theoreticians in the field, to studying the Valuation Standards, respectively the Audit Standards, to analysing the regulation in this branch, thus being a qualitative exploratory research, and also for establishing the importance of exercising an adequate professional reasoning when developing the evaluation and audit, we have applied to research based on statistical survey through questionnaire.

3. Aspects concerning exercising the professional reasoning in the evaluation domain

The importance of evaluation derives from the importance of the situations which require it: commercial transactions, merger - division operations, juridical actions with patrimonial purpose, share placing on the financial market, calculus of different taxes and fees, making financial reports. Regardless the situation in which the evaluation is made, the evaluator meets different peculiarities which he must take into consideration, different difficulties that he has to manage, to have sufficient information which ensure the necessary competence, to respect the principles, standards, and regulations in effect and to prove objectivism in the developed activity.

In order to deal with all these requirements for establishing the real value of the entities elements, respectively of the entities in their entirety, the evaluator has to prove an adequate professional reasoning.

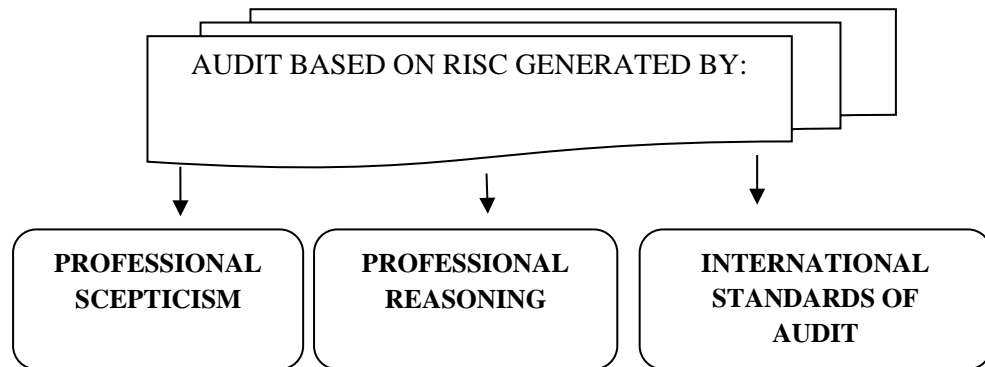
According to the Property Valuation Standards, the evaluator's professional reasoning has to objectively be applied and it shouldn't be used for under valuating or over valuating the resulted value. The evaluation activity entails the evaluator to apply impartial reasoning referring to the credibility which must be attributed to the different factual data or used hypothesis in order to reach a certain conclusion concerning the value. For an evaluation to be credible, it is very important that those reasoning to be seen from their applying optics in an environment which promotes transparency and minimizes the influence of any subjective factors on the process. SEV 100, 2016, p.4)

In order to ensure the necessary degree of objectivity needed in the evaluation process, so that the result is seen as being impartial, there are control systems and adequate procedures. A good example in this regard is The Code of Ethics for the profession of authorised evaluator. (SEV 100, 2016, p.5).

4. Aspects concerning exercising professional reasoning in audit domain

An important element used by the evaluator during the audit mission and with the help of which he is guided for making the best decisions for obtaining the audit samples based on which the professional is able to ground his conclusions, for emitting an opinion, is the auditor's professional reasoning. Therefore, as it is also shown in the below figure, this represents one of the pillars from the basis of the activity developed by the auditor.

Figure no.1. General landmarks for making an audit



Source: Briciu, S., Socol, A., Ivan, R., Tamaş, A., Puţan, A., Topor, D., 2014, Financial Audit. Theoretical Aspects and Practical Applications, Alba Iulia: Didactical Series, p. 34.

Professional reasoning is essential for making an adequate audit. This thing is due to the fact that the interpretation of the relevant ethical requirements and of ISAs and knowingly making necessary decisions during the audit are not achievable without applying relevant acknowledgments and experience concerning facts and circumstances. Professional reasoning is necessary especially in connection with decisions connected to (ISA200, A23, 2016, pp.96-97):

- Significance threshold and audit risk.
- Nature, time placement and the extent of audit procedures used for fulfilling the ISAs' requirements and for collecting audit samples.
- Evaluating the extent to which sufficient and adequate audit samples have been collected, and the extent to which more has to be done in order to reach the ISAs' objectives and through this, the auditor's general objectives.
- Management reasoning evaluation in applying the applicable frame of financial reporting.
- Making conclusions based on the audit samples, for instance evaluation of the reasonable character of the estimations made by management in making the financial reports.

The auditor's professional reasoning, through the most adequate reasoning gained by his acknowledgement and professional experience, has a decisive role in each undertaken action, during the entire audit mission. Through the final result of the auditor's activity, respectively the report of the independent auditor, a reasonable insurance is given to the final users, concerning the information provided by the audited entity's financial reports, thus being able to make the best decisions in the activities which were established by them, in order to being used in the near future.

5. Quantitative study concerning the importance of exercising an adequate professional reasoning in developing the audit and the evaluation

In the period December 2016 – March 2017, at a national level, a questionnaire has been sent to a sample of 240 people represented by valuation experts, accounting experts, managers, respectively staff from the economical – financial department, which aimed the validation or non validation of 8 work hypotheses. Among these hypotheses, we have aimed on one hand the influence of evaluation results on the decisions made by different categories of users, and on the other hand, the importance of exercising an adequate professional reasoning in making the evaluation of patrimonial items, but also in the audit process, having the purpose of certifying the reality of the information given to the users.

The questionnaire is consisted of closed comprehensible questions, and for the defaulted answers, we have used the Likert Scale, through which it is established to what extent the respondents agree or not with the affirmations within the questionnaire. As a result, we have used 5 answer values, where number one is "Very important", number 2 represents "Important", number 3 represents "Less important", number 4 "The least important" and number 5 "Not important at all".

From analysing the first part of the questionnaire which includes questions referring to the respondents' identification, it is shown the fact that 42%, respectively 35% of the respondents are accounting experts and evaluators, and 55% of the respondents' total sum, have a work experience of over 10 years. Also, 42% of the respondents carry their activity within a big entity. This is an essential aspect because within the big entities all types of assets and liabilities elements are encountered, the users of financial reports may be fit for all categories, the decisional level is an increased one, and through its size, the entity has a big importance for society.

The response rate was of 54,65%, namely 153 respondent people.

The second part of the questionnaire is consisted of a number of 19 questions. Among these questions, the one referring to the importance of exercising an adequate professional reasoning in developing the evaluation and respectively audit processes may be found.

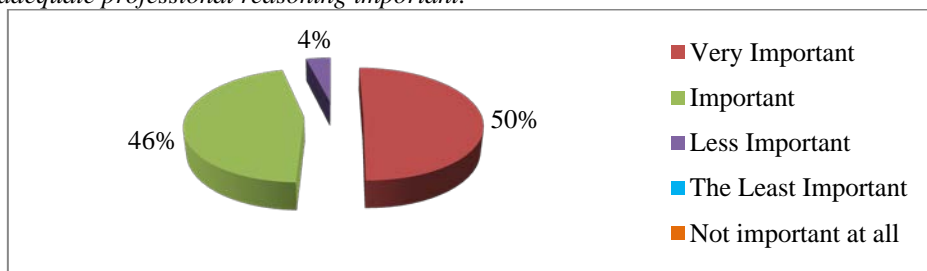
Question: *How important the exercising of an adequate accounting professional reasoning is in developing the evaluation?*

The respondents of this questionnaire have stated that 50% from them consider that applying an adequate professional reasoning is very important, 46% from the respondents consider this thing as being important.

We state that the situations encountered in the valuation practice are different from an entity to another, from a certain moment to another, form an element subjected to evaluation to another; consequently, evaluation has always imposed difficulties to the evaluators. These difficulties refer to the access of getting the necessary information, insufficient personnel, impossibility of cooperation, as well as the legal regulations in effect. The evaluator must take into account the peculiarities when he is evaluating different elements, the fact that a pertinent evaluation imposes a great amount of information both from inside the entity, but especially from outside of it, and these information have to be gathered and processed by specialised personnel, in a certain amount of time, and also, certain beneficiaries of the evaluation results have themselves certain interests in obtaining either bigger or smaller results from evaluation. The ambiguous, sometimes confusing legislative frame also has to be mentioned, as well as the existence of some discrepancies between the national and international stipulations.

As a result, even though there are regulations and standards which impose certain rules and principles in developing the evaluation process, the evaluator has to know how to manage different difficulties and changes which appear, in order to be able to make a pertinent evaluation. This thing is only possible when an ethical adequate and professional reasoning is exercised.

Chart no. 1 Respondents' repartition according to the extent to which they consider the exercising of an adequate professional reasoning important.



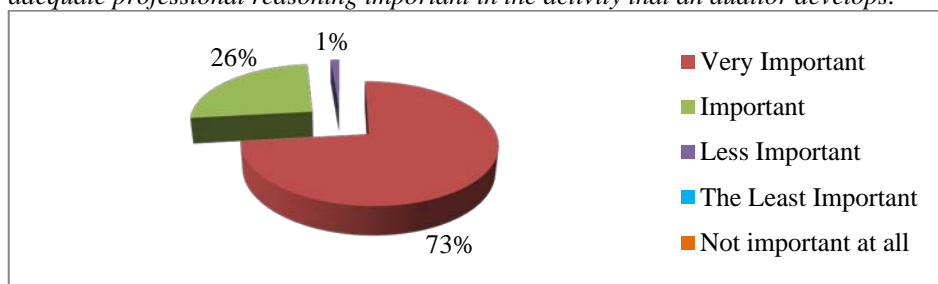
Source: Own processing

Question: How important is the exercising of an adequate professional reasoning in the activity developed by the auditor?

Among the respondents of this questionnaire, 73% consider applying professional reasoning by an auditor in emitting an opinion, as being very important, 26% of them consider this thing important, and 1% of the respondents consider this thing as being less important.

As it can be observed, these gathered results reiterate the importance of using a professional reasoning in the activity developed by the auditor. In order to provide the best audit services, professional reasoning is the main instrument of an auditor, serving as a console in making the best decisions during the development of the audit mission. The foundation at the base of the modality of exercising professional reasoning is the equilibrium between the experience, expertise, the auditor's professional training and his skills of communication and bounding with the audited entity and with the member of the audit team, but also his experience with the ways of managing different pressures to which the auditor is subjected to, both internally and externally. Registering any disequilibrium in exercising the professional reasoning, may have consequences on the quality of the audit mission.

Chart no. 2. Respondents' repartition according to the extent to which they consider the exercising of an adequate professional reasoning important in the activity that an auditor develops.



Source: own processing

6. Conclusions

Different categories of users of the accounting information benefit from real information as a result of evaluation of the patrimonial elements owned by entities in the evaluation of the entities in their entirety, and a certification on the reality of this information is confirmed by the opinion given by the auditor within the audit report.

Professional reasoning has a great importance both in developing the evaluation activity, and especially in the audit one, in correctly interpreting the norms of professional ethic, of accounting standards, audit standards, and national and international valuation standards, in properly managing the encountered difficulties and in taking the best decisions during the developed activity. The usage of professional reasoning in evaluation supposes taking certain decisions referring to the avoidance of over evaluation and under evaluation, enduring the transparency and objectivism in the developed activity. In the audit's case, the most important decisions taken based on the professional reasoning aim: audit planning, establishing the audit risk, establishing the significance threshold,

extending and spreading the audit procedures based on which the audit samples are identified with the help of which the auditor's opinion is emitted.

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