

AUDIT QUALITY AND MANAGERIAL DECISION

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Abstract: The following material addresses the problem from the perspective of quality audit work procedures and legislation as well as the auditor's judgment which often offer the guarantee to obtain an opinion as to mirror the reality of operations audited. Implementation of the recommendations made by the auditor, followed by auditees getting some performance in specific activity, is in fact a confirmation of the performance of quality audits concluded with the formulation of appropriate opinions.

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1. INTRODUCTION

Both conceptually but mostly praxeologically, the audit represents a control and analysis manifestation of the financial performances correctness starting from what the financial situations and accounting syntheses show. Thus, International Accounting Standard (IAS) put together the fundamentals for the International Audit Regulations by the specialized European Union organisms (Comité Réglementaire de l'Audit).

2. METHODOLOGY

The more and more obvious presence of audit specific methods in the control area determined the apparition of some specific internal regulations which, together with the IFAC Standards, settle the rigors and key-elements that entities (auditors) which develop such activities must take into consideration.

Below, we intend to develop a few arguments that target the audit, from the point of view of the quality of this activity while carrying out the audit missions.

Insuring audit's quality involves, according to IAS, elaborating procedures which allow the assessment of the audit activities along the ongoing of the entire audit process, including the way in which the recommendations stated based on the audit's ascertainments are implemented. These procedures must answer to a set of audit characteristics, whose gradual fulfillment confers it a certain quality, as follows:

- the significance/ importance of the domain subjected to auditing
- the objectivity and correctness which represented the base of the expressed evaluations and opinions
- the ampleness and the complete character from the planning and ongoing development of the audit process
- the reality and the exactness of the ascertainments, conclusions and recommendations and other aspects presented in audit reports or in other audit documents

- the clarity in presenting audit reports and other audit documents
- the efficiency of the audit process
- the efficiency and the impact of the audit's results.

Respecting own work procedures, utilizing a standardized audit documentation, the positive impact of the audit on the activity developed by the audited entity, the constant re-evaluation of objectives and of the coverage area in order to insure an efficient use of the audit resources, reaching objectives in an efficient time manner, fulfilling the applying conditions for IAS and respecting the ethic conditions from the IFAC Ethic Code (integrity, objectivity, professional competence and professional behavior) but, first of all, the chance given the audited entity that, based on the auditors ascertainments, conclusions and recommendations, to be able to initiate reparations in useful time, all that represents the main request which, fulfilled, insure the reaching of an optimal quality standard of the audit.

Indubitably, the professional argument, the value and the acumen of the individual auditor are always important, sometimes more important that politic, books, procedures, guiding lines and practices that they should follow. Still, it remains of great importance to align to the control procedures of the entity in order to make auditor's work unbreakable.

On the other side, maintaining an optimal level of quality for the audit represents an imperative element which, in our vision, can be accomplished in at least two different ways: **through a continuous evaluation during the audit procedures**, which consists in guiding and informing the auditors, reviewing the work documents put together by the auditors and permanent monitoring of the audit's specific activity and **through the examination of the audit reports**, put together by auditors to observe the way the revision work was handled for each stage of the audit process, such as planning, execution and reporting.

On the first tier, it must be marked that, beside the permanent guidance from which the auditor must benefit, given both by the administrative staff and the more experienced auditors, he must perform in:

- understanding and application of the International Audit Standards;
- knowledge and appropriate application of the communitarian and national regulations specific for the audit fields;
- internalization of the regulations from the procedures manuals, specific for the audit fields;
- knowledge of the audit plan, programs and verification lists;
- application of audit techniques according to the nature of the audit activities and the budget assigned for the mission.

In this context, good practice examples in the audit activities, understanding the work by all team members, the integrity of the assisted auditors within the audit team from which they will be part, and also assigning an experienced member from the audit team, in order to coordinate the activity within the team, represent convergence conditions towards an optimal qualitative audit.

On the other side, along the audit activity, consultations with experience persons must be conducted, when it becomes necessary to identify fields with greater level of specificity or when the approach of a work way in order to solve complex or unusual problems, commands it.

Regarding the second tier, we highlight that the revisal activity represent a very important stage, concerning both the work volume implied but especially, the approach

of aspects retained by the auditor and enunciation certain conclusions and pertinent recommendations on which the audit opinion can rely.

Thus, taking into consideration the three stages of the audit which impose a revisal activity, respectively planning, execution and reporting, the main convergence factors towards an effective realization of this action can be enounced as follows, if:

- the audit techniques and procedures specified in the audit plan were applied;
- the conclusions are sustained with adequate audit proofs, that are reliable, relevant and conclusive;
- the objectives established through the audit plan were fulfilled;
- the conclusions are according to the results of the work conducted and sustain the audit opinion;

Experience and practice have showed that an essential premise in realizing a quality audit is based, apart from the aspects analyzed above, on an optimal assessment of the internal control system belonging to the audit entity.

It is well known that the structure of the internal control system is influenced mainly by two important factors: the **control environment** and the **control procedures**.

In assessing the control environment, the auditor takes into consideration a series of information concerning the organisational structure of the entity, the level in which the entity's management considers or not these controls and the managerial politics in elaborating the procedures, the instructions and forming the personnel. Where the control environment has deficiencies, it is unlikely that the procedure will be good or useful.

If the general control environment is weak, the auditor can rely on the internal controls and will have to put an extra effort in order to obtain the probatory elements which will fundament his audit opinion. If the general control environment is good, the auditor can rely on this control but, he will also have to make an extra assessment of the economical operations category in order to check if the controls are actually efficient or not.

In assessing control procedures, the auditor will have to consider two types of controls: preventive control and detection control.

The preventive controls are meant to stop errors and irregularities from occurring by imposing practices that will involve for example, situations in which the personnel of the audited entity to posses written work procedures, manuals with the entity's policy and instructions etc.

Detection controls identify and check for errors, if these occur, check to see if the entity has reconciliations between the paid and unpaid personnel, bank reconciliations etc.

In order to assess internal controls, the auditors must take into consideration:

The hierarchic/ administrative control: auditors check to see if there is a high risk of supervision, if the management reviews the control. Auditors check to see if the exception reports were reviewed (reports concerning errors from the payment of salaries chart, management reports) and if significant detours were taken into consideration.

Organizational controls: auditors check the entity's structure and if there are well made manuals and procedures and also they check the optimal functioning of the detection controls, if such.

Operational controls: these types of controls target the existence of verification procedures for documents in order to compare them with other documents, such as acquisition orders with invoices, reconciliation between salaries charts and the personnel data base

Physical controls: these controls check to see if sufficient controls have been conducted, to prevent unauthorized personnel to enter in the automatic system. The auditor must check if the entity has passwords included and a restrictive access for unauthorized users and also the frequency on which the access passwords are changed.

Even though internal controls are well made, there are certain risks that the auditor must consider. For example:

- there is the possibility that the control procedures to be avoided by those who conduct the controls
- the incoherent application of control procedures caused by human errors and by a wrong professional reasoning or negligence
- the incapacity of the standard control system to verify unusual economical procedures
- the inefficiency of the control caused by modifications in the economical operations and the developing of un-standard procedures.

The quality in the audit activity is considered today as vital. The quality implies the growing number of auditors but also the raising complexity of the operations and entities being audited. Even more than that, in the European Union's context, there are strict rules and regulations for controls, in order to insure that all European Union's resources, activities and programs (including financing such activities) are taking place according to regulations and, as much as possible, economically, effectively efficiently. A way to insure the implementation of such approach is based on the necessity to establish quality control systems which can offer a series of benefices, respectively:

- a prompt and highly qualitative audit activity
- solid and believable reports and results
- the trust from the audited, the power factors and the public in the audit process
- more reduced risks for actions in court
- effectiveness, efficiency and economy in the audit process
- continuous formation and amelioration of the audit activity and process
- clearly defined, communicated and documented audit activity
- the responsibility of the auditors at all levels and a higher work satisfaction for each.

3. CONCLUSIONS

A well done audit work will increase the possibility to have trust in amendments and the recommendations will be actively taken into consideration by the audited entities and decision factors. In the other side, the auditor's reputation for a constant high quality activity helps to insure that the main decision factors, the mass communication ways and the public, in general, awards the deserved attention to his amendments and recommendations.

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