THE IMPORTANCE OF ACCOUNTING INFORMATION QUALITY IN THE PERFORMANCE OF STATUTORY AUDIT

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Abstract: In our country, internal audit is a new concept, practiced on a micro-economic level. Originally, “to audit” could have been translated as “to check the financial statements of a company”. The purpose of a statutory audit is to determine whether the organization provides a fair and specific image of its financial status, by examining information such as accounting records, bank balance, and financial operations.For a piece of accounting information to be relevant to auditors, investors, it has to support users form forecasts on the outcome of past, present and future events, be always understood or confirm and correct the trust bestowed.In the equation “accounting information – users' decisions”, defining the concept of quality represents the main concern of the accounting normalization bodies, as referees who make the rules of the accounting “social game” between producers and users of accounting information. The literature in the field devotes to the Anglo-Saxon conceptual frameworks the primacy in defining the quality features of accounting information which it ranks depending on relevance into two groups:

- one specific to the accounting information (relevance, reliability and comparability);

- the other specific to the user (clearness).

The quality of information is characterized by speed, frequency, accessibility, timeliness, understandability, reliability, relevance and age.Audit is not an exact science, it is based on professional reasoning to reach conclusions and decisions and making decision before uttering an opinion.

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2. INTRODUCTION

Nowadays internal auditing is well-organized and it is available in over 80 national institutes, members of the Institute of Internal Auditors (IIA), with its seat in Orlando, USA. This activity takes place in compliance with the provisions of International Standards on Internal Auditing advanced by the Institute of Internal Auditors (IIA) and defined as follows:

According to Ana Morariu, Cornel Dumitru Crecană „internal audit is an independent and objective activity of protection and consulting designed to increase value and to improve the operations of an organization.

It helps the organization to achieve its objectives, by assessing with a systematic and methodical approach its risk management procedures, its organization control and management/government procedures and making suggestions in order to consolidate efficiency."

Initially „to audit" could be translated by „checking the financial statements of an enterprise". Presently this term also means to study an enterprise in order to determine if generally checked financial statements comply with certain criterions (financial audit), in order to improve its performance (operational audit) or to determine if the examined entity complies with certain procedures, regulations defined by a superior authority (conformity audit). Auditing is not a recent activity as it was used since Charles the Great, king of the Franks.

After 1990 in Romania the word audit entered due to the desire to connect Romanian market economy regulations to international ones. Therefore appeared quality Audit performed by quality experts trained by the National Management Center for Audit Quality, Financial Audit, Technical Audit, etc.

At the beginning of the last decade of the 20th century Joseph. J. Morris, President of the Institute of Internal Auditors in Great Britain asserted that „it is clear for people working in Internal Auditing that it plays a vital role in helping the management to take hold of internal control".[1]

Throughout time there were several definitions, the last one being announced in 1999 by I.I.A. which was based on a study performed in Australia. Therefore, internal audit is seen as an independent and objective activity which provides protection to an organization in terms of operation control degree, it guides her in order to improve its operations and to add value.

3. FEATURES OF ACCOUNTING AND STATUTORY AUDIT

The quality of audit works requires the auditor to consider mainly the provisions of National Audit Standards and then the effective auditing possibilities. The authenticity of financial reports, according to these normative acts must be appreciated based on relevant and sufficient audit evidence.

According to its purpose and mission internal audit represents a specific autonomous activity which requires professionalism and correctness. At the same time it is an action optimization instrument necessary to achieve organization activities serving the management, various interested persons and the government.

[1] Conference of European Confederation of Institutes of Internal Audit, April 1992 – RFAI, no. 112

Recommendations to management have a great contribution in meeting objectives, in using efficiently financial recourses available to public entities and in risk management.

The role of internal audit is that of making investigations, of collecting evidence to sustain observations, to inform the management on the dysfunctions within the organization but also of providing assurance that all the good internal control measures have been taken in order to meet the objectives set by the organization.

By definition accounting represents the registration, classification and synthesis of economic events in a logical manner with the purpose of supplying financial information to the decision process.[2]

The accounting function consists of offering some types of quantity information to managers for decision taking. In order to supply relevant information, accountants must have thorough information regarding the rules and principles on which accounting information processing is based.

The most important fact during an audit is whether the registered information is reflecting correctly the economic events which took place during the accounting period. Any auditor must understand the accounting rules which are used as assessment criterions for the proper registration of accounting information.

The general accepted accounting principles are the rules applied in financial statements audit.

The auditor must have great experience in collecting and interpreting audit evidences but also a good understanding of accounting.

Ever since the foundation of the European organization, the accounting profession has revealed its availability of making a unique market for accounting services. With respect to this issue there was a permanent dialogue between the European Commission and the European Federation of Chartered Certified Accountants (Federation des Expert Comptable Europeean : FEE).

A first step was represented by the release in January 1996 by the European Commission of a document entitled Carta Verde: „ Role, Position and Responsibility of the Statutory Audit in the European Union”.

Within this context one must emphasize that the auditors have to play an important role and they are empowered by the law to perform statutory audits. This mission fulfils a social function and presents an opinion on the reliability and correctness of financial statements of audited entities.

Despite background, economic, legal and cultural differences, the core of accounting profession activities includes at least the following missions:

• Statutory audit (legal)
• Accounting survey
• Merger and acquisition survey
• Contribution in kind survey

The Fourth Council Directive contains the requirements for statutory audit of annual financial statements by persons authorized to audit for this purpose, according to European requirements.

Less severe rules are provided for the small and medium enterprises so that member states an decide that the obligations regarding the drafting, auditing and

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[2] Audit. An integrated approach, 8th edition, ARC Publishing House, Chisinau,2003, p 14.

publication of financial statements be less severe or they can exempt small companies from observing the requirements of annual accounts auditing.

It is worth mentioning that these exceptions are not accepted by the Directive for publicly traded companies, regardless of their size.

The term “statutory audit” is used in the European legislation and it refers to the checking and certifying of financial statements by independent accounting professionals usually chosen or nominated by shareholders.

The purpose of a statutory audit is that of determining whether the organization is offering a correct and precise representation of its financial position by examining information such as accounting registrations, bank balances, and financial transactions. Auditors are entitled to access at any time company related accounting information. Data must be always available because small and medium enterprises are relying on rendering them by information means.

Companies must make sure that their data bases are protected against operational incidents, hackers, power failures and a series of natural disasters. Progress in information ethnology has allowed enterprises to store great quantities of data.

In order for an accounting information to be relevant to auditors it has to help the users in making predictions about the results of events in the past, present and future, to be always understood or confirmed and to correct the granted trust. Information can make the difference between decisions by improving the decision-makers abilities. Also, for accounting information to be relevant it has to be prompt.

Information which is no available when required or is available much later loses its value and has an impact on the correct forecasting probability over the results of some past or present events. Accounting is a representation discipline.

Precise mirroring of economic and financial reality and its social, human, institutional consequences are the definitive attributes of accounting for the improvement of which are fighting and working specialist in “account science”.

According to the European Union Financial Regulation no. 1605/2002 (art. 203,204) the accounting of each legal entity is operated according to certain accounting principles and rules (policies) originating in the “assessment convention”, according to which a correct currency expression is “the golden rule” of accounting.

Accounting identifies items in financial statements which exist in the real world. Thoroughness is an important precision and reliability representation issue because in financial statements the position and financial changes are represented precisely so neither of the significant financial functions are lost nor distorted. Thoroughness is defined as “including in the reported information of all that is necessary for the precise representation of relevant events”.

Quality information is one of the competitive advantages for an organization. The extension of accounting information market due to the demand and offer relation is the expression of accounting development, which has as objective the production of financial statements - with respect to the financial position of the enterprise, its performance, changing of the financial position and changes in equity - useful to a large range of users in taking economic decisions.

In the equation “accounting information - user decision”, defining the quality concept represents the main preoccupation of accounting normalization bodies, as arbiters which make the rule of the “social game” of accounting between the producers and users of accounting information. Specialized literature dedicates to Anglo-Saxon

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conceptual frameworks the initial role in defining the quality characteristics of the accounting information which it divides as importance into two groups:

- one specific to the accounting information (relevance, credibility and comparability);
- another specific to the user (intelligibility).

The quality of information is characterized by:

• Speed – sets the time necessary for information to reach from the issuer to the receiver;

• Frequency – represents the number of information of the same type in a time unit determining information rate;

• Accessibility – depends on the communication means, on the personnel training degree, of storage means, etc.;

• Actuality – represents the information capacity to present recent events;

• Intelligibility – indicates the property of some information to be understood by the users;

• Reliability – represents the capacity of the information to provide a real and certain image of an event/object;

• Pertinence – indicates the quality of information to give answers in a given situation;

• Age – it is expressed by the time between collecting the information until the enforcement of decisions taken on their grounds.

Auditing is not an exact science; it is based on the professional reasoning of reaching conclusions and taking decisions before expressing an opinion. Between the elements which have an impact on the quality of an audit we specify:

-culture within an audit company (management and environment which promotes and acknowledges quality)

-professional qualities of audit partners and of personnel (observing ethical principles for the personnel in the audit commission)

-efficiency of the audit process (applying a well-structured audit methodology and refined by team work efficiency, unlimited by financial pressures)

-reliability and utility of audit reports (delivering clearly auditor’s opinion)

4. CONCLUSIONS

Statutory audit has an essential role in granting credibility to companies` reports because the users of financial statements see the audit report as a reliability guarantee. Trust in financial information is essential to encourage investments. By annual financial statements accounting grants to managers the necessary information for an efficient enterprise management and to external users the possibility of knowing its economic and financial status. Auditors are called to give credibility to the accounting information and the users, especially bankers take it into consideration. If credibility is doubted and the accounting profession losses its public trust, it could certainly lead to the events we are living today.

The European Directive 43/2006 has altered the former Directive from 1984 regarding statutory audit. It is a completed version improved with legal provisions connected to the monitoring entity of the audit activity. It has become necessary due to the events which took place on a worldwide level. All activities are mirrored by accounting into financial statements and information builds up on the grounds of this data derived from the business environment. Therefore, accounting must provide information as exact, correct and honest as possible.

The implementation of Directive 2006/43/CE into the Romanian legislation was made by OUG of 90/2008 regarding the statutory audit of annual financial statements and of consolidated annual financial statements published in the Official Gazette of June 30th 2008. By this normative deed it was set up the Council for the Public Monitoring of Statutory Auditing.

The Council for the Public Monitoring of Statutory Auditing was operating within the Ministry of Economy and Finance until December 31st 2008.

Starting with January 1st 2009 it was operating within the Chancellery of the Prime Minister. OUG 78/June 24th 2009 has altered this provision and stipulated that CSPAAS shall operate within the Ministry of Public Finance.

„Based on all of the above we consider that internal audit should offer to the manager support for keeping an effective and efficient internal control, for assessing the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, processes, the protection of the patrimony, the observation of laws, regulations and contracts, evidencing the eventual significant weaknesses of control processes and proposing recommendations for improving internal control”.[3] Decision takers need information as correct as possible regarding the organization; therefore there is the need for an independent audit which eliminates the possibility of taking some wrong decisions and manipulating information.

By the information made available to the management the audit affects the decision-taking process and is a starting point in elaborating management strategies and policies designed to increase the efficacy and efficiency of the organization.

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