

METHODS AND TECHNIQUES REGARDING THE AUDIT OF FINANCIAL STANDING

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Abstract:

In a world of businesses situated on a market that is increasingly active on the European level as well as on the global level, the audit of financial standing supposes a real and varied research domain having favorable benefits not only in the interest of the Romanian business society but also in the interest of the business societies out of the Romanian territory.

From the methods and the techniques used in the audit of financial standing of an entity, we can obtain information which are used by various groups with opinions, knowledge, and divergent interests as follows: managers, investors, financial creditors, commercial creditors, clients, producers, employees, the government and its institutions, bankers, financial analysts, public, business community, and other entities that rely on the objectivity and the integration of the audit of financial standing

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1. Introduction in exerting the accounting activity a special tool is represented by the financial auditor. This supposes the promotion and implementation of some well harmonized methods and applied towards entities not only on a European level, but also on a global level. Thus, the audit is a top domain for the economical-financial theory and practice. Through the audit of financial standing it is attested the conformation to active legal articles, the conformation to the principles of managerial performance, referring to the efficiency and the effectiveness of the entity's audit.

Through the methods and the techniques of the audit of the financial standing we understand the expressing of a professional accounting independent (auditor), of the fidelity accounting and financial representations, representing the key base for the approval and credibility of financial transactions processed in financial standing, offering the guarantee of a piece of accounting noble information through checking and attesting the entity's audit.

Due to the largeness and the complexity of the operations and transactions effectuated by the economical entities, as well as the development of the economical business environment they have crucially determined the evolution of the audit's activity.

The word audit has its origin in the Latin "audire"- which means "to listen and to further transmit", in English language it has been taken as being "the checking or an accounting auditing". From various researches, it has been deduced that from the third century I.H, the romans governments designated persons (questeurs) in order to control the provinces' accounting. The denotation of "audit" was different that time from the denotation it has nowadays, as the word started to become known and used from the beginning of the XVIII th century, transformed in time by the Anglo-Saxon practice, it represents today, strictly an accounts' control, effectuated by independents experts called auditors, who express their professional opinion, responsible and independent on the elaboration's manner and the presentation of an entity's financial standing.

At the beginning, the audit was an assembly of methods, procedures and techniques.

An important role in the audit of financial standing it is the activity of the intern audit. In 1941, J.B.Thurson, the first president of the International Institute of Intern Auditors, declared with an amazing prediction that the most brilliant perspective of the intern audit would be the 'managerial assistant'. In 1991, Joseph J. Mossos, the president of the Intern Audit Institute in Great Britain takes the same remark but in more exact terms. It is clear for those who work in the Intern Audit that this has a vital role to be judged, helping the administration to take the lead of the intern control.

After the years 1970, the word audit was used to designate missions of checking the accounts, and then it spread up to controlling and attesting financial standing, and therefore the audit becomes a mature and developed domain which opens various ways of research.

In Romania, the activity of financial audit was regulated by the publication in the Official Monitor of the Emergency Ordinance nr 75/01.06.1999 which constitutes juridical border for organizing the activity of financial audit and professing independently the accountancy. Through Emergency Ordinance no. 75/1999 was set up the Financial Room of the Auditors from Romania, juridical autonomous person, as a professional organization of public utility without a working purpose.

The Room of the Financial Auditors from Romania elaborated the Audit Standards and the Code regarding the ethical and professional conduct in the financial audit domain, after the Federation of the International Accountants

From this matter the financial accounting audit interposes between the producers and the users of accounting information, through high class professionals (auditors) which take the responsibility of attesting the financial standing by reporting to a standard or to a legal quality norm. Through the publication of the Financial Minister's Ordinance nr 403 from 22.04.1999, for approving the accountings' regulation according to IVth and V-th Directive of the Economical European Community, it has been introduced the indispensability of effectuating the financial accounting audit for all the commercial societies, autonomous range, public institutions, banks, investment funds, tec, which accomplish certain criteria provided in this Ordinance. Thus, by effectuating the audit on the financial standing, many entities could also prevent the insolvent, closed out, bankruptcy and the loss of some financial resources, through correct, real and honest information regarding all the participants to the economic and social life.

Initially, the word "to examine" had the signification of checking the financial standing of an enterprise but step by step this word took the signification of studying an enterprise in order to appreciate the transformational process, the transactions and the financial standing (financial audit), in order to ameliorate the performances (operational audit) or to judge the inventory (inventory audit).

2. The audit of financial stading it's an action domain in the financial accounting. Nowadays, the audit stands for the checking of an entity's accounts, under the name of financial audit leading to certification.

According to national norms of audit a mission of the audit of financial standing has as a goal the expression of the auditor's opinion regarding the financial standing has been established, in all their denoted aspects, according to the international accounting references. The audit of financial standing represents the procurement of a loyal image of annual financial standing which represent- the accounting audit, the profit and loss account, the situation of fluxes and bursary and the accounting notes', through the audit, these must provide information that present the results and financial standing of an entity., it reflects the economical reality of the accomplished transactions, they are impartial, prudent, relevant and trustful. In order to accomplish the audit of financial standing, the articles of National Accounting Standards relevant and / or International

Accounting Standards in order to offer a loyal image of the heritage, of the profit and the bursary flux. The application of certain economical indicators regarding the financial standing can offer the auditors a clear image in short time.

The economical indicators that can be applied by the auditors are:

- the general dissolution = (the active circulating/ current debts)X 100%

It represents the measurement in which the current passives can be covered from the current actives

The general dissolution must touch an optimum level when it is over 100%

- the heritage solvability= (the proper capital/ total passive)x 100%

The heritage solvability must be at an optimum level of over 30% in order for the entity to be solvent.

- the rate of the gain's profitability = (The gross profit / Total gain according to the period) x 100%

- the rate of the capital's profitability= (The gross profit/ the proper capital) x 100%

- the period of collecting the claims = (commercial debtors/ Sales)x 365 days;

- the period of discharging the commercial debts= (Commercial Creditors/ Windfalls) x 365 days

- General rate of debts = Total debts/ Proper capital

- Global solvability= Total actives/ Total Debts

It indicates the covering of total and active debts. In terms of value, it is equal to the net accounting active, the proper capital

- the proper working capital = proper capitals/ the active net immobilized;

The indicator expresses the measurement in which the proper sources, left by the society's shareholders, covers the investments realized on a long term (credits and the postpone in paying the providers and the debts), for financing the assets

The International Audit Standard nr 200 (ISA200) "The general objectives of the independent auditor and his performance regular to the international standards of Audit has the purpose of improve the degree of confidence of the financial standing users as well as establishing norms and instructions for professionals for the audit of financial standing.

Through the audit of financial standing their credibility increases in front of the users, without them understanding that the opinion of the auditor represents a certainty of an entity's future efficiency or a entity's leadership.

During its mission, for the audit of financial standing, the auditor follows the obtaining of the proving elements, in order to allow it their certification, using various procedures and techniques regarding:

- control for the justified pieces and plausibility control;

- physical observation;

- analytical exam ;

The proving elements constitute those sufficient and right components collected by the auditor through the techniques and the procedures, with the purpose of fundament his opinion and at the final of the operations effectuated by the financial auditor. The proving force of the collected elements by the auditor depends on their nature and origin, their used techniques and procedures, necessary to assure a credibility based on the quantity and the quality of the obtained information. The techniques and the methods used in obtaining information and proving documents are being overlapped generally by multiple forms, using them individually (for example the direct confirmation of creditor's and debtor's balances which takes place in the inventory), or in a technique, like a procedure that takes part from this one (based on intern audit)_ the reception of merchandizing's stock- it's accomplished by the sampling technique,

meaning the totality of the entrances from a period a product is extracted and it is verified if it has been well taken.

The method of direct confirmation is one of the best known methods used in the audit of financial standing.

Through the method of direct confirmation, the auditor asks a third party, who has commercial relationships with the entity, to directly confirm the existence of: commercial relationships, existence of balances, etc. This procedure starts with the agreement of the leadership. Thus, through the Norms regarding the organization and effectuation of the inventory (Ordinance) for the leverage and the obligations of the examined entity, the checking must be verified through the transition of statements for confirmation.

Checking the credits' balance, money disponibilities, financing from the leasing institutes will be done by examining the statements, drawback's credits graphiques and drawback graphics of leasing and comparing them with the data from the accounting information will be asked regarding the reliability of the business partners, from the Payment Incidents (CIP-BNR).

The real estate will be checked by observing the statement from the land register, verifying if there are involved or not by tasks

Regarding the means of transportation, the identity card will be checked in order to see if the entity has taken goods in the leasing system. the stocks of staple, merchandise, materials, inventory objects, consumed materials, will be checked with the help of the inventory lists and by physically observing them to the deposits owned by the examined entity.

The leverage and the debts will be checked by elaborating the statements which will be delivered through various transmitted channels and confirmed by the creditors and also by the debts. The examination of the debts and leverage regarding the state budget and the budgets of the social assurances will be accomplished through written confirmations.

From the juridical division will be obtained documents and information regarding the litigation and the cases that can influence the way in which the examined entity develops its activity.

The requirement of confirmation is composed on paper with the heading of the examined entity, contain a text established hand in glove with the manager, in which will be applied the necessary information in order to accomplish the examination of the financial standing.

The method of the direct confirmation is used in examining the state audit as well as in the contractual audit. It is indicated in all cases when it can be accomplished and the most often used. Other methods used by the auditors in the financial standing are:

- the method of examining the previous events of closing the financial exercise;
- the supplementary exercises of checking the annual counts.

The most used techniques by the auditors in examining the financial standing are:

- sampling technique;
- interview technique;
- analytical examination technique;

Sampling technique- due to the number of operations effectuated by the enterprise, the auditor, using the sampling technique adapted to every situation. The auditor can use, generally, two types of sampling: static sampling and non-static sampling, based on his professional experience;

The auditor has to explain:

- what he follows to demonstrate, to prove

- that the errors do not go by the maximum acceptable rate. Using this method is essential and it allows the auditor to get to a conclusion vigorously

Interview technique- is an investigation method destined to a deep knowledge of human behavior in applying some procedures of the intern auditor or accounts, it supposes a discussion or a dialogue between the one who takes the interview, interviewer and the subject interrogated, called interlocutor. The interviewer has to be a skillful person, instructed in this matter and with certain qualities: innovation, honesty, correctness in writing down the responses, adaptability, does not be aggressive, but neither too sociable, etc.

The interview has a certain topic and a purpose, both being previously established, in a precise elaborated program with the help of some rules adapted in the investigated

Analytical examination technique- the analytical examination establishes only the errors or the important omissions without bringing through itself the proving elements of the errors or the established omissions, these will be determined through other techniques which allow them a more precise examination . this technique, based on its informational system – documents- which exists and circles through the enterprise, shows its special importance for the efficiency of the financial audit-accounting. The documents, as an informational support, even if it does not express the facts, existence and their content, it expresses on one hand the situation when they were elaborated and on the other hand the organizing level of the internal audit. The procedure of the analytical examination technique presents the advantage of being used by the auditor in different phases of accomplishing the audit of financial standing.

The technique of testing the systems and accounts- the auditor identifies the systems and the accounts from the orientation phase and planning the financial audit in order to establish from:

- systems and the procedures of the internal audit of the enterprises will evaluate them with the purpose of establishing the reliability;
- the significant accounts through their own value and nature can hide errors or discrepancy, whose relative importance is directly related to the regularity and sincerity of accounting, influencing significantly the annual accounts.

The technique of examining the financial standing- annual accounts (balance, profit and loss account, annexes), are the synthesis accounting documents through which the auditor expresses his opinion.

The exam of annual accounting has as objective the checking of:

- the fact that balance, profit and loss account and the annexes are coherent , like the data from the accounting , are presented according to accounting principles and active regulations and they take into account the previous events of the closed date.
- the annexes have all the important information on the standing, financial and the obtaining results.

The assembly examination of the balance has as main objectives checking if the balance, profit and loss account, annexes, are:

- coherent, taking into account the general knowledge of the enterprise;
- presented after accounting principles and active regulations;
- taking into account the previous events of the closed date;
- presents a loyal, clair and complete image of:
 - a) keeping the daily and correct accounting
- the existence of the heritage's inventory, of a correct development and taking this result in the balance
- the correct taking over in the checking balance of the data from the synthetically accounts and the concordance between them and the analytical accounts

- the correct effectuation of the operation connected to the recording or modification of social capital
- the correct evaluation of the heritage according to active regulations
- elaborating the balance on the base of checking the synthetically accounts
- b) the results from:
 - elaborating the profit and loss account having the data from the accounting regarding the reported period
 - establishing the net profit and their destinations proposed to general gathering according to legal dispositions
- c) financial standing:
 - the existence of guarantees for the loaning and the credits obtained or given by the enterprise
 - the existence of financial resources

The auditor must obtain proving elements, sufficient not only qualitative, but also quantitative, to ensure that the annexes in their content as well as the information provided are correct and honest, and they express together with the other synthesis documents, a loyal image of the examined entity. He is obliged to check if the balance, the profit and loss account, the notes, the treasury flux were correctly elaborated according to active regulations. If they contain important and necessary information by analyzing and understanding for the interested users by the situation of the examined entity. During the action of examined the entity, the auditor respects the conceptual accounting circumstances according to International and National Standards of Accounting.

The auditor must observe if the activity of the entity continues in the future financial exercise. Thus, the financial examined situations must offer the comparison to heritage elements for at least two financial exercises, the methods of evaluating and presenting are identical to the ones from the previous year, and if there are modifications, they must be introduced in the notes attached to the balance. After having examined the financial situations through the methods and techniques used, the auditor groups the elements of active and passive resulted from the inventory and introduces the in an inventory register valued and doing a comparison and expressing his own opinion about the accounting values and the values resulted from the inventory

3. Conclusions

The audit activity is seen as a professional examination of information and it offers an augmented responsibility of the users, who are based on objectivity, integrity, and professionalism of the financial audit, who have accomplished the audit of financial standing. Through the audit of financial standing it is offered a safety in order for the uncoiled operations and the decisions to be taken under control. The audit activity helps the entity to reach its goals evaluating its risks management process, of control and of government and makes proposals in order to improve the management efficiency from the leading entity. The auditor activity is essential for the success of a business, for protecting the shareholders and the employees of this entity, because the ones who lead the company, as well as the employees can receive information regarding the financial situation of an entity in which they do their activity.

Because the activities uncoiled by the audit entities are becoming more and more complex, the financial auditors must accomplish multidiscipline approaches, presupposing the allocation of knowledge from large domains. The techniques and the methods used in collecting the proving elements are used individually or in a certain technique, like a procedure that is part of it. They play a special role important in the audit activity.

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