RISK ASSESSMENT IN AUDIT OF FINANCIAL STATEMENTS

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Abstract:In economic practice, the credibility of economic transactions is a major point of interest for any user of accounting information. Thus, accounting products, accounting information synthesized in annual financial statements must reflect a true and fair view of economic reality. That is why we try to keep a close connection between the financial audit procedures and the fair image in the accounting. During audit, an essential issue is the identification, assessment and management of audit risks. For an auditor the term of risk acquires new valences so that the risk will be treated in terms of mission and audit objectives and thus the audit risk assessment will be the starting point of any audit .In this paper the author try to combine the theoretical and practical elements regarding the risk assessment in a audit.

Keywords:financial statements, audit, risk, international audit standards

INTRODUCTION

The notion of risk for a financial auditor gains a new valence, meaning that the risks are viewed through the mission and audit objectives.

The definition of risk has many variants found in the literature. Thus, it is "the possibility of reaching a danger, having to face a trouble or bear a loss" "the risk is the practical threat that an event will affect a company's ability to function and to pursue its strategic objectives. The risk generally arises not from the probability that something will not happen, but from the possibility of something wrong "(I. Mihuţ et al., 2003).

Also, "economic life is governed by uncertainty and any projection of future events is, by definition, hit by the risk of not being realized in the parameters" He is permanent and does not function The risk is a challenge for managers, which means that they take a clever risk. In fact, leading a successful business means taking advantage of the most correct business opportunities according to the financial and managerial possibilities of the company.

MATERIAL AND METHODS

Thepresentpaperistheresultofthethoroughprocessing ofinformationgatheredafter having takenintoconsiderationa seriesof worksacknowledgedasrelevantfor thechosentopic,aswellas the careful examination of the role of audit. This paper tries to contribute to understanding the risk.assessment in a audit

RESULTSAND DISCUTIONS

At the beginning, audit missions focused on finding errors and fraud by carefully checking the economic transactions of their accounting records that took place during a financial year. Now the audit missions focus on expressing an opinion on the true image of the patrimony , the financial situation and the results obtained by the audited company, so that the possibility that the information recorded in the accounting and especially in the annual financial statements can reflect the economic events that really took place in a certain period of time. The auditor's mission is intensified to identify possible manipulations of information provided by the financial system, to prevent creative accounting or fraud.

Information provided by specialists in this area is necessary for all categories of users: managers, shareholders and associates, tax authorities, bankers, trade union organizations that sometimes have conflicting interests. That is why the results of the audit work must be accurate and drawn up on the basis of the legal documents in force. They must ensure the quality and consistency of the accounting system and are designed to ensure fair, honest and complete reflection in the balance sheet and the profit and loss account of the heritage, financial position and results of the year.

According to the International Auditing Standards and the National Rules issued by the Romanian Accounting Experts' Corps, the steps to be followed by an auditor prior to the preparation of the audit report on the financing situation would result in the following steps:

- mission acceptance
- mission planning
- evaluation of intense audit
- account verification
- analysis of financial statements
- final mission assignments
- audit report

Each step presupposes, however, cloud clusters of works that contribute to obtaining the evidence needed to form the audit opinion

The objective of a financial statement audit is to enable the auditor to express an opinion on the financial statements.

In accordance with International Accounting Standard 13, Audit Report on the Annual Financial Statements, the audit report must contain the following elements:

- proper title
- recipient identification items
- introductory paragraph
- a paragraph describing the responsibility of the entity's audited entity for the financial statements
- a paragraph describing the auditor's responsibility
- the auditor's opinion
- other reporting responsibilities
- the auditor's signature
- report date
- The auditor's address.

The auditor's obligation to determine whether the financial statements present significant misstatement of presentation also derives from the significance threshold concept. In the audit, the materiality threshold is related to information and decision-making. and is used both in the planning and audit phase and in assessing the effect of the identified distortions on audit and uncorrected errors on the financial statements.

Decisions are taken by users of financial information, and their goals are different, so the audience needs to know the likely users of the information provided by their clients and to imagine what decisions they make on the basis of this information.

The auditor establishes the materiality threshold at a certain level, being convinced that users of the financial statements know that the materiality threshold is an element that influences the content of the financial statements, the auditor's work and his opinion on the audited financial statements.

The materiality threshold for certain classes of transactions, account balances or presentations is set in situations where it is estimated that amounts lower than the general significance threshold will influence economic decisions.

Risk assessment and materiality are important audit planning activities. Material is determined to determine the acceptable level of misstatement of financial statements that, taken individually or aggregated, should not influence the economic decisions of users made on the basis of the financial statements.

Any audit engagement involves risks, and identifying them from the planning stage of the work is one of the auditor's main objectives. It has to be said that it is a difficult activity and does not provide full security. To provide a risk level result, it is first necessary to identify them. International Auditing Standards address five main categories of risk, namely:

The inherent risk is the possibility that information about an account balance, transaction category, or disclosure is materially misstated, assuming there were no adjacent internal controls At this level, the control activity and its ability to detect irregularities are abstracted. There are risks to which the enterprise is subjected through its work and its actions.

The control risk is the risk of erroneous declaration that could occur in the balance of an account or in a category of transactions and which could be individually or collectively significant with other information cannot be prevented or detected and corrected over time useful for accounting and internal control systems. Control risks are the irregularities and errors that are not discovered during the control. The control risk assessment is based on the information system used, how to organize and maintain the accounting, how to organize the control system, how to organize and apply the procedures, etc. The control risk cannot be zero, as internal control cannot provide full security for preventing or detecting errors.

The inherent risk and control risk exists independently of the audit activity and cannot be audited by the auditor, but it can be evaluated and determined to design substantive procedures that will keep the risk of undetectability to an acceptable level.

The risk of non-detection is the risk that an auditor's procedure does not detect any erroneous information that exists in the balance of an account or class of transactions that could be individually significant or when it is aggregated with erroneous information from other balances or categories of accounts

The sampling risk is the risk that based on a sample, the auditor's conclusion will be different from the conclusion reached if the entire population were subject to the same procedure. Combined risk is sometimes used to designate the assessed risks of material misstatement of the financial statements

The acceptable audit risk determines the extent to which an auditor is willing to accept that the annual financial statements may contain material misstatement. The formula underlying the risk-based audit model is the following

Acceptable audit risk = Inherent risk x Control risk x Risk of non-detection

It is a model used to make the decision on the amount of evidence required for each class of transactions. The auditor must determine the acceptable audit risk level for each mission. There is a close link between the acceptable audit risk and the risk of non-detection. When the auditor decides to reduce the acceptable audit risk, then the risk of non-detection will have to be reduced, which will help to increase the amount of evidence required

The International Auditing Practices Committee has set up a matrix that allows estimation of acceptable non-compliance risk according to inherent risk and control risk (Table 1)

Tab. 1 The risk matrix

The auditor estimated a control risk				
The auditor estimated an inherent risk		high	middle	low
	high	low	low	middle
	middle	low	middle	high
	low	middle	high	high

Sourse Obert R, Manuel & applications , ed. Dunod, Paris

According to this matrix, there must be a relationship of inverse proportionality between the combined degree of inherent risk and control risk and the risk of non-detection set by the auditor.

There are some authors proposing a risk matrix supplemented with the presentation of the amount of evidence required in terms of acceptable data rates of acceptable audit risk

The relationship between the risks and the quantity of samples is shown in tab. 2

Under the relationship between risks, there is equality between the two tables

Table 2 Risks VS quantity of samples

Acceptable audit risk	Inherent risk	Risk of control	Planned undetectable risk	Required quantity of samples
high	low	low	high	low
low	low	low	middle	middle
low	high	high	low	high
middle	middle	middle	middle	middle
high	low	middle	middle	middle

Source Arens A.A., Audit, an integrated approach, Ed. Arc Chisinau

By respecting the relationship that must exist between the components of acceptable audit risk, it can be seen whether the auditor has decided that there is little risk of material misstatement in the financial statements and that the internal control system is sound.

The auditor's role in inherent risk is to try to predict in which segments of the annual financial statements the probability of errors is the least likely to occur and in which segments this probability is greater.

The risk of undetectability cannot be eliminated in any way by the auditor's techniques and procedures. It depends on the other three factors in the model, being a direct proportionality relationship with the acceptable audit risk and the inverse proportionality with the inherent risk, and the risk of control.

Conclusions

It can be concluded that change means insecurity, and uncertainty means risk. The future will be business that is based on effective risk management. The results are worth the effort, because efficient risk management brings important benefits to the company by: increasing shareholders' confidence; by improving the image of the company and the morale of employees; by increasing productivity.

Risk assessment in financial audit is a complex activity and there is still no consensus on how the issue should be addressed. Practitioners mainly use the model offered by international standards, although it is often criticized in literature, the main arguments against it being the simplistic way in which it deals with the problem and the inability to respond to all auditors' requirements.

On the other hand, probabilistic models are often too complex and require extensive knowledge of other fields such as mathematics, statistics, etc. However, they have experienced a widespread development in recent years, especially in literature.

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