

## AUDITING THE PERFORMANCE OF A WINE FIRM

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*Abstract: In a knowledge society, a company's economic and financial performance status is a stringent issue, becoming a barometer of a manager's arsenal of information that can help him in detecting the most effective practices.*

*The performance audit is carried out through the three E's: the economic efficiency of administrative activities, the efficiency of the use of human and financial resources and the effectiveness of the achievements.*

*A performance audit will focus on resources, achievements, results and impacts, as well as on the two pillars, namely financial and compliance audit. Companies in the field of wine-growing and not only should be evaluated taking into account their ability to provide reliable financial statements and to manage resources in accordance with the relevant regulations in force as well as to demonstrate the achievement of their objectives under conditions of efficiency and effectiveness.*

*In this paper the authors try to combine the theoretical and practical elements regarding the achievement of a performance audit within a wine-growing company located in Iasi County.*

*Keywords: integrated audit, efficiency, effectiveness, economy, financial management*

### INTRODUCTION

Performance and success have become the motivation of any trading company trying to fit into the demands of market economy. European competition requires first of all to take into account the economic and financial dimensions of the activity of the company, and therefore an essential role is played by analysing the economic and financial performances.

This analysis allows judgments to be made on the results, their correlation with the financial structure and its solvency, based on the „rationalization of the economic and accounting data” of the enterprise.

Criteria for assessing the economic and financial performance requires defining the performance concept. The Larousse Dictionary defines performance as „a result obtained in a sport competition or a particular achievement in a field of activity”.

The small encyclopaedic dictionary gives the concept of performance a similar interpretation, identifying it with “a prestigious result obtained by an athlete or a team” also “a particular achievement in a field of practical activity”.

The financial goals of the enterprise can be addressed from different points of view.

A first approach is maximizing profits by rationalizing financial decisions, which result in increasing the wealth of the enterprise. From managerial optics, these goals primarily aim at achieving economic growth, financial equilibrium and financial liquidity.

Information on the performance of an enterprise, including its profitability, is necessary for a proper assessment and predicting any changes of future economic resources.

The analysis has to highlight the achievement of medium and long-term financial balance (objective of the balance sheet analysis) and cash-generating, profitability of the enterprise's activity (objective of profit-and-loss analysis).

## MATERIAL AND METHODS

The present paper is the result of the thorough processing of information gathered after having taken into consideration a series of works acknowledged as relevant for the chosen topic, as well as the careful examination of the role of performance audit in determining and presenting a real situation on a company's performance.

This paper tries to contribute to understanding the performance audit.

The case study was conducted at an *wine-growing* company located in Iasi County.

## RESULTS AND DISCUSSIONS

In order to define "performance", it is first necessary to clarify the efficiency and effectiveness concepts.

The term efficiency has several meanings in the literature. Thus, some authors consider that an activity is effective when the desired goal is attained with minimal effort. In the most general sense, efficiency is defined as the direct or indirect ratio between the useful effects obtained and the effort made.

From a managerial point of view, by efficiency it is meant the extent to which the objectives or goals were achieved. Managerial performance is at the crossroad between the quality of results and managerial actions and the quality of management goals.

Efficiency can be defined as the extent to which the company manages to meet its external requirements or expectations, namely customers, state, suppliers, employees, shareholders.

Given the above, we can establish the mathematical relation of performance:

Performance = Efficiency x Economics x Effectiveness

INTOSAI International Standards define performance audit as "an audit of the economy, efficiency and effectiveness with which the audited entity uses resources to fulfill its responsibilities". INTOSAI standards establish that the performance audit is:

- a) Audit of economic administrative activities in relation to the principles and practices of a high-performance management;
- b) Audit of efficiency in using human, financial, other resources, including examining information systems, how to measure and track performance metrics, and procedures followed by the audited entity to address identified deficiencies;
- c) Audit of performance efficiency in meeting the objectives of the audited entity and auditing the effective impact of an entity's activity compared to its planned impact.

However, there are situations where some of performance auditing elements are included in the financial audit. A performance audit can be an audit of economy, efficiency and effectiveness, a combination of two or a complete audit of all three components.

Along with the general principles in auditing the performance of a winery, it is necessary to observe a multitude of specific principles that help auditors such as responsibility, integrity – objectivity and independence – added value as a result of the implementation of audit recommendations – competence, perseverance and clear communication.

Performance auditing is normative. The findings are based on the differences between conditions and rules. A performance audit may actually identify causes of differences between conditions and criteria. In general, performance auditing has two types of approach: the results-oriented approach and the problem-oriented approach.

The results-oriented approach refers mainly to the performance, the results obtained, fulfillment of objectives and the compliance with the requirements.

This approach analyzes the performance achieved in the context of economy, efficiency and effectiveness by comparing the auditor's observations with the established rules (objectives, targets, regulations, standards etc.) and the audit criteria established prior to the start of the complete study phase.

In the problem-oriented approach, the audit primarily focuses on identifying, verifying and analyzing the problem without referring to predefined audit criteria. The point of departure of this approach is the shortcomings and problems (malfunctions) that have been signaled.

Therefore, a major task of the performance audit is to check the existence of the reported problems and to analyze the causes that generated them from different perspectives. The purpose of this approach is to provide up-to-date information on issues and how to address them.

During the study conducted at the winery, several indicators were analyzed and the following conclusions were set:

- Income from the sale of goods declined by 18.03% in 2015 compared to 2014, as a result of the reduction of the commercial areas used for the sale of the products;
- the trade margin registered an increase of over 440% in the year 2016, due to the increase in the number of shops;
- Turnover has grown substantially in the analyzed period by 110.5% in 2016 as compared to 2014 due to cost-effective activity;
- Added value has been achieved on the back of rising costs;
- The operating result is materialized in profit.

During the analyzed period, the winery activity can be characterized as good, while the financial activity resulted in losses in 2014 due to the overrun of the financial revenues by the financial expenditures and the share of financial expenses in the result of the current activity is high.

According to the matrix developed by Peste Roire, the winery belongs to case no. 1 that corresponds to a profitable activity of an enterprise, which enables it to quickly recover the financial situation and reduce the financial expenses, while improving the current result.

The position indicator of the year 2016 is in area called “Average operating risk”, near the lower limit, close to the area “High risk of exploitation”. The operating profitability threshold or the operational dead end is the point where the income covers the operating expenses. After this threshold, the exploitation activity becomes profitable.

The coefficient of elasticity shows a decrease remaining in the area “Average exploitation risk”, closer to the upper limit.

The analysis showed that the company is in a good financial position, is solvent and can use bank loans.

The analysis was based on audit completed at the company's headquarters on the overall risk management, accounting risk, business risk, audit risk and was synthesized in the five forms presented below (Table 1).

Table 1

Auditing form (original)

<b>1. Management</b>		
	<b>Yes</b>	<b>No</b>
The management has enough knowledge and experience to lead the company:		
➤ General manager	x	
➤ Technical manager	x	
➤ Economic manager	x	
Does the management tend to hire the company into high-risk businesses?		x
Have there been any changes in key management personnel during the financial year?		x
Are there requirements to maintain certain levels of profit or to achieve certain goals?	x	
Do the reported results have a personal significance for leaders?	x	
Do the controls of the management and the board of directors present syncope?		x
Is there a lack in informing the management?		x
Is the management strongly involved in day to day operations?	x	
<b>2. Accounting</b>		
	<b>Yes</b>	<b>No</b>
Is there a decentralized accounting function?		x
Is there a lack of readiness and ability in the accounting department to carry out tasks?		x
Are there problems of attitude or ethics in the accounting department?		x
Are there any mistakes as a result of pressure in the work of accountants?	x	
<b>3. Activity</b>		
	<b>Yes</b>	<b>No</b>
a. Does the company operate in a high-risk sector?	x	
b. Is the company expected to be sold in near future?		x
c. Has any change in the control function been recorded in the last 12 months?		x
d. Is the company insolvent?		x
e. Is there a creditor - a third party with individual importance?		x
f. Is there a concentration of shares or voting rights more than 25% in the possession of non-executive members of the board of directors?	x	
<b>4. Audit</b>		
	<b>Yes</b>	<b>No</b>
Would you describe the customer relationship as “disagreeable” or “tedious”?		x
Is there a significant number of “difficult to audit” transactions?		x
Is there any significant pressure on the period of audit mission?		x
Has the audit expressed any significant opinion in any of the last two years?		x

We have assessed the management risk as low, given that the management of the company shows performance, strongly involved in everyday business.

However, there may be a tendency to achieve certain levels of profit or to achieve certain goals, as managers are also shareholders. From the inherent risk assessment of accounting, we have established a low risk since the specialized personnel is well trained, specialized in courses for the implementation of international accounting standards.

However, some mistakes may appear in the accounting system.

Taking into account the competitive environment and the risky domain, we can conclude that the winery has a medium business risk, as it is solvent, the principle of continuity of activity is not affected, compared to other competitors, which are in difficult liquidity and profitability situations.

## CONCLUSIONS

The conclusions of the performance audit were summarized (Table 2) as follows:

Elements to be considered	Derived aspects
<b>A. External factors</b>	
<b>1. Economic factors</b>	
Recession / growth	Economic growth period
Dependence on international markets	There is no special dependence on international markets, unless on imports of raw materials if there are adverse climatic conditions
Fluctuations in exchange rates	Trend of medium-term stabilization
Changes in the interest rate	Decrease in interest rate
<b>2. Activity factors</b>	
Favorable / unfavorable legislation	Neutral legislation without major implications
Price competition	There is significant competition in the market
<b>B. Internal factors</b>	
<b>1. General</b>	
Errors or frauds in the past	Unknown
Fast development	It is a constant and controlled development
Qualified audit report for the previous year	Not the case
<b>2. Ownership of management</b>	
Skill or motivation in handling the results	There is no manipulation
Quality of management	Of high quality
Computer systems	Financial and managerial integrated computer system
Activity budgeting system	Well done
Dominant personality or excessive secrecy	Not the case

<b>3. Production and exploitation</b>	
High value or required products	High production values that are required on the market
Technical difficulties or warranties	The company is fully refurbished by each year investments to modern standards
<b>4. Continuity of activity</b>	
Inadequate funding or capital	Controlled funding that has created steady profitability and increased return on invested capital.
Excessive or outdated stocks	Not the case
The adequacy of capital	Good grade

In conclusion, we can appreciate that the enterprise, even if it operates in a risky environment, is well managed by the managerial team, using the capitalization method for long-term development, but without distributing exaggerated dividends. An inherently low overall risk is considered.

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