

***NATIONAL AND EUROPEAN APPROACH OF THE FINANCIAL AUDITOR'S
MISSION. ROMANIA–THE UNITED KINGDOM – FRANCE***

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Abstract: Any mission of a financial auditor who participates in the examination of financial situation of an entity has as main purpose an examination of the balance sheet elements and the patrimony of the entity. This is in accordance with the ISA that establish the procedures and the fundamental control principles, as well as specifying the ways of implementing them from the point of view of professional responsibility of the auditor with regard to an examining mission, even limited, of the annual financial statements of an entity. In addition, it states the defining elements of the audit report and the opinion expressed in it.

A limited mission may be associated with a level of moderate ensuring of undetected risks, the patrimony elements may be negatively ensured.

In France, an audit mission's purpose is represented by the certification of the presented accounts, namely that they correspond to the requirements of legal regularity, honesty and faithful image.

In the UK the financial auditors, appointed within the General Assembly of the stakeholders, must form an opinion in such way that they know if the entity recorded entries in its accounting chronologically and systematically and if the declarative statements received from the branches not visited are adapted for auditing purposes. In the UK, the seventh Directive of the EU regarding the consolidated accounts was adapted in the internal legislation. Thus, if by the end of the financial year an entity becomes "mother-entity", the statutory administrators hired with individual work contracts must report both individual accounts and group accounts for the same financial year.

Key words: *auditor's mission; European approach; related missions; control; European regulations.*

J.E.L. Classification: M40, M41, M42

1. Financial auditor's mission in Romania

1.1. General aspects regarding the mission of the financial auditor

International Standards on Auditing (ISA) "ISA 210" deals with the auditor's responsibilities in establishing the terms of the audit mission together with the management and, if applicable, with the those responsible for governance. This also includes the statement that there are certain preliminary conditions for an audit, which falls into the responsibility of the management and, if applicable, of those responsible with governance.

ISA 220 deals with the aspects related to accepting a mission, which are under the control of the auditor. The insurance missions that include audit missions will be accepted when the professional considers that the relevant ethic conditions, such as independence and professional competence, will be fulfilled and when the mission has certain characteristics. The responsibilities of the auditor regarding the ethic requirements in the context of accepting an audit mission and the degree to which they are under the control of the auditor are dealt with in ISA 220.

This ISA deals with those aspects (or preliminary conditions) that are under the control of the

entity and upon which it is necessary that the auditor and the management agree (<http://www.portalfinante.ro/standardul-international-de-audit-210>).

1.2. General missions

A financial audit mission is based on a series of general principles that govern it:

- A financial auditor is bound to conform to the requirements of the Ethics Code issued by the International Federation of Accountants (IFAC);
- The mission must go in accordance with the ISA;
- The financial auditor plans a financial audit mission taking into account independence, competence, the quality of the work to be done, integrity and objectivity.

The financial auditor will keep in mind that the analysed annual financial statements have no significant corruption, fraud elements and can offer a reasonable guarantee that they are made by respecting the legislation in force.

A financial auditor uses various procedures with the view to obtaining audit evidence regarding the assets presented in the annual financial statements.

The audit missions based on contracts and requested in certain cases by various private or state-owned economic entities, including public institutions, with the view to expressing an opinion are also recognised and there is an unlimited number of contractual audit missions.

To this purpose, the financial auditor carries out:

- An audit mission with the view to expressing an opinion after applying the audit procedures provided in the standards regarding the annual financial statements;
- Does upon-request missions with preset objectives with the view to expressing an independent opinion.

It is important to note that the entities which are under audit or which opt for financial audit have the obligation to organise internal control compartments.

Thus, the auditor signs a financial audit service contract with the entity to be audited:

- Various companies;
- Local public administrations (town halls);
- Various public institutions;
- Ministries etc.

According to the “International Framework for Insurance Missions” there are two types of insurance missions allowed to be done by an authorized financial auditor, namely: a reasonable insurance mission and a limited insurance mission.

There can also be revision missions. These allow the financial auditor to determine, based on the already established procedures, whether there are any elements suggesting that the annual financial statements are not made in accordance with the law (Munteanu (coord.),2012,p.19).

The following may be concluded regarding the stages of a financial audit mission in Romania. For exemplifying, I mention the practical case of Grigore SA, company active the field of construction, namely new residential dwellings, on the occasion of auditing the annual financial statements for 2014:

a) Primary stage, comprising the following:

1. Identifying and gathering information regarding the audited entity;
2. Analysing and evaluating the internal control systems;
3. Defining the financial audit objectives;
4. Establishing the audit program and the necessary human resources.

b) Audit planning stage, comprising the following:

1. Developing the audit plan;
2. Developing the audit programs and approving the financial audit plan.

c) Working stage, comprising the following:

1. Collecting, evaluating and analysing the audit evidences;
2. Elaboration of the first conclusions and proposals for changing the financial audit plan.

d) Reports stage, comprising the following elements:

1. Elaborating, writing and evaluating the first opinions and recommendations;
2. Evaluating the performances of supplementary personnel used by the auditor.

e) Reporting stage:

1. Writing and presenting the audit report and of the financial auditor opinion.

2. Mission of the statutory auditor in the United Kingdom

2.1. General aspects regarding the auditor's mission

The Companies Law from 1844, consecutively modified and added in 1948, 19881 and 1985, is an act of the United Kingdom and Northern Ireland's (UK) Parliament, adopted starting with 1985, having a modern and reforming content. This Law allowed the companies to establish the responsibilities of the companies, of the managers and their secretaries, including the fact that any corporation must have one or more auditors designated by the General Assembly of the Shareholders (GAS). Subsequently, the Law was mostly replaced by the Companies Law from 8th of November 2006 (https://e-justice.europa.eu/content_business_registers_in_member_states_legeacompaniilor_23.04.2015, *Companies House administers the commerce registry for the UK, including England, Wales, Scotland and Northern Ireland*).

According to Companies Law, any person having the auditor status must be a member in an authorized professional organism. In the UK there are four such authorized organisms:

- The Institute of Chartered Accountants in England and Wales (ICAEW);
- The Institute of Chartered Accountants of Scotland (ICAS);
- Chartered Accountants of Ireland(CAI);
- the Association of Chartered Certified Accountants (ACCA) (<http://www.legislation.gov.uk>)

2.2. General missions

In the UK, the contents of the general audit report is established by the law and the financial auditors must make it and present it to the GAS. The general audit report contains the annual accounts as they are legislated in the UK.

As in the other European Union (EU) countries, the general audit report contains the opinion of the financial auditor regarding the observance of the law in the elaboration of the annual financial statements audited and the accuracy of these statements, as follows:

- if the balance sheet of the mother-company is presented alone (within the company's accounts) regarding the situation of the entity at the end of the annual financial exercise;
- if the results account (the profit and loss account) of the mother-company is presented alone (within the company's accounts), regarding the loss of the entity or of the entity's beneficiary during the exercise;
- for the group accounts, regarding the situation at the end of the exercise and the losses and profits during the exercise, the branches included in consolidation in their entirety and regarding the company's members (Menu et al., 2009, p.197).

The legislation is very strict regarding the elaboration and the signing of the general audit report, so when the names, the address and the practice license, including the signature, of the auditors are not correctly and completely indicated and it is filed as such at the company registry, the financial auditors are guilty of malpractice and fined.

The auditors must highlight in their reports the following aspects:

- disparities between the annual accounts and the general accounting day book;
- if the accounting records are made in chronological order and if there are expenses or incomes that were not recorded in the audited fiscal year;
- whether there is information regarding the branches and the consolidation method for the annual financial statements.

It is important to mention the integration in the UK legislation of the seventh European Directive regarding consolidated accounts, which contain a consolidated balance sheet presenting the patrimony situation of the mother-company and of the branches, as well as a consolidated profit and loss account.

2.3. Related missions

A different situation compared to other states is that of distribution of dividends, for which there is a distinct paragraph in the audit report, for which the auditor presents two distinct moments:

- elaboration of a reserved opinion when the dividends are distributed after a general audit report;
- distribution previous to establishing the first annual accounts.

Among the other related missions are:

- assets buy-back;

- making payments with the help of nominative shares.

Illustration of a practical situation at **Mc Gregor Ltd.**, based in **London**, which has the main activity in constructions:

For example, the mother-company holds 18.5% of the shares emitted by MG Ltd., while a branch of the group (Mc Gregor Ltd.) holds 45.88% emitted by the same MC Ltd. In this moment MG Ltd. must be included in the group and treated as branch. The financial auditor will verify and identify the nature of the business done and of the relationships existent between all the members of the group, in order to determine the influences resulting from these relationships. It is very important that the auditor may exclude certain branches from the consolidation of the annual accounts. In order to do this, the statutory financial auditor must obtain conclusive evidence, to verify and to probe the exclusion reasons.

The financial auditor will first verify the annual financial statements of all members of the group, subsequently verifying each position of the consolidated financial statements. The auditors of the group are in this case called principal auditors, and those of the member entities, secondary auditors.

3. Mission of the auditor (account commissioner) in France

3.1. General aspects regarding the mission of the auditor

In France, according to the Law No. 66-537 from 24.07.1966, art. 223, 254, any limited liability company (Ltd.) or Limited Joint Stock Company must have at least one auditor (www.legifrance.gouv.fr/affichTexteArticle.do; Loi n°66-537 du 24 juillet 1966 sur les sociétés commerciales).

The conditions that must be fulfilled for the entities on the French territory to be audited are the following:

- total balance sheet: 3.650.000 euro;
- net turnover: 7.300.000 euro;
- number of employees (average size): 50 employees.

The national authority that deals with the organisation and supervision of the auditors is the Regional Commission of the Court of Appeal on the territory of residence, and the accounts commissioners are registered in the auditor's register, both as freelancers (the equivalent of individual audit practices in Romania), as well as legal entities (companies).

The law, the regulations and the professional deontology stipulate the obligation for all account commissioners (the Romanian equivalent is financial auditor) is incompatible with:

- any activity likely to impair his/her independence;
- any remunerated activity, excepting the remunerated activity in an audit or accounting expertise practice;
- any commercial activity (Menu et al., 2009, p. 201).

In France, any accounts commissioner can audit annual financial statements at any entity, regardless where the headquarters is.

The entities that must be audited name the accounts commissioners (statutory auditors) through the management, the GAS or the management board for a period of maximum six

financial exercises, which can be renewed through another decision.

3.2. General missions

In France, the accounts commissary encompasses a complex of general missions that are divided by four categories:

- a) the audit missions that have as objectives the certification of the accounts, respectively elaborating an evaluation report of the accounts in which the principles of regularity, honesty and accuracy are mentioned in distinct chapters;
- b) specific missions that emerge during the accounts certification mission (Example: the insurance mission when the accounts commissioner evaluates the evidence in order to offer an independent opinion);
- c) missions that regard the accomplishment of certain operations with regard to legality, regularity and conformity of the operations;
- d) the mission of communication and presentation of the opinions of the organisms and persons designated by the law, to this purpose elaborating “The general reports”, in which are presented the opinion and the accounts verification and evaluation methods, as well the accordance between the information presented in the managements reports and the situation in the consolidated accounts.

3.3. Related missions

The accounts commissioner does a series of related missions, such as:

- missions of examination of the financial information based on the agreed procedures;
- missions of compilation for the financial information;
- missions of limited examination of the financial statements;
- missions of examination of forecasted financial information;
- related missions regarding certain operations, such as:
 - capital increases;
 - capital reductions;
 - company fusion etc.
- missions related to an event incurred in the company, such as:
 - institution of an alert procedure – procedure triggered when detecting “anything likely to compromise the continuity of the exploitation” (Menu et al.,2009,p.205);
 - detection and informing regarding frauds.

3.4. General audit report (the general report of the accounts commissioner)

This document is elaborated by the accounts commissioner at the end of the management control mission and it takes the form of statement.

In France, the general report has two parts:

- in the first part of the report is presented the auditor’s opinion on annual accounts

examination, and for each subparagraph are presented in detail the respective explanations, including tables and questionnaires with answers given by the audited company management;

- in the second part are presented the observations of the auditor regarding the verification made.

The profession of financial auditor (accounts commissioner) is regulated by the Decree no. 69-810 from 12.08.1969 (<http://livre.fnac.com/a2242225/Bernard-Caspar-Comptabilite-appfondie-DCG-epreuve-n-10>), modified and added through the Decree no. 85-665 from 03.07.1985

(http://www.legifrance.gouv.fr/affichTexte.do;jsessionid=69304246CC6751CF6012854248997CE6.tpdila20v_3?cidTexte=JORFTEXT000000508397&dateTexte=20110512;**Décret n°85-665 du 3 juillet 1985 modifiant le décret n° 69-810 du 12 août 1969 relatif à l'organisation de la profession et au statut professionnel des commissaires aux comptes**, Version consolidée au 12 mai 2011;Loi n° 85-660 du 03/07/1985 parue au JO du 04/07/1985 ... publié au JO du 02/10/1986 *Décret pris pour l'application du titre IV de la loi 85-660 du 3 juillet 1985*,www.senat.fr).

Case study regarding the application of substantive procedures with the view to auditing the assets accounts at Gregoire M. S.A., based in Paris, company that activates in the residential and non-residential building industry.

On 01/02/2015, according to the general decision of the shareholders, a service contract was signed for financial auditing with G.M., freelancer – accounts commissioner registered at the Regional Commission of Appeal Court in Paris.

At the time of the application of the substantive procedures, the accounts commissioner took into account the following:

- verification of the approval for cassation of fixed assets according to the records made in the assets register;
- verification of the expenses incurred at the fixed assets cassation;
- selection for verification of a sample of documents (invoices, contracts etc.) that are approved and signed by the entity's management, for example: it will be verified whether the signatures on the documents are the same as those of the persons entitled to sign these documents;
- verification of the actual existence of the fixed assets, that can be done directly or indirectly, using inspection at the location where the actives are kept or selecting a representative sample of assets registered in the fixed assets register;
- it has to be taken into account that all assets must be grouped in sections and subsections, according to the French legislation;
- fixed assets can be presented in the financial statements at their historical costs, at re-evaluated values or at their net value of realisation. By verifying the procedures for determining the costs or the re-evaluation ones, the auditor may be sure regarding the correctness of the numbers presented in the financial statements in the fixed assets positions. At the end of the financial exercise, the auditor must be sure that the evaluation results at the time of making the balance sheet are correctly reflected in the

accounts. Using the fixed assets register may be very useful from this point of view (Dobroteanu and Dobroteanu,2002,p.221).

- it must be verified whether the assignees for the general inventory of the patrimony make physical inventories independent from the financial records under proper supervision;
- the financial and operational leasing contracts must be in accordance with the records in accounting, and the accounting notes and the differences between the leasing contracts regarding the prevalence of the economic upon legal must be verified.

Conclusions

Evaluation and control are the Gordian node of any accounting system and they have a direct incidence on the estimation of the patrimony and the beneficial capacity of the company, as well as on the determination of the period result.

In the subchapter “The accurate image “a la francaise” under the reflector of Anglo-Saxon significance” is an explanation for the French entities of the notion of accurate image, key element in elaborating the audit report. Thus, “the image is the pivot of the new accounting doctrine, through which the accounting plan is more farsighted, so necessary for doctrine. It must be said that the British notion of ‘true and fair view’ was transmitted, for the first time, in a legal English text in 1947, after the Second World War, this law calling upon an abundant jurisprudence” (Feleaga,1997, pp.63-64).

In the financial audit reports, regardless whether the entity is national or European, the financial auditor from Romania, the accounts commissioner from France or the statutory auditor from the UK will issue a motivated opinion regarding the accurate, clear and complete image of the financial position, the annual financial statement and of the economic performance registered by the entity with reference to the national or international audit standards.

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