THE AUDIT REPORT – BETWEEN EUROPEAN DIRECTIVES AND INTERNATIONAL STANDARDS OF AUDITING

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The harmonisation of the accounting practices represents an up-to-date request for the professionals. These practices are based on drawing up on homogenous standards that are coordinated on multiple levels: international, regional and national. Are there any normative differences concerning the content of the audit report, in the european directives on the side and the international standards of auditing, on the other side?

Key-words: european directives, international standards of auditing, audit report

The European integration of Romania requires the harmonization of the practices of professional accountants, based on unitary standards, generally accepted inside the European Union.

Accelerated as a result of the financial scandals that confused the business world at the beginning of the decade, this harmonization process of accounting standards and professional standards generated the significant reviewing of Directive 78/660/CEE concerning the yearly accounts (know as The 4th Directive) and of Directive 84/253/CEE concerning the authorization of the persons who are in charge with the statutory audit of the accounts (know as The 8th Directive and turned into Directive 2006/43/CE).

These directives has been modified to agree with the international tendencies appeared as a sequel of the measures taken by the American Administration in the field of accounting and auditing through the famous Sarbanes-Oxley Law. Also, it was a consequence of the rapide reaction of the International Accounting Standards Board (IASB) and of the International Federation of Accountants (IFAC) with respect to the process of the elaboration of standards and public supervision of this process.

In Romania, the stipulations of the reviewed 4th Directive have been assimilated into the accounting regulationment aplicable since January 1, 2006. The public power and the professional organisms are intensely paying attention to the new stipulations of the 8th Directive.

On the other side, the quality of IFAC member that the professional organizations in Romania (with duties to settle reglementations in the area of statutory auditing) have – The Chamber of Financial Auditors in Romania (CAFR) and Body of Expert Accountants of Romania (CECCAR) – lead to the assimilation of the International Standards of Auditing as national professional standards.

In this paper we propose an analysis of the two references, the European directives and international standards, regarding the role and the content of the audit report, in order to ascertain if there are significant differences between them.

The audit report is the document that communicates the result of the role of the audit and has to contain the objectives and the covering area of the mission, the conclusions that have been obtained, the opinion of the auditor and, eventually, the recommendations and action plans.

The audit report has a triple information role, being at the same time:

− An instrument to communicate with the users of the situations emitted by the auditated entity, the public, as well as with the shareholders when concerning economical decision;
− An instrument to confirm the trust of the public and shareholders with respect to the financial statements presented by an entity;
− An instrument used to identify the responsabilities for the auditor and for the management of the auditated entity.

The responsibility of the auditated entity (of its management) refers to the preparation and presentation of the financial statements.

The responsabilities of the auditor are presented below:

− Basic responsibility, for his opinion concerning the auditated financial statements;
− Secondary responsabilities, that have the following characteristics: arise from law texts, various reglementations of standards of the professional organization; do not necessitate techniques and procedures that differ from those used for the basic audit mission; do not require the declaration of a distinct opinion (his opinion is implicit). For example, the answer to the legal obligation if the accounting evidence has been kept correctly and updated.
− Aditionary responsabilities, that have the following characteristics: arise from law texts and other reglementations, may require techniques and procedures that are not compulsory for the basic mission; require the explicit declaration of an opinion or conclusion; the report may be done separately or be integrated into the audit report (in its content or in its anexes). For example, the conformity to same specific reglementations (banks, ensurances, etc.) or the report on the internal control.

The stipulations of the 8th Directive with respect to the audit report are the following:
− Art. 2(9) : „The audit report is the report mentioned at art. 51 lit a in Directive 78/660/CEE (the 4th
      Directive), emitted by the statutory auditor or by the audit firm.”
− Art. 28(1) : „When an audit firm realizes an statutory audit, the audit report is signed by the least the
      statutory auditor(s) that carry out the statutory audit, in the behalf of the audit firm.”

The stipulations of the 4th Directive with respect tot the audit report are as follows :

− Art. 51, 1 : The annual accounts of the comercial societes are auditated by one or more persons that are
      authorised (by the member States) to accomplish financial audit, according to the 8th Directive, concerning
      the authorization of the persons responsable to perform the financial audit of the financial
      statements.
− Art. 51 (a) : The audit report containes :
      (a) an introduction that identifies at least the annual accounts that constitute the object of the financial
      audit, toghether with the financial reporting card that has been applied when preparing them;
(b) a description of the financial audit area, that identifies at least the audit standards according to whom the
      financial audit has been accomplished;
(c) an audit opinion, that clearly expresses the opinion of the financial auditors answering if the financial
      statements offer an accurate image according to the relevant financial reporting card and, when needed, if the
      annual accounts agree with the legal requierments; the audit opinion may be unqalified opinion, qualified
      opinion, a contrary opinion or, if the financial auditor have nor been able to express an audit opinion, the
      impossibility of expressing an opinion.
(d) a reference to any aspects on which the financial auditors draw attention, by means of a distinguishning
      paragraph, while the audit opinion is not a reserved one.
(e) an opinion refers to conformity the annual report with the financial statements, for the same financial
      exercice.

Into the professional standards elaborated by the International Auditing and Assurance Standards Board
(IAASB), the organism inside IFAC, responsable with  the audit standards, the role and content of the audit
report are described in a specific standard, respectively ISA 700 „The report of the independent auditor with
respect to a complete set of financial statements with general purpose”, reviewed, applicable with the auditors
reports dated or starting with December 31, 2006.

According to the stipulations of this standard, the audit report must contain, as compulsory elements, the
following :
− Title
− Addressee
− Introductory paragraph
− Responsability of the management for the financial statements
− Responsability of the auditor
− Opinion of the auditor
− Other reporting responsibilities
− Signature of the auditor
− The data of the audit
− The adress of the auditor

Title - the auditor’s report should contain a title that must clearly indicate that the report belongs to an
independent auditor.

Addressee – the report of the auditor must be addressed as the specific circumstances of the mission require.

Introductory paragraph – must identify the entity whose financial statements have been auditated and mention
that the financial statements have been audited. It must also specify the title of each component of financial
statements, to refer the synthesis of the significant accounting policies and other explanation notes. The
introductory paragraph must specify the data and the period covered by the financial statements.

Responsability of the management – the auditor’s report must specify that the responsability for the
preparation and accurate presentation of the financial statements, according to the applicable financial reporting
frame goes to the management, and this implies :
− Formulation, implementation and mantaining of an internal control system, relevant for the preparation
  and accurate presentation of financial statements that do not contain significant misrepresentations due
  to fraud or to errors;
− Selection and application of adequate accounting policies;
− Preparation of some resonable assurance, in given circumstances.

Responsability of the auditor – the auditor’s report must specify that the responsability of the auditorsis to
express an opinion on the financial statements, based on the audit that has been done, in order to differentiaite it
from the responsability of the management to prepare and accurate present the financial statements. The audit
report must specify that the audit has been realised in agreement with International Standards of Auditing. These
standards require the auditor complies with the ethical demands and he plans and realizes the audit such as to obtain a reasonable assurance that the financial statements do not present significant mispresentations.

**The opinion of the auditor** – an unqualified opinion must be expressed when the auditor concludes that the financial statements offer an accurate image or are presented with faithfulness with respect to all significant aspects, in agreement with the applicable financial reporting frame. When an unqualified opinion is expressed, the paragraph in the audit report concerning this opinion stating that the financial statements are truly mirroring or presenting with respect to all significant aspects, consistent with the applicable financial reporting frame.

**Other reporting responsibilities** – under some jurisdictions, the auditor may be have additional responsibilities to report an other supplementary aspects, excepting his opinion on the financial statements. For example, the auditor may be asked to report certain problems that distract him during the auditing.

**The signature of the auditor** – the audit report must be signed. The signature of the auditor represents the name of the audit firm, the personal name of the auditor, or both, as requested under a specific jurisdiction.

**The date of the audit** – the auditor must date the report not earlier before he has obtained enough auditing evidences that his opinion concerning the financial statements is based on. The date of audit report informs the reader that the auditor has taken into consideration the effect of the events and transactions that he identified and that took place up to that moment.

**The address of auditor** – the report should mention the location inside the country or the jurisdiction where the auditor carries on his activity.

Considering the above analysis, we note that there are not significant differences between the European directives and those of the international standards with respect to the content of audit report.

We also mention that the procedure of assuming the International Standards of Auditing (ISAs), by the European Committee, is in progress at this moment.

**REFERENCES**

1. The 4th Directive 78/660/EEC, concerning the annual accounts of some types of firms, the Official Monitor of Romania, nr. 27 bis, January 10, 2005