AUDITOR LIABILITY IN PERIOD OF FINANCIAL CRISIS

Nicolae Todea[1]
Ionela Cornelia Stanciu[2]

ABSTRACT: This paper deals with issues of how to take on the responsibility of the auditor, especially in this time of crisis that hits the whole society. Significant role of financial auditor and the lies that the auditor is unable to give reasonable assurance that financial statement are not tainted by fraud and material errors. This results from International Standards on Auditing, which indicated that many users rely on financial statements as their primary source of information because they are unable to obtain additional information to meet specific information needs.

Key words: *economic crisis, responsibility, economy, financial statements, error, fraud*

JEL codes: M41

Introduction

The time you live are characterized by extensive economic and financial reform process, whose objective is to promote and implement harmonized methodologies with good practice in Europe and worldwide.

The audit process is carried out by natural or legal persons legally entitled, called auditors, which review and evaluate in a professional manner, information relating to a particular entity, using specific techniques and processes, in order to obtain evidence, called audit evidence, on which the auditors issued a document called the audit report and a responsible and independent opinion, by using the evaluation criteria arising from legal regulations or good practice widely recognized in the operating entity audited.

The financial audit represents a subject outside the sphere of accounting which involves, except the accounting knowledge, the following: judicial information, knowledge concerning the economic and financial analysis, mathematics, informatics and ethics. The explanation of the pluridisciplinarity of the financial audit is the following: the financial audit must verify the compliance of the financial statements with reality, on the one hand, and the observance of principles, rules and criteria established for the registration and presentation of the accounting information, on the other hand. The financial audit represents „the activity of examination, in order for the financial auditors to formulate an opinion on financial statements, in accordance with the audit standards" (in accordance with the art. 2 of the Governmental Emergency Decree no.75/1999 republished, concerning the activity of financial audit). The objective of an audit is to give the possibility to the auditor to formulate an opinion concerning the drawing up of the correspondent financial statements, under all their significant aspects, in accordance with an identified general financial reporting framework (Audit Standard 200, 2nd paragraph).

Literature review

When planning their work, they collect and assess audit evidence when its opinion on the financial statements, auditors should consider the risk of material misstatement due to fraud or

[1] Universitatea „1 Decembrie 1918" din Alba Iulia, Facultatea de Ştiinţe, Str. N. Iorga nr.11 - 13, 510009, Alba Iulia, jud. Alba, e-mail: ntodea@uab.ro

[2] Universitatea „Valahia" din Târgovişte, Facultatea de Ştiinţe, Str. Lt. Stancu Ion, nr. 34-35, 130105, Târgovişte, jud. Dâmboviţa, e-mail: s_ionela09@yahoo.com

error. Responsible auditor and audit planning in order to obtain a reasonable degree of certainty the presence or absence of material misstatement of the financial statements due to fraud and error. If financial statements are presented reflects the heritage, the auditor has two alternatives: either to express a qualified or adverse, or to withdraw. The auditor responsible for auditing standards and not detect any distortions in the content of financial statements. The auditor is responsible for obtaining reasonable assurance that the materiality of misstatements was observed.

Management company responsible line preparation and presentation of financial statements and on the direction of preventing and detecting anomalies in a good organization and proper functioning of the accounting and internal control system.

Romanian economy is hit in the middle of global financial and economic crisis that affect both enterprises and local government budgets. Undertaking until recently been the engines of economic growth have to send home employees, and the chances of funding are all lower. In such periods the auditor becomes much more difficult task. Its parts, especially those relating to estimates, are more uncertain and unstable. Consequently, auditor liability is greatly amplified in such situations

Research Methodology

"The research is to answer a question seeking an answer. Not just to study. The study is a preliminary and essential stage of research, but more than that. It is the cornerstone of research - issues or questions that the thesis shows, enriches and try to solve or answer - that it is the focus of what to do and if the reason is, eventually there will be and the whole "-- G. Watson (1987). Any scientific research that would should have a purpose. The purpose of this paper is to show how to modify the auditor's responsibility in these times of financial crisis.

Research methodology in which we appealed to the achievement of this work was to study literature in the field, works written by authors from the country and abroad, access to international databases. In this article I called for research to document the methods, comparison, analysis, synthesis, to achieve objectives, and to some extent.

The financial crisis and auditor liability

To follow the logical thread of the most representative times of financial instability is absolutely necessary to understand the concept of crisis. This is "a manifestation of the difficulties (economic, political, social, etc.) Period of tension, disorder, testing (often critical) which is manifested in society. The economic crisis is due to the difficult conditions of economic activities, a break, a change in their embodied in the slowdown, stagnation or decline in economic activity. The financial crisis is a form of manifestation of the economic crisis and reflects mistrust in the financial system, a significant drop in transactions on the stock exchange (barometer of the economy), a disorder of market mechanisms.

The financial crisis may be considered an opportunity to correct certain aspects of the financial system, namely those shortcomings which have led it. The measures that governments and international institutions, but it will take will influence the time necessary for overcoming the crisis, but are very important on long-term economic change. In the short term is necessary to find solutions that lead to restore confidence of investors and consumers. In the long term, the main problems concern the adjustment of principles that guide the international financial system reform, in particular those relating to transparency, to improve regulations on securities accounts, to ensure proper regulation of markets, companies and financial products to ensure integrity of financial markets and strengthening cooperation between financial institutions in the world.

The financial system needs increased transparency with regard to several aspects. The first is that on some financial market players, such as hedge funds, which have a major role in the mediation, but are not bound by strict rules on reporting. Establishment of regulations on their activities and how to report would reduce volatility when market conditions worsened.

Development of new financial instruments is difficult to determine a price for them, but in same time questions raised about the investors bear the risk. The possibility of correctly assessing risk and identifying the origin of which bear the risk, will help to improve regulation and supervision of the financial system. Another problem is that on the review model investment portfolio performance and identifying ways to prevent risks.

According to ISA 200 "Objective and general principles governing an audit of financial statements, the objective of an audit of financial statements is to enable the auditor to express an opinion on the extent to which financial statements are prepared, in all material respects, in accordance with applicable financial reporting framework. Audit process should be conducted in accordance with the procedures and legal and professional standards; the auditor's report is signed and sent to owners or shareholders of the company.

As a professional responsible for issuing an opinion on the financial statements of an entity, the auditor shall, while subject to considerable liability. When performing an audit mission, financial auditor assumes a great responsibility since the terms of the audit engagement, the nature of professional services rendered. The first assumption of the auditor's liability is the wording of the audit engagement (Culda Emil, 2007). With the signing of letter of engagement, the auditor states:

- defining terms and the type of mission that will be in accordance with auditing standards, insurance, review applicable;
- establish objective mission (identification of financial statements to be audited and reporting framework accounts under which they were made).

When determining the nature, duration and extent of audit procedures and when evaluating audit evidence and results, the auditor should exercise professional skepticism, recognizing that the financial statements are free of material misstatement due to fraud and error (ISA 200, paragraph 5). Sometimes it can prove ineffective audit procedures to detect material misstatements that are concealed by a combination of some people in positions of leadership, those charged with governance, employees and third parties. The risk of material misstatement of financial statements, the detection of fraud and error, even if the audit engagement is planned and conducted according to International Standards on Auditing. In assessing the work of the auditor, to determine his responsibilities are analyzed (Oprean I., et al, 2007):

- Merits procedures results from the application of such procedures;
- Correlation between results obtained under these procedures and the auditor's opinion expressed by the audit report.

First and most important responsibility of the auditor is that of formulating an opinion on the financial statements confirming that they reflect correctly, fairly, in all material aspects and transactions of the financial year to which it refers. There are also circumstances where the auditor does not express any opinion. Such situations may arise where the scope of the mission was limited or when the auditor can not take all that's required standards to give an opinion. If the auditor gives an adverse opinion means that all matters in the financial statements correctly reflect reality. In such cases, the auditor's responsibility derives from its view. Auditor liability may increase and because of the potential occurrence of events after the balance sheet date. IAS 10 'Events after the Balance Sheet Date "shall mean those events which are both favorable and unfavorable, that occur between the balance sheet date and the date the financial statements are authorized for filing (IAS 10, paragraph 5). There are two ways:

- Showing evidence of existing conditions at the balance sheet date (adjusting events leading to the financial statements);
- Those with indications about the conditions occurring after the balance sheet date (events that do not lead to adjustment of financial statements).

Manager considers the materiality of events before deciding if, indeed, it is necessary to adjust the financial statements. In this case, the auditor it is very difficult to determine whether after these adjustments, the fair value of the items in the financial statements is properly established.

There is also responsible for ensuring quality control of work and audit work. The first and best control is teamwork. The fact that working in teams, check works that someone else, that is discussed is a first form of quality control audit of professional services. IFAC standards put great emphasis on quality control, as each audit company or individual Cabinet must ensure that what is done is done well. Quality control is particularly well organized as there are sufficiently detailed written procedures, applicable and reliable so as to reduce or even eliminate the risk of error during the mission. Quality control is ensured by the financial audit:

- Completed and signed all relevant sections of the audit program;
- Signing and dating all the working documents of the person who has made;
- analysis and synthesis to prove each element of balance;
- Analysis of all significant amounts of profit or loss.

The auditor is responsible and how to evaluate and use the internal control system, he obliged to take account of its level in the work. If the internal control system does not exist or is not properly manifested, the auditor may not identify very much risk of fraud and error. According to international auditing standards, misleading information is of two types: Fraud and Error (Dănescu Tatiana, 2007). Fraud is an intentional action initiated by one or more persons to obtain financial benefits, illegal, unjust, may be due to events such as:

- counterfeiting counting, documents;
- Diversion, theft of assets;
- Inadequate allocation of assets, with influence in continuing the work;
- Removal or omission of the effects of transactions to financial statements;
- Misapplication of accounting policies to mislead users.

The error is an unintentional mistake occurred in the financial statements. Errors are accidental; people who commit them are not expected to achieve a personal gain. The error is unintentional, but may have consequences as fraud; auditors sphere must therefore be convinced that this is not fraud. Errors may be generated by:

- Mathematics or accounting wrong;
- Misinterpretation of facts with significant influence on the financial statements;
- Misapplication of accounting policies of the ignorant.

Typically, target users of financial statements are to detect fraud and error, but according to ISA 240, "Auditor's responsibility is to consider fraud in an audit of financial statements":

- Responsibility to prevent fraud and error belongs to the entity's management, which must continue through implementation and operation of adequate systems of accounting and internal control;
- Financial auditor, although "not be held responsible for preventing fraud and error, but bears the responsibility to plan and perform the audit to obtain reasonable assurance that financial statements are not significantly inaccurate on both fraud and fault.

Presentations wrong in the financial statements - due to fraud and error - if the effect is significant in influencing the decisions of users of financial statements. It would be very difficult if it requires financial auditors discover all errors and fraud, so it shall establish a materiality threshold of errors - which is the relative importance of the financial auditor that locate their opinion expressed. In this respect, the auditor gives to supplement the audited entity; a document entitled "Risk Factors" containing a list of fraud risk factors in order to help in the assessment exercise. These risk factors were divided into two groups: (a) risk factors derived from fraudulent financial reporting and (b) risk factors on errors from misappropriation of assets. Errors arising from fraudulent financial reporting are intentional errors or omissions of amounts or disclosures in the financial statements made in order to deceive financial statement users. Errors arising from misappropriation of assets involve the theft of assets of the entity and the effect of these thefts is the failure of financial statements in accordance with generally accepted accounting principles. For each type of fraud risk factors are further classified according to three conditions that are generally present in case of errors caused by fraud: (a) bonuses / pressures, (b) opportunities and (c) attitudes / rationalizations. To meet discussion on fraud management audited is asked to complete the questionnaire by identifying those risk factors present in the audited entity fraud.

Auditing standards make no distinction as to the liability of statutory auditors in detecting errors from the financial liability of auditors in detecting fraud. As for errors, and for fraud, financial auditor is required to obtain and provide reasonable assurance that financial statements do not contain inaccurate information. It is known that it's harder to be detected fraud than for unintentional errors that manager, employees who commit a fraud trying to conceal. This difficulty of identification of fraud does not change the auditor's responsibility for the successful financial audit engagement.

Another financial auditor liability is related to how it requires corrections, adjustments to be made of financial statements. Audited will have to make corresponding adjustments in the financial statements of the auditor's opinion so reservations are canceled. Thus it follows that there is a directly related liability and compliance with the reporting of accounts, even if it is an exclusive responsibility of the management of the audited entity. Audi tees management responsibility is greater than that of auditor, which is responsible for preparing financial statements for compliance with financial reporting framework accounting for the way he organized and functioning internal control system, the statements of line that gives the auditor. In this regard it is necessary to the declaration of conformity which confirms that management provides the auditor with all information requested. Volatize market crisis periods, especially the real estate market (land and buildings), following estimates of fair value is usually quite difficult, even more difficult, so that the auditor is no longer any indexes on the reliability estimates made by the entity. In an attempt to reduce these issues, auditor's reports should always include sections on areas of responsibility of management and auditor, explained the nature of the audit and a statement that the opinion is reasonable assurance, not absolute assurance to the fact that financial statements are free of material misstatement.

„Audited financial statements have been prepared (presented) by the management company and are under its responsibility. This responsibility includes:

- Designing, implementing and maintaining internal controls so as to prevent material misstatements due to error and / or fraud;

- Selecting and applying accounting policies in accordance with regulations;

- Design and use appropriate estimates circumstances.

Our responsibility (auditor) is to express an opinion on these financial statements based on our audit".

Responsibility is leadership and declares all related parties and transactions between them; the auditor takes this very important information in the dossier. He can not, however, verify the accuracy of such transactions, and therefore limited in their reporting in a separate paragraph of the audit report.

Conclusion

In an audit of accounting data, the most important is to determine whether the information recorded correctly reflect economic events that occurred during the accounting year. In the context of an audit of financial statements, rules are, in most cases, generally accepted accounting principles. In addition to an understanding of accounting, the auditor should have experience in the collection and interpretation of audit evidence.

In Romania, the financial relationship between auditor and client is subject to commercial law applicable to contracts. On the other APRT, in Romania there yet experience some special cases the auditor's responsibility is called into question. Internationally, however, major financial scandals led often to involve auditors. It noted in this case is the case of Enron, which led to the downfall of the audit firm Arthur Andersen, because of loss of confidence of all stakeholders of the integrity management.

In any event, it would be desirable that the auditor's responsibility is called into question as often, and this can only be achieved by establishing a solid relationship with customers well selected, that is based on letters written by professional commitment, and by conducting audits to take account of ethical requirements and those of auditing standards. Planning and execution of audit should be done after all the rules of the International Auditing Standards in order to remain far fewer elements that could call into question the liability of auditors.

References

1. **Arens Loebbecke**, 2005 – *Audit. O abordare integrată*, Editura ARC, Chişinău.
2. **Morariu Ana, Ţurlea Eugen**, 2001 – Auditul financiar contabil. Editura Tribuna economică, Bucureşti.
3. **Dănescu Tatiana**, 2007 – *Proceduri şi tehnici de audit financiar*, Editura Irecson, Bucureşti.
4. **Oprean Ioan, Popa Irimie, Lenghel Radu Dorin**, 2007 – *Procedurile auditului şi ale controlului financiar*, Editura Risoprint, Cluj Napoca.
5. **Toma Marin**, 2007 - *Iniţiere în auditul situaţiilor financiare ale unei entităţi*, Editura CECCAR, Bucureşti.
6. Manual pentru Standarde Internaţionale de Audit, Certificare şi Etică, CECCAR, Ediţia 2007.
7. IAS 10 *Evenimente ulterioare datei bilanţului*, Editura CECCAR, Bucureşti, 2004.
8. Revista Audit Financiar colecţia 2007-2008.