DEFINING ELEMENTS IN SETTING THE OBJECTIVES FOR THE STATUTORY AUDIT MISSION

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Abstract: The material focuses on setting the objectives for a statutory audit mission, presenting us with three major directions that are centered on managerial assertions for the financial statements. In this context, we take into consideration the aspects related to interpreting the applicable international referential, ways of segmenting the mission, as well as the optimum correlation of the general objectives of the mission with the managerial assertions.

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1. Introduction

The detailed setting of the objectives for each financial audit is performed by starting off from the general purpose or objective of this mission, which according to the national auditing standards, is that of allowing the auditor to express an opinion about the company's accounting records and books, based on all significant aspects, as per a general identifiable financial reporting framework."

In order to fulfill this intent, the auditor starts from the managerial assertions, setting the objectives of the mission by constant reference to these ones, one aspect that enables the reference framework to collect the evidential elements necessary to issue the audit opinion.

We consider the presence of the managerial assertions reasonable in such conditions because of the current outlook on the accounting regulations about the tallying of the financial statements for the assets, the capital and the liabilities, as well as the income and the expenditure.

Setting the objectives involves, among others, the unprejudiced division of the workload between the members of the auditing team, one aspect that facilitates the efficient management of the mission. The practical approach of this initiative can be implemented by identifying the segments and the components that are to be audited separately, keeping an eye on the general overview so that there is possible to issue an audit opinion for the whole of the financial statements of the entity.

On the other hand, the auditors must also take into consideration the connection between the general objectives of the operations and the analyzed balances and the managerial assertions because there cannot be a perfect correlation of these ones.

2. Objectives

This material focuses on the following aspects.

1. Analyzing the managerial assertions of the annual financial statements in the context of the applicable accounting regulations.
2. The segmentation possibilities of the auditing process, as a means of its efficient managing and of providing the auditor with the necessary information to issue the opinion.
3. The need to strike the right balance between the general objectives of the mission and the managerial assertions.

3. Methodology

The conducted research consists in the analysis of the information presented in papers specialized in auditing as well as the international standards, which are adopted by national authorities as well. Those have been subject to the processing and interpretation by authors, one aspect that is supported by the opinions that are expressed in this material.

4. Analyses

Thus, the managerial assertions represent essentially the implicit or explicit statements of the management about the categories of operations that are performed by the entity and the accounts in which these ones are reflected. They are focused on more aspects that fall into the following categories according to the literature:

- the existence, that involves the fact that the assets and the liabilities of the company have existed staring from the date of the financial statements;
- the rights and the obligations, that is the fact that the assets belong to the entity in a certain moment;
- the issues, the production of the transactions and the events in the interval when the reporting is performed as well as the connection with the respective entity;
- the exhaustivity that is recording all the assets, liabilities, transactions or events that require the adding to the financial statements;
- the assessment that is recording the assets and the liabilities at an adequate accounting value;
- the measurement, which is recording a corresponding value of the transactions and the events, as well as the allotment of all income and expenditure of the corresponding interval;
- editing and presenting the information that is the presentation, the classification and the description of each element included in the financial statements that respect the specific general reporting frame.

Given the Romanian context, we consider that applying the current accounting regulations can raise a series of problems to the management because of the relatively new character represented by the modern conceptual approach for the acceptance of the financial statement of the assets, the capital, the liabilities as well as the expenses and the income, which emphasizes the fact that the simple defining and typifying the components of the financial statements is no longer enough to compose and present the balance sheet and profit and loss account. We need increased strictness on the part of the ones that draw up financial statements, so that for each relevant operation or event the criteria are respected.

Because of that, in our opinion, there are more elements that can influence the correctness with which the management presents its assertions in the edited financial statements that the auditor should take into account when setting the objectives, elements whose presentation is as follows.

- Calculating the assets based on two fundamental criteria, that is: the probability to realize a future economic benefit and to determine the value/ cost of this one credibly, which involves giving up adopting this issue due to the asset ownership. Thus the assets represent future profitable economic benefits, held and controlled by the entity as a result of some operations or events from the past. In the same time we can notice the principle of the influence of the economic championing over the legal (controlled resource that does not involve ownership) and the principle of the continuity of the activity (future probable economic benefits).
- Presenting the liabilities according to the cumulative fulfillment of two criteria: the probability of an economic benefic carrying resource turnoff and a credible evaluation.

According to the applicable accounting regulations the liabilities are current obligations of the company because of past events and by whose deduction might trigger a resource turnoff that will incorporate economic benefits. Moreover, it is mentioned that there are considered to be liabilities only those current liabilities that have been triggered by past operations or events.

As far as the assets and liabilities are concerned, there can be performed a clear long term/current delineation that can enable the classification of the assets as current assets and fixed assets, respectively, of the liabilities in current liabilities and long-term liabilities.

- The concept of preserving the capital represents another aspect that requires special attention on the auditors' part, because of the implications that it has on the assets and the liabilities (in a higher degree), as well as on the income and expense (in a lesser degree), as well as because of the fact that it determines the accounting model used to edit financial statements. Preserving the capital involves adopting two approaches by the management, according to what they think strikes a better balance between relevance and credibility in presenting the information in financial statements, that is:
  - Preserving financial capital, a concept according to which profit can be made only if the financial (monetary) value of the net assets at the end of the interval is higher than the value of the same elements at the beginning of the interval, after the exclusion after the exclusion of the distributions and the contributions by the owners in the analyzed interval.
  - Preserving the physical asset that states that the profit is made only when the physical productive capacity of the organization at the end of the analyzed interval is superior to that from the beginning of the interval.

As regards using the concept of preserving in the editing of the financial statements we agree with those opinions that claim it is the financial concept of capital which is more appropriate, because it fits better the information needs of the users.

As regards the capital of the entity, one significant aspect from the perspective of the auditors is the regulatory risk to which the capital is exposed, as the issue of fiscal law legislation changes can determine getting an insignificant benefit or a decrease in its value.[6]

- There is a close connection between the concept of preserving the capital and calculating and setting the income and the expenses.

The income is calculated in the profit-and-loss statement if the circumstances for a benefic future economic growth are achieved cumulatively, because of increases in assets or decreases in liabilities, as well as a credible evaluation of such an increase. They represent increases in economic benefits recorded during an accounting exercise as turnover or increase of the assets or decrease of the liabilities that trigger off increases in capital besides the ones that have been caused by the shareholders' contributions.

In turn, the expenses have to respect the credible evaluation criterion as well as the one related to the future economic benefit decrease by asset decrease or increase in liabilities. They represent decreases in the economic benefit recorded during the accounting exercise in the form of turnoffs or decreases of the asset value or decreases of the liabilities that result in reductions of the capital, besides the ones resulted from the sending to the shareholders.

Besides calculating the structure of the financial statements another aspect that can influence the managerial assertions is that of evaluating the structures that are concerned since it is common knowledge that there can be more evaluation bases. The international accounting referential mentions the ones regarding the historic cost, current cost, realizable value (settlement) and the present value.

The evaluation option that is most frequently used in practice is the historic cost that is the assets are included in the financial statements and the value settled in cash (or its equivalent) or the right value set when they were bought, and the liabilities are set for the value of the equivalent sold in exchange or, as is the case in some situations, in the case of income tax, for the value that is expected to be paid in cash (or its equivalent) to settle them.

The presented elements impose strictness not only on the part of the management but also on the part of the auditors, who during the process operate frequently the concepts, principles, methods and definitions regarding the assets, liabilities, income and expenses.

On the other hand, we should take into consideration that the objectives for an audit are not set on the whole, it is necessary to have a division of these ones based on components of smaller sizes, so as to equally distribute the workload to the members of the team and implicitly an effective management of the whole process. This operation, known as audit segmentation, does not involve completing the task completely independently based on the segments defined at the beginning; on the contrary, it involves a close analysis of the connection between these ones, followed by issuing a conclusion regarding the financial statements on the whole.

There are some models to segment the auditing process. We would like to mention the ones drawn by Arens and Loebbecke7, while writing one important paper on the topic:

- The option of approaching each account balance as a distinct segment. This option has a major disadvantage because it is likely to have a separate audit of some tightly connected accounts

[6] Mihai M., Mehedințu Fl., The accounting information and the company's capital management, Publishing House Universitaria Craiova., 2008, pag.31.

[7] A. Arens, K. Loebbecke, Audit: An integrated approach, Arc Publishing House, 2003., pag 179.

by the members of the team which leads to an increase in the duration of the audit , thus impacting the costs;

- The option of segmenting the audit by categories of operations and account balances tightly connected. It is known as the cycle method and it removes the disadvantage previously mentioned, while enabling a better understanding of the financial statements, one aspect that facilitates drawing a conclusion in that case of complex audit.

In this context, the American specialists consider the following operations relevant to the auditing process: Sales-collections; Purchases- payments; Salaries- personnel; Capital attraction – reimbursement.

Consequently, the auditor has to define the objectives for each category mentioned above to collect evidential elements, called operation- related auditing objectives.

It is imperative the general objectives focused on the main operations are closely connected to the managerial assertions for the financial statements.

However, one should draw a line between the general operation- related objectives and setting specific objectives for each category that should help provide more detailed information. Considering this connection, we think the auditor's take is more simple when it come to general objectives and more difficult when there are operation-related specific objectives ,since that required detailed knowledge of the organization.

In a similar way, while setting the operation-related the auditor acts as in the case of accounts balance, by trying to get audit evidence to justify the amounts that are put down in the accounts, which means that there is no actual check of the accounts.

As regards the connection between the managerial assertions and the general objectives regarding the operations and the accounts balance, it is also mentioned that the ones that are operation related are fewer than managerial assertions, while the operation- related objectives are more. This is justifiable, firstly because the managerial assertions for the rights and obligations as well as the presentation of the information cannot be associated with the organizational operations and, secondly, because of the need of strictness on the part of the auditors to get more detailed elements to take a decision for the audit evidence.

Since the setting of objectives for the audit is a framework to achieve its goal, to express the opinion about the financial statements, on the whole, in connection with all the significant aspects, according to the identifiable financial reporting framework, we consider that the analyzed issue is cannot be separated from the objective of the company's financial statements.

It is know that the latter are design as to enable o clear image of the financial position, financial performance and other information about the activity. [8]

In these conditions, the auditor should take into account the fact that the balance sheet reflects the situation of the entity at the end, the profit and loss statement and the cash flow balance are relevant for the whole audited interval and the capital change statement connects the balance sheet to the profit and loss statement, reflecting

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[8] C. Staicu şi colectiv, Financial accounting – International and european approach, vol. I, II, Publishing House Universitaria Craiova, 2010, pag. 8.

the change in capital ownership and implicitly, the performance over a certain interval.[9]

Only by considering the above mentioned connection will we be able to accomplish the general objective.

In this general context the auditor will add to the objectives related to the above mentioned aspects, determining and calculating the financial indicator of the entity as basic to audit the financial position. In this regard we will extend the analysis based on the analytic model, because only in this way one can get evidential elements for the purpose.

Also, in order to collect audit evidence relevant to the financial performance of the entity, the auditor will set more general objectives so as to have the possibility to calculate and examine the conformity of the profit and loss statement with the international referential.

As regard the analyzed issue, the literature expresses opinions according to which the editor needs to focus on, prevailingly, the balance sheets and to take into account only the ones issues in certain situations, one aspect that is justified by the supporters by the tight connection between the two accounts.

In our opinion, the auditor should set deadlines for both the balance sheet and the result statement. In this regard we share the opinion of the Alexandru Rusovici, specialist, which recommends the close examination of some significant elements for the financial performances of the entity, that is:[10]

- the correct tallying of the income and the effective cost cover;
- the correct calculation of the income and the costs of the interval according to the set accounting principles;
- the correct association of the amount in the income and expenses statement with the ones in the asset and liability accounts and the correct record of the operations;
- the uniformity of the accounting principles that are applicable in both the current and the previous situation;

As regards the cash flow of the entity it is imperative to examine more aspects, which, altogether, can be considered audit objectives among which we mention the ones related to:

- checking the existence of cash resources;
- the correct evaluation of the elements expressed in currency;
- the method that should be applied;
- the correct presentation of the financial statements of the used elements to determine the cash flow.

In turn, the capital change statement needs, besides the careful examination of the previously exposed capital, further setting of more audit objectives, among which we mention:

- the correct setting of the balance sheet elements that are relevant for the social capital, reserves, profit and loss of the current exercise;
- examination of the respective accounting treatments;
- respecting all the legal, accounting and fiscal regulations;
- the analysis of the changes in the volume and structure of the capital, and so on.

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[9] A. Rusovici, F. Cojoc, Gh. Rusu *The financial audit of companies* , R.A. The Oficial Monitor, Bucureşti, 2003, pag. 250.

[10] A. Rusovici, F. Cojoc, Gh. Rusu *The financial audit of companies* , R.A. The Oficial Monitor, Bucureşti, 2003, pag. 275.

5. Conclusions

The rigorous assessment of the objectives of the statutory audit mission is a complex process that involves professional strictness on the part of the auditors. So among other elements that have to be taken into account, it is necessary that the objectives of the mission are configured in such a way to enable the optimum correlation with the managerial assertions and, at the same time, with the segments that have been drawn for the components of the yearly financial statements. Such an approach can contribute to improving the quality of the entire audit process by having beneficial effects on the solid argumentation of the audit opinion expressed at the end of the mission.

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