

THE AUDIT RISK ASSOCIATED TO THE DEPRECIATION ADJUSTMENTS OF THE TANGIBLE ASSETS DURING THE FINANCIAL INSTABILITY PERIOD

Assoc. Prof. Adela SOCOL, PhD

Lect. Szora Attila TAMAS, PhD

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1. Introduction

The studies regarding the current economic crisis provide descriptive and financial approaches of this complex phenomenon. There are various acceptations of the “financial crisis” concept regarding the state of the national organizations or economies, which diminish part of their fortune. The conceptual meaning of the financial crisis notion gravitates around the sobriety of the term and the psychological impact over the human perception.

Measuring and precluding or foreseeing the effects of the crisis have become complex and difficult challenges, tending to become predominant subjects of the current studies.

We want to investigate the ramifications of the crisis within the global economy by studying the impact over the financial audit activity, considering the potential contribution of audit to the start of the financial crisis. The premise of the study is represented by the social responsibility of the financial auditors and the incidence of the conditions of economic instability over the financial audit activity.

The study was developed based on the example of the tangible fixed assets’ audit in the attempt to determine the effects of adjusting the depreciation for the audit activity and especially for the audit risks.

The research methodology used by the study consisted in identifying the defining senses of the theme within the

national specialized literature and the practical interpretation of the effects of the tangible fixed assets’ value depreciation over the financial auditors’ activity. The information regarding the significant weight of the tangible fixed assets within the companies’ total assets is at the base of the research and of the decision to choose the depreciation of the tangible fixed assets as the subject of the theme’s practical approach. We used the data gathered at the level of Alba county (according to the website of the Ministry of Finance www.mfinante.ro) for 10.014 economic agents, who handed in the annual financial statements associated to the accounting period of 2008. Thus, it was noticed that the weight of the main tangible fixed assets (lands and constructions) within the total assets of companies that draw up actual financial statements is 26,91% and the weight of the tangible fixed assets within the total assets of companies that draw up simple financial statements is 49,5%.

2. Theoretical outlooks

The role of financial audit, its social meaning and the public trust in its results are subjects discussed within the specialized mediums and during the period previous to the current financial crisis, acknowledged since the second half of 2007. For example, since the 1990’s, the specialized studies have approached aspects of the internal and financial audit techniques in determining the frauds that impact the annual

financial statements (Moyes and Hasan, 1996; Hillison, Pacini and Sinason, 1999) or have developed models to determine audit risks relied on the basic model: $\text{audit risk} = \text{immanent risk} \times \text{control risk} \times \text{risk of undetecting}$ (Glover and Aono, 1995). Regarding the financial audit risks and its public image, the important themes of the studies conducted after the year 2000 were fraud cases that impacted the annual financial statements of some important corporations – Enron, WorldCom, Global Crossing, Adelphia, etc. (Rezaee, 2004; Cullinan, 2004; Asthana, Balsam and Kim, 2009).

In the new international context the mission of the auditor gets more and more complicated. He can't exercise an audit mission where he only tells his opinion, where the financial statements are according to reality or not, the auditor must be something more. He must surge back and forth between boosting the conviction of the stakeholders that the financial statements provide a true image of the financial positions and providing them with information about the state of the enterprise (Zăpodeanu, Boloş, Farcaş and Marian, 2009). The hypothesis of the activities' continuity puts pressure on the annual accounts, so it's essential for the auditor to ensure the "rational" character of this supposition (Burlaud, 2009). The phenomena of the financial crisis will contribute to the reconfiguration of the internal audit, its spreading area will significantly extend in the coming period, and the auditor's role will be more and more strategic by focusing his efforts towards the improvement of the activities and processes within the company (Pop and Boţa-Avram, 2009).

Recent studies attach to the current economic crisis a lack of ethics in business, the increase of greed and negligence in the audit activity (Wong, 2009: pp. 56-77). A key element in managing the financial crisis is to understand the interactions between the financial organisations and the formal

and informal institutions (Riaz, 2009: pp 26-35).

Studying the crisis can't be disassociated from the interaction between organisations and institutions that involve the financial medium. The financial audit seems in difficulty within such a mechanism. On one hand, the financial audit can't be denied the social role and valences. They come from the very particularity of the audit – the informational support granted to the users of the annual financial statements by an independent professional, by issuing an opinion about the conformity of the financial statements with a general framework of identified accounting report. Moreover, the purpose of an audit is to improve the confidence level of the targeted users of the financial statements (ISA 200 Objective and general principles governing an audit of financial statements).

On the other hand, the growing bankruptcies of the companies whose annual financial statements were subjected to financial auditing bring this activity to an area of blame and even questioning the very essence and social use of the financial audit.

By overcoming the previously mentioned extremes, we consider that the manifestations of the economic instabilities specific to the financial crisis are meant to lead to rethinking the audit's efficiency and the levers that can increase public confidence within the financial audit activity. In order to achieve this, the financial audit must coherently define the terms of expressing the results of the audit work. Insufficient knowledge in exercising the audit can generate errors in the perception of the added value of the financial audit and confusions in interpreting its results.

Without setting ourselves up as the supporters of one of these two approaches regarding the financial audit's (in)efficiency, we think it's appropriate to analyse the work of the auditor from the perspective of the values

they focus their activity on – elements of the patrimony expressed at historical cost, as the presentations made in the annual financial statements. At the date of the balance, expressing the patrimony at the accurate value is able to diminish the gap between reality and the information in the annual financial statements. But, when expressing an opinion, the static approach of the information from the moment of drawing up the annual financial statements is not enough for the auditor to express an opinion. We think the activity of the financial auditor should involve the estimation on medium term of the audited entity's activity. The claims of the entity's management regarding the business' perspectives, mentioned in the annual financial statements, must be validated by the financial audit.

Because the raw material for the auditor's activity is represented by annual financial statements, we will focus our attention on them with the purpose to identify the potential sources of the risks with a significant distortion capacity.

3. The general framework of identifying the significant risks of financial audit, according to ISA 315 Understanding the entity and its environment and assessing the risks of material misstatements

Establishing the significant risks that occur in most audit commitments is an issue of professional reasoning for the auditor. In exercising this reasoning the auditor excludes the impact of the identified audits in order to determine if the risk's nature, the probable size of the potential distortions, including the probability that the risk will lead more distortions and the risk occurrence probability require special attention during auditing (ISA 315 Understanding the entity and its environment and assessing the risks of material misstatements).

It's less likely for routine, simple transactions that are subjected to systematic processing to bear significant risks because they carry less immanent risks. On the other hand, most times, significant risks come from business risks, which could bear significant distortions. When considering the nature of the risks, the auditor takes into account a series of aspect, such as:

- If it is a fraud risk;
- If the risk is related to recent important developments of economic, accounting or other nature and therefore requires special attention;
- The transactions' complexity;
- If the risk implies important transactions with affiliated parties;
- The subjectivism level when assessing financial information related to that risk, especially the information with a large span of incertitude regarding the assessment;
- If the risk involves important transactions that are outside the normal development course of the entity's activity and which seem unusual in other ways.

Often, the significant risks refer to unusual significant transactions and to the aspects subjected to interpretation. The unusual transactions are rare transactions, either because of the size or of their nature, and therefore they don't occur with regularity. The aspects subjected to interpretation can include the making of accounting assessments for which there is significant evaluation incertitude.

The significant distortion risks can be higher for the unusual significant transactions, deriving from problems like:

- A bigger intervention of the management in mentioning the accounting treatment;
- A bigger manual intervention in collecting and processing data;
- Complex calculus and accounting principles;
- The nature of the unusual transactions, which can make more

difficult to implement efficient controls for risks.

The significant distortion risks can be higher for those regarding significant aspects subjected to interpretation, which require doing accounting estimations coming from:

- The accounting principles for accounting assessments or the acknowledgement of incomes can be subjected to different interpretations;

- The necessary professional reasoning can be subjective, complex or it needs assumptions about the effects of future events; for example, the reasoning about accurate value.

For significant risks, the auditor must assess the conception of the audits associated with the entity, including the relevant auditing activities, and he must establish if they were implemented. Understanding the audits regarding significant risks is necessary in order to supply the auditor with adequate information and to have an efficient approach of auditing.

The management of the audited entity must be aware of the significant risks; still, the risks regarding the unusual significant aspects or those subjected to interpretation are probably less often the subject of routine controls. Therefore, knowing the situation within the entity regarding the preparation and implementation of audits for such significant risks implies the auditor will know if and how the management reacts to those risks and if the control activities (such as: revising the assumptions by the leading management or by experts, the formal reports regarding assessments or approvals from those responsible with the administration) were implemented to fight the risks. For example, when it concerns singular events, like receiving notifications about an important process, the analysis of the entity's response will include aspects like: if it was handed in to experts (such as internal or external legal councillors), if an assessment of the potential effect was conducted and how

those circumstances will be presented in the financial statements.

4. The impact of depreciation adjustments for tangible fixed assets over annual financial statements

In the annual financial statements, the assets, debts and equity capitals are reflected and assessed at book value, placed in agreement with the inventory's results. The book value of an asset is the value at which it is recognized after deducting the accumulated depreciation, for depreciable assets and adjustments accumulated through depreciation or value loss.

Assessing the tangible fixed assets during inventory is done at inventory value, which is established depending on the utility of the good, its condition and the market price. Assessing tangible fixed assets at the date of the balance is done by taking into account the cost, except the depreciation and the accumulated adjustments, or by taking into account the reassessed value, except any accumulated subsequent depreciation and any losses resulted from the cumulated subsequent depreciations.

Value adjustments can be: permanent adjustments – writing offs and/or provisional adjustments – depreciation adjustments or value losses, depending on the permanent or provisional feature of the assets' adjustments. Depending on the type of the existent depreciation, adjusting the value of the tangible fixed assets and bringing them at the level of the inventory value is done either by recording an additional depreciation in case an irreversible depreciation is noticed, or by building or supplementing the depreciation adjustments in case a reversible depreciation is noticed.

The International Financial Reporting Standards approach in a different manner the depreciation issue;

the term of depreciable value was introduced with a different meaning than the one used by the Romanian practice. It's necessary to picture an asset in the financial statements as a value that doesn't exceed the reimbursable sum obtained from its use or from the transaction on an active market.

The concept was developed to ensure a better and more credible reflection of an asset's value at the date of the balance, within the financial statements of an enterprise. This is due to the fact that, in practice, in many European jurisdictions the demands were not implemented with rigour, even though there were statutable obligations to buy the book value of the assets at their market value. Furthermore, certain jurisdictions, especially the ones with a British tradition, didn't impose the depreciation's reflection unless it was done permanently and on long term.

The more rigorous approach of *IAS 36 "Impairment of Assets"* shows the fact that the regulation authorities have become aware that this was an ignored area within the financial reporting.

An enterprise has two obvious possibilities to recuperate the value of its assets:

- By using them, or
- By capitalizing them on the market

If the use value is smaller than the one obtained on the market, a competitive company prefers to sell the asset rather than use it, or vice versa. Thus, in the spirit of *IAS 36 "Impairment of Assets"*, the retrievable value is the maximum between the fair value minus the selling costs of the asset and its use value; in other words, the retrievable value is the sum that the enterprise expects to retrieve from an asset's future use, including its residual value at the time of the alienation.

The International Accounting standard 36 "Impairment of Assets" is one of the most challenging and difficult normative speeches of accounting. Its

implementation extends the prudence principle and is included in the assets maintenance conception.

Other evaluation methods can be considered when independent evaluators or the entity's personnel determine the depreciation losses (for example, methods based on cash flows). In order to establish if there are depreciations of tangible fixed assets, except the factual observation during inventory, we can consider external and internal sources of information. The external sources of information are represented by the following types of events:

- During this period, the asset's market value has dropped significantly more than it was expected as a result of the time's passing or of the use;

- During this period, significant changes took place, with negative impact over the entity; or such changes will take place in the near future regarding the technological, commercial, economic or legal environment where the entity runs its activity or on the asset's market.

The internal sources of information are represented by the following elements:

- There are clues of physical or moral depreciation of the fixed assets;

- During this period, significant changes took place, with negative impact over the entity, or such changes will take place in the near future regarding the degree or how the fixed asset is used or is expected to be used. Such changes include: the statements where the lock-up became non-productive, the restructuring plans or the plans to interrupt the activity, as well as planning to cede over the lock-up before the previously foreseen date;

- The internal reports supply clues regarding the economic results of a lock-up area or will be worse than expected.

The depreciation clues of the fixed assets placed at the disposal by internal reports include:

- The cash flow needed to acquire a similar fixed asset, needed to be

exploited or to maintain the lock-up is significantly higher than the one initially foreseen in the budget;

- The result of the exploitation generated by the fixed asset is visibly inferior to the one foreseen in the budget;

- A significant drop of the profit foreseen in the budget and a significant increase of the losses estimated in the budget, generated by the fixed asset.

The *market values* of the frozen assets and of the real estate are rather a representation of their acknowledged utility on the market than of their pure physical states. The International Valuation Standards – 7th Edition – establish, among others, their relationship with the accounting standards. Thus, the financial reporting will need to apply the assessment methods of the *market value* and a clear distinction between these methods and the estimation methods of the *values that don't rely on the market*. When there is no opportunity to identify a *market value* due to the specialized nature of some frozen assets and due to the fact they rarely sell, they are evaluated at the *net replacement cost* (International Accounting Standard 16 “*Property, Plant and Equipment*”). Given these conditions, the property's total cost includes all its production costs, direct and indirect. If additional capital costs of the buyer are involved, which are subsequent to the acquisition, they will be added to the historical acquisition cost in order to register the cost. Depending on the way the utility of these costs is perceived by the market, they can be fully reflected or not in the *market value* of the property.

An estimation of the cost for a property can be based on the estimation of the replacement cost or on the estimation of the reconstruction cost. *The reconstruction cost* is the cost to create an identical copy of an existent building, by using the same project and similar construction materials. *The replacement cost* refers to building a structure of comparable utility, by using projects and

materials used currently on the market. (In some countries, the term of *equivalent modern asset* is used to describe a building whose cost is estimated on the basis of the replacement cost.)

The concept of *market value* reflects the collective perceptions and actions on the market and is the basis for the assessment of most resources in the market economies. Although definitions can be different when it comes to precision, the *market value* concept is usually understood and applied.

The fair market value must not be confused with the accounting term of *fair value*. The fair value of tangible fixed assets is defined by the International Valuation Standards – 7th Edition – as follows: the sum estimated for which a property could be exchanged, at the date of the assessment, between a decided buyer and a decided seller, in a transaction with a objectively determined price, after an adequate marketing activity, when both parties acted knowingly, prudently and without constraints. It's important to underline that the professional estimation of the *market value* is an objective assessment of the property rights over certain goods, at a given moment in time. This definition includes the market concept as a whole, which reflects the activity and the motivation of the parties rather than the image or the preconceived interest of a certain participant. *The market value* is an estimation justified by the market, done in accordance with these Standards. Real estate is different than most goods and services, because of the relatively large period of market exposure, in order to reach a price that will represent the *market value* due to the fact that real estate is merchandise with low liquidity. This large exposure period, the absence of an “open market” (a market where goods are available for immediate sale) and the nature and diversity of real estate and of the real estate market, have determined the need

to have professional evaluators and evaluation standards.

over the financial statements in case they are cumulated.

5. The materiality in auditing

The International Accounting Standards establish that materiality consists of the fact that information is significant if its omission or erroneous submission could influence the economic decisions of users. For a better planning of the mission, the auditor has the obligation to establish materiality at the global level of the financial systems and at the level of the relation with the balance of the individual costs, the transactions categories and the presentation of the information. The auditor usually establishes materiality for each group of financial meanings, expressed as a numeric value. The auditor uses as base to determine corporality the most significant information from the financial statements regarding: total assets (before subtracting debts), the turnover, the profit before taxes. When establishing materiality, we must take into consideration a few characteristics that could prove significant: the activity sector, the size of the enterprise, the enterprise's evolution in time, the sociable economic environment, which includes legislation, the economic context, the political context, the competition, the social climate, etc. "The knowledge level of the auditor, needed for a liability, must include a general knowledge of the economic environment and of the activity sector where the company operates, as well as a specific knowledge of the operating method" (Brezeanu, 2008).

The nature of the erroneous information must be taken into account from a quantitative perspective, as well as from a qualitative one; the auditor must pay attention to the possible erroneous information of small values, which could have a significant impact

6. The audit risks

By establishing materiality, the risk assessment and the error expression, the auditors determine the volume that needs to be audited. Identifying risks specific to the audit action (the immanent risk, the control risk, the undetection risk) facilitate for auditor the selection of the audit tests that will be directed towards the most important problems.

The immanent risk and the control risk are risks that belong to the entity; they exist independently of the audit process for the financial statements. The auditor is asked to assess the risk of significant distortions at the level of the claim as a base for additional audit procedures, although that evaluation is rather a matter of reasoning than an accurate risk measurement. When the evaluation of the auditor regarding the risk of significant distortions includes a prevision of the controls' operational efficiency, the auditor runs control tests that support the risk assessment. Although IAS usually describe a combined evaluation of the significant distortions risks, the auditor can make a separate or combined evaluation of the immanent and control risks depending on the preferred audit techniques and methodologies and on the practical reasons.

"The undetection risk" is the risk the auditor won't detect a distortion existent in a claim, which could be significant if it is isolated or cumulated with other distortions. The risk of undetection can't be reduced to zero because the auditor doesn't usually examine the entirety of a transactions class, the balance of accounts and the information presentations.

7. Establishing the general audit risk

The auditing standards present few details about the transformation of the established individual risk of audit into an established general audit risk. But, if the auditors have reasons to consider that the financial statements can still be distorted because of the undiscovered errors, it's possible for the established general audit risk to overcome the planned general audit risk. Generally, the additional audit effort is required for the accounts where the individual audit risk is unacceptably high.

The acceptable audit risk represents a measure of the degree in which the auditor is willing to accept the fact that the financial statements could be significantly erroneous. Absolute insurance (zero risk) is not practiced, and a risk of 100% is absolute incertitude. First, the auditors determine the economic risk in order to assess this risk, meaning the risk of the auditor in case he hands in an audit report that proves to be inaccurate. This economic risk depends on:

- The extent the users depend on the financial statements;
- The probability a client will face financial problems after the issuing of the audit report;
- The assessment of the management's integrity by the auditor.

8. The undetection risk

The risk is inextricably linked to materiality. Audit Standard 400 regulates it. The main technique used by the auditors to approach risk during the planning of an audit is *the risk model for audit* in order to make a decision regarding the quantity of collected evidence. This model has the following shape:

$$RDP = RAA / (RI \times RC)$$

RDP = planned undetection;
 RAA = acceptable audit risk (ex.5%);

RI = immanent risk (ex.75%);
 RC = control risk (ex.75%);

In the example below, comparing the specific risks of the financial years 2008 - 2009, to a group of entities of 5% depositors of complete financial statements of Alba County, ranked by decreasing share of property (land and buildings), the average resulted RNDP is the following:

Table1: The risk of undetected planning

2008		RAA	RI	RC	Materiality
RNDP	13,33 %	5%	50%	75%	average size
2009		RAA	RI	RC	
RNDP	8,89 %	5%	75%	75%	relatively larger size
RNDP	17,78 %	10%	75%	75%	relatively smaller size

Therefore, for the financial statements submitted on 31.12.2008, RNDP = 13, 33%, in terms of an average inherent risk (50%) of an relatively large risk control (75%) of a generally acceptable audit risk(5%) and on 31.12.2009, RNDP becomes 8.89% in terms of an inherent risk increased to 75% due to the proposed assessment of tangible assets without taking into account only to a lesser extent the fair value.

The effect on the audit work is to raise the materiality - as shown in the table above, has opposite effects on users, or to accept a general audit risk of 10%, in which case RNDP = 17.78% (unacceptable by users), but with the lowering of the materiality.

In comparison to the calculus model mentioned above, that is largely used in the current practice in Romania; we think it's time to use the **Bayesian audit risk model** given the current crisis. The Bayesian model for the assessment of the risk expresses the possibility to use estimations with personal

probabilities and changed objectives as new data appears, because the uncertainty elements are numerous, subjective and can be revised as a result of the information acquisition. This model was first introduced by the Canadian Institute of Chartered Accountants in 1980 and was taken and developed by a large number of researchers.

In audit, all the models called Bayesian are based on the theory of Thomas Bayes who elaborated revision procedures for probabilities by changing the initial probabilities based on results obtained through experiments. Given two events, A and B, it's called conditioned probability of event A, conditioned by event B, the probability that event A happens when it is known that event B took place. Probability P (AB) represents the probability that event A and B happen simultaneously. Bayes elaborated a general formula for the calculus of the ulterior probabilities valid for an aggregate of k events, mutually exclusive and exhaustive. Given events A1, A2, ... Ak, mutually exclusive and exhaustive, and event B that is dependent on them, the following formula is valid:

$$P(A_i/B) = P(B/A_i) \times P(A_i) / \sum_{j=1}^k P(B/A_j) \times P(A_j)$$

The aggregate of mutually exclusive and exhaustive events are those events that meet the following conditions:

- Any given two events from that aggregate can happen simultaneously (exclusivity);
- The events in the aggregate can describe all the conditions that the system has and to which these events refer (exhaustive).

P(E | A) Thus, the occurrence probability of an event is conditioned by another unknown or unsure event. The general formula of the Bayes theory, applicable also in auditing, for the calculus of the ulterior probabilities that bring additional information for the deciding factors is the following:

$$P(E_i/A_j) = P(A_j/E_i) \times P(E_i) / P(A_j)$$

where:

P(Ei) – the unconditioned or previous probability of the errors;

P(Ei|Aj) – the ulterior (conditioned) probability and the manifestation probability of condition E in the hypothesis of results A associated to the experiment. In auditing, this represents the probability to accept the financial statements based on evidences even if they contain errors (the auditor's risk of inaccurate acceptance);

P(Aj) – marginal, total or simultaneous probability of the evidence that involves acceptance;

P(Aj|Ei) – the conditioned probability of the errors, given by financial statements based on evidence (the user's risk of ill-founded acceptance of the financial statements)

The Bayes theory's relevance is given by the fact the formula represents a way to determine the probability of an event Ai (component of an events field) if it's acknowledged that its occurrence is influenced by the manifestation of an event B. The expression AP(A/Bi) doesn't represent the occurrence probability of event B when it is known that event Ai took place (according to the expression), because event B's estimation is *previous to Ai's estimation*. The accurate interpretation of this expression is the following: the probability that event B *already took place*, knowing that its occurrence was followed by the manifestation of event Ai. The formula is used to determine the ulterior probabilities when analyzing the decisions trees with precise information. If the economic effect obtained in addition to the use of the model with complete information is bigger than the cost of the additional information, it means it's recommended to acquire the additional information. The calculus is done on the basis of the mathematical expectations of the perfect information's value (the difference between the

mathematical expectations of the result by using perfect information and the mathematical expectation of the result without perfect information). The rate of efficiency for the information acquired through sampling is calculated as follows:

$$\varepsilon = \frac{(S_m P_{post} - S_m P_{init})}{(S_m I_{perf} - S_m P_{init})}$$

where, $S_m I_{perf}$ - the mathematical expectation of the results by using perfect information,

$S_m P_{post}$ - the mathematical expectation of the results obtained with ulterior probabilities

$S_m P_{init}$ - the mathematical expectation of the results by using initial probabilities.

For example $\varepsilon = 0,2$ means that the sampling practiced by the analysts who elaborated the study has used only 20% of the mathematical expectation of the perfect information's value. When ε has a low value it means it is a reserve within the improvement of the information through the ulterior deepening of researches. For a value higher than 0.6 it is assessed the previous investigation conducted by analysts has filled the demand of information; the acquisition of information can stop at this stage. If $S_m P_{post} - S_m P_{init}$ is higher than the cost of the information's acquisition, it's recommended to acquire information (otherwise, this action is not recommended). The final decision that can be made after using the additional information by the analysts is enunciated as follows:

- *If we don't turn to a new contract for additional information research and acquisition (meaning ε is higher than 0.6) we choose the option with the maximum mathematical expectation of the income, which is determined with ulterior probabilities.*

- *If we sign a contract for additional information research and acquisition, we wait until we get a new piece of additional information and we*

make the decision depending on the conclusions of the report drawn up by the researcher.

The most important advantage of this approach is given by the opportunity that all these evidences will be integrated and the opportunity the risk could be controlled and determined at various levels of disintegration and it could be aggregated in order to obtain the risk of the financial statements as a whole. The most important disadvantage is the difficulty to obtain entry data.

9. Running the financial audit mission

The actual auditing activity takes place as follows: the audited client is asked to hand in the statement with the reassessment of the assets from the audited financial exercise. The results are written in Worksheet G7 – Reassessing the assets performed during the audited financial exercise:

Case 1: following discussions with the audited client, as well as the analysis of the checking balance (accounts - 211, 212, 213, 214, 105, 6813, 7813), the audit client didn't reassess the fixed assets.

At the same time, after testing the fixed assets register, the financial auditor noticed there are no fixed assets that need this accounting treatment.

Case 2: following discussions with the audited client, as well as the analysis of the checking balance (accounts - 211, 212, 213, 214, 105, 6813, 7813), the audit client didn't reassess the fixed assets.

The financial auditors noticed there are fixed assets that need this accounting treatment.

Case 3: following discussions with the audited client, as well as the analysis of the checking balance (accounts - 211, 212, 213, 214, 105, 6813, 7813), the audit client did reassess the fixed assets.

After testing the fixed assets register, as well as after analysing the

reassessment file, the financial auditor noticed that the fixed assets have been reassessed at a fair value and the entries were accurately operated.

Case 4: following discussions with the audited client, as well as the analysis of the checking balance (accounts - 211, 212, 213, 214, 105, 6813, 7813), the audit client did reassess the fixed assets.

After testing the fixed assets register, as well as after analysing the reassessment file, the financial auditor noticed that the fixed assets have not been reassessed at a fair value.

Conclusions:

Case 1: The value of the audited client's fixed assets is not undervalued in the financial statements.

Case 2: The value of the audited client's fixed assets is undervalued with.... in the financial statements.

By doing a re-evaluation by the time of the audit report, the tangible fixed assets will be accurately written in the financial statements. By not doing this, the difference resulted from the accurate value of the reassessed tangible fixed assets and the presented value will be seen as an adjustment that wasn't done by the company's management.

Case 3: The value of the audited client's fixed assets is not undervalued in the financial statements.

Case 4: The value of the audited client's fixed assets is undervalued with.... in the financial statements.

By doing an adjustment of the reassessment by the time of the audit report, the tangible fixed assets will be accurately written in the financial statements. By not doing this, the difference resulted from the reassessed tangible fixed assets and the accurate value will be seen as an adjustment that wasn't done by the company's management.

Conclusions

Due to considerations regarding the audit risk, we support the view that re-evaluations must be made with sufficient regularity so that the carrying amount does not differ significantly from those which were determined using the fair value on the closure year (Feleaga N., Malciu L., 2004). In the same context, the considerations of adequate disclosure of tangible assets, plus tax considerations relating to the deduction and depreciation relating to differences in re-evaluations, we propose the introduction of an annual reassessment of their requirement because in the situation of imperfect markets, as can be found in our country, is difficult for those who prepare financial statements to determine fair value as it is difficult for the auditors to recognize it.

In addition to all which is written above, we must mention that users of financial statements and audit reports recognize that there are inherent limitations of the audit*. For the financial exercise from 2009 this limitation prevalently refers to the evaluation of tangible assessment, particularly land and buildings amid existing limitations of the property market owed to the economical crisis. Among the measures taken by the statutory auditors we can find thee measure according to which auditors can warn users about the further limitations of the audit through the audit reports.

However, for 2009 we can already find that although it is considered that Financial auditors have favored the creation of this crisis, especially in the U.S, based on the audit reports from 31.12.2009, the statutory auditors will still be considered the favoring factors of the economical crisis, by deliberately taking a 10% general audit risk in parallel with high risk decision taken by other users.

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