Banking Audit - Towards a Higher Degree of Harmonization

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Abstract. *In the last decade, the role and nature of the statutory audit of credit institutions have became controversial, on the base of reconsidering the importance of audit of credit institutions in prevention, detection and managing of the financial crisis. The aim of the study is critical analysis of key aspects regarding the contemporary banking audit, with an emphasis on aspects that affect the quality of banking audit (normative, procedural and organisational aspects of banking audit, the "auditable" character of some banking elements etc.) and on the tipology of audit reports of credit institutions (Audit Report to the General Meeting of Shareholders, Additional Report to the Audit Committee of the credit institution, Reports to banking supervisors and Transparency report of auditor). The paper analyses for 27 European states the way in which banking auditors report on the conformity of the credit institution with organisational regulatory rules, regulatory requirements, financial reports to supervisors or special reports to supervisors. The conclusions bring to the foreground major normative changes in the area of the European credit institutions, through reforming strategies of banking audit, through a gradual and an inscreasingly restrictive progress of audit activities and of independence requirements, rotation of auditors, reporting and transparency of credit institutions.*

Keywords: Banking audit, Public Interest Entities, Lessons of the financial crisis, Confidence, Users of financial situations of banks

JEL Classification: M42, G21, G28

1. Introduction, Theoretical Background and Research Methodology

This study adhers to the critical trend of analysis of banking audit that was developed in the last years in the specialized literature and is focused on the necessity of identifying the means whereby audit can accomplish its essential role – to increase the degree of confidence of users in financial statements. The paper is based on the critical analysis of the key aspects of the banking audit, such as the content of an audit report and the standardized language of the audit report, the insufficient explanations regarding the way in which audit improves the quality of financial information, the inherent limitations of an audit (testing - sampling techniques, materiality, absolute assurance is not attainable in audit etc.) or the lack of constructive dialogue between auditors and national banking supervisory authorities. Such assertions are founded on the actual realities of banking audit and the basic concepts of the current model of audit (Sikka et al., 2009): procedural vices in the organization and structure of audit companies, that produce the dependence of financial auditors on the companies from which they belong; the neglect of organizational and social context of audit regarding the audit quality; challenges generated by the intensification of financial capitalism, which doubt the „auditable" character of some intangible elements, such as complex financial instruments, intelectual property elements etc. Studying the current realities of banking audit continues with the identification of arguments based on which banking audit trully matters in the transparency processes of credit institutions. Also, the paper approches and analyses the modified legislative framework in the audit of public interest entities and presents for 27 European states the way in which banking auditors include extra requirements, only for banks or emited by national banking authorities in their reports.

The public reporting perspectives of credit institutions have been extended in the last years, surpassing the clasical level of financial reporting through the inclusion of new thematical areas of reportng to stakeholders. The goal is focused on the creation of public integrated reports of credit institutions in which the following aspects can be found: financial-accounting, social, community involvement, enviromental, ethics and corporative responibility. These mentioned aspects help credit institutions in informing the stakeholders on the way in which they fulfil their role as public entities. The stakeholders' expectations from the banking industry cap the expectations from the other types of economic activities and are based on the assumption that the credit institutions use a considerable amount of resources from the society (Wu and Shen, 2013). It is expected that credit institutions disclose public information which would allow the ones who are interested in creating their own opinion on the responsibility of credit institution in risks management processes, ensuring and maintaining the business value, without affecting the continuity of activity or generating a systemic risk in the banking area. Systemic risk is the most important risk that draws attention of the monetary authorities (Opritescu and Manta, 2008).

Literature from the area of social responsibility of credit institutions indicates the existence of a limited number of studies before the appearance of the financial crisis which began in September 2007. After this date, the subject became an imperative one and increasingly more approached in the papers that studied Central and Eastern Europe, where the usage of these practices did not exist. The increasing interest for the concept of Corporate Social Responsibility CSR at the level of credit institutions is based on the acknowledgement of their vital role in economic development and susteinability (Barako and Brown, 2008 cited by Krasodomska, 2015), as well as in counteracting the effects of the financial crisis (Kiliç, 2016). Otherwise, the financial crisis seems to have had a positive and significant effect on the quality of disclosure processes in banks (Zeghal and El Aoun, 2016). Even though, there is no harmonisated normative framework at the international level that imposes to credit institutions to disclose information from the corporate social responsibility area. And, historicaly the banks' reports were and still are focused on the disclosure of financial information. The Internet remains the central mean to achieve the public transparency requirements of credit institutions, surpassing the other channels, such as published reports, annals, brochures etc. Among the different sides of financial reporting and social responsibility activities of credit institutions - social transparency, sustainable transparency, social corporate transparency, social accounting, social corporate reporting, social reporting, sustainable reporting, sustainable corporate reporting etc. - we distinguish an essential aspect, regarding the auditing reporting of credit institution.

Comments on the place and the role of banking audit have to be attained in all stages of development of the economic cycles, grace the importance of banks in the international and national financial markets. Criticism and dissatisfaction with auditors' activity were determined both the denaturated perception of the role of audit in credit institution and the incapacity of the banking audits before the crisis to signal major disfunctionalities and prevent bankruptcies. We consider that there are many possibilities to establish a realistic and coherent banking audit between this extreme approach in denying the importance of banking audit and the opposite extreme to exacerbate the infaillibility of banking audit.

While the banking audit does not succeed in a good communication towards an adequate audience, the audit will be defamed and some authors bemoan for the audit reports the historical prevalence of "anodyne" and carefully constructed audit opinions that rarely encompass genuine critique in the name of accountability (Andon et al., 2015; Power, 2003; Shore and Wright, 2000).

The eterogenity of the audit provisions in different countries is another key aspect in the development of the present study, that was generously approached in the literature. In this way, the sudying of the audit and reporting standards and their power (the strength of auditing and reporting standards SARS), at the level of 41 European states lead to conclusions of variety of these standards across Europe (Boolaky, 2011). The author invokes the IFAC procedures in issuing the International Standards on Auditing ISA, that recommend coutries to adopt and implement ISA - IFAC.

But some countries have made the use of ISAs, as issued by IFAC, mandatory by law, while other countries have adapted ISAs to the local standards and any modification(s) made are in line with the spirit of the IFAC. There is not comprehensive evidence that proves the conformity of all local standards with ISA. The convergence processes of the national standards on auditing with ISAs are complex and for a long time, if the legal provisions do not specify the conformity of these two types of standards. So, not at all negligible, the regulation framework in banking audit plays a crucial role in the quality of audits (Baker et al., 2014; Gaganis et al., 2013). A high degree of harmonization and uniform application of norms in the banking audit can categoricaly contribute to thr credibility of published financial information, with which the users – the stakeholders, the investors, the employees, the syndicates, the other users of information, the government etc. - are more safeguarded.

2. Data Analysis

The attempt to answer the question of this study - if banking audit matters? - initially, it has at its core the operational benchmarks of the audit activities, as it appers in the banking contemporary practices. Romania's case stresses the credit institutions' situation, public -interest entities, that are forced to be statutory audited in a country in which the International Standards of Auditing ISA issued by IFAC International Federation of Accountants are gathered as a national normative framework to carry on an audit, through the national body in audit. This aspect overcomes the normative eterogenity of audit, that were identified in our paper at the level of other European states and contributes to the enhancement of audit, in general terms. Particularly, the importance of banking audit results from its potential to contribute to a high level of confidence of users in the financial statements of credit institutions. Publishing the audit reports on web-sites of credit institutions confers the audit the aimed potential, and as cvasimajority of audits are made by Big-Four companies, then we are tempted to give value to the audit, at least on a theoretical level. Some specialised studies prove that the BigFour audit firms accomplish the audit's objective better than non-Big four audit firms (Uemura, 2016). The inherent question marks remain in the fact of concentration of audit of major and complex companies in the Big Four audit firms, very important and with golbal activities. The potential collapse of these Big Four companies is considered a major risk that could affect and can not be replaced by the other existing audit companies. This ideea was stated in the European plan, in the context of financial stability analysis, in the European Commission's study, that on 13 October 2010 published a Green Paper entitled "Audit Policy: Lessons from the Crisis". This broad public consultation on the role and implication of audit in the financial stability belongs to the general context of financial market regulatory reform. The Green Paper mentioned that numerous banks revealed huge losses from 2007 to 2009 on the positions they had held both on and off balance sheet raises not only the question of how auditors could give "clean" audit reports to their clients for those periods but also about the suitability and adequacy of the current legislative framework (European Commission, 2010). The study invoked elaborated procedures applied after the debute of the financial crisis in order to find the role of the banks, hedge funds, rating agencies, supervisors or central banks have been questioned and analysed in depth in many instances, limited attention has been given so far to how the audit functions could be enhanced. It underlined the opportunity to study the role and the scope of audit, in the general context of the financial market regulatory reform. Audit responds to the fulfilment of a societal role in offering an opinion on the truth and fairness of the financial statements of audited entities. The Green Paper of audit pleads for the audit's robustness that are considered essential in re-establishing trust and market confidence - it contributes to investor protection and reduces the cost of capital for companies. In the preface of the study, the European Comission have expressed concerns with regard to the relevance of audits in today's business environment, for the difficult understanding of the concepts of "reasonableness" and "material soundness" even if the same institution was, in fact, distressed financially. It is possible that stakeholders may be unaware of the limitations of an audit (materiality, sampling techniques, role of the auditor in the detection of fraud and the responsibility of management), this engenders an expectation gap. The Commission therefore advocates the need for a comprehensive debate on what needs to be done to ensure that both audits of financial statements and auditor reports are "fit for purpose". The debate that the Commission initiated refers to the role of the auditor, the governance and the independence of audit firms, the supervision of auditors, the configuration of the audit market, the creation of a single market for the provision of audit services, the simplification of rules for Small and Medium Sized Enterprises (SMEs) and Practitioners (SMPs) and the international co-operation for the supervision of global audit networks. Among other essential aspects from the mentioned curriculum, the concept of the "reasonable assurance" is in discussion, referred above, is less targeted at ensuring that the financial statements give a true and fair view and more geared to ensuring that the financial statements are prepared in accordance with the applicable financial reporting framework. The banking crisis has shown that audit opinions should focus on "substance over form" which includes ensuring that there is no arbitrage in the differences in regulatory frameworks between jurisdictions. It is important to note that the International Financial Reporting Standards (IFRS) are based on the premise of principles of true and fair view and substance over form.

The public consultation based on the Green Paper of audit concluded that the provisions of European Union Directive 2006/43/CE on statutory audits of annual accounts and consolidated accounts regarding to the pubic-interest entities could be improved. On 13 September 2011, the European Parliament published its own report on Green Paper on audit. Also, the Economic and Social European Committee prepared its own report relating the Green Paper on audit on 16 June 2011. New requirements of the statutory audit in the European Union were developed through the Directive 2014/56/UE on statutory audits of annual accounts and consolidated accounts (Botez, 2014). In 2014, the European Parliament and the Council published the Regulation EU no. 573/2014 on specific requirements regarding statutory audit of public-interest entities, which specifies that good audit quality contributes to the orderly functioning of markets by enhancing the integrity and efficiency of financial statements. Thus, statutory auditors fulfil an important societal role. These documents come into effect on 17 June 2016 and will apply to financial years starting on or after that date.

The major aspects of audit reporting in the case of public-interest entities were clarified through these normative provisions that establish a complex reporting system in audit. The statutory auditor of a credit institution has to prepare the following types of reports:

- Audit Report to the General Meeting of Shareholders;
- Additional Report to the Audit Committee of the credit institution;

- Reports to banking supervisors;
- Transparency report of auditor.

Audit Report to the General Meeting of Shareholders contains information centred around the audit opinion, that could be unqualified, qualified or adverse and that obviously presents the statutary auditor's choice on the following aspects: if the financial statements give a true and fair view of the audited credit institution, in accordance with the relevant financial reporting framework and if the financial statements are compliant with the legal aplicable provisions. If the auditor can not issue an opinion, the report mentions the disclaimer of opinion. Starting 2016, the audit report contains subsequent elements, additionally to general rules derived from European Directives:

- state by whom or by which body the statutory auditor(s) or the audit firm(s) was (were) appointed;
- indicate the date of the appointment and the period of total uninterrupted engagement including previous renewals and reappointments of the statutory auditors or the audit firms;
- provide, in support of the audit opinion, the following: a description of the most significant assessed risks of material misstatement (including assessed risks of material misstatement due to fraud); a summary of the auditor's response to those risks; and where relevant, key observations arising with respect to those risks;
- explain to what extent the statutory audit was considered capable of detecting irregularities, including fraud;
- confirm that the audit opinion is consistent with the additional report to the audit committee;
- declare that the prohibited non-audit services (such as tax services, bookkeeping, tax advice etc.) were not provided and that the statutory auditors remained independent of the audited credit institution in conducting the audit;
- indicate any services, in addition to the statutory audit, which were provided by the statutory auditor or the audit firm to the audited credit institution and its controlled undertaking(s), and which have not been disclosed in the management report or financial statements.

Additional Report to the Audit Committee of the credit institution (non-public document) explain the results of the statutory audit carried out, such as:

- describe the nature, frequency and extent of communication with the audit committee or the body performing equivalent functions within the audited entity, the management body and the administrative or supervisory body of the audited entity, including the dates of meetings with those bodies;
- include a description of the scope and timing of the audit;
- where more than one statutory auditor or audit firm have been appointed, describe the distribution of tasks among the statutory auditors and/or the audit firms;
- describe the methodology used, including which categories of the balance sheet have been directly verified and which categories have been verified based on system and compliance testing, including an explanation of any substantial variation in the weighting of system and compliance testing when compared to the previous year, even if the previous year's statutory audit was carried out by other statutory auditor(s) or audit firm(s);
- disclose the quantitative level of materiality applied to perform the statutory audit for the financial statements as a whole and where applicable the materiality level or levels for particular classes of transactions, account balances or disclosures, and disclose the qualitative factors which were considered when setting the level of materiality;

- report and explain judgements about events or conditions identified in the course of the audit that may cast significant doubt on the entity's ability to continue as a going concern and whether they constitute a material uncertainty, and provide a summary of all guarantees, comfort letters, undertakings of public intervention and other support measures that have been taken into account when making a going concern assessment;
- report on any significant deficiencies in the audited entity's or, in the case of consolidated financial statements, the parent undertaking's internal financial control system, and/or in the accounting system. For each such significant deficiency, the additional report shall state whether or not the deficiency in question has been resolved by the management;
- report any significant matters involving actual or suspected non-compliance with laws and regulations or articles of association which were identified in the course of the audit, in so far as they are considered to be relevant in order to enable the audit committee to fulfil its tasks;
- report and assess the valuation methods applied to the various items in the annual or consolidated financial statements including any impact of changes of such methods;
- in the case of a statutory audit of consolidated financial statements, explain the scope of consolidation and the exclusion criteria applied by the audited entity to the non-consolidated entities, if any, and whether those criteria applied are in accordance with the financial reporting framework;
- where applicable, identify any audit work performed by third-country auditor(s), statutory auditor(s), third-country audit entity(ies) or audit firm(s) in relation to a statutory audit of consolidated financial statements other than by members of the same network as to which the auditor of the consolidated financial statements belongs;
- indicate whether all requested explanations and documents were provided by the audited entity;
- report any significant difficulties encountered in the course of the statutory audit; any significant matters arising from the statutory audit that were discussed or were the subject of correspondence with management; and any other matters arising from the statutory audit that in the auditor's professional judgement, are significant to the oversight of the financial reporting process.

The statutory auditor or the audit firm carrying out the statutory audit of a credit institution from Romania have a duty to ***report promptly to the competent authorities supervising*** - the National Bank of Romania - any information concerning that public-interest entity of which he, she or it has become aware while carrying out that statutory audit and which may bring about any of the following:

- material breach of the laws, regulations or administrative provisions which lay down, where appropriate, the conditions governing authorisation or which specifically govern pursuit of the activities of such credit institution;
- a material threat or doubt concerning the continuous functioning of the credit institution;
- a refusal to issue an audit opinion on the financial statements or the issuing of an adverse or qualified opinion. Member States ofthe European Union may require additional information from the statutory auditor or the audit firm provided it is necessary for effective financial market supervision as provided for in national law. An effective dialogue is established between the competent authorities supervising credit institutions and insurance undertakings, on the one hand, and the statutory auditor(s) and the audit firm(s) carrying out the statutory audit of those institutions and undertakings, on the other hand. The responsibility for compliance with this requirement shall rest with both parties to the dialogue.

In latest four months after the end of each financial year a statutory auditor of a credit institution shall make public an ***Annual transparency report***. That transparency report shall be published on the website of the statutory auditor and shall remain available on that website for at least five years from the day of its publication on the website. This report describes the legal structure of the audit firm, a list of public-interest entities for which the statutory auditor or the audit firm carried out statutory audits during the preceding financial year, a statement concerning the statutory auditor's independence practices, revenues from the statutory audit etc.

In 2015, the Federation of European Accountants researches among its members the current status of the audit profession's involvement on assuring regulatory reporting for banks, in addition to financial reporting (Federation of European Accountants, Scope of Audit of Banks Across Europe, 2015). The mentioned study implicated 27 European states, from which 17 Euro states were analysed. The request for information related to certain ***aspects of the scope of the audit of banks*** in different countries:

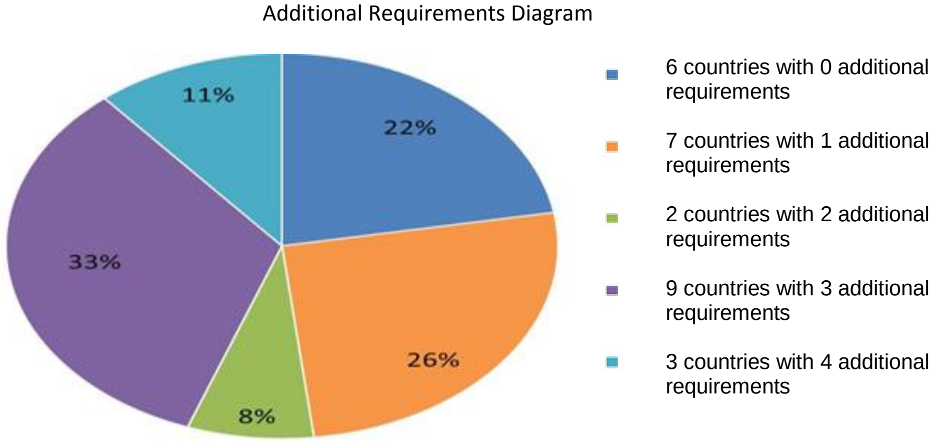
- *Assurance:* Financial statements (including management report and growing concern) - the study intended to find the existence in the statutory banking audit reports of an opinion regarding the conformity of the financial statements with the relevant financial reporting framework (in the audit reports there are mentions regarding the auditor’s responsibility for the going concern assessment and review of the management report of credit institution);
- *Compliance with law and regulations* (covered by International Standards on Auditing (ISAs)) the study intended to find the existence in the statutory banking audit reports of an opinion regarding the conformity with laws and regulations under ISA requirements;
- *Compliance: Organisational Regulatory Rules* - this refers to whether the auditor has any responsibilities to report on specific legal requirements of the credit institution and governance of a bank (e.g. requirements for risk management);
- *Compliance: Further Regulatory Requirements* (e.g. Risk Weighted Assets (RWA), loans, money laundering etc.) - the study determined if the auditors have additional reporting tasks, regarding specific banking requirements, such as money laundering reporting, reports on big loans;
- *Compliance: On-going Financial Reports to Supervisors* (e.g. Capital, Liquidity etc.) - this relates to whether the supervisor asks for assurance on on-going financial information;
- *Special Reports to Supervisors* (e.g. Benchmarks) - this relates to whether the supervisor requires assurance on other reports.

Table no. 1 - Statutory audit situation and additional supervisory requirement for the banking auditors from Europe, September 2015 - *Author's processing - Source of data: Federation of European Accountants, Scope of Audit of Banks Across Europe (FEA, 2015)*

COUNTRY	STATUTORY AUDIT		ADDITIONAL SUPERVISORY REQUIREMENTS FOR AUDITORS ISSUED BY BANKING REGULATORY AUTHORITIES			
	Assurance: Financial Statements (including Management Report, Going Concern) (ISA)	***Compliance: Laws and Regulations*** (Covered by ISA)	***Compliance: Regulatory Organisation***	***Compliance: Further Regulatory Requirements***	***Compliance: Ongoing Financial Reports to Supervisors***	***Special Reports to Supervisors***
EUROZONE						
Austria	✓	✓	✓	✓	✓	-
Belgium	✓	✓	✓	-	✓	✓
Cyprus	✓	✓	-	-	✓	-
Estonia	✓	✓	-	-	✓	-
Finland	✓	✓	-	-	✓	-
France	✓	✓	-	-	-	-
Germany	✓	✓	✓	✓	✓	✓
Greece	✓	✓	-	✓	-	✓
Ireland	✓	✓	✓	✓	-	✓
Italy	✓	✓	✓	✓	✓	-
Luxembourg	✓	✓	✓	✓	✓	✓
Malta	✓	✓	-	-	-	-
Netherlands	✓	✓	✓	✓	-	✓
Portugal	✓	✓	✓	✓	-	-
Slovak Republic	✓	✓	✓	✓	✓	-
Slovenia	✓	✓	-	-	-	✓
Spain	✓	✓	✓	✓	-	✓
EUROPEAN STATES						
Bulgaria	✓	✓	✓	-	-	-
Czech Republic	✓	✓	✓	-	-	✓
Denmark	✓	✓	✓	✓	-	✓
Hungary	✓	✓	✓	-	-	-
Norway	✓	✓	-	-	-	-
Poland	✓	✓	-	-	-	-
Romania	✓	✓	-	-	-	-
Sweden	✓	✓	-	-	-	-
Switzerland	✓	✓	✓	✓	✓	✓
United Kingdom	✓	✓	-	-	-	✓
Number of states	27	27	15	12	10	12
Percent	100%	100%	**56%**	**44%**	**37%**	**44%**

The results show that there are different situations regarding the scope of audit of banks - in only 15 states the auditor is involved with regulatory organisation reporting, in 12 countries the scope of audit includes other regulatory requirements, in 10 countries the scope of the audit includes on-going financial reports that are addressed to the regulators and in only 12 states the scope of the audit includes special reports that are addressed to the supervisors.

***Figure no. 1 -* Distribution of European states relating to the additional supervisory requirements, that exceed the statutory banking audit, 2015**



Author's processing - Source of data: Federation of European Accountants, Scope of Audit of Banks Across Europe, 2015

Table no. 2

List of European states that impose to the banking auditors additional reporting requirements, that exceed the statutory banking audit

Compliance: Organisational Regulatory Rules	***Compliance: Further Regulatory Requirements***	***Compliance: On-going Financial Reports to Supervisors***	***Special Reports to Supervisors***
Austria, Belgium, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal, Slovak Republic, Spain, Bulgaria, Czech Republic, Denmark, Hungary, Switzerland	Austria, Germany, Grecia, Ireland, Italy, Luxembourg, Netherlands, Portugal, Slovak Republic, Spain, Denmark, Switzerland	Austria, Belgium, Cyprus, Estonia, Finlanda, Germany, Italy, Luxembourg, Slovak Republic Switzerland	Belgium, Germany, Grecia, Ireland, Luxembourg, Netherlands, Slovenia, Spain, Czech Republic, Denmark, Switzerland, United Kingdom

Author's processing - Source of data: Federation of European Accountants, Scope of Audit of Banks Across Europe, 2015

The overview of the statutory audit and additional supervisory requirements for the credit institutions from Europe, september 2015, supposes in the study of the Federation of European Accountants, the following:

❖ ***EUROZONE:***

- ***Austria:*** auditor has to make a statutory audit of the credit institution, according to ISA International Standard on Auditing. Since 2014, the banking supervisory authorities regulre banking auditors to audit D&I, design and implementation of the internal control system of banks in 19 areas that are important for regulators (e.g. solvency calculation, anti-money laundering). These reports are required in a predefined format.
- ***Belgium:*** as in Austria's case, the statutory banking audit are carried out,

according to ISA. Supplementary requirements imply reporting of findings and assurance on FINREP and COREP, abreast the special reports to supervisors;

- ***Cyprus:*** the statutory banking audit is carried out, according to ISA. Auditor has to report compliance: On-going Financial Reports to Supervisors;
- ***Estonia:*** the statutory banking audit are carried out, according to ISA, Also, the auditor has to prepare the audit report taking into consideration laws and regulations - report on custody MiFID. Auditor has to report compliance: On-going Financial Reports to Supervisors - assurance under Act of Financial Institutions;
- ***Finland:*** the Finnish Financial Supervision Authority reguires auditor procedures in relation to including interim profits to capital adequacy, including the deductions made from interim profits (from 2014). Also, the authorities required an external assessment of the internal capital process (ICAAP) in the statutory audit report and an annual examination of accuracy in respect of data reported (when auditor reports compliance: On-going Financial Reports to Supervisors);
- ***France:*** the statutory banking audit are carried out, according to ISA, but nothing more than ISA 250;
- ***Germany:*** the statutory banking audit are carried out, according to ISA. The auditor has to report on appropriate / effective risk management and proper business organisation. The auditor has to report compliance with capital requirements (assessment of credit, market and operational risks), quantitative / qualitative liquidity requirements, money laundering act and code of behaviour. The supervisors require auditors some special reports (e.g. Internal Ratings Based Approach IRBA) or special purpose audit on occasion of the national authorities (e.g. compliance with MaRisk, LIBOR) or repeated special purpose audit (e.g. coverage mortgage bonds);
- ***Greece:*** the statutory banking audit are carried out, according to ISA. Auditor has to prepare special reports to supervisors - revision of the quality of assets. Other special reports are being prepared on an ad hoc basis;
- ***Ireland:*** normal scope financial statement audit in accordance with ISAs to enable expression of true and fair opinion. The report has to be prepared according to laws and legal requirements. Auditor has to report compliance: Organisational Regulatory Rules, compliance: Further Regulatory Requirements and special reports to supervisors;
- ***Italy:*** the statutory banking audit is performed by an external audit firm, enrolled in the Auditors's Register. Auditor has to report compliance: Organisational Regulatory Rules, compliance: Further Regulatory Requirements and special reports to supervisors;
- ***Luxembourg:*** the mandate of the qualified statutory auditor, named reviseur d'entreprises agree, repesctively auditor of bank established in Luxembourg includes: audit opinion on the annual accounts and annual long form audit report, including the description and the analysis of the observations concerning financial and organisation aspects performed during the audit. These have to be compliant with banking law. In the log form report, the auditor has to assess the: organisation and administration of the bank (administrative organisation, accounting and IT systems), internal control procedures, risk management, compliance functions, analysis of the activities of the credit institutions, analysis of the different banking risks and description of the credit risk policy and risk provisioning policy. Also, the auditor have to assess the compliance with professional obligations as regard the: prevention of money laundering and terrorist financing, the conduct of business rules and some requirements of the law on payment services. Also, the auditor has to assess the procedures relating to the production of the regulatory reporting FINREP and COREP and reviews the calculation of the various prudential ratios (solvency, liquidity, LCR, NSFR) as of year-end. Supplementary, according to the law on the financial sector, the

Commission de Surveillance du Secteur Financier is allowed to appoint an external auditor to perform special investigation whithin a bank, on any topic;

- ***Netherlands:*** the statutory banking audit are carried out, according to ISA. Auditor has to report compliance: Organisational Regulatory Rules, compliance: Further Regulatory Requirements and special reports to supervisors (on special request);
- ***Portugal:*** the statutory banking audit are carried out, according to ISA. Auditors has to prepare an yearly report giving an opinion on the internal control system of banks is issued by law and an opinion on the internal control regarding money laundering;
- ***Slovak Republic:*** the statutory banking audit are carried out, according to ISA. Auditor has to report compliance: Organisational Regulatory Rules, compliance: Further Regulatory Requirements and compliance: On-going Financial Reports to Supervisors;
- ***Slovenia:*** the statutory banking audit are carried out, according to ISA. Auditor prepares an agreed upon procedure report for Bank of Slovenia on the risk management systems and a special negative assurance report regarding TLTROs (Targeted longer-term refinancing operations), that is not mandatory;
- ***Spain:*** the statutory banking audit are carried out, according to ISA. Auditor has to report compliance: Further Regulatory Requirements (independent expert report - auditor or other expert - only for money laundering) and special reports to supervisors.

❖ ***EUROPEAN STATES:***

- ***Bulgaria:*** the statutory banking audit are carried out, according to IFRS and ISA. there is a requirement in the law which stipulates that the statutory auditor of a bank sholud issue a report on the internal control environment in the bank. The procedure was agrees with Bulgarian Central Bank and is an agreed upon procedures engagement (not an audit). until 2014 there was a requirement that auditors perform agreed upon procedures on certain regulatory reports, e.g. capital adequacy, large exposures, liquidity, investments in fixed asstes. This is now abandoned by central bank;
- ***Czech Republic:*** the statutory banking audit are carried out, according to ISA. Also, the auditors have to report compliance: Organisational Regulatory Rules - compliance with markets in Financial Instruments Directive (MiFID). Based on the specific request from the regulator the auditor might be required to issue a report on the risk management (credit, market, liquidity, corporate governance and IT risk);
- ***Denmark:*** the statutory banking audit are carried out, according to ISA. Auditor has to report compliance: Organisational Regulatory Rules, compliance: Further Regulatory Requirements and special reports to supervisors;
- ***Hungary:*** the statutory banking audit are carried out, according to ISA;
- ***Norway:*** the statutory banking audit are carried out, according to ISA. For the banks that's does not have an internal audit function, the auditor will normally do additional review and reporting on: internal capital assesment adequacy process, internal control (specific Norwegian regulations), liquidity risk and remuneration (specific Norwegian regulations);
- ***Poland:*** the statutory banking audit are carried out, according to ISA;
- ***Romania:*** the statutory banking audit are carried out, according to ISA. In the case of non-compliance with laws or regulations (significant breach) by the credit institutions, the National Bank should be immediately informed. The same in the case where any decision or act taken by the audited institution would affect the capacity of the bank institution to operate in the future (going concern) or that might drive the auditor to express a discalimer or qualified opinion on the financial statements;

- ***Sweden:*** the statutory banking audit are carried out, according to ISA.
- ***Switzerland:*** the statutory banking audit are carried out, according to ISA. The Management Report is not subject to the statutory audit requirement. Banks have to apoint an audit firm that is authorized by the Federal Audit Oversight Authority (FAOA) to perform regulatory audit as an "extended arm" of the Swiss Financial market Supervisory Authority (FINMA) (the auditor requires a specific authorization from the FAOA). The banking auditors reports on the compliance with the regulatory organisation rules, further regulatory requirements, on-going financial reports to supervisors and special reports to supervisors;
- ***United Kingdom:*** auditor have to make an statutory audit of financial statements of credit institutions, that shall be conform to the International Standards on Auditing ISA. The Prudential Regulation Authority (the national supervisory authority from Bank of England) is consulted on the new written report of auditors on the items that are established by questions set by supervisor, intended to cover the audit work done by auditors as part of their normal audit work rather than additional work set by supervisor. There are some requirements that ask auditors to report compliance with client knowledge rules. Regarding to compliance with regulatory requirements, auditors have to report on benchmark aspects (such as LIBOR). Financial Conduct Authority (financial regulatory body UK) and PRA request special reports relating to skills of persons who may be auditors.

The establishing in the banking audit area of some reporting requirements that exceed the statutory audit report and that stipulate the supply the supplementary information towards the national supervisory banking authorities has effect on the improvement of the banking supervisory function.

3. Conclusions

The present study emphasised on the social function of the banking audit and pleads for its enchancement. The banking audit gets added to the supervisory activities of the national authorities and can bring its help to the robustness of the banking markets. The consolidation of the credibility of the financial statements of credit institutions represents an essential premise for the solidity and stability of the actual banking system. Qualitative banking audits contribute to enhancing the confidence of the users in the truthfulness and fairness of the financial statements.

This paper notifies about the aspects that affect the social acknowledgment of audit - the specialised language, the standardised form of audit reports, the insufficient knowledge of inherent limitations of an audit (just several elements are tested in audit through sampling techniques, imposibility to express an absolute assurance on the financial statements etc.), "non-auditable" character of some intagible banking elements (such as complex financial instruments, intelectual property elements etc.). Also, the study underlines the eterogenity of the normative rules of audit in different countries and pleads for a high degree of harmonization and a uniform apllication of the norms in banking audit that can decisively contribute to the credibility of the published financial information of credit institutions.

The desired goal of immutable general rules in banking audit seems to be impossible to achive in an area as volatile as this. The research stressed the existence of various audit practices among the different European states and delimited the tipology of reports which the auditors of credit institutions have to prepared starting June 2016, according to UE Regulation nr. 573/2014 on specific requirements reagrding statutory audit of public-interest entities. Beside the Audit Report to the General Meeting of Shareholders (that contains the auditor opinion on the conformity of financial statements with a general financial framework), the auditor of a credit institution have to prepare an additional report to the Audit Committee, in which there are explanations on results of audit and defining details of the audit mission. The communication of banking auditor with the Audit Committee of credit institution contributes to the achievement of the consultative function of audit, suupporting the credit institutions management and development of the business. Material breach of the regulations, material threat or doubt concerning functioning of the credit institution, or a refusal of auditor to issue an opinion on the financial statements or the issuing of an adverse or qualified opinion are the situation that impose to the auditor to report to supervisors of banks - the National Bank of Romania in our country.

The study invokes and analyses the statute of audit in 27 European states, through the appeal of the FEA's study (Federation of European Accountants, Scope of Audit of Banks Across Europe, 2015), which details reporting requirements exceeding the statutory audit in the banking audit. Varied situations were identified among the European states regarding the requirements for auditors to report on the conformity of the credit institution with organisational regulatory rules, regulatory requirements, financial reports to supervisors or special reports to supervisors. 6 of 27 analysed states do not issue any supplementary audit report, 7 states prepare only one type of report, 2 states present two kinds of reports, 9 states issue three categories of reports and 3 states have provisions for all four types of supplementary audit reports, that exceed the statutory banking audit. This additional reporting in banking audit can contribute to supervision of credit institutions, through clues capable of detecting irregularities, including fraud.

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