

# THE AUDIT REPORT . NATIONAL AND INTERNATIONAL VALENCES

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***Abstract:** The final stage of an audit commitment consists of the issue of a report in which the conclusions drawn by the auditor are presented following the collection and analysis of audit samples, which represent the basis of these conclusions. The results of an audit mission are written in an audit report which is designed for the shareholders and the other concerned users of information. The audit report has to express clearly, in writing, the opinion of the auditor, has to evaluate whether the financial statements were drawn up according to a system of accounting references identified.*

***Keywords:** audit report, auditor's opinion, change of auditor's opinion, aspects communicated by auditors.*

## **1. Standard audit report (unchanged)**

The Auditor has to formulate an opinion regarding the extent to which the financial statements are drawn up from all significant points of view in compliance with the general financial reporting framework applicable.

For the formulation of this opinion the auditor has to draw a conclusion regarding the reasonable assurance obtained by the auditor regarding the extent that the financial statements as a whole do not contain significant misrepresentations caused either by fraud or error.

The audit report has to express clearly, in writing, the opinion of the auditor, has to evaluate whether the financial statements were drawn up according to a system of accounting references identified. Depending on the observations made and the circumstances in which the audit of financial statements was performed, this report can be standard (unchanged) or changed. The standard audit report contains the following essential elements<sup>1</sup>:

### ***Title***

In order not to be mistaken for the reports drawn up by other persons or committees and to emphasize that the auditor fulfils all the ethical principles, it is necessary that the title includes the expression "independent auditor". The title of the report can be phrased as follows: "Audit report on the financial statements of S.C. .... as of 31 December ....., drawn up by the independent financial auditor, ....."

### ***Recipient***

Depending on the specific requirements of each entity, the recipients of the Audit Report can be:

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<sup>1</sup> ISA no. 700 „Formation of an opinion and reporting regarding financial statements”.

Board of Directors (governance)  
General Meeting of Shareholders;  
Stock Exchange etc.

### ***Auditor's opinion***

In this paragraph the auditor has to clearly express his opinion regarding the assurance of faithful image regarding the financial position, financial performances and other information regarding the activity carried out, presented through the audited financial statements.

Also, the section Opinion from the auditor's report has to: identify the entity whose financial statements were audited; it has to mention that the financial statements were audited; it has to identify the title of each financial statement; it should refer to notes, including the summary of significant accounting policies and specify the date or period covered by each financial statement, which includes financial statements.

The paragraph reserved to the auditor's opinion can be drawn up as follows: in our opinion, the financial statements enclosed faithfully present, from all significant points of view, [...] according to [the financial reporting framework applied to the financial position, and to the results and other information regarding the activity carried out by S.C. .... as of 31st December .....

### **Basis for opinion**

Paragraph "Basis for opinion":

- mentions that the audit was made according to International Audit Standards;
- makes reference to the section from the auditor's report which describes the responsibilities of the auditor based on ISAs;
- includes a declaration which mentions that the auditor is independent of the entity, according to the relevant ethical audit requirements and the auditor has fulfilled all his ethical responsibilities in accordance with these requirements. The declaration has to identify the jurisdiction of origin of relevant ethical requirements or make reference to the *Ethical Code of Accountants* issued by the International Ethics Standards Board for Accountants (IESBA Code);
- mentions whether the auditor considers that the audit samples he obtained are sufficient and adequate to provide a basis for the auditor's opinion.

### **Business continuity**

Where applicable, the auditor has to report according to ISA 570 (Revised).

### **Key audit issues**

For the audits of complete sets of financial statements with general purpose, which belong to listed entities, the auditor has to communicate key audit issues according to ISA 701 in the auditor's report.

### **Responsibility of management for financial statements**

The auditor's report must mention that the responsibility for the drawing up and faithful presentation of financial statements belongs to the management of the audited entity. This responsibility involves: design and implementation of an adequate internal control, selection and application of adequate accounting policies; realization of reasonable accounting estimates etc.

According to article 30 of Accounting Law no. 82/1991 the annual financial statements are accompanied by a written declaration of the management (Board of Directors or Management Board) by which they take responsibility for the drawing up of the annual financial statements.

This paragraph can be phrased as follows: "The management (governance) is responsible for the drawing up and faithful presentation of these financial statements, according to..... and for design and implementation of an adequate internal control".

This section of the auditor's report has to describe the responsibility of management for:

- drawing up of financial statements according to the financial reporting framework applicable and for the internal control that the management considers necessary to allow for the drawing up of financial statements devoid of significant misrepresentations, caused by fraud or error; and
- the appreciation of the entity's capacity to continue its activity and the extent that it is adequate to use the accounting based on business continuity principle and for presentation, if applicable, of the issues regarding the continuity of activity. The explanation of the management responsibility for this appreciation has to include a description of the circumstances in which it is adequate to use the accounting based on business continuity principle.

### **Responsibility of auditor**

The auditor's report has to mention the responsibility of the auditor to express an opinion on financial statements.

This paragraph has to present the breadth of steps taken by the auditor (during the year we...) and has to confirm that the audit was performed according to Audit Norms (Standards).

Also, in this paragraph there are written declarations of the auditor by which he confirms that the audit was planned and exercised so that he obtains a reasonable assurance that the financial statements do not contain significant misrepresentations and the audit performed assures a reasonable basis for expressing an opinion on financial statements. This paragraph can be drawn up as follows:

"We performed the audit according to Audit Standards ..... These standards require that the audit should be planned and achieved so that we obtain a rational assurance that the financial statements do not contain significant misrepresentations. Our audit mission consists of:

- evaluation of accounting system and internal control system ;
- examination by survey of the evidence which justifies the data contained in financial statements;
- appreciation of accounting principles and significant estimates made by management (all derogations from accounting principles were mentioned and evaluated in notes annexes);
- checking of the method of drawing up and presentation of financial statements;
- analytical examinations etc.

Therefore, we believe that the audit performed by us represents a reasonable basis for expressing an opinion on financial statements.

For the audits of financial statements of listed entities and other entities for which the key audit issues are communicated according to ISA 701, the auditor has to mention that among the issues communicated with the persons responsible for governance, which are the most important issues for the audit of financial statements from the current period and which of them represent therefore key audit issues.

#### **Other reporting responsibilities**

If the auditor tackles other reporting responsibilities in the auditor's report regarding the financial statements, which are supplementary to the auditor's responsibilities according to ISAs, these other reporting responsibilities must be approached in a distinctive section of auditor's report, whose title will be "Report on other legal and regulatory provisions", or another adequate title for the content of section. These supplementary reporting responsibilities are tackled in a separate section of auditor's report to distinguish them clearly from the responsibility of auditor set out in ISAs to report on financial statements. When it is relevant, this section can contain one or more subtitles which describe the content of paragraph or paragraphs regarding the supplementary reporting responsibilities.

#### **Name of mission partner**

The name of mission partner must be included in auditor's report for the audits of complete sets of financial statements with general purpose of listed entities, except for rare cases when it is reasonably forecast that such a presentation leads to a serious threat to the personal safety.

#### **Signature of auditor**

The auditor's report must be signed. The report must contain the name of the audit company and the name of the person who represents it.

#### **Address of auditor**

We write the name and address (country, city) of the company or audit office which has the responsibility for the audit performed.

### **Report date**

The audit report has to have the completion date of audit works. By this we confirm that the auditor took into account, on the conclusion of his mission, all the events and operations which took place after the closure of fiscal year, called subsequent events. This date cannot be prior to the date of analysis of financial statements by the Board of Directors.

The auditor's report must be dated not earlier than the date when the auditor obtained sufficient and adequate audit samples on which he based his opinion on financial statements, including samples by which:

- all the statements and presentations which include financial statements were drawn up; and
- the persons with recognized authority declared that they undertook the responsibility for those financial statements.

The standard audit report (unchanged) is drawn up if the auditor expresses an opinion without reserves on the faithful image presented by the financial statements.

## **2. Change of auditor's report**

If the auditor draws the conclusion that the financial statements as a whole are significantly misrepresented or if the auditor cannot obtain enough and accurate audit samples which allow him to conclude that the financial statements do not contain significant misrepresentations due to errors or frauds, he cannot express an unchanged opinion ("without reserves"), but will express a changed opinion under the form of: an opinion with reserves; a contrary opinion or the impossibility of expressing an opinion.

The change of form and content of standard audit report is made by:

- 1) introduction of a paragraph in which he writes the issues which require the change of opinion;
- 2) expression of a changed opinion.

1) *Before the paragraph "Auditor's opinion"*, he introduces a paragraph by which he describes the issues which require the change of opinion. This paragraph can be called, as applicable: Basis for an opinion with reserves, basis for a contrary opinion, basis for impossibility of expression of an opinion.

The change of auditor's opinion intervenes when the significant misrepresentations of financial statements are in connection with:

- certain amounts or other presentations of quantitative information;
- narrative descriptions of explanatory notes;
- non-presentation of necessary information to the users of financial statements;

-incapacity of the auditor to collect enough and adequate audit samples necessary for expressing an unchanged opinion (necessary for obtaining a reasonable assurance).

## 2. *Expression of a changed opinion*

When it expresses a changed opinion, this paragraph of report is called: Opinion with reserves; Contrary opinion or Impossibility of expressing an opinion.

a) *Opinion with reserves*. The auditor has to express an opinion with reserves when:

- after he has obtained sufficient and adequate audit samples, the auditor concludes that the individual or cumulated misrepresentations are significant, but not serious for the financial statements; or

- the auditor cannot obtain sufficient and adequate audit samples on which he substantiates his opinion, but the auditor concludes that the possible effects of non-detected misrepresentations, if they exist, on the financial statements, could be significant, but not serious.

b) *Contrary opinion*. The auditor has to express a contrary opinion when the auditor, after having obtained sufficient and adequate audit samples, concludes that the individual or cumulated misrepresentations are both significant and serious for the financial statements.

c) *Impossibility of expressing an opinion*. The auditor has to declare the impossibility of expressing an opinion when the auditor cannot obtain sufficient and adequate audit samples on which he substantiates his opinion and the auditor concludes that the possible effects of non-detected misrepresentations on financial statements, where applicable, could be both significant and serious. After the expression of his opinion on financial statements, the auditor may consider as necessary *supplementary communications* which must be introduced in the audit report. By these supplementary communications inserted in the *Report of independent auditor* he draws the attention of those who substantiate their decisions on the content of this report to certain issues. These supplementary paragraphs have the purpose:<sup>2</sup>

- to draw the attention of users to issues which were described or presented properly in financial statements. In this case, the additional paragraph is called *Paragraph for highlighting certain issues*;

- to facilitate the understanding by the users of the audit report and the auditor's responsibility. If those issues are not properly presented and described in financial statements, the additional paragraph is called *Paragraph regarding certain issues*.

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<sup>2</sup> ISA 706. Paragraph of comments and explanatory paragraph of the independent auditor's report.

1. *The Paragraph for highlighting certain issues* makes reference to certain issues which were properly presented and described in financial statements, but which are so important that are fundamental for understanding of financial statements by the users. In this paragraph we present succinctly that issue by making references to explanatory notes where more detailed presentations and descriptions are made. For example, we mention that the paragraph above contains references to uncertainties related to the method of settlement of disputes, to force majeure events that took place, to bankruptcy of some customers, to subsequent events to fiscal year etc. This paragraph can be phrased as follows: "We draw the attention to the *Explanatory Note ...* to the financial statements in which the uncertainties regarding the recovery of receivables - customers are described. This paragraph does not change the opinion expressed above". 2. *The paragraph regarding other issues* contains other communications than those presented and described by financial statements.

The purpose of this paragraph is to allow the users of information to understand more easily the scope of audit and the responsibilities of the auditor. Thus, if the activity of the auditor was limited, he should withdraw or explain the reasons for which he did not withdraw.

### 3. Conclusions

The audit report has to express clearly in writing the auditor's opinion and has to evaluate whether the financial statements were established according to a system of accounting references identified. According to revised International Audit Standards which will come into force in 2016, because of pressure existing on international financial markets regarding the relevance of the audit report, the audit report will have the following structure: title; recipient; audit opinion; basis for opinion; business continuity; key audit issues for listed entities or when the specific legislation requires; responsibility for drawing up of financial statements; responsibility of auditor; other reporting responsibilities; name of audit partner; signature; address; date. There are several types of opinions: opinion without reserves; opinion with reserves; contrary opinion; impossibility of expressing an opinion.

The opinion *without reserves* means that the financial statements present a faithful image of financial position, financial situation and results obtained (or honestly present them in all significant aspects), in accordance with accounting references and if applicable, they are compliant with the legal provisions in force. It is expressed when the financial auditor considers that the financial statements present a faithful image (the financial statements show them faithfully, from all significant points of view, according to the financial reporting framework applicable). If the financial auditor has to make some comments or recommendations, which are useful to those who will use the

report, they are written in a separate paragraph or in an annex to report, mentioning that they do not represent a reserve.

The Opinion *with reserves* is expressed when the financial auditor notices errors, anomalies or irregularities, which although are significant, are not sufficiently important to appreciate that the financial statements do not offer a faithful image. It is formulated when the auditor considers that as a whole the financial statements present a faithful image (the financial statements present significant individual or cumulated misrepresentations, but they are not serious).

The *contrary opinion* is expressed by the financial auditor when there are disagreements between management and auditors, disagreements which can be because the management refuses to apply accounting principles, procedures, policies or when the management refuses the correction of very significant errors. It is expressed when the financial auditor considers that as a whole, the financial statements are significantly wrong (the financial statements present significant and serious misrepresentations, individual or cumulated), so that they do not present a faithful image and the disagreements with the management of the entity are significant and have a major incidence on the balance sheet, which is incomplete, dishonest, misleading.

*The impossibility of expressing an opinion* can be formulated by the financial auditor when the effect of audit limitation is so significant that the financial auditor could not obtain sufficient and adequate audit samples and therefore, cannot express an audit opinion.

The serious effects on financial statements are those which in the reasoning of the auditor: are not limited to elements, accounts or specific aspects of financial statements; if there is such limitation, it represents or could represent a substantial proportion of financial statements; or in relation to the presentations of explanatory notes, they are fundamental for the understanding of financial statements by the users.

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