CURRENT REQUIREMENTS IN COMMUNICATING FINDINGS OF STATUTORY AUDIT TO INDIVIDUALS IN GOVERNANCE ENTITY

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Abstract: *The results of an audit are recorded in "audit report" which is intended for shareholders and other users of information. At the same time, statutory auditors should communicate those responsible for governance entity significant issues identified during the mission that interest the governance. Based on professional judgment, auditors determined: the people to whom they must communicate; the aspects of interest for governance to be communicated; the moment when communication is appropriate and its form.*
Keywords: *statutory audit, the audit report, the time of communication, the communication mode of auditors, significant aspects communicated by auditors*

1. The concept of statutory audit

Statutory auditors provide external users of information with reasonable assurance that the financial information relating to the fact that financial information was collected, processed and presented honestly and in compliance with predetermined criteria. Information users typically cannot check the quality of information and are required to base their decisions on information provided by others, on information that may not be correct or complete. Statutory audit as required by law is the work carried out by statutory auditors in order to express an opinion on the financial statements or on their components, to exercise other assurance and professional services according to the International Auditing Standards and other regulations adopted by the Romanian Chamber of Auditors. The financial audit includes the statutory audit, conducted according to the law.

Statutory audit is carried out by statutory auditors who examine and certify financial statements, the rules and audit standards by virtue of statutory provisions (accounting law, company law, capital markets law, etc.), with the mandate entities received from the owners (shareholders, associates).

The statutory audit is an activity that ensures the accuracy of information which is required by law as mandatory for certain entities for reasons of substantial public interest.

The annual financial statements of legal entities of public interest and those that meet certain size criteria are subject to statutory audit which is carried out by statutory auditors, individuals or authorized legal entities.

2. Mentioning findings in the audit report of the statutory auditors

The auditor should issue an opinion on the extent to which financial statements are prepared, in all respect, in accordance with the applicable financial reporting framework.

To formulate that opinion, the auditor must reach a conclusion on the reasonable assurance obtained by the auditor on whether the financial statements taken as a whole, is free from significant misstatement, whether due to fraud or error.

More specifically, the statutory auditor must assess whether, in light of the requirements of the applicable financial reporting framework:

- financial statements adequately represent the significant accounting policies which are selected and applied;
- selected and applied accounting policies are consistent with the applicable financial reporting framework;
- accounting estimates made by management are reasonable;
- the information presented in the financial statements is relevant, reliable, comparable and understandable information;
- the financial statements provide adequate disclosures to enable the intended users to understand the effect of significant transactions and events information contained in the financial statements;
- terminology used in the financial statements, including the title of each financial statement, is appropriate.

The audit report is the final stage of an audit in writing and must contain a clear expression of opinion on the financial statements audit according to Standard no. 700, "Forming an opinion." Basically, the audit report presents the conclusions reached by the auditor after collecting and analysing audit evidence.

Before issuing the audit report, the partner reviews the audit documentation and discusses with the audit team, to make sure that they have obtained sufficient appropriate audit evidence to support their conclusions, in order to express the audit opinion.

The audit report should clearly state in writing the opinion of the auditor, it should evaluate whether the financial statements have been established according to a benchmark system identified in accounting.

3. Individuals who should receive the communications

The ISA no. 260 stipulate that "governance' is the term used to define the persons 'responsible for the supervision, control and direction of an entity'.

Because there is a diversity of governance structures, auditors must determine who should receive relevant communications. In Romania, communications should be addressed, as a rule, to the Board of Directors, the Supervisory Board or the Audit Committee, if there is one and if it is functional.

Company Law establishes the fact that the administration companies can be performed in two systems: single and dual system.

The unitary system stipulates that the General Meeting of Shareholders (AGM) appoints a Board of Directors. The Board of Directors may delegate the management of the company to one or more directors by appointing one of them executive director. The majority of members in the Board of Directors is composed of non-executive directors (other than the person holding the office of director).

The Board of Directors represents the company towards third parties and the courts. Administrators will be liable for damage caused by acts performed by directors or other employees, when damage would not have occurred if they had exercised the necessary supervision. The main competences of the Board of Directors are:

- to establish the main directions of activity and development company;
- to establish principles and accounting procedures and internal control system;
- to appoint and dismiss directors, to supervise their work and establish their remuneration;
- to submit reports to the General Assembly of Shareholders and to implement its decisions.

For investigations and for developing recommendations, the Board may create advisory committees in auditing, in internal auditing, in the field of the remuneration or other fields.

The dual system provides that the General Shareholders Meeting appoints a Supervisory Board that appoints members of the directorate. The directorate elects a chairman of the board.

Supervisory Board members may not be part of the directorate and cannot have responsibilities in the management of the company. The Directorate provides exclusive company management and represents the company in its relations with third parties and in the court in court. The main attributions of the Supervisory Board are:

- to exert control over the activity of the directorate, to appoint or revoke its members;
- to check the observance of the General Shareholders' Assembly decisions and of legal regulations;
- to report to the General Meeting of Shareholders. In order to investigate certain transactions and operations and to make recommendations, the Supervisory Board may create advisory committees. Audited companies are required to constitute an audit committee.

The Audit Committee consists solely of non-executive directors. At least one member of the Audit Committee must have experience in the application of accounting principles or statutory audit.

Among the many functions of the Audit Committee we mention:

- to participate in the selection and implementation of accounting policies;
- to assess the impact of new regulations on the legal entity;
- to make judgments on the effectiveness and efficiency of accounting information system and internal control of the entity;
- to monitor the activity of statutory auditors and internal auditors. To solve any disagreements between managers and auditors;
- to supervises the financial statements and other categories of accounting reports etc.

4. Aspects communicated by statutory auditors to governance

The auditor should communicate to the appropriate level of management in time, all misstatements accumulated during the audit, unless this is prohibited by law or regulation. The auditor shall request the management to correct all those mistakes.

If the management refuses to correct some or all of the mistakes communicated by the auditor, the auditor shall obtain an understanding of the reasons for refusing corrections and take that understanding into account when evaluating whether the financial statements are not materially misstated as a whole.

The auditor should communicate uncorrected misstatements and the effects they have on an individual or company, on the opinion of the auditor's report, those charged with governance, unless this is prohibited by law or regulation. The auditor's communication shall identify material uncorrected misstatements individually. The auditor will request that uncorrected misstatements are corrected.

The auditor will also communicate to those charged with governance the effect of uncorrected misstatements related to prior periods on the classes of transactions, account balances or disclosures relevant financial statements as a whole.

The auditor will request written declarations from the management and, where appropriate, from those responsible with governance, on whether they consider that the effects are significant distortions in the financial statements as a whole, either individually or in the company. A summary of such elements will be included in or attached to the written statement.

The auditor will include in the audit documentation:

- the amount below which misstatements would be regarded as insignificant;

  - All misstatements accumulated during the audit and whether they have been corrected;
  - Auditor's conclusion as to whether uncorrected misstatements are material, individually or in the company, and the basis for that conclusion.

The main aspects of governance interest that the auditor must communicate are:

- General approach and scope of the audit, including any limitations that may occur or any additional requirements;
- Selecting or changing significant accounting policies and practices that have or could have a significant effect on the entity's financial statements;
- Potential effect on the financial statements of any significant risks and charges, such as pending litigation, that are required in the financial statements;
- Audit adjustments, whether or not recorded by the entity that have, or could have a significant impact on the entity's financial statements;
- Significant uncertainties related to events or conditions that may cast doubt significantly on entity's ability to continue operations;
- Disagreements with management regarding some issues that could be significant for the entity's financial statements or the auditor's report.

These communications include *specifications for solving or not solving* the problem and its importance:

- Expected changes in the auditor's report;
- Other issues that require attention by those responsible with governance, such as significant weaknesses in internal control, questions regarding management integrity, and fraud by management;
- Any other issues which was agreed in the terms of the audit engagement.

The auditor should inform those charged with governance on uncorrected misstatements during the audit that management has considered insignificant to the financial statements taken as a whole, both individually and aggregated.

Communication effectiveness is enhanced if a working relationship is established between the auditor, the executives and those charged with governance.

All aspects recorded by the auditor are initially discussed with the executive management, except the cases when the problems recorded by the auditor related to the competence or integrity of management. These preliminary discussions with management are important to clarify certain issues and to obtain further information.

5. The modality and time of communication to statutory auditors

The modality and time of communication depends on the nature and importance of the issues to be communicated, the number of contacts and dialogues that the auditor had with the governance, the understandings reached with the governance.

Communication issues relevant to governance must be made in good time so that it can take steps to amend the financial statements and avoid a modified auditor's report.

The auditor's communication must respect the principle of confidentiality.

International Auditing Standards require that, if the auditor intends to express a modiefied opinion or to introduce explanatory paragraphs of comments in the report, he should communicate in advance to those in governance, showing:

- Reasons for expressing an opinion;
- The content of comments and explanatory paragraphs;
- Disagreements with the executive management;
- Limitations that have occurred etc.

The government can provide additional information or may take measures to eliminate limitations or to solve disagreements with management.

6. Conclusions

The main aspects of governance interest that the statutory auditor must communicate are:

- The view of the auditor on the qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and disclosures in the financial statements;
- Significant difficulties encountered during the audit, if any;
- Significant issues discussed or with management;
- Communicating to the appropriate level of management all misstatements accumulated during the audit in time, in order to correct those distortions;
- Written communication to those responsible with governance, about the significant findings of the audit if the auditor considers that verbal communication would not be appropriate;
- Audit adjustments, whether or not recorded by the entity that have, or could have a significant impact on the entity's financial statements;
- The information misstatements or inconsistencies in information accompanying the audited financial statements that have not been corrected;
- Significant uncertainties related to events or conditions that may cast doubt significantly on the entity's ability to continue operations;
- Disagreements with the management regarding some issues, which individually or as a whole could be significant to the entity's financial statements and auditor's report;
- Expected changes in the auditor's report;

- Other issues that require attention by those charged with governance, such as significant weaknesses in internal control, questions regarding management integrity, and fraud by management;
- Any other issues which was agreed in the terms of the audit engagement.

If the management refuses to correct some or all of the mistakes communicated by the auditor, the auditor will obtain an understanding of the reasons to refuse corrections and take that understanding into account when evaluating whether the financial statements as a whole do not contain significant misstatements.

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