
New tendencies in audit reporting, examples of good practices BVB

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Abstract

The study presents relevant aspects regarding the evolution of the audit reporting after the economic recession. The motivation of the author to tackle this topic about the new tendencies in audit reporting was the actuality and importance granted to the new extended audit report. Thus, at the level of the speciality literature, a variety of studies on the evolution of the reporting in audit and the role it has were analysed. Following the conceptual delimitation and the presentation of the speciality literature's study, the author undertook empirical research which targeted the amendments made to the audit report for the years 2015 respectively 2016. The result of this analysis shows that the majority of the entities listed on the stock exchange have respected the new structure of the audit report for the year 2016.

Keywords: Reporting in audit, Big 4, key matters of audit, audit opinion

JEL Classification: M40, M42

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Introduction

With the economic changes all over the world, the risks and pressure to which the auditors are exposed have increased, and thus, also the need for a better and more transparent communication cannot be neglected.

Legislative powers all around the world reacted by issuing specific regulations and recommendations which will contribute to better inform the users of the financial and non-financial statements by improving the reporting and communication of the auditors with the interested parties.

The need for the modification of the audit report's structure and the changes related to the accounting and auditing profession is a topic discussed and accepted by the regulatory bodies, as well as by the expert accountants. The evolution of the economic and financial system in the last decade, destabilised after the financial scandals at Enron, Woldcom, Parmalat etc., led to the review and adoption of revised standards. As a result of these financial scandals and the global financial crisis, the users of the audited financial information desire access to more information regarding the audited entities and their financial situations, thus the section of key matters within the audit report appeared.

Thus, I considered the analysis regarding the implementation of the new audit report at the level of the entities listed on BVB in the first category to be useful. The aim is to highlight the new reporting tendencies, respectively to emphasise the introduction of the key matters and the additional information required by the new standards.

In the speciality literature, *the quality of information is described as being „the sap of the strong markets”* (He et al., 2009). Taking into account this affirmation, both the regulatory bodies and the practitioners were and are preoccupied with determining the factors that influence the quality of the financial situations, the final goal being the improvement of the issued documents' quality.

The auditor's responsibility is a controversial topic lately, both in the academic and the practical environment at the level of the professional bodies. Recently, the risk to which the auditors are exposed has increased significantly due to the economic changes that took place at world level. Therefore, the perception of the public and the trust they offer to the auditors has decreased as a result of the financial scandals and the recent failures. As a reaction from the professional bodies regarding these aspects, the existing international standards were developed by revising the old ones and publishing new standards. On the other hand, we consider that these controversies

between the auditors and the interested parties also appeared due to misinformation and induction in error of the third parties through the financial statements. Thus, the improvement of the financial reporting and the audit report was a necessity for restoring the trust in the supplied information.

Even though the auditor's opinion is very important, it is considered that the statutory auditor report should supply more transparency in what concerns the actions undertaken by the statutory auditor in an audit mission and the way in which he reaches the results of his work. Therefore, taking into consideration that statutory auditors have more extensive access to a company than any other profession, the statutory auditors are in the unique position of delivering more than an accepted/ declined report (Kiss et al., 2015). In this context appeared the new regulations issued in January 2015 by the international regulatory body in the audit domain (International Auditing and Assurance Standards Board – IAASB) applicable since 15th of December 2016. These standards are meant to restructure and develop the audit report, with the purpose of supplying more information regarding the key aspects which the auditor considers as being the most important in his mission.

The majority of studies conducted by the researchers in the audit domain in the last decade have targeted to measure the reporting quality in audit, from the point of view of benefits delivered to the users as a result of the audit mission. Furthermore, researchers also analysed the modalities of extending the audit report to include some information regarding the audited company which users consider helpful in the decision-making process.

1. Conceptual approaches regarding the reporting in the audit

The audit report represents the result of the auditor's „work”, the end of the audit mission. Francis (2004) states that since 1989 two essential types of audit reports issued in the USA existed: a standard report (unqualified opinion) and the audit report which is modified to represent the incertitude regarding the going concern. However, we can state that an audit mission does not bring added value if the public does not trust the information offered by the auditor, or if it is considered that it could offer more than that (Maijoor și Vanstraelen, 2012; Mock et al., 2013).

The word „audit” comes from the latin word *auditus*, which can be translated to „to hear”, and it refers to supporting the integrity of the financial reporting and of the business conduct, as well as the search for the truth. The role of the auditor is essential in the society to maintain the trust in the business operations on the capital markets and in the public sector. In the modern meaning, the audit focused on the analysis of the published financial statements, in conformity with the generally accepted accounting principles (Percy, 1997).

At the international level, IFAC, through the standard *ISA 700 – The independent auditor’s report regarding a complete set of financial statements with a general purpose* regulates the way of expressing the audit opinion, as well as the form of the audit report that he will compose (*Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements, 2015, Volume 1*). To form an opinion, *ISA 700*, through the Articles 11-15, stipulates that the auditor has to:

- Obtain sufficient evidence to supports his conclusion (*ISA 330*);
- Evaluate whether the financial situations present a faithful image in concordance with the regulations applicable to the entity – the financial reporting framework (IAASB, 2009):
 - Through accounting policies applied in conformity with the reporting framework;
 - Through reasonable accounting estimates;
 - Through relevant, credible, comparable and intelligible information;
 - Though financial statements that contain the correct terminology and sufficient clarifying information for their users to understand the operations undertaken.

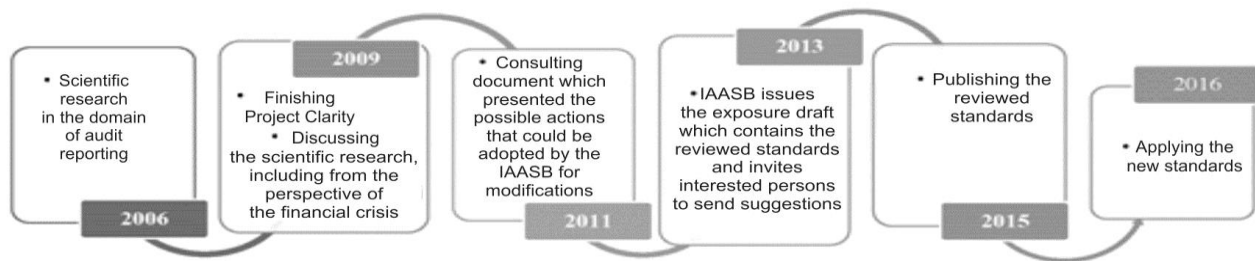
In the case in which the auditor’s opinion is not a favourable one, IFAC specifies in *ISA 705* the following

aspects (*Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements, 2015, Volume 1*):

- The auditor will express a „qualified opinion” when he will conclude that expressing an „unqualified” opinion is impossible, but the distortions that could appear because of the problems detected are not so significant (Art. 7);
- The auditor will be in „impossibility of expressing an opinion” (disclaimer opinion) when the effect of limiting the area of applicability is so significant that the auditor could not obtain enough audit evidence to express an opinion (Art. 9);
- The auditor will express an „adverse opinion” when the discrepancy effect is very significant, the conclusion being that the financial statements present an erroneous and incomplete image regarding the operations undertaken by the entity (Art. 8);
- At any of these opinions, the auditor has to add an explanatory paragraph in which it explains the reasons that stay by his opinion.

Throughout time, the audit standards have suffered a series of modifications and improvements meant to facilitate their understandability, to simplify their application and to solve the different difficulties noticed by the practitioners in applying professional judgement. Thus, the International Auditing and Assurance Standards Board developed multiple projects for improving the quality of their content. These projects had as scope the establishment of certain conventions which have to be respected by the Board issuing *ISA* regarding the formulation and issuing of future standards, as well as the obligations of the auditors concerning the application of these standards (Kiss et al., 2015). The synthesis of the reforms in the audit domain are presented in the figure below:

Figure 1. The process of reviewing the standards, conducted by IAASB in the period 2006-2016



Source: Own projection

2. Research methodology

Currently, the speciality literature defines the methods of scientific incursion and text construction of a paper as being a „way” to be followed in the research activity for fulfilling the objectives, namely for informing and training. The procedures, techniques and instruments used in the scientific incursion are components of the method, viewed as support elements or concrete ways for its capitalisation (Gray et al., 2007, Dunbar and Weber, 2014, Kiss et al. 2015)

The research endeavor represents a logical incursion for approaching the reporting in audit, which is based on a positive research, by trying to explain and predict the actual reporting practices in audit, but in the same time a normative research as well, which in turn is seeking to obtain and provide the „optimal” standards in audit reporting.

For reaching the objectives of this research, we rely on a qualitative approach for summarising the aspects which will be discussed in every section. We use the qualitative research when, for example, we establish the regulatory framework for the audit reporting. By using an approach from general to particular (Gray et al., 2007), we begin any analysis by presenting the concepts, taking into consideration the discoveries offered by the academic research and professional bodies.

Thus, the audit reports of the entities listed in the Premium Category of the Bucharest Stock Exchange for the years 2015 and 2016 were analysed. We examined the annual reports and the audit reports of every company from the period 2015-2016 to highlight the changes made to the audit report.

In what concerns the human and social sciences, this research is based on the non-participative observation (Lesage and Wechtler, 2012), on the inductive research method, on the document analysis and comparison techniques. The reforms in the audit domain were punctuated by the cross-section method, which is mostly applied to the theoretical aspects, where we presented a historical incursion of the most important reforms in the domain of audit. On the same idea, the research is continued with an examination of the changes and improvements made to the audit report from the international regulations’ point of view. We finish our research with an example of good practice regarding the audit report for the entities listed in the premium category of the Bucharest Stock Exchange, for which we used the method of observation and investigation to filter

the essential elements of the audit report and the aspects referring to the changes made to it.

3. Empirical research regarding the new practices of audit reporting

Motivating the sample selection

For conducting this empirical research, we chose the entities listed on the stock exchange, mainly those listed on the internal market in the Premium Category of the Bucharest Stock Exchange, because we wanted to analyse the reporting in audit for Romania. We chose BSE Premium Category because we considered that these companies are the most important actors on the capital market.

The period analysed and information sources

We examined the annual reports and the audit reports of every company in the period 2015-2016 to highlight the changes made to the audit report.

Methodology

For conducting the empirical research, we started from the annual reports and the audit reports published by the companies on the site of the stock exchange (BSE, on the site of the Romanian National Securities Commission and the websites of the companies). In what concerns the BSE/CNVM, the information posted is not always updated. Thus we finally relied on the entities’ websites.

To attain the proposed objectives, the following steps were taken:

- Downloading the information necessary for the analysis (annual reports – audit reports);
- Selecting the data from the annual report/audit report;
- The recording of the data in what concerns:
 - The auditor of every company: in this stage we recorded which audit firm conducts the audit mission for every company, depending on whether it belongs to one of the BIG-4 or not: Deloitte, KPMG, Ernst&Young, PriceWaterhouseCoopers and Others;
 - The auditor’s opinion: unqualified opinion, qualified opinion, adverse opinion, disclaimer opinion;

- In case the listed company changed the auditor, we searched for information regarding the reason for the change;
- In case the auditor's opinion changed from one year to the other (due to changing the audit company or other causes), we looked for information and clarification in the audit report;
- Analysis of the audit report's structure (extension)
- Analysis of the key matters from the 2016 reports.
- Applying the analysis methodology and the actual analysis;
- Interpreting the data obtained

Legislation

Before presenting the results of the analysis, we consider it necessary to secure a legislative context. For

the entities listed on the stock exchange, it is mandatory to prepare quarterly, biannually and annual reports and to transmit them to the authorities regulating the capital market.

Added value

Through this research, we want to highlight the differences between the audit report we used to know up until now, and the new audit report, which contains key matters and in the same time it is an extended report.

Describing the sample

The sample of the companies chosen is made up of companies listed on the Bucharest Stock Exchange in the Premium Category, namely the first 23 companies. In the tables below we made a synthesis of these companies:

Table no. 1. The companies from the Premium Category listed on the Bucharest Stock Exchange					
		2015		2016	
		auditor	opinion	auditor	opinion
1	BANCA TRANSILVANIA S.A.	KPMG	unqualified	PWC	unqualified
2	SSIF BRK FINANCIAL GROUP SA	OTHERS	qualified	ALTELE	qualified
3	C.N.T.E.E. TRANSELECTRICA	DELOITTE	unqualified	DELOITTE	unqualified
4	S.N.T.G.N. TRANSGAZ S.A.	DELOITTE	qualified	DELOITTE	unqualified
5	BRD – GROUPE SOCIETE GENERALE S.A.	ERNST&YOUNG	unqualified	ERNST&YOUNG	unqualified
6	S.N.G.N. ROMGAZ S.A.	DELOITTE	unqualified	DELOITTE	unqualified
7	OMV PETROM S.A.	ERNST&YOUNG	unqualified	ERNST&YOUNG	unqualified
8	BURSA DE VALORI BUCURESTI SA	OTHERS	unqualified	PWC	unqualified
9	SIF TRANSILVANIA S.A.	PWC	qualified	DELOITTE	qualified
10	SIF BANAT CRISANA S.A.	KPMG	qualified	PWC	unqualified
11	CONPET SA	KPMG	unqualified	ALTELE	unqualified
12	Med Life S.A.	DELOITTE	unqualified	DELOITTE	unqualified
13	SOCIETATEA ENERGETICA ELECTRICA S.A.	KPMG	unqualified	KPMG	unqualified
14	SIF MOLDOVA S.A.	DELOITTE	unqualified	DELOITTE	unqualified
15	SIF MUNTENIA S.A.	KPMG	unqualified	KPMG	unqualified
16	SIF OLTENIA S.A.	OTHERS	unqualified	ALTELE	unqualified
17	IMPACT DEVELOPER & CONTRACTOR S.A.	DELOITTE	qualified	DELOITTE	unqualified
18	S.N. NUCLEARELECTRICA S.A.	OTHERS	qualified	ALTELE	qualified
19	BANCA COMERCIALA CARPATICA S.A.	DELOITTE	unqualified	DELOITTE	unqualified
20	FONDUL PROPRIETATEA	DELOITTE	unqualified	DELOITTE	unqualified
21	BIOFARM S.A.	OTHERS	unqualified	ALTELE	unqualified
22	ANTIBIOTICE S.A.	OTHERS	qualified	ALTELE	unqualified
23	ELECTROMAGNETICA SA	OTHERS	unqualified	DELOITTE	qualified

Source: Own projection

4. Analysis and presentation of the results

A first analysis that we conducted was the distribution of the audit firms to the companies from the sample. In the table below we can observe that on the Romanian capital market, in the period 2015-2016, the companies

preferred to choose audit companies from the Big 4 group in a proportion of approximately 60-75%. From the sample of 23 companies, on average, seven companies rely on the services of an auditor that does not belong to the Big 4 group. We can observe that from the audit companies belonging to the Big 4, Deloitte and KPMG are more wanted auditors than PwC or Ernst&Young.

Table no. 2. The weight of audit firms on the companies from the sample

	2015		2016	
Deloitte	8	34.78%	10	43.48%
Ernst&Young	2	8.70%	2	8.70%
KPMG	5	21.74%	2	8.70%
PWC	1	4.35%	3	13.04%
Others	7	30.43%	6	26.09%
	23	100.00%	23	100.00%

Source: Own projection

The table above presents a distribution of the audit firms in which we can observe that in 2015 70% of the companies were audited by a firm belonging to the Big 4, while in 2016 this percentage increased to 74%.

In the conceptual framework, through the conceptual approach of the reporting in audit, we established the role, scope and objective of an audit report, as well as the structure of one, together with the type of opinion that the auditor can express. The unqualified opinion is expressed when the auditor considers that a company presented financial statements that show a faithful image of the company's operations under

all these significant aspects. The qualified opinion is expressed when the auditor considers that certain aspects are not fully in conformity with the reporting framework, but the deviations are not significant. Adverse opinion appears when the deviations are significant and important, and in the case when the audit evidence is insufficient or irrelevant, the auditor expresses a disclaimer opinion.

In the following table, we realised a presentation of the opinions expressed by the auditors regarding the financial statements of the companies from the selected sample, listed on the BSE's Premium Category.

Table no. 3. Auditors' opinion expressed regarding the financial statements

	2015		2016	
	Unqualified	Qualified	Unqualified	Qualified
Deloitte	6	2	8	2
Ernst&Young	2	0	2	0
KPMG	4	1	2	0
PWC	0	1	3	0
Others	4	3	4	2
	16	7	19	4

Source: Own projection

In the table above, it can be observed that the auditors mostly expressed unqualified opinions for the years 2015 and 2016. Most of the qualified opinions (for all the

companies in these two years) are expressed by auditors other than those belonging to the Big 4, followed by Deloitte.

In the following, we will analyse if there is a link between the opinions expressed by the auditor and the collaboration between the auditor and the client. In this sense, we start from the hypothesis that the opinion can be influenced by a long collaboration, as well as by the change of the audit company.

Firstly, in the case of 15 companies, both the auditor and the auditor's opinion is the same. In the case of

3 companies, the auditor stays the same but its opinion changes from a qualified opinion to an unqualified one, thus we can remark an improvement. Furthermore, in the case of 3 companies the auditor changes but the unqualified opinion does not change, and lastly, there are two companies in case of which both the auditor and its opinion changes.

Table no. 4. The evolution of the auditors' opinion on the financial statements and the collaboration between auditor and client

1	BANCA TRANSILVANIA S.A.	KPMG	unqualified	PWC	unqualified
2	S.N.T.G.N. TRANSGAZ S.A.	DELOITTE	qualified	DELOITTE	unqualified
3	BURSA DE VALORI BUCURESTI SA	OTHERS	unqualified	PWC	unqualified
4	SIF BANAT CRISANA S.A.	KPMG	qualified	PWC	unqualified
5	CONPET SA	KPMG	unqualified	OTHERS	unqualified
6	IMPACT DEVELOPER & CONTRACTOR S.A.	DELOITTE	qualified	DELOITTE	unqualified
7	ANTIBIOTICE S.A.	BDO	qualified	BDO	unqualified
8	ELECTROMAGNETICA SA	OTHERS	unqualified	DELOITTE	qualified

Source: Own projection

Taking into consideration that the ISA 700 standard was reviewed a couple of times, the structure of the report was modified through time, probably the most important reform appearing in the standards from 2015; some paragraphs/sections of the report were removed (*Observations and explicative sections*) and replaced by the new section *Key Aspects of the Audit*. In our opinion, we consider that these projects, meant to improve the application and content of the international audit standards, are a proper response to

the practical needs of the interested parties, detached from the international practice with the scope of re-establishing the trust on the financial market. Thus, we assess as useful the comparative presentation of the changes and improvements made to the audit report through the international regulations. This comparison exposes the differences between the information communicated in the report before 15th of December 2016 and after 15th of December 2015 in what concerns the format.

Figure 2. Evolution of the audit report in the reference period

before 15th of December 2016
<ul style="list-style-type: none"> • Title • Recipient • Introductory paragraph • Management's responsibility • Auditor's responsibility • Auditor's opinion • Basis for opinion • Other reporting responsibilities • Name of the audit party • Signature • Address • Date

after 15th of December 2016
<ul style="list-style-type: none"> • Title • Recipient • Auditor's opinion • Basis for opinion • Continuity of the activity • Key aspects of audit • Other information • Responsibility for preparing the financial statements • Responsibility of an auditor in a financial statements' audit • Other reporting responsibilities • Name of the audit party • Auditor's signature • Auditor's address • Date of the auditor's report

Source: Own projection

To make the comparison between the two types of reporting, we consider useful the analysis of the two reports' dimension for the analysed sample, followed by

the analysis of the content changes, especially the changes regarding the new elements which target key audit matters.

Table no. 5. Evolution of the audit report in the reference period

		2015	2016
1	BANCA TRANSILVANIA S.A.	2	12
2	SSIF BRK FINANCIAL GROUP SA	4	5
3	C.N.T.E.E. TRANSELECTRICA	3	4
4	S.N.T.G.N. TRANSGAZ S.A.	3	4
5	BRD – GROUPE SOCIETE GENERALE S.A.	3	8
6	S.N.G.N. ROMGAZ S.A.	3	5
7	OMV PETROM S.A.	3	9
8	BURSA DE VALORI BUCURESTI SA	5	5
9	SIF TRANSILVANIA S.A.	3	5
10	SIF BANAT CRISANA S.A.	5	7
11	CONPET SA	3	5
12	Med Life S.A.	2	5
13	SOCIETATEA ENERGETICA ELECTRICA S.A.	3	6
14	SIF MOLDOVA S.A.	3	5
15	SIF MUNTENIA S.A.	4	6
16	SIF OLTENIA S.A.	3	5
17	IMPACT DEVELOPER & CONTRACTOR S.A.	3	5
18	S.N. NUCLEARELECTRICA S.A.	3	5
19	BANCA COMERCIALA CARPATICA S.A.	3	6
20	FONDUL PROPRIETATEA	2	5
21	BIOFARM S.A.	2	5
22	ANTIBIOTICE S.A.	2	5
23	ELECTROMAGNETICA SA	3	4

Source: Own projection

From the above table, it results that in the year 2015 an audit report had on average three pages while in the year 2016 this extends to 5-6 pages, on average. The extension of the report is due to the introduction of the key audit matters. In the following, we focus our attention on the discussions regarding the key audit matters, which represent a novelty element within the reports and we consider that it represents a central element of these.

In our opinion, the section which contains the Key Audit matters (KAM) is useful for the interested third parties since it contains relevant information for the decision-making process and for testing the subjectivity of information presented by the management. These matters are consistent with the theories presented in the speciality literature, because the new KAM section is

meant, as the IAASB specifies, to assist the users, even only through evidentiating some elements which the auditor considers relevant in what concerns the financial statements of the company (Cordoş & Fülöp, 2015). Taking into consideration the recent reforms in the process of reporting in audit, we consider that these theories are an important part of our research, explaining why the auditor's opinion is vital for the interested parties. The theory also explains why the users need more information from the auditor, an increase in the communicative value of the report being necessary. The theory of credibility is directly applicable in this process, because the auditor will present the KAMs, matters through which, by using professional judgement, the auditor will test how the company responded to different relevant elements from the

financial statements; if the company's response is adequate, the auditor will express his accord, thus conferring credibility to the conclusions presented in the

financial statements, therefore making an economic and social contribution.

Figure 3. Difference between public interest entities and other entities

Public interest entities	Other entities
<ul style="list-style-type: none"> The audit report contains key matters presented by the auditor supplimentary, requirements concerning the audit report can be introduced by the regulatory body 	<ul style="list-style-type: none"> Key matters are only presented if the legislation specifies it or the audited entity asks for it supplimentary, requirements concerning the audit report can be introduced by the regulatory body

Source: Own projection

From our sample, we chose two categories of entities to analyse the key matters. Our choice was made based on the homogeneity of the firms from the given

categories. Firstly, we directed our attention to the banking institutions, after which we analysed the investment companies.

Table no. 6. Banking institutions from the reference sample

No. crt.	Credit institutions	2016	Auditor
1	BANCA TRANSILVANIA S.A.	Key audit matters 1. Depreciation of loans and advances granted to clients 2. Fiscal treatment of revenues realised through an acquisition in favourable conditions due to acquisition of Volksbank S.A. 2015 3. Provisions for litigations for abusive clauses from credit agreements	PWC
2	BRD – GROUPE SOCIETE GENERALE S.A.	Key audit matters 1. Depreciation of loans and advances granted to clients 2. Provisions for litigations and other risks and expenses 3. Information technology and systems significant for financial reporting	Ernst&Young
3	BANCA COMERCIALA CARPATICA S.A.	Key audit matters 1. Continuity of the activity 2. Depreciation of loans and advances granted to clients	Deloitte

Source: Own projection

One of the common elements analysed at the three banks from our sample targets the depreciation of the loans and advances granted to clients. We consider that this matter is one of major importance to the banks due to the loans granted. To avoid problems linked to depreciation, the management of the banks applies a complex estimation process and uses professional

judgement in decision-making. Such an analysis is inherently made in conditions of incertitude involving the evaluation of multiple elements, respectively using hypotheses, including ones concerning the financial situation of the counter-party, expected cash flows from the debtors, as well as expected net cash inflows from potential sales of guarantees. Special attention is given

to the new aspects or which have an important evolution throughout the year of 2015, namely the Law no.77/2016 on giving-in-payment.

The provisions for litigations due to abusive clauses in the credit agreements registered in the line „Provisions for litigations, risks and expenses”, because their measuring involves a series of significant judgements and estimates made by the management of the bank. The provisions for litigations and other risks are important for the audit because the process of

determining these provisions is a complex one and it involves a high level of professional judgement. The audit procedure includes, among others, an evaluation of the bank’s governance in this regard, of the processes and internal controls linked to the constitution of provisions, as well as of the management’s hypotheses, having in view the explanations and documentation supplied by the management and legal advisors for the constitution of significant provisions.

Table no. 7. Financial investment companies

No. crt.	Financial investment companies	2016	Auditor
1	SSIF BRK FINANCIAL GROUP SA	Key audit matters 1. Evaluation of financial assets and revenue recognition 2. Separation of own assets from the clients’ assets 3. Provisions for litigations and contingent liabilities	BDO
2	SIF TRANSILVANIA S.A.	Key audit matters 1. Evaluation of financial assets	Deloitte
3	SIF BANAT CRISANA S.A.	Key audit matters 1. Evaluation of financial instruments	PWC
4	SIF MOLDOVA S.A.	Key audit matters 1. Evaluation of financial assets available for sale at fair value 2. Evaluation of the depreciation of financial assets available for sale	Deloitte
5	SIF MUNTENIA S.A.	Key audit matters 1. Evaluation of financial instruments	KPMG
6	SIF OLTENIA S.A.	Key audit matters 1. Evaluation of financial instruments	Others

Source: Own projections

The evaluation of the financial assets was one of the key matters analysed in case of the six financial investment companies. To analyse the key audit matter, the audit focused on the evaluation of the key controls regarding the process of evaluation of investments classified as financial assets available for sale. Testing the performed controls helps at the elaboration of the audit procedures regarding their evaluation process. For analysing the evaluation methodology, a sample of unlisted investments was selected for whose appraisal models of the evaluation was used, which include certain evaluation hypotheses. The auditors involved their appraisers, who analysed the evaluation methodology, hypotheses and the data used by the internal evaluators of the financial investment companies. The estimated results were consistent with those included in the financial investment companies’. The auditors evaluated

whether the decrease in the fair value of a sample of capital investments of the investment companies was done with accuracy, and they also analysed if this one was reflected in the individual financial statements in conformity with the IFRS requirements and the financial investment company’s accounting policies. Moreover, they analysed if the changes in the fair value were reflected correctly in the individual financial statements.

In analysing the individual financial statements, the auditor took into consideration whether it properly represents all the significant information regarding the financial investments available for sale, the presentation of the policy regarding the hierarchy of fair values, information regarding the significant unobservable data related to the information from IFRS 13 *Fair value measurement*.

Conclusions

The reactions to the increasing number of financial scandals in the recent years, provoked by big errors and, especially, by the financial and accounting frauds, lead to the awareness and significant increase of interest regarding the form and procedures in audit reporting.

The objective of this paper was to analyse the changes made to the financial reporting in the period after the financial crisis and not only. Through a deductive approach, from general to particular, we consider that we reached our proposed objectives and we made a short presentation of the topic addressed.

Through the proposed objectives, we consider that the paper has value added by approaching the topic both from a conceptual point of view, the point of view of the regulations in the domain, and practically, thanks to the research regarding the good practices.

Reporting in the audit is a complex activity, and the opinion expressed by the auditor has an important contribution to the investors' decision. We consider that the proposals and changes from the recent period made by the IAASB will bring added value for the users through the new section regarding *key audit matters* (ISA 701), but also through the revision of the ISA 570 standard. Our statement is supported by the answers received by the IAASB from the users of the information, thus after the analysis and processing of the data, on the 15th of January 2015, a series of changes appeared in the domain of audit. Within these changes, we would like to highlight some that have a direct influence on the comprehensive reporting in the audit. Among the revised standards we enumerate:

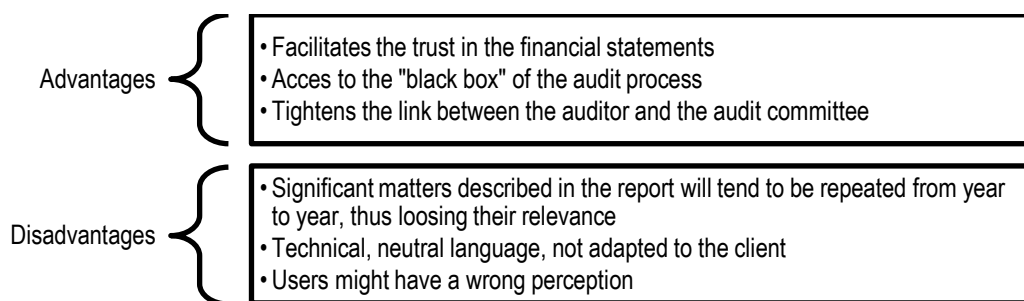
- ✓ ISA 260 (revised), Communication with those charged with governance

- ✓ ISA 570 (revised), Principle of going concern
- ✓ ISA 700 (revised), Forming an opinion and reporting on financial statements
- ✓ ISA 701, Communicating key audit matters in the independent auditor's report
- ✓ ISA 705 (revised), Modifications to the opinion in the independent auditor's report
- ✓ ISA 706 (revised), Matter paragraphs and other matter paragraphs in the independent auditor's report
- ✓ In conformity with the changes in ISA 210, 220, 230, 510, 540, 580, 600, and 700.

The interest for the form and content of the audit report is more increased as ever, as a reaction to the recent year's financial crisis and financial scandals. The investors are prudent due to the accounting and financial frauds. Thus their requirement for a revised audit report and for an audit considered qualitative is justified. The regulatory bodies and the researchers directed their attention towards this topic, and the reforms are not delayed, the revised standards being published at the beginning of 2015, and entering into force starting with 2016. Together with these reviews, the transparency level of the information was changed as well, thus increasing also the level of assurance regarding the conformity with the corporate governance code of the entity.

Starting from a conceptual approach of the reporting in audit, we captured the most important aspects, secured in the standards and regulations from the domain. Reporting in audit is a complex activity, and the opinion expressed by the auditor has an important contribution to the investors' decision. Therefore we present some advantages and disadvantages drawn based on our research regarding the new audit report:

Figure 1. Advantages and disadvantages of the new audit report



Source: Own projection

Even though the actual form of the audit report is more transparent and detailed, the biggest issue the auditors face is the lack of understanding of what auditors do and how the audit opinion has to be interpreted. Many users perceive the audit as an insurance policy – a „guarantee” which protects from all aspects of financial nature, from risk, from management or from regulation which could affect an entity. Therefore, the auditors have the homework to explain that an auditor is not a „magician” who makes all the risks and problems of an entity disappear, but rather an audit mission consists in applying certain procedures and expressing an opinion in conformity with the requirements of the audit standards and by respecting the ethical requirements specific to the profession.

To accomplish the practical part of this research, we chose to direct our attention to the capital market in Romania to capture the changes of the audit report. In this sense, we chose a sample of 23 companies listed in

the Premium Category of the Bucharest Stock Exchange. Subsequently, we consulted the Annual Reports and the Audit Reports of every company for the period 2015-2016 and summarised the data related to the auditor with which every entity collaborates, the duration of this collaboration, the opinion expressed by the auditor in every year, the audit report’s structure and the key matters addressed by the auditor.

We concluded that most of the entities from the Romanian capital market collaborate with an auditor belonging to the Big-4 group, and this is an increasing tendency from year to year.

We consider that this topic, reporting in audit, is currently passing through a continuous change, offering a good opportunity for the researchers to contribute to the development and review of the way and model of audit report, and the IAASB and other regulatory bodies have demonstrated that they take into consideration the feedback received from the interested persons.

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