



IMPACT OF FINANCIAL CRISIS ON FINANCIAL AUDIT ACTIVITY IN ROMANIA

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Abstract

Given the growing concerns in the current socio-economic context for obtaining more relevant and more „insuring” information on the quality of financial information provided by the financial statements of various companies, both practitioners and academics, but also regulators, are asking various questions on how external audits and audit reports are and should be looked at.

Unfortunately, in recent years we face a continuous degradation of the audit image, and by default of that of financial auditors. This is due to scandals and bankruptcies of companies and financial institutions, where auditors have contributed more or less. All these led to intensified efforts of audit professional and regulatory bodies for analysing the causes of these phenomena in order to identify and impose a number of measures aimed to restore the lack of credibility occurring increasingly stronger in the results of auditors’ work.

Auditors and audit companies should not overlook the social importance of financial audits in recent years – a position obtained after an effort of hundreds of years - and eventually extend their responsibilities and seek for new methods or procedures compatible with current needs in order to support their work. Therefore, audit value must be continually tested against requirements of users and society. Accounting profession must build a solid case in favour of the benefits brought by audits to business, economy and society.

Audits must evolve and expand to add more value for users. Especially for listed companies and even more in times of crisis, audits must be more than an opinion on historical financial statements.

Keyword: financial audit, financial crisis, credibility, perceptions, audit report

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I. Introduction

In an increasingly integrated economy, *accounting information*, respectively its *credibility, relevance and integrity*, still are issues frequently studied by experts. In this context, we believe that research conducted so far have been performed from the standpoint of accountants as producers of information or from the perspective of its users, and *less from the standpoint of auditors*, who ensure the integrity and credibility of financial information against fraud.

The need for accurate and relevant information has always existed within all economic, social or any other activities, but its importance became evident in the last decade, with the financial scandals that have involved a number of large corporations. All these events have had a strong impact on the global economic market, outlining the possibility for some investors to fully lose confidence in investments made by companies, but also in their management.

In this context, *the role of financial auditors becomes very important*, namely to provide credibility to financial information in order to ensure a decision-making process based on accurate information, the functioning of cash-flows on capital markets and of economy as a whole.

In terms of the gap between users' perceptions and expectations on the audit, because lately the economic crisis deepened in Romania also appeared a number of articles and studies that emphasize the *importance of the work of auditors, but also its relevance for the public interest*. These refer to the proposed models on the perception gap related to audit independence, for a greater awareness of auditors, regulators and the public of the risk of the existence of such gaps with adverse effects on the image of auditing profession (Țurlea & Mocanu (2010)). Other studies deal with interdependence relationships and direct effects of auditors' independence on their performance (Jaba & Robu (2011)), the role of external audit in insuring credibility of audit reports (Dobroțeanu et al. (2011a)), degradation of perceptions and gaps between expectations and needs before and after the start of the financial crisis (Dobroțeanu et al. (2011b)), the link between restoration of public confidence and decrease of expectation gaps in terms of public interests (Ardelean (2013)).



The role and relevance of information provided by auditors to the public through audit reports is therefore a controversial topic, which in recent years has generated lots of discussions among experts and practitioners. *The risks to which users of information provided by auditors are exposed to have increased*, and also *diversified* considerably, due to the economic changes caused by the global crisis. Companies' attempts to embellish results and present a distorted image of financial statements also hinder auditors' activities for obtaining reasonable assurance. It is considered that an audit report containing a favourable opinion is in fact a business card that can facilitate new business opportunities for the audited company.

II. Research methodology

This article can be structured into two main parts. The first part is dedicated to ***fundamental research***, containing a number of debates and standpoints about the financial crisis as a fundamental concept, respectively its impact on accounting theories and practices. The second part is reserved for ***applied research***, where we intend to put face to face the perceptions of the two groups about the impact of financial crisis on audit activities and profession in Romania.

By its nature, this article is part of the ***positivist research trend*** with extensive *interpretative approaches*, and with a number of *critical elements* and many *personal opinions*, which intertwine harmoniously and give the article a touch of originality and professionalism. The article's quality is also ensured by the large number of charts, structural schemes and tables used, whose purpose is to facilitate understanding the information presented in this research.

In terms of generated information, this research combines ***qualitative research*** (most investigated items are of qualitative nature) with ***quantitative research***. The two types of research are not antithetical but complementary, since in our view, a scientific approach that will stand the test of time requires an optimal combination of research methods in order to achieve the aimed objectives.

The research follows a *transverse direction* through the used *observation*, *comparison* and *conceptual analysis* techniques. Thus, the qualitative research valued specialist literature by processing it with various *methods specific to socio-human sciences*, such as *document analysis*, *non-participating observation* and *comparison*. The non-participating approach is due to the research field and the current state of knowledge in the field of interest, although comparisons made and opinions and conclusions



expressed show certain participating aspects of the research, respectively the relevance of transmitted information.

In our opinion, the dynamics of analysing scientific literature is relevant in the analysis of audit evolution, and consequently for increasing complexity of tasks and responsibilities attached to financial auditors, the more that we talk about periods of financial crises. The sources used are mostly scientific articles published in specialist magazines in the field of financial audit.

The last part of this article is part of the *positivist constructive research trend*, and the purpose of the *empirical study* is to value the information discussed throughout the scientific approach, by testing and dimensioning the main gaps related to managers' and auditors' perceptions on audit activity in the context of a sensitive socio-economic climate, characterised by instability and turbulences. To accomplish this task we used the *questionnaire method*. The questionnaire was applied to active financial auditors from Romania, but also to managers of audited companies. By applying this questionnaire we aimed to test the consistency between the perceptions of the two groups about the impact of financial crisis on audit activity and credibility of financial auditor profession.

As we shall see, our assumptions contain a selection of factors we wanted to test. This selection is necessary because specialist literature shows a large number of elements whose validation through a single study would have been exhaustive and practically impossible.

III. The impact of financial crisis on accounting theories and practices

Currently, the socio-economic environment still goes through a difficult situation, namely the global financial crisis that began since late 2007. In this respect, A. Einstein pointed out that: „*It is in crisis that invention, discovery and large strategies are born*” (from Mătu, Ș., Buneci, P., Gheorghe, V. (2009), *Criza, anticriza și noua ordine mondială*, Solaris Print Publishing House, Bucharest). This crisis implicitly „pulls” the alarm on production and procurement, but especially certification and use of financial information that have an important role in preventing, reducing or fighting such difficult situations.

The central concept of this article is the *financial crisis*, which concerns all stakeholders, calls for reconfiguration of economic philosophies and of the dominant logic



and requires strategies for exiting the state of economic decay, tactics for controlling aggregation effects, dismantling of immobility and enhancement of stimuli.

The general global economic crisis and the financial scandals at large companies (Enron, WorldCom, Ahold, Parmalat, etc.) call again into question the **quality and reliability of financial information**. Thus, the world's globalisation issues are reflected also on the evolution of accounting and auditing professions. Globalisation of world economy amid a global economic crisis creates new situations and doubts on everything related to the economy of each country.

These developments in the economic-social environment have often been improperly associated with the *accounting profession*, which is responsible for defending public interest by means of correctly informing external users, respectively guaranteeing credibility of data published by companies. For example, in recent years, ethical failures by certain members of the profession, which resulted in a lack of confidence in financial reporting, required significant changes in the rules of the profession (Sarbanes-Oxley Act in USA, Financial Security Law in France, etc.), as documented in their study by Toma & Potdevin (2008: 33).

In our opinion, amongst the representatives of accounting profession, financial auditors are most exposed to virulent criticism coming from users of information within financial reporting. They are considered „scapegoats”, as guarantors of quality and reliability of data disseminated by companies. Sometimes, it goes even further, considering that these professionals are *solely responsible for the failures faced by large companies* or groups of companies. Therefore, in our opinion, the reputation and responsibility of the financial auditor profession are directly influenced by the qualitative features of financial information, compliance with rules imposed by the accounting referential, and with principles of ethical and professional conduct.

In this context, the role of the auditor increases, „*its value must acquire new levels by providing additional elements related to transparency of operations, the need of an increased vigilance towards complex financial products and the need to better understand both individual and systemic risks*” (PhD Professor Ion Mihăilescu, President of CAFR [Chamber of Financial Auditors of Romania] – interview / The 2nd Congress of the Financial Auditors of Romania: “*Național și internațional în activitatea de audit financiar. Auditorii și criza economică globală*” [National and International in Financial Audit. Auditors and the Global Financial Crisis], 2009). Professional accountants are required to make the necessary adjustments related to the way of reporting financial



indicators, and for a more accurate understanding of situations by users. Thus, the importance of auditors will increase, because both creditors and investors, but also the large public, rely on their opinion of independent experts.

Thus, we, as auditors, should be concerned of identifying solutions for *regaining investors' confidence*, by identifying liquidities, because they do exist, but not at the right places. Auditors „see the financial reporting and activity of a company from two standpoints: information accuracy and going concern. Auditors should collect a sample of required, sufficient and appropriate evidence, so that in short time they can provide a relevant opinion resulted from the audit report. The report as a whole, and in particular the paragraph related to going concern, is one of the elements that support business environment and, corporate management” (PhD Professor Ion Mihăilescu, President of CAFR [Chamber of Financial Auditors of Romania] – interview / “Atât auditorul, cât și clientul acestuia trebuie să se subordoneze unor valori etice” [Both the auditor and the client must be subordinated to ethical values], *Economistul* [The Economist] newspaper, 2009).

The question is, *how do we proceed as auditors, how do we overcome the crisis and what do we learn out of that?* In our opinion, the answer lies in how auditors, as accounting professionals, perceive the concept of *fair value* and perform the audit of the balance sheet, in how they identify and report *fraud*, respectively the *going concern audit*.

IV. Financial auditors' responsibilities to the challenges of financial crisis – convergence between theory and practice

The global financial crisis that lasts for some time already and does not show clear signs of an end, aroused acute concerns not only related to causes – which were discussed under all possible aspects – but especially to the real recovery and revival chances. In particular, the most appropriate mechanisms are sought for restoring trust in business and for creating a fair and predictable commercial and financial climate.

Inevitably, when looking for appropriate solutions hopes are related to the *potential offered by information obtained through financial audit*, which is recognised to have an increasingly prominent social role in ensuring business health. And it is not just about opinions on what is expected from auditors, but also about specific actions, which –



as we saw – took the form of discussion papers for the preparation of measures considered necessary to be adopted.

Fact is that now financial audit is on the verge of a reform to better meet the challenges of the period we are going through. In our opinion, currently, audit is a global service, whose effects are felt throughout all economic fields and with cross-border impact. However, greater *public awareness of the objectives and scope of an audit would be necessary*, given that *public awareness deficiencies can cause deficiencies related to the public's expectations from auditors*.

There is a consensus that the *social role of auditors and audit profession* should action in the context of *protecting public interests*. Thus, the public must gain a proper understanding of the audit profession and not generalise it to believe that the auditor is a *factotum*, a god, an omniscient that can also do very long-time predictions.

The „Green Book” of audit, a discussion paper issued by the European Commission, even contains an attempt to charge auditors with a pretty unpleasant duty, namely to *make clear specifications on the period in which it is more likely for the audited company to resist*. This is very difficult, if not impossible. Not even rating agencies – which have mathematical techniques and statistical models – can do this. *What could an auditor do, who studies some situations related to the past?* He may issue an opinion, but cannot predict an exact period for the company's sustainability for more than one year, according to the going concern principle.

Given its impact on various stakeholders, *audit profession is very sensitive*. Thus, regulations and rules adopted domestically or internationally ought to be judiciously based on extensive research and market studies. It is necessary for the large public to gain a proper understanding of the audit profession in order to have reasonable expectations. On the other hand, the *profession is called to properly respond, to adapt as good as possible to the requirements of the current period*. Therefore, financial auditors are bound to be in a position to build confidence in both auditors and their professional body, the Chamber of Financial Auditors of Romania, first of all by the quality and accuracy of services provided by its members.



V. Analysis of respondents' perceptions on the impact of financial crisis on audit activity

In our opinion, theoretical research, as important as it would be, is not enough in the current socio-economic context. Today, more than ever, it is necessary to get closer to economic reality – and for this reason empirical studies have increased lately.

Therefore, our study is also an empirical descriptive one, based on a *questionnaire* that aims to value theoretical-methodological elements presented in previous chapters.

The aim of our research is to *compare external perceptions (public interest) with auditors' own perceptions about the impact of financial crisis on financial audit activity in Romania*. We considered seven elements, as following:

A. *Auditors' turnover in 2008, before the actual outburst of the crisis, compared to 2012, a year characterised by crisis effects;*

B. *Fluctuation of auditors' fees since the outburst of the crisis;*

C. *Difficulties faced by respondents during external audit engagements attended in the last five years of economic crisis;*

D. *Changes occurred in the type of opinion issued by auditors for financial year 2012 compared to financial year 2008 at audited companies;*

E. *Weight of unqualified opinions, qualified opinions, respectively modified opinions (adverse and/or impossibility to express an opinion) in the total audit reports issued on 31.12.2008 compared to 31.12.2012;*

F. *Impact of adopting IFRS correlated with the impact of financial crisis on audit engagements;*

G. *Influence of financial crisis on fair presentation of financial statements and on workload both for the preparation and auditing of annual financial statements.*

By means of the above, we start validation of our assumption: „**H: The financial crisis has had an impact on the activity of financial auditors in Romania.**”

Thus, by means of quantitative research, this empirical study aims to *analyse and size the gap between auditors' perceptions about the impact of financial crisis on the audit activity compared against the perception of managers of companies that require external audit services.*

Thus, the primary objective of this study is to *provide evidence on the perception gap in Romania between auditors and audited companies, by means of investigating their*



perceptions, opinions, needs and expectations, respectively to highlight the impact of financial crisis on the credibility of the audit profession.

A. *Analysis of respondents' (auditors) perceptions about the impact of financial crisis on the turnover of the company they work for*

Further to a simple analysis, we note that most auditors have stated that their turnover for 2012 has declined considerably compared to the turnover for 2008. Thus, both in 2008, and in 2012, the largest share is represented by financial auditors with a turnover between EUR 100,000 and 250,000 EUR, but the weight is of 47% in 2008, respectively 42% in 2012.

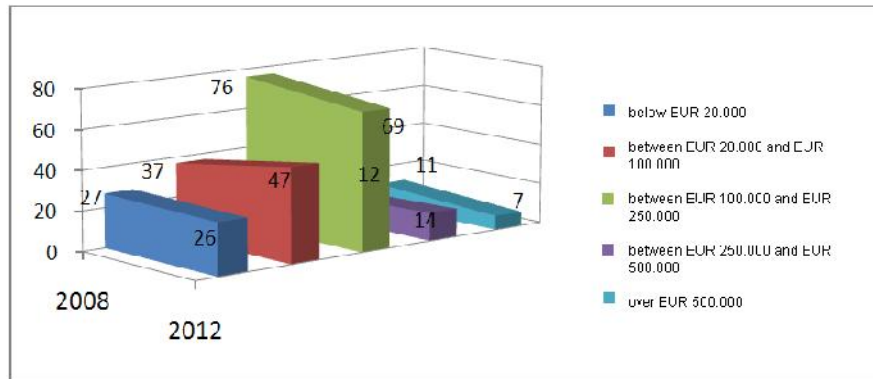
Table 1 - Comparison between turnovers registered by companies in 2008 and 2012

	2008	%	2012	%	Difference 2012 compared to 2008
Below EUR 20,000	27	17%	26	16%	-1%
Between EUR 20,000 and EUR 100,000	37	23%	47	29%	6%
Between EUR 100,000 and EUR 250,000	76	47%	69	42%	-5%
Between EUR 250,000 and EUR 500,000	12	7%	14	9%	2%
Over EUR 500,000	11	7%	7	4%	-3%
TOTAL	163		163		

Source: own projection



Chart 1 - Split of respondents (auditors) by their perception of the impact of financial crisis on turnover



Source: own projection

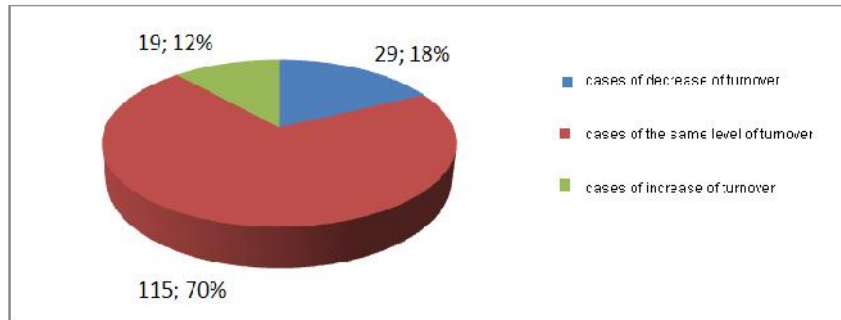
Because the data above were relevant, but not sufficient, respectively did not allow us to issue a clear opinion on the impact of the financial crisis on turnover accomplished by auditors before the crisis (2008), respectively in full crisis (2012), we:

- Performed an effective assessment of the cases where turnover decreased, stayed at the same level, respectively increased, and
- Stratified the answers in order to effectively determine the magnitude of the increase or decrease.

Thus, as highlighted in the chart below, 70% of the respondents said that their turnover has remained approximately the same from 2008 to 2012, while only 12% enjoyed an increase in turnover. However, in 29 cases, respectively 18%, auditors' turnover showed a decreasing trend from 2008 to 2012.



Chart 2 - Cases of decrease /same level/increase of turnover from 2008 to 2012



Source: own projection

The above chart shows the weight of cases where turnover decreased, increased or remained at the same level, and the following table presents a stratification of answers received in order to actually determine the magnitude of the increase or decrease.

Table 2 - Stratification of decrease, same level and increase cases in turnover in 2012 compared to 2008

Decrease in turnover in 2012 compared to 2008						
		2012				
		Below EUR 20,000	Between EUR 20,000 and EUR 100,000	Between EUR 100,000 and EUR 250,000	Between EUR 250,000 and EUR 500,000	Over EUR 500,000
2008	Below EUR 20,000	-				
	Between EUR 20,000 and EUR 100,000	2	-			
	Between EUR 100,000 and EUR 250,000	2	13	-		



	Between EUR 250,000 and EUR 500,000	1		6	-	
	Over EUR 500,000			1	4	-
	TOTAL:	29 people said that their turnover decreased significantly in 2012 compared to 2008.				
Same level of turnover during the period 2008 – 2012						
2012						
		Below EUR 20,000	Between EUR 20,000 and EUR 100,000	Between EUR 100,000 and EUR 250,000	Between EUR 250,000 and EUR 500,000	Over EUR 500,000
2008	Below EUR 20,000	21				
	Between EUR 20,000 and EUR 100,000		29			
	Between EUR 100,000 and EUR 250,000			55		
	Between EUR 250,000 and EUR 500,000				4	
	Over EUR 500,000					6
		TOTAL:	115 people said that their turnover remained at the same level from 2008 to 2012.			
Increase of turnover from 2008 to 2012						
2012						
2008		Below EUR	Between EUR	Between EUR	Between EUR	Over EUR



	20,000	20,000 and EUR 100,000	100,000 and EUR 250,000	250,000 and EUR 500,000	500,000
Below EUR 20,000	-	5	1		
Between EUR 20,000 and EUR 100,000		-	6		
Between EUR 100,000 and EUR 250,000			-	6	
Between EUR 250,000 and EUR 500,000				-	1
Over EUR 500,000					-
TOTAL:	19 people said that their turnover increased from 2008 to 2012.				

Source: own projection

B. *Analysis of respondents' (auditors) perceptions about the impact of financial crisis on the level of collected audit fees*

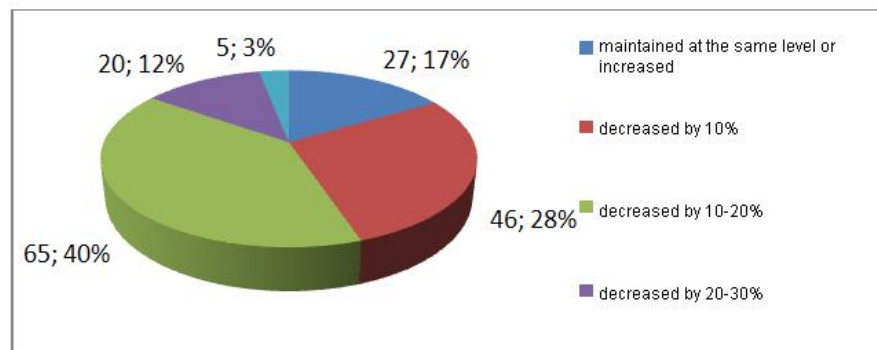
Also, we aim to identify the same quantitative feature of the sample, respectively to confirm – in conjunction with previously learned information – that the unstable socio-economic environment has had an impact on the average level of audit fees collected by auditors, and consequently, that the financial crisis indeed has a significant adverse impact by turning them downwards.

Based on the chart below, the highest weight (40%) is represented by financial auditors who stated that with the financial crisis outburst their average fee level decreased by 10-20%. 28% of the respondents stated that their fees decreased up to 10%, while 17% registered same levels or even an increase. Only 3% have faced a dramatic situation, where collected fees have decreased by over a third.



In this context, given the crisis conditions, it is clear that audit professionals felt the pressure to reduce fees.

Chart 3 - Split of respondents (auditors) by their perception about the impact of financial crisis on the average level of collected audit fees



Source: own projection

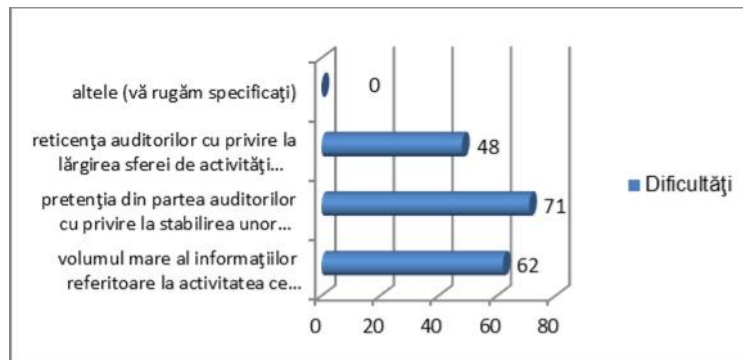
While global economy continues to struggle to get momentum, accounting practices in general find that pressure to reduce fees for the provided professional services continues to represent a significant challenge. This is one of the key messages emerged also from the May-June 2012 edition of the *Quick Questionnaire* (Giancarlo Atollini, President of SMSPIFAC Committee Cum facem față presiunii de a reduce onorariile? Sfaturi de gestionare a activității pentru P.M.M.-uri [How do we face pressure to reduce fees? Business management tips for SMSPs], <http://ceccar.ro/ro/wp-content/uploads/2012/11/IFAC-SMPC-FEE.pdf>) *for SMSPs developed by IFAC* (<http://www.ifac.org/about-ifac/small-and-medium-practices-committee>), which received 3,678 answers worldwide. When they were asked to name the biggest challenge faced by their small or medium-sized practice in this period of economic crisis, most respondents (27%) – particularly in Europe and Asia – mentioned the pressure to reduce fees.

While pressure on fees is nothing new, as the profession always faced some pressure levels, the perpetuation of bad economic conditions has likely contributed to increased concerns about the pressure of fees in many SMSPs.



C. Analysis of respondents' perceptions about the difficulties encountered during external audit engagements attended in the last five years of financial crisis

Chart 4 - Split of respondents (managers) based on their perception about the difficulties encountered during audit engagements attended in the last 5 years of financial crisis



Source: own projection

The semi-open question regarding potential difficulties faced by managers during audit engagements attended in the last five years of financial crisis allowed respondents to choose 2 or 3 variants out of our predetermined answers, according to their importance, respectively to specify another possible difficulty they have faced.

More than half of those who answered our questionnaire stated that „*auditors claimed higher fees*”, which only confirms the above.

We believe that this perception of managers of companies using audit services comes from the fact that they are possibly facing low demand for their products and services. Considering that everyone is looking at reducing costs, it is no surprise that audit companies are facing requests for fee negotiations or price reductions, while at the same time they are asked to maintain same quality of services.

Out of various reasons, this increased pressure on fees threatens to become a new standard that will last long after the global economy will have recovered. Firstly, clients may decide to keep their bills low and may consider that no professional services, including legal, accounting or audit services, are not worth the fees paid before the economic crisis. Secondly, globalization and low cost benefits of outsourcing of services to cheaper foreign contractors could make clients to ask for part of the cost savings.

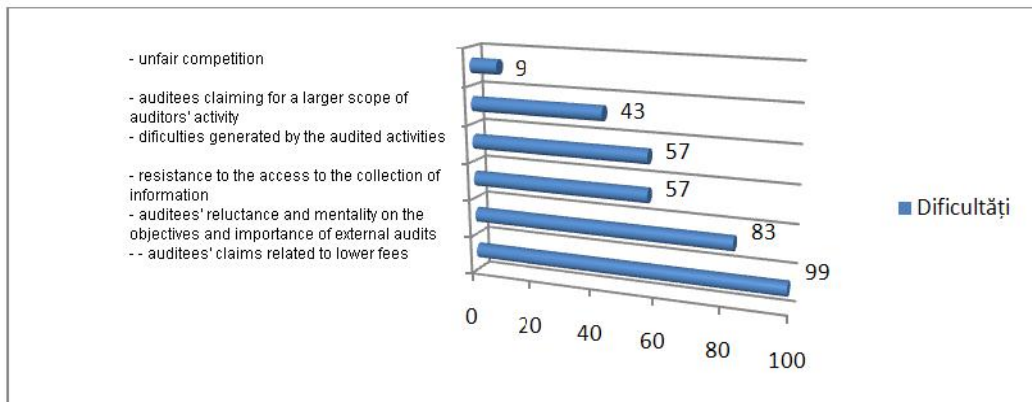
Another complaint of managers is linked to the „*high volume of information on*



the activity to be audited, which are requested by auditors”, 62 of them being intrigued by this and considering it maybe a hindrance in carrying out their daily activities. For any audit practitioner it is well known that managers often „complain” that too much information and too many documents are requested during the audit, that all members of the financial-accounting department must „be available” to the audit engagement team. However, it is management’s duty and responsibility to ensure auditors’ unrestricted access to any type of information and documents requested for the proper development of the audit engagement.

It is also interesting that one third of respondents are disappointed of „*auditors’ reluctance for broadening the scope of their activity*”. In this case, we either talk about a greater need („innocent” by the way) for relevant information in order to make business administration decisions or about a strategy for reducing consultancy services costs in general, based on the „all inclusive” principle. In our opinion, both variants are possible, given the sensitive socio-economic context, but also the big gap between the expectations of the users of audited financial statements and actual performance of auditors, as we shall see below.

Chart 5 - Split of respondents (auditors) by their perception about difficulties faced during audit engagements attended in the last 5 years of financial crisis



Source: own projection

On the other hand, auditors seem to be dissatisfied at a rate of 61% (respectively 99 of them) with the „*audited companies’ claims related to lower fees*”.



Thus, this is confirmed for the third time in this study. These sources of pressure on fees occurs in Romania as well, and the closure of many companies due to the economic crisis increases the pressure on audit and accounting professionals for providing services at the lowest possible prices. Some professionals were (and are!) ready to accept a significant decrease of income hoping to keep old clients or gain new clients.

However, it seems that in one way or another, this strategy has affected the quality of provided professional services. Regardless of whether the pressure to reduce fees is a temporary or a medium or long-term phenomenon, audit professionals should respond to this constraint while maintaining the quality of the provided services.

On the other hand, 51% of the respondents, respectively 83 auditors, mention as an obstacle of high importance the *“audited companies’ reluctance and mentality on the objectives and importance of external audits”*. We will try to confirm this by analysing the answers of managers to the questions in the following section, which focus on their perception about the function, object, scope and usefulness of financial audit.

Especially after having said the above, it is not surprisingly that about one third of the auditors felt resistance from managers related to the *access to the collection of information on the activity of the company to be audited*. Also, auditors state that managers *“claim for a larger scope of their activity”*.

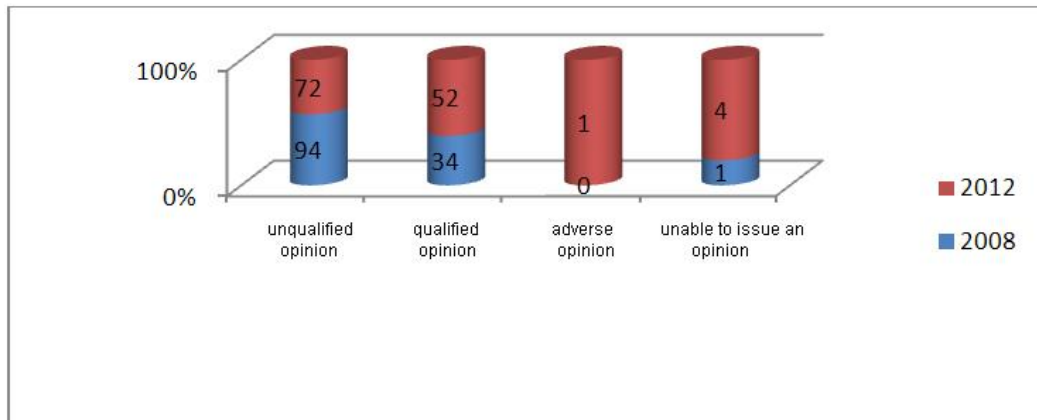
However, it was unexpected that 9 surveyed persons, who had the possibility to provide an open answer to this question, different than the predetermined ones, gave the same answer, stating *“unfair competition”* as a hindrance in their activity.

D. *Analysis of respondents’ (managers) perceptions about the impact of financial crisis on changing the type of opinion issued in financial year 2012 compared to financial year 2008*

The impact of financial crisis was also analysed in correlation with *changing the type of opinion for financial year 2012 compared to financial year 2008*. Managers were asked to indicate what type of opinion auditors issued for the financial statements as of 31.12.2008, respectively 31.12.2012.



Chart 6 - Split of respondents (managers) based on their perception about the impact of financial crisis on changing the type of opinion for financial year 2012 compared to 2008



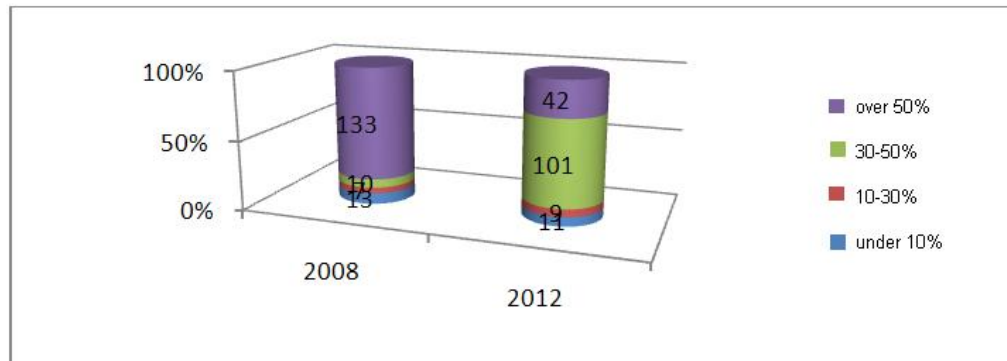
Source: own projection

After analysing managers' responses overall, we can say that the *number of unqualified opinions decreased considerably from 2008 to 2012, from 94 to 72 (total of 129 opinions), while the number of qualified opinions increased remarkably, from 34 in 2008 to 52 in 2012, a year of full financial crisis. Also, in 2008 the auditor was unable to issue an opinion for only one company while in 2012 there were 4 such cases (out of the 129 cases), but also one adverse opinion.*

E. Analysis of respondents (auditors) perceptions about the impact of financial crisis on the weight of unqualified, qualified, respectively modified (adverse and/or impossibility to issue an opinion) opinions in the total of audit reports drawn up on 31.12.2008 compared to 31.12.2012



Chart 7 - Split of respondents (auditors) based on their perception about the impact of financial crisis on the weight of unqualified opinions in the total audit reports drawn up in 2008 compared to 2012



Source: own projection

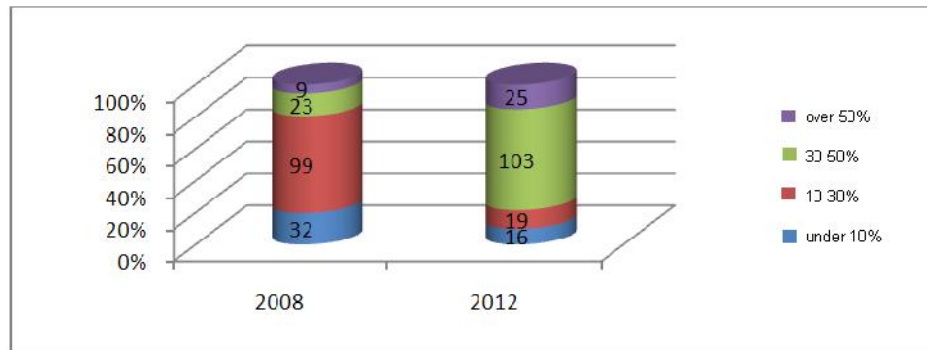
By analysing the answers of auditors and the chart above we note that most respondents (133 of 169) stated that on 31.12.2008 the weight of unqualified opinions was over 50%, while 101 auditors said that the weight of unqualified opinions on 31.12.2012 stands between 30-50%.

In our opinion, the high percentage of unqualified opinions before the economic crisis is due to the fact that in general any qualifications expressed in the audit report generates a negative perception of users. We believe this was and still is one of current issues in this field. A paradigm „all or nothing” perpetuated, where qualifications in the audit report represent a taboo for both clients and auditors.

The question is whether this perception should be revised or shareholders and other users of accounting information should be really concerned about this issue. Fact is that we can say that due to the unstable economic environment auditors have given up this taboo and they are no longer so „generous” in issuing unqualified opinions.



Chart 8 - Split of respondents (auditors) based on their perception about the impact of financial crisis on the weight of qualified opinions in the total audit reports drawn up in 2008 compared 2012



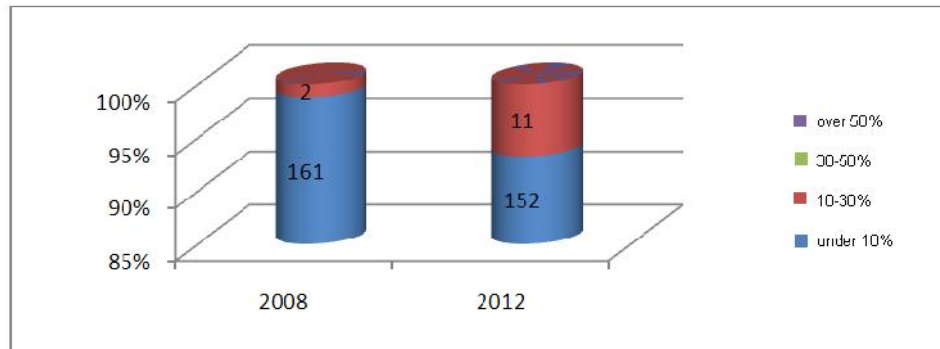
Source: own projection

According to the majority of auditors (respectively 99 of them), the weight of qualified opinions was between 10-30% on 31.12.2008 while on 31.12.2012 approximately the same majority of respondents (respectively 103 of them) assessed the weight as much higher, respectively between 30-50%.

Thus, we believe that due to the economic crisis, auditors have taken certain „measures” (both literally and figuratively!), being much more reluctant in issuing audit reports with „clean” opinions. Therefore, most unqualified opinions issued in reports drawn up for the financial year 2008 have been replaced by qualified opinions.



Chart 9 - Split of respondents (auditors) based on their perception about the impact of financial crisis on the weight of adverse opinions and cases of „impossibility” in total audit reports drawn up for 2008 compared to 2012



Source: own projection

Moreover, as we can see above, for 31.12.2008 only 2 respondents admitted that in 10-30% of the cases the audit reports contained either an adverse opinion or they were unable to issue an opinion while for 31.12.2012 there were 11 such cases.

F. Analysis of respondents' perceptions about the impact of IFRS adoption correlated with the impact of financial crisis on audit engagements

Next we aimed to determine the factor that most impacted the audit engagement according to the two groups of respondents: adoption of IFRS or the financial crisis

Table 3 - Perception of respondents about the impact of IFRS adoption correlated with the impact of financial crisis on audit engagements

		Total disagreement (1)	Partial disagreement (2)	Neither agree or disagree (3)	Partial agreement (4)	Total agreement (5)	TOTAL	Average frequency	Standard deviation	Rank
MANAGERS	Impact of IFRS on audit engagement	9	23	23	32	42	129	3,58	1,30	2
	%	6,98%	17,83%	17,83%	24,81%	32,56%	100,00%			
	Impact of crisis on audit engagement	8	18	27	32	44	129	3,67	1,25	1

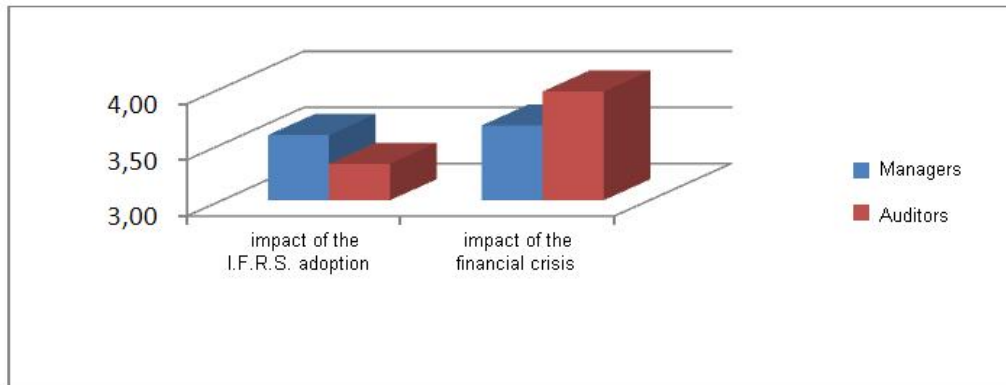


		nts								
		%	6,20%	13,95%	20,93%	24,81%	34,11%	100,00%		
AUDITORS	Impact of IFRS on audit engagements	2	8	105	31	17	163	3,33	0,78	2
	%	1,23%	4,91%	64,42%	19,02%	10,43%	100,00%			
	Impact of crisis on audit engagements	1	3	38	79	42	163	3,97	0,79	1
	%	0,61%	1,84%	23,31%	48,47%	25,77%	100,00%			

Source: own projection

If we were to make a hierarchy of factors that impact most the audit engagements – adoption of IFRS or the financial crisis – based on the table above we note that opinions are not divided. Both managers and auditors consider that *financial crisis had a greater impact on audit engagements than IFRS adoption*, but still an *average impact*, given the value of the average frequency of 3.67, which is considered a neutral opinion (based on the Likert scale). The values for the other factor are close to this value: 3.58, respectively 3.33, with plus or minus deviations between 0.78 and 1.30.

Chart 10 - Top of factors that have an impact on audit engagements – managers vs. financial auditors



Source: own projection



G. Analysis of respondents' perceptions about the impact of financial crisis on the fair presentation of financial statements and on the workload for both preparation and auditing of annual financial statements

Another objective was to determine the most experienced effects of the financial crisis on the fair presentation of financial statements and on the workload for both preparation and auditing of annual financial statements.

Table 4 - Managers' perception about the impact of financial crisis on the fair presentation of financial statements and on the workload for both preparation and auditing of annual financial statements

	<i>Total disagreement (1)</i>	<i>Partial disagreement (2)</i>	<i>Neither agree or disagree (3)</i>	<i>Partial agreement (4)</i>	<i>Total agreement (5)</i>	TOTAL	Average frequency	Standard deviation	Rank
Workload for preparation of financial reports	9	21	39	29	31	129	3,40	1,22	3
%	6,98%	16,28%	30,23%	22,48%	24,03%	100,00%			
Fair presentation of financial statements	2	18	23	43	43	129	3,83	1,09	1
%	1,55%	13,95%	17,83%	33,33%	33,33%	100,00%			
Workload of management during audit engagements	3	20	36	32	38	129	3,64	1,13	2
%	2,33%	15,50%	27,91%	24,81%	29,46%	100,00%			
Workload of audit team	15	29	38	23	24	129	3,09	1,27	4



during audit engage ments									
%	11,63%	22,48%	29,46%	17,83%	18,60 %	100,00%			

Source: own projection

According to managers, the current financial crisis has most influenced the fair presentation of financial statements (average frequency of 3.83) but also the workload of management and financial-accounting department during audit engagements (average frequency of 3.64).

This result confirms once again the previously exposed ideas that managers are generally unhappy that auditors request too many information on the activity to be audited (as shown above). We note that the values obtained for the other effects are similar: 3.40, respectively 3.09, with plus or minus deviations between 1.09 and 1.27.

Table 5 - Auditors' perception about the impact of financial crisis on the fair presentation of financial statements and on the workload for both preparation and auditing of annual financial statements

	Total disagree ment (1)	Partial disagree ment (2)	Neither agree or disagree (3)	Partial agree ment (4)	Total agree ment (5)	TOTAL	Average frequen cy	Standard deviation	Rank
Workload for preparation of financial reports	15	33	79	28	8	163	2,88	0,96	3
%	9,20%	20,25%	48,47%	17,18%	4,91%	100,00%			
Fair presentation of financial statements	6	4	35	76	42	163	3,88	0,95	2
%	3,68%	2,45%	21,47%	46,63%	25,77%	100,00%			
Workload of managemen t during audit engagement s	25	63	49	20	6	163	2,50	1,01	4



%	15,34%	38,65%	30,06%	12,27%	3,68%	100,00%			
Workload of audit team during audit engagements	2	4	24	71	62	163	4,15	0,85	1
%	1,23%	2,45%	14,72%	43,56%	38,04%	100,00%			

Source: own projection

On the other hand, auditors consider that the unstable socio-economic environment especially has had an impact on the workload during audit engagements (average frequency of 4.15), respectively the time allocated to audit engagements increased and they act with greater prudence and thoroughness.

This result can also be correlated with the fact that most opinions issued by auditors are now modified to the detriment of those unqualified, which had a much higher weight in the total reports issued before the crisis (as presented above – questions 9 and 10 – auditors’ questionnaire).

We note a partial disagreement in auditors’ perception about the effect of financial crisis on the workload of management and financial-accounting department during audit engagements (only 2.50).

Table 6 - Perception gaps of managers and auditors about the impact of financial crisis on the fair presentation of financial statements and on the workload for both preparation and auditing of annual financial statements

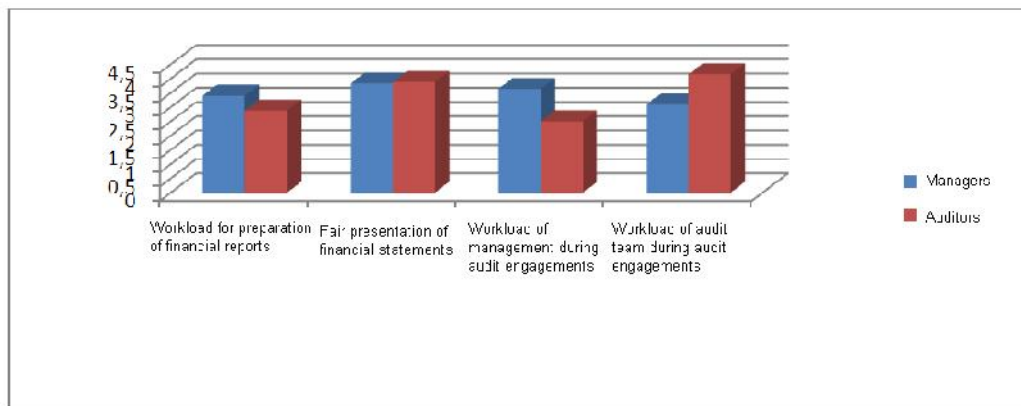
	Managers			Financial Auditors		
	Average Frequency	Standard Deviation	Rank	Average Frequency	Standard Deviation	Rank
Workload for preparation of financial reports	3,40	1,22	3	2,88	0,96	3
Fair presentation of financial statements	3,83	1,09	1	3,88	0,95	2
Workload of management during audit engagements	3,64	1,13	2	2,50	1,01	4
Workload of audit team during audit engagements	3,09	1,27	4	4,15	0,85	1

Source: own projection



The chart below also shows this large gap between perception of auditors and managers about efforts of each of the two groups during audit engagements.

Chart 11 - Top of financial crisis effects on the fair presentation of financial statements and on the workload for both preparation and auditing of annual financial statements



Source: own projection

VI. Interpretation of results and conclusions – assumption validation

The conclusions drawn from the investigation are as following:

C_A: The financial crisis had a significant impact on the *turnover* of audit companies in Romania by reducing it in 2012 (year characterised by the effects of an unstable socio-economic environment) compared to 2008 (before the actual impact of the crisis effects).

C_B: The financial crisis has had an impact on the *average level of audit fees* collected by audit companies, by decreasing them in 2012 compared to 2008. Auditors were under pressure from clients to reduce their fees.

C_C: According to managers, the main difficulty faced during audit engagements in the last 5 years of financial crisis relates to *auditors' request for higher fees*. Also, dissatisfaction is related to the *large volume of information requested by auditors on the activity to be audited*. On the other hand, auditors seem to be dissatisfied with the *requests of audited companies for lower fees*, and they consider that *access to information on the activity to be audited* was not easy.



C_D: According to managers, *the number of unqualified opinions declined significantly from 2008 to 2012, while the number of qualified opinions has grown remarkably.*

C_E: Amid financial crisis, auditors have taken some measures (both literally and figuratively), being *more reluctant to issue audit reports with „clean” opinions*, and the *weight of unqualified opinions decreased significantly*. Therefore, most unqualified opinions in total reports issued for financial year 2008 have been replaced by qualified opinions, and the *number of adverse opinions and cases of impossibility to issue an opinion has slightly increased*.

C_F: Both managers and auditors consider that the *current financial crisis had a greater impact on audit engagements than the adoption of IFRS*.

C_G: According to managers, the current crisis mostly influenced the *fair presentation of financial statements*, but also the *workload of management and financial-accounting department during audit engagements*, while auditors consider that the unstable socio-economic environment has had an impact especially on the *their workload during audit engagements*.

Based on the performed analysis, we noted that indeed ***financial crisis has had an impact on the activity of Romanian financial auditors*** and we can state that **assumption H is validated**.

Most of the study's results are hardly surprising, just confirming the assumption we started from. On the other hand, in our opinion, the article contributes to an increased transparency of the activity of Romanian active financial auditors. We believe that the used statistical instruments, but also the context in which this study was conducted provides credibility to our research and therefore, to the obtained results.

VII. Final conclusions and personal contributions

Our scientific approach started from a question on how external audits and audit reports are and should be regarded in view of the current sensitive socio-economic context. Although the original question seemed simple at first sight, during our research we noted the magnitude of the context, factors, differences and opinions that influence but also result from this activity.

Our research on „*The impact of financial crisis on the financial audit activity in Romania*” took into consideration the more intense concerns in the current economic context for obtaining relevant and „insuring” information on the quality of financial-accounting information provided by various companies' financial statements.



In a world where the concept of globalization tends to become obsolete, where dynamism and complexity of financial operations reached levels that were difficult to anticipate, facing more often in recent years the effects of economic decisions influenced by a number of professional and ethical factors, financial audit, by means of the audit report, can and should become again one of the main pillars that underspin decision-making.

Unfortunately, in recent years, we face a continuous degradation of audit image and consequently of the financial auditors, due to the wave of scandals and bankruptcies of companies and financial institutions, where auditors have contributed more or less. All these have led to intensified efforts of audit professional bodies and regulators for analysing the causes of these phenomena in order to identify and impose a number of measures to restore this lack of credibility that is increasingly stronger in the results of auditors' work.

In our opinion, financial audit progressed and improved in line with the economic development, in response to the challenges of the society. It progressed historically, being present in some form in all periods in terms of concept and especially in terms of goals. Therefore, we believe that auditors and audit companies should not overlook the social importance of financial audit in current days, its position obtained after hundreds of years of efforts and eventually to extend its responsibilities, to seek new methods or procedures compatible with current needs that would support their work.

The idea of this article is that the *value of an audit should be tested permanently against the requirements of users and society. Accounting profession must build a solid case for the benefits that audits bring to business, economy and society.* Audit market is very sensitive, thus accurate perception of stakeholders of auditors' activity is essential.

The debate focused mainly on the fact that the *current crisis was generated not only by corporate blunders, but also by mistakes of governments and their budgetary policies.* In this context, we believe that *statutory audit could play a more active role in consolidating the global economic environment if it would be more involved in the audit of public institutions, including financial and budgetary policies.*

Based on the performed analysis, we noted that indeed the *financial crisis has had an impact on the activity of financial auditors in Romania.* Thus, based on the research performed, we concluded that *audit must evolve and expand in order to add more value for users.* Especially for listed companies and more than ever in times of crisis, audit must be more than an opinion on the historical financial statements. Auditors should be



involved in aspects such as: *corporate governance effectiveness, assumptions underlying the business model of an organisation and its risk management.*

In our opinion, it is necessary for both the profession and the society as a whole to reach a reasonable balance between the degree of responsibility and accountability that an auditor should assume related to the fair presentation of financial statements and audit costs for the society.

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