DOI: https://doi.org/10.53486/cike2023.36
UDC: 657.6:006.44

DEALING WITH KEY AUDIT MATTER ASSERTIONS IN THE CONTEXT OF REPORTING ENGAGEMENTS

ANATOLIE IACHIMOVSCHI
PhD, Assoc. Prof.
Academy of Economic Studies of Moldova,
Chisinau, Republic of Moldova
iachimovschi.anatolie.constantin@ase.md
ORCID ID: 0000-0002-5393-0100

Abstract. The objective of the study is to analyze the professional requirements related to the treatment of assertions regarding the key aspects of the audit in the context of reporting missions. During the audit missions, they must monitor whether the data collection and processing procedures are well established and permanently applied. The idea that it is the duty of the auditor to detect violations of the legislation is unanimously shared. At the same time, the auditor cannot be expected to report issues that do not belong to his competence. Mistakes in financial statements can be committed not only because of non-compliance with the principles of accounting standards, but also for other reasons explained in the article. In order to discover the errors and frauds listed above, the procedures recommended by the International Auditing Standards and those proposed in this paper can be extended.
Presentations or disclosures made by an entity's management through financial reports are treated in various ways, which are not limited to the accuracy with which accounting information is processed. Affirming that the information in the financial statements is presented in accordance with the provisions of the accounting and financial reporting framework respectively, it can be concluded that the management, implicitly or explicitly, assumes responsibility for the recognition, evaluation, quantification, presentation and disclosure of the various elements in the statement financial statements and related explanatory notes.
In practice, all cases of incorrect financial reporting a serious problem for accountants who want to properly apply accounting provisions, but it is also a challenge for independent auditors. The objective of an audit mission is to provide an assurance that the financial position and financial performance are adequately presented in the financial statements taking into account the provisions of the financial reporting standards. It is important that when starting the audit, the auditor will first of all obtain a sufficient understanding of the terms and conditions of the engagement.

Keywords: financial statements, international auditing standards, key aspects of the audit, policy monitoring, reporting missions.

JEL Classification: M42

Introduction

From the point of view of both external and external users of the financial statements, but at the same time taking into account the expectations of investors, thus correlating the accounting aspect with the financial one, it is now necessary to expose ourselves regarding the applicative nature of the audit standards.

The auditing of financial statements and related services can only be carried out by experienced accounting specialists. This is also reflected in the Statements issued by the International Auditing and Assurance Standards Board. All the more so as the objective of an audit mission consists in expressing the opinion regarding the authenticity of the financial position and financial performance of the entity reported in the financial statements.

ISA 200 "General objectives of the independent auditor and the conduct of an audit in accordance with International Standards on Auditing" notes that the auditor does not aim to establish the authenticity of the financial statements, but gives his independent opinion on the authenticity or fairness of the financial statements, that is, whether the financial reporting is based on the requirements of the legislative and regulatory accounting framework. [2, par. (3)].

To express the opinion, ISA 700 (Revised) „Formulating an opinion and reporting on the financial statements" recommends the auditor to use the following expressions: „the financial statements present fairly, in all material respects" or „the financial statements give a true and fair view , which are equivalent [3, par. (7)].

And in order to test the veracity and completeness of the financial information, the auditor undertakes the responsibility to investigate various sources of information and accumulate the necessary evidence to find the answers regarding:

- The correctness of the data regarding the value of the patrimonial elements reported in the balance sheet;

- The accuracy of the data regarding the entity's financial performance (profit or loss) presented in the profit and loss statement;

- The amounts of dividends calculated to the shareholders and founders of the entity;

- The real value of the receivables and the actual repayment possibilities in the near future;

- The reality of the reported financial debts and their certainty in the absence of other debts not reported in the balance sheet;

- Assessing the probability of the entity's bankruptcy.

Based on these answers, the users of the audit report, being more confident in the authenticity and truthfulness of the information in the financial statements, are more firm when they rely on this reporting in the process of taking the attitude of making some purchases, investments, or offering loans, to assign some debts.

Errors committed when preparing financial reports can be not only due to non-compliance with the regulations of the accounting framework, non-compliance with the principles of accounting standards, but some mistakes can also be made for other reasons. Misstatements committed in accounting, according to ISA 240, can occur for the following reasons [4, par. (12)]:

- Manipulation of registrations and registrations in accounting, falsification of documents;

- Carrying out transactions of illegal use of the entity's property;

- Loss, scrapping and destruction of accounting records and analytical records;

- Accounting in the absence of supporting documents of fictitious operations and facts;

- Non-compliance with the provisions of the accounting policies when keeping the accounts and drawing up the financial statements;

- Intentionally committing mathematical mistakes in supporting documents, accounting registers and other accounting data record documents;

- Distorting the economic content of operations and transactions by drawing up the wrong accounting formulas.

In order to test the errors and frauds stated above, the audit works stipulated by the International Auditing Standards and those proposed by specialists in the field can be detailed. For example, we believe that procedures for uncovering errors and fraud committed in the process of preparing financial statements are necessary for the accumulation of audit evidence, such as:

- Carrying out inventory works of the entity's patrimonial elements;

- Examining the financial indicators and performing a dynamic analysis of the data from the financial statements;

- Remaking the trial balance and testing the accounting records;

- Mathematical verification of the accuracy of the totals in the accounting registers;

- Reconciliation of the indicators from the trial balance with the data from the financial statements.

When the management of the audited entity declares that the financial statements report the real situation, taking into account certain requirements of the accounting regulatory framework, in this way the management presents with responsibility explicit or implicit statements regarding the financial position and the financial performances exposed in these statements.

Results obtained and discussion

The purpose of reporting the financial position as well as the financial performance is to satisfy the needs of internal and external users who do not have the possibility to ask an entity to prepare and present reports according to their informational needs. By meeting the needs in financial information is meant the presentation and publication of financial statements accessible to third parties, including real and potential financiers and founders regarding the entity's financial performance, resources, equity and economic liabilities of the entity.

Therefore, it is essential that in the confirmation letter drawn up by the management of the audited entity and presented to the auditor, it should be emphasized that this letter is part of the audit mission file and serves as a basis for expressing an opinion on the true and complex picture of the reported financial statements.

By means of this letter, the management representatives of the audited entity declare knowingly and also in good faith, that they have made available to the auditor all the information necessary to accumulate sufficient audit evidence. At the same time, through this communication it is confirmed that there are no irregularities in the functioning of the accounting and internal control system, likely to have a significant impact on the authenticity of the information reported through the financial statements.

In the context of this communication, it is fundamental to declare that all accounting information, all related supporting documentation and all minutes of general meetings, of the board of directors, respectively those held by the entity, have been made available to the auditor.

Table 1. Categories and forms of presentations in financial statements

Categories	*Types*	*Content*
Presentation of information by categories of transactions and events	*Appearance*	The operations and transactions accounted for were carried out by the entity in reality
	Fullness and integrity	All transactions and events that actually happened have been accounted
	Accuracy	The value expression of the transactions and events realized during the reporting period are accurately accounted
	Closing date	The reporting period of transactions and events is correct
	Systematization	Information about transactions and events is correctly reflected in the appropriate accounting accounts
Information on account balances at the end of the period	*Existence*	All existing assets, liabilities and equity items reported in the financial statements exist
	Claims and liabilities	The assets and liabilities owned by the entity are controlled by it
	Fullness and integrity	All patrimonial elements that had to be accounted for were reported
	Evaluation and allocation	The value expression of the asset and liability elements reported in the financial statements expresses their real value
Presentation and disclosure of financial information	*Recognition of assets, receivables and liabilities*	The transactions and events reported actually occurred
	Completeness	All information regarding financial position and performance has been reported
	Systematization and degree of understanding	The necessary information has been properly disclosed in the explanatory notes to the financial statements
	Accuracy and evaluation	All reported information has been presented appropriately

Source: developed by the author based on the professional normative framework [5, IAASB Handbook]

During the audit missions, they must monitor whether the data collection and systematization works are well established and applied regularly. The idea that it is the duty of the auditor to detect violations of the legislation is unanimously shared. At the same time, the auditor cannot be expected to report issues that do not belong to his competence. Auditors must provide assurance that the financial statements reflect the effect of fraud and that all necessary details are disclosed.

Each stage of the audit mission of the financial statements involves the performance of several categories of work, all with the role of allowing the audit team to obtain the evidence needed to formulate the audit opinion.

Recognition is the process of incorporating in the balance sheet or in the profit and loss statement an element that:

• Corresponds to the definition given to a structure of financial statements (assets, liabilities, equity, income and expenses);

• It is probable that any associated future economic benefits will flow into or flow into or out of the entity;

• The item has a cost or value that can be reliably assessed.

The statement of the management of the audited entity regarding the occurrence of transactions and events that have been recorded in the accounting is a confirmation that they actually occurred. The management of the entity declares that the transactions and events that were recorded in the accounting took place, occurred in reality and are related to the respective entity, nothing was recorded in addition, no overvaluations were allowed. This allows the auditor to ensure the completeness and value of the accounts. Therefore, it is recommended to reconcile the circulations from the trial balance with those presented in the accounting books. The proper preparation of the accounting registers is appreciated.

Completeness is a criterion applied in the audit for the accumulation of evidence attesting that all transactions and events that should have been recorded have been recorded. The management of the entity affirms that all transactions and events have been recorded, that there are no omissions or understatements. It is recommended to use the sampling procedure in order to obtain audit evidence regarding the accounting treatment applied by the entity regarding the accounting during the financial reporting year. For accounts with significant variations, it is proposed to request and receive explanations from the management of the audited entity.

The auditor also verifies the accuracy of the values and other data regarding the transactions and events accounted for if they have been properly recorded. By means of this statement it is declared that the transactions and operations have been properly evaluated and recorded with due care. The auditor must obtain due assurance regarding the accuracy and valuation of the accounts, as well as the fact that they are not materially misstated. For this purpose, it is recommended to apply audit procedures such as: interviewing and observation.

Also, the entity declares that the transactions and operations or events were recorded in the correct accounting period, in compliance with the requirements of an "accrual accounting" and in compliance with the "principle of financial independence". It is recommended to follow the recording of the amounts in accounting from the point of view of the period of the transaction and the nature of the transaction.

In practice, there are cases when, during the checks carried out, invoices registered in January of the following year are identified, but the products were delivered to the client in December of the financial reporting year. Taking into account the provisions of the independence of the exercises, the auditor in this case will propose adjustments to the audited entity in order to properly correct the records of the revenues for the period to which they refer.

Based on the statement regarding the classification of transactions and events for their correct accounting, the management of the entity declares that the transactions and operations have been recorded or imputed in appropriate account groups: fixed assets; Current assets; current liabilities, long-term liabilities.

At the same time, the auditor is concerned with collecting evidence that confirms that the management of the entity is responsible for all elements of assets, liabilities and equity to be accounted for in the accounting accounts that existed at the balance sheet date. For example, it is checked that the stocks of goods and the quantities documented in the fiscal invoice correspond to those in the shipping documents, while at the same time it is followed that the goods have reached the buyer by examining the receipt signature. The non-conformities identified by the auditor are reflected in the work documentation in the mission file. It is recommended, based on audit selections and tests, that the auditor ensures that the prices documented in the invoices are the same as those in the accounting books.

Managers state that the entity reviews the future economic benefits of the assets and that the reported liabilities are treated as current liabilities of the entity. All reported assets represent rights of the entity at the reporting date, while they are controlled by the entity based on a right of ownership or a right of claim. Financial reporting assumes that all liabilities belong to the entity and are not the responsibility of shareholders, managers, affiliated entities, etc. It is recommended that the auditor test this information and discuss with the entity's representatives matters related to significant changes compared to the previous year and examine the authenticity and validity of the contracts based on a sample of transactions with the entity's debtors and creditors.

The management of the audited entity declares through the financial statements that the information related to the balances of the accounting accounts has been correctly calculated, taking into account the adjustments related to depreciated or devalued elements. The systematization of data and their reflection in the accounts is recommended to be tested by the auditor depending on the economic content of the transactions and the legal form of the patrimonial elements. For example, testing the correctness of revenue accounting for the period it refers to provides evidence that ensures the accuracy and value of the financial results presented in the Profit and Loss Statement.

By observing and interviewing the entity's representatives, the auditor will ensure the value and accuracy of the accounts. Based on the accounting register, samples of transactions will be selected for which the supporting documentation will be checked.

The presentation and description of information in the financial statements refers to their form and content, including additional information in the explanatory notes. The statements or affirmations made by the management through the financial statements are grouped in different ways, in the following we limit ourselves to presenting their structure according to the following types:

- Presentations of information relating to material misstatement for classes or groups of transactions;

- Extracts of information from accounting accounts that are correlated with the balances and presentations in the financial statements;

- Management statements regarding the description and presentation of the entity's financial position and performance.

By declaring that the financial statements of an entity are in accordance with the provisions of the accounting framework for the presentation of financial statements, the management of this entity implicitly or explicitly records the correctness of the application of the requirements regarding the accounting, evaluation, presentation and disclosure of the various patrimonial elements in the financial statements.

Conclusions

In conclusion, it can be stated that the auditors must test the points of view of the management regarding the statements presented in the financial statements. Management's responsibility is continuous, while the auditor's opinion is based on a situation established at a given point in time. The public expects the possibility of fraud to be minimized. Therefore, the management of the entity must take measures to organize and maintain the accounting and internal control systems that reduce the chances of erroneous reporting of the financial position and performance.

In practice, all cases of incorrect financial reporting a serious problem for accountants who want to properly apply accounting provisions, but it is also a challenge for independent auditors. The objective of an audit mission is to provide an assurance that the financial position and financial performance are adequately presented in the financial statements. When starting the audit, the auditor will first of all obtain a sufficient understanding of the terms and conditions of the engagement.

It is also necessary to emphasize that audit missions are a useful and important source in order to develop, review and implement strategies that have an important role for the existence of the entity in its competitive environment, and to help it achieve its established objectives. In this sense, it is recommended to apply procedures and sources of information specific to the field of financial audit that refer to:

• Studying the client's business environment by identifying the necessary changes in approaching the audit mission through the prism of economic crisis conditions;
• Sufficient and adequate nature of the audit evidence in the collection and analysis of data applied to the substantiation of the audit opinion;
• Application of cloud computing technology to minimize costs and streamline processes in carrying out audit missions;
• Assessing financial and operational risks and examining the probability of bankruptcy, taking into account uncertain trade receivables.

In the process of testing disputes and complaints from third parties in which the entity is involved and which implicitly may generate a risk of significant distortion, it is proposed to apply the following procedures:

- Questioning the management and other employees within the entity, including the lawyer;

- Studying the minutes drawn up during the meetings of the governing councils, as well as the correspondence between the entity and its lawyer;

- Analysis of legal expenses accounted for by the entity during the reporting period.

Intentionally committing fraud, irregularities and errors, as well as illegal acts related to the incorrect application of accounting treatment can have the following consequences: an erroneous reflection of transactions in the financial statements for the wrong period and their incorrect recording in accounting. Given the periodic nature of the presentation of information in financial statements, even simple errors in the accounting of transactions can be of particular importance, despite the fact that these omissions can be compensated in the next reporting period.

REFERENCES:

1. Law on the audit of financial statements no. 271 of 15.12.2017 [online]. [Accessed on 10 September 2023]. Available on: https://www.legis.md/cautare/getResults?doc_id=110387&lang=ro
2. ISA 200 „General objectives of the independent auditor and conducting an audit in accordance with International Standards on Auditing" [online]. [Accessed on 10 September 2023]. Available on: https://www.ifac.org/
3. ISA 700 (Revised) „Formulating an opinion and reporting on the financial statements" [Accessed on 10 September 2023]. Available on: https://www.ifac.org/
4. ISA 240 „Auditor's responsibilities regarding fraud in an audit of financial statements" [Accessed on 10 September 2023]. Available on: https://www.ifac.org/
5. Handbook of International Auditing, Assurance and Ethics Regulations [online]. [Accessed on 10 September 2023]. Available on: https://mf.gov.md/ro/content/standarde-interna%C8%9Bionale-de-audit-emise-de-ifac-%C3%AEn-anul-2018-recep%C8%9Bionate-de-ministerul