

Audit Report and the Transparency of Credit Institutions from Romania

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Abstract. The purpose of this research is to analyze the transparency for Credit Institutions from Romania. The research methodology was both quantitative and qualitative. To achieve the research we reviewed the Audit Reports for the period 2008-2011 on financial statements prepared in accordance with International Financial Reporting Standards and with national regulations.

Through the research conducted we found that 77% of Credit Institutions from Romania have not issued the Audit Reports on financial statements prepared in accordance with local regulations. Also 47% of Credit Institutions from Romania have not issued the Audit Reports of Financial Statements prepared in accordance with International Standards on Financial Reporting information.

We also through the research conducted we analyzed the types of audit reports issued by Credit Institutions from Romania. From those who have published the audit reports, most of them were clean, some of them were published the Audit Report with paragraph and only two banks have a qualified opinion one bank in 2008 and the other in 2010.

A number of Credit Institutions from Romania are listed on the Bucharest Stock Exchange were higher disclosure requirements of accounting

The research was conducted by relying on information published by Credit Institutions registered in Romania on organizations' web sites in July 2012.

Keywords: Transparency, Type of Audit Reports, Credit Institution, Issues

1. Introduction

In this research we analyzed the annual Audit Reports made to Credit Institutions, which are registered by the National Bank of Romania for the years 2008, 2009, 2010, 2011 and what were the reasons to issue a qualified opinion.

Under the general framework of International Financial Reporting Standards issued by the International Accounting Standards Board the users of financial statements are current and potential investors, employees, customers, creditors, suppliers, and other commercial lenders, state and public institutions. (International Financial Reporting Standards, 2011).

International Standard on Auditing ISA 700 "The Auditor's Report" Audit Report confirming whether the financial statements give a true and fair presentation address either the shareholders or board (ISA 700, 2012)

Users to take better decisions should have access to the Financial Statements of these banks. Although most of the time the Audit Report is addressed only to the bank shareholders or management there are multiple users interested in the financial statements and default Audit Opinion that provide reasonable assurance on the financial statements.

Why some banks have issued reports for all or part of the 4 years analyzed? The answer may be because the Audit Opinion on the financial statement was qualified. Companies from our sample had to publish financial statements according to the national regulation and to the International Financial Reporting Standards.

2. Research Methodology

According to National Bank of Romania in 2012 are 30 registered Credit Institution with headquarters in in our country. To achieve the research, we used quantitative methods to determine the percentage and types of entities that have issued Audit Reports. Also we made a qualitative research, by analyzing the Audit Reports in terms of compliance with the International Standards on Auditing.

3. Audit Report. Transparency and Audit Opinions

We found that all banks which have issued Audit Reports on organizations' websites have been audited by one of the "BIG 4" audit companies.

Audit reports are made according to International Auditing Standards approved by the Chamber of Financial Auditors of Romania.

To distinguish between a report by an independent auditor and a management or internal auditors of the bank can be used in the title the term "independent auditor". All Audit Reports to Credit Institutions surveyed were entitled "Independent Auditor's Report"

By issuing the Audit Opinion and auditor obtains reasonable assurance that financial statements are free of material misstatement.

Following research conducted we found that some banks from Romania have not a consistency in publishing Audit Reports: some Audit Report were published in Romanian language and others in English language, or for some years Audit Reports published only quarterly or interim accounting revisions without further public and annual Audit Reports. In some years there were published financial statements without the Auditor's Opinion on the financial statements.

Whenever the Audit Report is published by the audited company is obliged to publish in full or specify that it is only part of the Audit Report.

Publication of Audit Reports of Financial Statements according to National Regulation of Credit Institutions registered in Romania in the period 2008-2011 is as follows:

- - 77% not published their Annual Audit Reports
- - 13% have published only a part of Annual Audit Reports
- - 10% publishing their Annual Audit Report.

Publication of Audit Reports on financial statements under International Financial Reporting Standards of Credit Institutions registered in Romania in the period 2008-2011 is as follows:

- - 47% have published their Annual Audit Reports
- - 33% have published only part of the Annual Audit Report
- - And 20% have published the Annual Audit Report

We see that the percentage of the Audit Reports published is very small. Also note that banks are giving less importance to Romanian Regulatory Reporting.

More transparent reporting requirements will reduce earnings management in the area of increased transparency of change the focus of earnings management to less visible methods.

“Transparency must be understood from the viewpoint of the user of financial information, not the provider.... From a user perspective, financial transparency involves at least eight related concepts: Accuracy...,Consistency..., Appropriateness..., Completeness..., Clarity..., Timeliness..., Convenience..., Governance and enforcement....” (Kulzick, Raymond S., 2004)

4. Types of Audit Reports Found

4.1. Audit Reports Unchanged

“**Clean opinion**” If financial statements are prepared in all material respects in accordance with financial reporting framework the auditor issued an unqualified Audit Opinion.

Audit Opinion should not be regarded as a guarantee of future viability of the Credit Institution or the efficiency with which business was conducted. The auditor should recognize that there are factors that can distort financial statements. The auditor is concerned only about those risks that may affect the financial statements. The fact that reasonable auditor certification is allowed and that opinion may be inappropriate when financial statements are materially misstated, it is known as audit risk.

"Large clients create an economic dependence that may cause auditors to compromised their independence and report favorably to retain valuable clients" (J.Kenneth Reynolds, Jere R Francis, 2000).

By the research conducted we found that 7 banks of 30 have issued only clean Audit Opinions report according to local regulations from 2008-2011. Regarding the Audit Reports prepared in accordance with International Financial Reporting Standards, only 14 banks of 30 have published clean opinions in the period studied.

Most of the times the audited company are willing to accept adjustments auditors to express an opinion without reserve.

Before analyzing the Audit Opinion should be considered in issuing the Auditor's Opinion influence. "On the one hand, the audit firm faces the risk of losing the client if it issues qualify opinion, and on the other hand, failing to qualify the opinion exposes the auditor to lawsuits and reputation loss." (Jagan Krishnan, Jayanthi Krishnan, 1996)

4.2. The Audit Reports Changed

Any report containing an opinion which is not without reserve, must present the reasons that led to such a view unless it is not possible and also must makes reference to the note book which contains more information

Audit Report with paragraph. The paragraph shall not affect the Auditor's Opinion. This is acknowledged in the Audit Report and by reference to the note that has more information. Most times it is included after the Audit Opinion. When report is with the paragraph or is qualified, should be presented the reasons that led to this opinion.

Three banks of 30 companies analyzed had Audit Reports with paragraph in the financial reporting according to local regulations. On reporting in accordance with International Financial Reporting Standards three companies had Audit Reports with paragraph

In research conducted we found that within the Audit Reports were included paragraphs for

- - presentation of Audit Reports' users
- - Compliance Report to administrator accounts. This Paragraph is governed by law
- - highlighting the transition from financial reporting according to local regulations Auditing Standards adopted by the European Union in 2011
- - accounting estimates used by management in principle to establish provisions, the financial statements
- - warning on information within the financial statements of these
- - accounting principles used by management in preparing the financial statements

Qualified/Contrary Opinion. The qualified opinion it usually occurs before the opinion paragraph. This reserve affect the Audit Opinion. When the effect of contrary opinion is not very significant auditor issues a qualified opinion. If limiting the expression of opinion or a qualified opinion auditor must indicate that adjustments could be made by the bank to no longer exist the limitation/qualified opinion.

Following the research conducted we have found 2 banks that Audit Reports were qualified opinion of the 30 banks surveyed. Reasons of qualification opinion were failure on the notes to the financial statement of information and achieve inappropriate estimates, both having a significant impact on the financial statements. .

"Firms that do not switch auditors seem to receive improved opinions in the year following and the swich" (Jagan Krishnan, 1994)

Most banks have not changed auditors during the 4 years analyzed and of those who have changed only for a bank auditors had a qualified opinion.

Failure/limitation of Audit Opinion. The limitation is when the auditor is unable to obtain sufficient appropriate audit evidence and the effect of such distortions can be significant. Also the limitation is when financial records are inadequate and the auditor can not applied audit tests or alternative procedures. This limitation / impossibility affect the Audit Opinion. If the limitation is imposed by a contract auditor will refuse the engagement will be accepted only if required by law. Within the research conducted, Audit Reports not found to be in a disclaimer of opinion

5. Conclusions

Financial Audit is constantly adapted to market requirements. It is very important that the adaptation to market requirements do not affect the auditor's independence.

Users of financial statements should have minimum knowledge about banking, to understand Audit Reports of the Financial Statements. Auditors are examining whether the financial statements give a true and fair view of the bank.

The management can ignore the importance of transparency of Audit Reports and therefore may be very few published Audit Reports.

The transparency of the publication of Audit Reports is quite low in Romania. Only 10% of Audit Reports were issued for all year according to local regulations. 20% of Audit Reports were issued for all year according to International Financial Reporting Standard. Most banks that have issued Audit Reports are presented fairly the financial statements. The publication of financial statements could cause users of the financial statement to make the right decisions at the right time.

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