

The Accounting Audit – a practical approach. Response to objections

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Abstract: *The audit report containing the conclusions and the analysis of the accounting professional is submitted as evidence at least 10 days prior to the hearing date. The parties of the case study the paper elaborated by an accounting expert based on the goals determined and approved by the court and, according to art. 336 of the Civil Procedure Code if additional clarifications are necessary or the audit report must be completed, the expert may be required to do so or the court can be seized ex officio for the next hearing date for additional clarifications or to complete it. This paper approaches the circumstances of objections to the audit made in case no. 1288/22/2015 at the Brasov Court of Law. Referring to the objections of the parties, the response of the auditor is structured according to the content of the audit report, namely: Chapter I. Introduction, Chapter II. Description of the analysis made and Chapter III. Conclusions.*

Key-words: *audit, accounting professional, evidence, quality of the accounting services, standards*

1. Introduction

As evidence in justice, audits can be ordered ex officio or accepted at the request of the parties of the legal proceedings. Activities of special importance in the field of the financial – accounting services, they involve the transmission of economic financial information if, for the clarification of pending cases, the courts of law consider the opinion of the accounting specialist proper and necessary (Florea et al., 2008).

Drafting the audit requires the following methodology: examining the documentation enclosed to the case file, examining other documents with other parties or with third parties related to the case, the on-site audit, analysis of the parties' explanations, the analysis of the financial control documents and the accounting audit performed in advance in the same case, studying the conclusions of the technical survey, as applicable.

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In the case of accounting services, quality is an important factor. Clients want to have confidence in the company's ability to provide the required quality and to maintain this quality (Neacşu, 2015).

Each phase is coordinated by the accounting professional so as to design the audit report in the classical architecture. The examination of the documentation in the case file takes place in court or at the registered office of another beneficiary of the audit. If the documentation must be completed, the auditor files a written petition to the parties as it is necessary to extend the examination to other documents, technical – operating evidences and accounting documents as well.

The elaboration of the audit starts with the obligation of the auditor to summon the parties on the date, place and time where the activity shall be performed on site or where additional explanations are necessary. The summons shall be sent by registered letter with declared content and acknowledgement of receipt taking into account that, subject to being null and void, it must be informed to the party at least 5 days before the activity execution deadline, according to the Civil Procedure Code, art. 335. The acknowledgement of receipt of the summons must be enclosed to the audit report (Civil procedure code 2017).

The study for the elaboration of the activity is the result of the professional judgment, of the gathered knowledge, of the connections made during the control and examination of the documents and information submitted by the parties. The information must be synthetically presented and must be highly relevant to the users (Negescu, 2012), appealing to methods and techniques of economic – financial analysis that can provide data comparison. The same register regarding data quality and true view is reflected overseas in the SOX Standard legislation which, by established regulations, contributes to the increase of public trust in accounting reports and rules out the „creative accounting” practices. The latter refers to various actions taken in order to bewilder, hide and embellish the economic and financial reality of the companies throughout fraudulent Accounting Reports (Drumea, 2008).

As a balanced person, the accounting professional presents the problems finely, accurately and in a talented manner (Cernuşca, 2012) in a form that respects the requirements of the *Professional Standard no. 35-Accounting expertise*.

As a form of scientific research, the accounting audit contributes to the explanation of certain economic phenomena and transactions and their impact on the economic field of the entity. For the accuracy of the presentation, the rigorous reflection of the operations reality, the accounting services are appreciated as evidences in solving cases requiring specialty knowledge. Thus, accounting with its multiple faces, science and technique, art or social game (Cernuşca, 2012), contributes to determining the truth through the opinion of the specialists in the field and the quality of the accounting process. It is the result of using procedures, methods, work techniques as well as competent manpower that transmits trustworthy information to the users (Baba, 2011). Financial credibility is given by

the accuracy of the information documents submitted by professional accountants and auditors (Lapteş and Sofian, 2015).

The audit report, drafted in an argued manner, is intended to clarify the cases filed by the parties and approved by the court of law. In certain circumstances, the court may request ex officio or upon the request of the parties, additional clarifications on certain objectives or an additional report. For this phase the accounting professional drafts a report called “*Answer to the objections filed against the audit*”, whose form must respect the stipulations of the Professional Standard no. 35 – Accounting expertise. Therefore, the structure has three chapters: Chapter I. Introduction, Chapter II. Description of the analysis made and chapter III. Conclusions.

This work shows the practical situation of filing answers to the objections against the audit in the case pending before the Braşov Court of Law under number 1288/22/2015.

The size of the role and of the importance of the accounting audit has an impact on the legal civil and criminal proceedings, starting from the responsibility of the state and, especially of the judicial authorities that control or should control the judicial process. The impact of the way of making an audit may have repercussions on the fairness of the trail and may entail the responsibility of the state in the international courts (ECHR).

The accounting expert appointed by the court is the authorized person to draw conclusions on the grounds of the data of the case file that should represent the base of the legal judgments. The paper which is personally elaborated by the expert, as it is conclusive and intelligible, a result of the specialty skills, represents a source of information to a fair decision in court (Audit guide, 2010).

2. Methodology

The work synthesizes a practical approach on the answer to the objections filed against the audit in the case no. 1288/22/2015 at the Brasov Court of Law. The object of the case is „*action for contract liability-tort*”, and the parties are SC INTERVAL SRL- as claimant and SC CONSTANT SRL – as defendant. To consider a verdict in this case, the court ordered the audit against which the claimant filed the following **OBJECTION**:

The expert was to complete the answer to goal 1 of the audit, namely to specify if the VAT of 3658,07 lei of the invoice 650/12.04.2014 lead to the increase of the payment obligations to the budget, to their decrease or it did not cause any effects as it “was recovered”.

The applied work methodology required the following steps:

- ✓ *The analysis of the primary documents provided by the company INTERVAL SRL, as far as merits, form or content issues are concerned;*

- ✓ *Checking the organization of the accounting of the inflow of goods and services at INTERVAL SRL, from August 2013 until April 2014;*
- ✓ *Checking the organization of the accounting of the outflow of goods / delivery of goods and execution of services at INTERVAL SRL from August 2013 until April 2014;*
- ✓ *Checking the registration in the accounting of INTERVAL SRL of the supporting documents indicated by the objection requirement;*
- ✓ *Analyzing and checking the accounting registers, forms and documents of SC INTERVAL SRL, from August 2013 until April 2014;*
- ✓ *Chronologically checking the operations of the accounting records in the accounting of INTERVAL SRL, from August 2013 until April 2014;*
- ✓ *Centralized presentation of the results for the same period.*

3. Research results

Related to the records of the value added tax operations, art. 156 of *Law no. 571/2003 on the tax code* (applicable at that time), stipulates that “**(1)** the taxable persons resident in Romania must keep correct and complete records of all the operations made while doing business and **(2)** the entities liable to pay the tax for any operation or identified as entity registered for VAT purposes, [...], for any operations, **must keep the records of all operations regulated by this title**”, **which the company INTERVAL SRL did.**

Therefore, we describe below, *from the forms and registers used to process, centralize and register in the accounting records the financial – accounting operations certified by the primary documents, according to the Accounting Law no. 82/1991, republished and updated, 2014, also considering the particularities of the records organized at INTERVAL SRL, which is a priority for the VAT statement:*

- ✓ **VAT journals** – purchases journal and sales journal – that enable the operations for VAT purposes;
- ✓ **Declaration 300** – VAT tax return;
- ✓ **Declaration 394** – Information declaration on the deliveries / execution of services and purchases on the national territory, drafted by INTERVAL SRL for April 2014;
- ✓ **Accounting journal** includes the chronological registration of all the economic – financial operations in a month. At the end of each month the balance of the accounting journal is reported in the trial balance, the total rollover from the accounting journal must be equal to the total rollover from the trial balance;
- ✓ **Trial balance** – the accounting document used to check the accuracy of the accounting records and to control the concordance between the synthetic and the analytical accounting, as this is the main instrument on the grounds of which financial statements are drafted.

The journals for the sales and purchases, the registers, the records and other similar documents of the economic activity of *INTERVAL SRL* were drafted so as to enable the determination of the following elements:

* *the total value – tax excluded – of all the deliveries of goods and/or of the execution of services made by the taxable entity in each fiscal period, distinctly highlighted for:*

- Intra-community deliveries of exempted goods;
- Tax-exempted deliveries/execution of services or for which the place of delivery / execution is outside Romanian borders;
- Taxable deliveries of goods/ execution of services to which various quotas of tax are applied;
- The services executed according to art. 133 paragraph (2) of the Tax Code for the beneficiaries – taxable entities resident in the Community, referred to as intra-community services execution, for which the place is outside the Romanian borders.

* *The total value – tax excluded – of all the purchases in each fiscal period, distinctly highlighted for:*

- Intra-community purchase of goods;
- Purchase of goods/ services for which the taxable entity must pay the tax according to the art. 150 paragraph (3)-(6) of the Tax Code;
- Purchase of taxable goods, including from import and services to which different tax quotas are applied;
- Purchase of services for which the taxable entity must pay the tax according to art. 150 paragraph (2) of the Tax Code which are executed by taxable entities resident in the Community, referred to as intra-community purchase of services.

* The tax collected by the taxable person for each fiscal period;

* The total deductible tax and the deducted for each fiscal period.

There is no doubt that the company *INTERVAL SRL*, by issuing the invoice no. 650/12.04.2014 triggered the maturity date of the tax that, according to art. 134, paragraphs 2 and 3 of Law no. 571/2003 on the tax code “(2) represents the date when the **fiscal authority is entitled**, on the grounds of the law, **to request the payment by the entities subject to the tax payment** .., and (3) **The maturity date of the payment of the tax** represents **the date when an entity must pay the tax to the state budget**, according to the stipulations of art. 157 paragraph (1). This date also determines the time when delay penalties are due to the payment failure.

Of course **the generating fact** by which the necessary legal conditions for the **tax maturity date** according to art. 134¹, paragraph 7, in the economic activity of the company above are complied with “(7) execution of services determining successive settlement or payments, such as the **construction – assembly services**, consultancy, research, audit and other similar services ...”, is represented by the date of issue of the work list, activity reports, **other similar documents on the grounds of which the**

executed services are determined..., namely the date of issue of the invoice 650/12.04.2014 to the company CONSTANT SRL, **thus determining the obligation to pay the VAT of the invoice.**

The performed analysis outlines the information presented in the following order.

- According to the accounting journal of April 2014, for the invoice 650/12.04.2014 we determined and registered the value of the collected VAT of 3658,06 lei.
- According to the Journal of sales *for the month of April 2014* the total value of the (collected) VAT of the outgoing items is of 8485,16 lei, **amount that also includes the VAT for the invoice 650/12.04.2014, namely 3658.06 lei.**
- The journal of purchases April 2014 outlines the total value of the (deductible) VAT pertaining to the inflow entries of 4.811 lei.
- The information provided by the trial balance drafted for April 2014 certifies that, after the VAT adjustment operations, the registered **payable VAT value was of 3674, 17 lei**, as a result of the difference between the collected VAT (8.485,16 lei) and the deductible VAT (4.810,99 lei).
- From the **previous period** the same trial balance registers the 1.359 lei representing VAT to recover for which no reimbursement was requested.
- Between the amount of 3.674, 17 lei of the payable VAT for April 2014 and the one of a 1.359 lei, representing VAT to recover from the previous period, a set off operation was performed leading to 2.314,57 lei payable VAT in April 2014.
- The trial balance, the Declaration 300 – *Value added tax return* and the statement of account attest that **for the commercial activities performed in April 2014 SC INTERVAL SRL paid the VAT of 2315 lei.**

According to the provided explanations it comes out that **SC INTERVAL SRL** collected VAT of 3.658,06 lei for the executed work **which determined the increase of the collected VAT** in April 2014 and, naturally, of the payment obligation to the state budget of **2.315 lei** for the same month (April 2014), **the payment was accordingly made on 24.05.2014 and it is confirmed by the statement of account of INTERVAL SRL, issued by Raiffeisen Bank SA.**

Certainly the amount of 3658,06 lei representing collected VAT by the invoice 650/12.04.2014 **lead to the increase of the payment obligations to the state budget**, which can be seen from the in Declaration 300- *VAT tax return*, **amount properly paid to the state budget on 24.05.2014 and highlighted by the statement of account of INTERVAL SRL, issued by Raiffeisen Bank SA.**

4. Conclusions

Synthesizing the provided explanations, we notice that **SC INTERVAL SRL** collected VAT of 3.658,06 lei for the executed work, value that **led to the increase**

of the collected VAT and, implicitly, of the payment obligation to the state budget for April 2014, amount properly paid to the state budget on 24.05.2014 and highlighted by the statement of account of INTERVAL SRL, issued by Raiffeisen Bank. In a table the situation is the following:

No.	Indicators	Value
1	Collected VAT pertaining to the invoice no. 616/12.04.2012	3658,06 lei
2	Total (collected) VAT pertaining to the outflow in April 2012	8485,16 lei
3	Total (deductible) VAT pertaining to the entries of April 2012	4810.99 lei
4	Total payable VAT in April 2012	3674,17 lei
5	TVAT to recover from the previous period for which no reimbursement was requested	1359,00 lei
6	VAT paid to the state budget	2315,00 lei

Table 1. *VAT adjustment in April 2014 and the operations related to the state budget as far as VAT is concerned*

Increasing the payment obligations to the state budget certainly took into account the amount of 3658,06 lei, representing the collected VAT through the invoice 650/12.04.2014, situation that can be seen from the Declaration 300- Vat tax return **amount properly paid to the state budget on 24.05.2014 and highlighted by the statement of account of INTERVAL SRL, and issued by Raiffeisen Bank SA.**

The paper focusing on the response to the objections filed against the accounting audit was submitted to court as evidence and in order to support the assertions of the expert of the accounting audit report.

Therefore, as a scientific research instrument, the judicial accounting audit and, implicitly, the objections filed against the accounting audit contribute to the quick and efficient ruling of the cases pending before court. Nowadays, the economic reality is characterised by a significant dynamics of business and complex transactions. Therefore, jurisdictional attributions authorities must ask for the help of the professional experts who, besides their economic training, must also be acquainted with legal notions.

Professional experts take part permanently in a training and a refreshment process taught by judges and prosecutors and by other persons having legal experience who, in the end, determine the optimization of the collaboration between the representatives of the judicial processes and themselves.

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