

THE ROLE OF THE EXTRAJUDICIAL ACCOUNTING SURVEY IN REVIEWING AND CERTIFYING FINANCIAL STATEMENTS. A CASE STUDY

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Abstract: *As our society develops, transactions between companies become increasingly complex. The amount of data involved is bigger and bigger, while decision makers are more and more likely to receive incorrect information. In order to improve the reliability and relevancy of the information they use, decision makers resort to assurance services which can be performed by financial auditors, chartered accountants or other specialists. The contribution of the accounting survey to the prevention of damage, the preservation of the integrity of the cultural assets and the compliance with the law are efficient not only given their use as evidence in court, but also as a means to ground decisions or to guarantee the fact that the accounting balance sheet offers a true, clear and complete view over the assets, financial statements, the profit (loss) for the period. These financial and accounting analyses and certifications of the assets and the possibility of the economic agent to make profit and, consequently, to be financially efficient, represents a proof of reliability for the other economic agents when establishing sound economic rapports.*

Key words: *certification, annual accounts, report, fiscal year.*

1. Introduction

Throughout their activity, economic agents undergo accounting and fiscal audits performed by bodies or people such as financial and fiscal institutions, censors, economic and financial control public institutions. On the other hand, considering the case of small and medium-sized enterprises, shareholders and their associates quite often face the need to be assured and even receive guarantees that the balance sheet gives a true, clear and complete view of the assets, financial

statements and profit (loss) for the period. With this aim in mind, professional accountants accomplish the mission of reviewing the accounts, which ends with the issuing of a document entitled Certification or Report. By means of this document, the chartered accountant states he complied with the provisions of professional regulations with respect to the mission of reviewing accounts, the drawing up and presentation of financial statements, specifying that his/ her mission is not a statutory audit one. The chartered

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accountant can confirm or reject the certification of the financial statements. When he does not find elements which throw doubt over the regularity and truthfulness of the accounts, he confirms the financial statements. Otherwise, he can reject the certification, clearly explaining the reasons.

2. Characteristics of the extrajudicial accounting survey in reviewing annual accounts

The financial accounting information is essentially aimed at the company's external users, such as: investors, employees, creditors, the government or the public at large. It is synthesized by financial statements and needs to use a common language for all users. That is why accounting and the accounting profession are normalized, thus presenting particular reliability for all stakeholders, by the truthfulness of the information provided and by assuring that each operation is analysed beforehand and treated in the same way by all companies providing accounting information. [Standard 22, p. 48] The framework of the professional accountants' missions consists of:

1. The accounting regulations in effect issued by the authorities assigned by the law (in Romania it is the Ministry of Finance)
2. Professional standards issued by the professional authority assigned by the law (the Body of Chartered and Certified Accountants in din Romania).

The interests of accounting information users are different, that is why they act, operate and make decisions according to the interests they have, using and understanding the accounting information. Annual financial statements are a set of synthetical accounting documents which present information as regards the financial position of a company, its financial performance and the situation of the

treasury flows, useful in the decision making for the allocation and use of resources, the obtaining and distribution of results. In order to meet these objectives, financial statements offer structured information on assets, debts, own capital, revenues and costs, profit and loss, treasury flows. Based on the Regulations compliant with accounting European norms, financial statements comprise: the balance sheet, the profit and loss account, the statement for the changes in one's own capital, the statement of the cash flows, explanatory notes for the annual financial statements. The liability for drawing up and presenting financial statements is totally incumbent to the administration council and/ or another leading body of the company. As IAS 1 stipulates, "apart from financial statements, companies are encouraged to present a financial analysis performed by the management, which describes and explains the main characteristics of the financial performance and of the financial position of the company, as well as the main uncertainties it faces" (M. Ristea, p. 190). The extrajudicial accounting survey is required by the manifestation of free enterprise in market economies, representing an efficient way to provide highly qualified assistance to any business, with a view to protecting it from risk and ensure success. The extrajudicial or amicable accounting survey may be required by different categories of people, such as:

- managers, in order to know the patrimonial situation of the company
- shareholders, throughout the period the company operates
- different natural or juridical persons in litigation
- any other person who wants fiscal and accounting issues to be clarified
- banks, as financial creditors.

3. The activities for accomplishing the mission of reviewing accounts

The chartered accountant needs to ensure the necessary documents for a methodical approach, which should enable him to understand the activity of the company and its mirroring in the documents. Within the mission of reviewing the accounts, of drawing up and presenting the financial statements, the professional accountant opens and keeps up to date the following documents for any of his clients:

- a permanent file
- a file for the profit (loss) for the period

The quality, type and content of the files will vary according to the specific traits of each company, while the span of the documents is a matter of professional rationale.

The permanent file has to include general information, such as:

- information as to the identification of the client
- information as to the legal and organizational structure
- the history of the company
- the economic and competitive environment
- the organization chart of the company
- information and contracts or documents required by law
- information about the information system used.

The file for the profit (loss) for the period includes all the useful information necessary and relevant for the financial period financial statements are certified for.

Given that the mission of reviewing the accounts, of drawing up and presenting financial statements frequently involves several controls, the chartered accountant can delegate the accomplishment of certain activities to collaborators. For this, he establishes and implements a survey procedure. Nevertheless, the professional accountant is the only one liable for the

progress of the mission, he gives the final check of the file and signs the mission report. The stages in the performance of the extrajudicial accounting survey for certifying financial statements in compliance with the Professional Standard no.22 are broadly the following:

- General knowledge of the company's activities and of the procedures regarding accounting
- The guidance and scheduling of the mission
- Gathering the proofs
- The accomplishment of the mission during the fiscal year
- The end of the mission and the issuing of the certification.

The scheduling of the mission is made by writing a working programme which should correspond to the features of the company and which needs to include:

- the weaknesses of the activity by fields and significant accounts
- significance levels by accounts and groups of accountants
- specific controls which need to be made
- the necessary time and collaborators.

The gathering of the proofs throughout the entire mission by the professional accountant allows him to obtain enough appropriate evidence to ensure the issuing of the certificate. This is accomplished starting from the documentary evidence, and continues with the analytical examination and with interviews with the company's management.

Various methods, control techniques and accounting reviews are applied with a view to grounding his opinion on the quality of the accounting information. The ultimate purpose of the mission of reviewing accounts and of drawing up and presenting financial statements is represented by the issuing by the chartered accountant of a document entitled Certification or Report. The financial statements are attached to the

certification. The accounting survey report has the role to synthesize the conclusions of the analysis performed. It highlights the irregularities and can offer solutions for remedying the situation. According to Professional Standard no. 22, the reports issued by experts can be:

- Clean reports, when the financial statements are correct and offer a true view
- Reports with remarks, when uncertain issues were found which can influence financial statements or when there is a disagreement with the client over certain issues
- Reports which reject certification, when the accountant considers that the aspects found significantly influence the accounting regularity and truthfulness or the financial statements do not give a true and fair view of the company.

4. Case study

The professional accountant signs the report on the day it is closed. The activities performed within the mission are aimed at allowing the professional accountant to draw up the report or the certification of the mission in accordance with the contract provisions. In the following example, the professional accountant formulates a refusal as regards the regularity and truthfulness of the financial statements, as a consequence of the fact that he detected a series of irregularities which were not justified or explained. In compliance with the Reporting standard no 223, the report comprises three parts:

- the first refers to the presentation of the mission and the compliance with professional diligence
- the second refers to the formulation of the conclusion after it has been appropriately reasoned
- the last one is necessary for the identification of the company's financial statements.

CERTIFICATION

Within the mission of reviewing the accounts, of drawing up and presenting the annual accounts of the company S.C. STARCOM S.R.L., for the fiscal year 01.01.2012- 31.12.2012, considering the contract for services concluded on 10.03.2013, we performed the activities stipulated in the norms approved by the Body of Chartered and Certified Accountings in Romania regarding the accomplishment of this mission.

Our mission was represented by the analysis of the procedures the client used for keeping the accounts, as well as by implementing the control of the documentary evidence by random choice, analytical investigation and interviews with the client's management and employees. The mission of reviewing the accounts, of drawing up and presenting the annual accounts does not represent an audit, as it does not include the confirmation of data and information by third parties or the consideration of the client's internal control or the physical checking of existing goods, such as stocks.

Within the mission, the following were found:

- the accounting policies used for drawing up the accounts do not comply with the nature of the activity and are not applied consistently. An example in this respect is represented by the correction of accounting errors which was done without taking into account the significance level set by the company, as 5% of the turnover, in order for an error to be considered significant. The errors corresponding to a previous fiscal year can be corrected either starting from the retained earnings, or from the profit and loss account, depending on the significance of the accounting error. The company made the corrections of certain errors both starting from the profit for the current fiscal year and from the retained

earnings, without considering the significance level set.

- the prudence principle was not complied with, as there were no provisions for the litigations the company had on the docket or for the uncertain and due clients.
- the inventory of the assets was not done according to OMFP no.2861/2009 for the approval of the Norms regarding the organization and performance of the inventory of elements such as the company's assets, debts and capitals. There are no decisions as regards the appointment of the inventory committee; there are no minutes for capitalizing the inventory, but only lists issued by the accounting office. Our conclusion is that the effective inventory was not performed.
- the company's commercial rapports, respectively the sale of the finite products it produces are accomplished to an extent of 80 % with a company from Italy which, in accordance with the law, meets the affiliation conditions. In this situation, the file for transfer prices should have been drawn up in order to demonstrate that in the rapport with the affiliated entities, the market prices used were established in compliance with the principle of impartiality.

At the moment our activity was concluded, we knew nothings of other elements except for the aforementioned ones.

Considering the significant incidence of the aforementioned issues on annual accounts, we cannot express any assurance on the regularity and truthfulness of the annual accounts, nor on the true view they give to the assets, the financial statements and the profit (loss) for the period S.C. STARCUM S.R.L.

The adjoined annual accounts, 25 pages long, are characterised by the following:

- balance sheet total 670395 lei;
- turnover 205362 lei;

- net profit for the period 3107 lei.

BRAȘOV Chartered accountant,
16.04.2013 Ec. MARINESCU
OVIDIU, Ph.D.

5. Conclusions

Due to the new types of risks companies currently face and to the increase in the number of sources of information available, it is estimated there will be an increase in the demand for assurance services for different types of information. Chartered accountants provide a wide range of services, including assurance as regards the efficacy of a client's internal control mechanisms with respect to financial statements. One of the significant differences between certification services and other assurance services is represented by the fact that assurance services can also be provided by other specialized companies, whose core activity is not represented by accounting surveys and which can be serious competitors. The market of other forms of professional assurance is open to the competitors who do not have the status of financial auditors, chartered accountants or certified accountants. On the market for such services, chartered and certified accountants will probably face competition from companies which offer services in the field of marketing research. As compared to these companies, a competitive advantage of accounting survey companies have on the market of assurance services is represented by their reputation as regards expertise and independence. Practice has proven that, in most of the cases, the client does not entrust only the mission of reviewing the accounts to the professional accountant. Most of the times, he also requires complementary missions, such as: accounting assistance missions, juridical, fiscal, management consultancy missions, the analysis of the company's performance

etc. These missions can be permanent or periodical and can be accomplished simultaneously with the mission of reviewing the accounts or in a different period, based on satisfactory contractual rapports for both parties.

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