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Increasing the Quality of Financial Audit Engagements by Implementing Quality Management Standards

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Abstract: The main goal of this research is to identify solutions for the implementation of the new legislative provisions within audit companies in order to accelerate the process of improving the quality of the audit and implicitly the audited accounting information. The performed evaluations show that the national audit companies have not developed sufficient and adequate financial audit quality control procedures, they have to go through an updating process, following the new vision of the International Auditing and Assurance Standards Board (IAASB) The method of implementing procedures for the transition from quality control to quality management of financial audit engagements is analysed based on the example of an audit company. The main methods employed are: in-depth analyzes of specialized literature containing national and international scientific papers and studies in the field of financial audit, found in national and international publications as well as cross-sectional and longitudinal analysis methods. The conclusion of the study is that a financial audit quality management system is not yet implemented, the current internal regulations are still associated with quality control and not quality management and the audit companies in our country can quickly adapt their procedures for the transition from quality control to quality management of financial audit engagements.

Keywords: financial audit; quality; financial audit engagements

JEL Classification: M42

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1. Introduction

From the IAASB perspective, three standards have been issued that establish quality management in the case of audit firms (Table 1):

- ISQM 1 “Quality management for companies that perform audits and reviews of financial statements, as well as other assurance engagements and related services”;
- ISQM 2 “Assessing the quality of engagement”;
- ISA 220 (Revised) “Quality Management for an Audit of Financial Statements”.

These Audit Quality Management Standards are applicable from December 15, 2022 and replace the IAASB standards on audit quality control, namely ISQC1 and ISA 220.

ISQM 1 replaces ISQC 1 – International Standard on Quality Control.

According to ISQM 1, in order to manage the quality of the audit missions performed audit, the audit companies are obligated to apply a quality management system.

The final goal of the performed research is to identify solutions for the implementation of the new legislative provisions within audit companies in order to accelerate the process of improving the quality of the audit and implicitly the audited accounting information.

Table 1. The current and future audit quality regulation

Regulation	**Currently applied**	**Applicable from December 15, 2022**
International Standard on Quality Control ISQC 1	x	-
International Standard on Auditing ISA 220	x	-
International Standard on Quality Management ISQM 1	-	x
International standard on quality management ISQM 2	-	x
International Standard on Auditing ISA 220 (Revised)	-	x

Source: Design by the author based on IAASB Regulations

2. Literature Review

Constant concerns to improve the quality of financial audit are found in the policies of international bodies, a special place being the current agenda of the International Auditing and Assurance Standards Board (IAASB, 2018). The IAASB under the supervision of the Public Interest Oversight Board and upon the recommendation of the IAASB Advisory Group, structures which are facilitated in their activities by the International Federation of Accountants (IFAC), issues auditing and assurance standards, as well as guidance for accounting professionals on the use of these standards. In fact, the objective of the IAASB is one of public interest, the auditing, assurance and other related standards being intended to facilitate the convergence of international and national auditing and assurance standards, thus contributing to increasing the confidence of interested users in the global auditing profession. Thus, the IAASB issued in December 2020, the Standard for Quality Management in the Audit of Financial Statements ISA 220 (revised) (IAASB, 2020) and the Standard for the Quality Management of Companies Providing Financial Audit Services ISQM 1, which at a conceptual level, make a transition from control quality in the quality management of audit and assurance services.

ISA 220 (Revised) and ISQM 1 are effective from 15 December 2022. This ISA 220 (Revised) also applies to group audits and is therefore intended to work with the IAASB's existing standard on group audits, ISA 600. At the time of approval of ISA 220 (Revised) and ISQM 1, the revisions to ISA 600 were not finalized. ISA 600 (revised) was issued in April 2022 and became effective for group audits starting with or after December 15, 2023 (IAASB, 2023).

These regulations of a successive order, substantiate by their actuality, the very actuality of this research study, confirming its usefulness, including for future research directions.

The opportunity of this scientific approach is given by the lack of sufficient financial audit quality assurance methods addressed by the authors of the specialized literature, and its usefulness derives from the theoretical and empirical approaches analyzed and substantiated within the work.

From the entire studied specialized literature, the existence of a consensus can be found, according to which the accounting is seen as a social construction, a mirror of the conjunctural reality in which the society has developed. In an evolutionary perspective, we find that the accounting and auditing regulations were in many cases the consequences of the great financial scandals or abusive political or economic and social actions. In the specialized literature in Great Britain, starting from 1970, we can find the idea that the accounting and auditing regulations would not be a neutral instrument for reflecting reality, as they are the result of a broad political process adapted primarily to the will and the pursued economic goals by various interested parties (Ionașcu, 2003).

3. Research Methodology

This research addresses the issue of the relationship between the evolutionary trend of the methodology for carrying out financial audit engagements, in the national legislative context, but also at the European and international level. However, it was not aimed to develop an exclusive epistemological position.

Through a constructivist-interpretivist approach, the methods of ensuring the quality management of the audit of financial statements were analyzed and finally, a method applied in a context given by the recent revisions of the international auditing standards was described. In this way, the paradigm of positivism was approached complementary to that of constructivism, without being put in opposition.

Recognizing the principles of the positivist and constructivist paradigms, the research is based primarily on normative concepts and, based on them, the empirical research was built. (Figure no. 1)

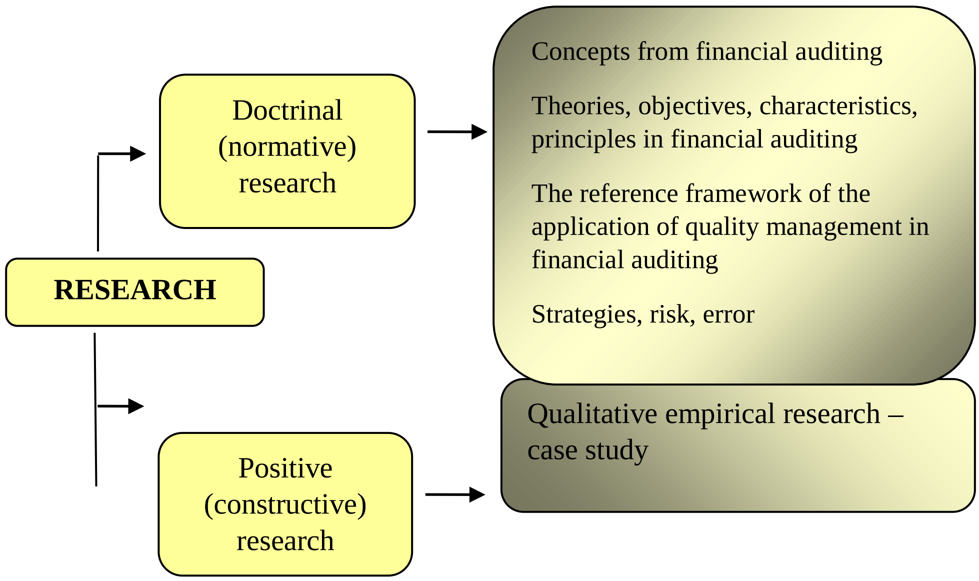

Figure 1. The research methods of the scientific approach

Source: Conceived by the author

Thus, the research activity was structured based on in-depth analyzes of specialized literature containing national and international scientific papers and studies in the field of financial audit, found in national and international publications. Therefore, the quality management activity in the financial audit is presented, both as a theoretical, fundamental approach, regarding the main legal regulations, methodologies, procedures and techniques applied in the financial audit, and as a practical approach, by analyzing the concrete way of application in the financial audit, of the stages of risk assessment within an audit engagement.

The research uses cross-sectional and longitudinal analysis methods. The transversal method was used both in fundamental research (comparative analysis of national and European legislation on financial audit) and in empirical research (comparative analysis of the activity of audit companies and methods of financial audit quality assurance). The scientific approach created a bridge from the theoretical method to the practical method and integrated the deductive methods with the inductive ones with reference to the practical application of the already existing models, critically analyzing the future possibilities of improvement. The longitudinal research method is used for the temporal analysis of the state of scientific knowledge in the field.

4. Quality Control versus Quality Management in Compliance with the Perspective of IAASB

ISQM 1 is applicable to all audit entities that perform audit engagements in accordance with IAASB standards. ISQM 1 replaces the requirements of the ISQC 1 standard, by moving from quality control to quality management of audit and review engagements, for all entities that provide audit, in all its forms of manifestation (statutory, assurance and related services). The components of an audit quality management system are, in principle, the same as the current ones, as presented in Table 2:

Table 2. The components of the quality assurance system according to the IAASB regulation

IAASB regulation	**Quality assurance requirements**
International Standard on Quality Control ISQC 1	Management responsibilities regarding quality within the enterprise; Human resources; Relevant ethics provisions; Accepting a new customer and continuing the relationship with a recurring customer; Carrying out engagements; Monitoring.

ISQM International Quality Management Standard 1	Governance and management; Risk assessment; Human and material resources; Available information and communication; Deficiency monitoring and correction process; Responsibility of the audit entity when using the networks; Professional ethics requirements; The quality of audit engagements.

Source: Made by the author based on IAASB Regulations

Compared to the previous ISQC 1, in the new ISQM 1 standard, not only a set of elements, but a system that mentions their essence and connection. It's basically a deeper approach to quality control system.

The most important elements related to quality management are governance and organizational management.

In practice, the corporate culture is positioned in the attention of the financial auditors.

The new ISQM 1 emphasizes risk management and assessment.

5. Audit Quality Management Implementation Guidance – a New Perspective of IAASB

In 2021, the IAASB issued the Implementation Guide to ISQM 1, ISQM 2 and ISA Standard 220 (Revised) from which the following issues result (Table 3):

Table 3. Aspects presented by ISQM 2 and their solution

Evaluation of the quality of audit mission	**Where it applies**
Situations of Mandatory Controls of the quality of audit mission	Listed companies; Cases imposed by law; Engagements with quality risks.
Selection of the person responsible for assessing the quality of the audit engagement	Significant issues of professional conduct; Significant judgments; Responsibility for quality management and assurance.

Source: Made by the author based on the requirements of the international quality standard ISQM 2

The main objective promoted by ISQM 1 is the rigorous approach to auditing at the entity level. The standard provides that the internal procedures of the audit entity are effectively applied and correspond to the nature, the organizational context of the entity and ensure a permanent adaptation to the performed audit engagements. The policies and procedures adopted by the audit entities must be integrated, taking the entity and the audit engagements as a whole, without setting requirements only for certain structures in the organization chart, aspect of adapting the quality approach necessary for the transition from ISQC 1 to ISQM 1.

Under current conditions, as required by ISA 220 (Revised), the engagement partner must also oversee the conduct of the engagement and determine the direction of the engagement, which includes consideration of the nature of the engagement, its circumstances and available resources. In Table no. 4, the form of concordance amendments and correlative amendments brought to other IAASB standards is presented concretely, as a result of the new quality management standards:

Table 4. Conformity amendments and correlative amendments brought to ISRE 2400 as a result of the new quality management standards

To see	**Final amendment to ISRE 240 as approved by the IAASB in October 2021**
ISRE 2400	International Standard on Review Engagements (ISRE) 2400, Engagements for reviews of historical financial statements, should be read in conjunction with the Foreword to the international regulations on quality management, auditing, review, other assurance and related services.
ISRE 2400, paragraph 4	The relationship with ISQM 1 and ISQM 2 The quality management systems, policies or procedures are the responsibility of each entity. ISQM 1 applies to both assurance engagements and financial statement review engagements. ISQM 1 also deals with the responsibilities of audit companies to develop, implement and apply, in a consistent manner, policies or procedures for engagements that are subject to quality review. The provisions of ISRE 240 on the quality management of review engagements, consider, in advance, that the company is subject to the provisions of ISQM 1 or similarly rigorous provisions. ISQM 2 deals with the manner and conditions necessary for appointing the person responsible for the quality review, as well as conducting and documenting the quality review of the engagement. A quality management system deals with the following eight components: (1) Risk assessment of the audit entity (2) Governance and management; (3) Ethics; (4) Accepting a new audit engagement (new or recurring customer) and specific assignments (5) Engagements progress; (6) Resources;

To see	**Final amendment to ISRE 240 as approved by the IAASB in October 2021**
	(7) Reporting and Communication; and (8) Monitoring and remediation. The companies may use different terminology or frameworks to describe the components of their quality management system.
ISRE 2400, paragraph 16	Definitions The Glossary of Terms of the Manual of International Regulations for Quality Management, Auditing, Review, Other Assurance and Related Services published by IFAC (Glossary) includes the terms defined in ISRE, to support consistent application and interpretation. For example, the terms “management” and “persons charged with governance” used in ISRE are as defined in the Glossary.
ISRE 2400, paragraph 17 letter (i)2	Relevant ethical provisions – Principles of professional ethics and ethical provisions applicable to professional accountants when performing reviews of financial statements. The ethical provisions include, as a rule, the provisions of the IESBA Code of Ethics, issued by this Council of ethical standards for accounting professionals, in relation to the review of financial statements, to which are added the more restrictive provisions promoted at the national level.
ISRE 2400, paragraph 24	Engagement-level quality management The conditions imposed on the Engagement Partner require that they have competence in assurance skills and techniques, as well as in financial reporting and capabilities, including having sufficient time appropriate to the circumstances of the engagement.
ISRE 2400, paragraph 25	The engagement partner must take overall responsibility for: (a) Managing and guaranteeing the quality of each review engagement assigned to him and sufficient and appropriate involvement during the engagement; (b) Coordinating, supervising, planning and conducting the review engagement in compliance with applicable national law and international standards; (c) The appropriateness of the practitioner’s report in the circumstances; (d) Carrying out the assignment in accordance with the company’s quality management policies or procedures, including: (1) Be satisfied that the company’s policies or procedures for accepting and continuing customer relationships and review engagements have been followed and that appropriate conclusions have been drawn, including considering whether there is information that could cause the engagement partner to conclude that there is a lack of integrity at the management level; (2) Determining that sufficient and appropriate resources are allocated or made available to the engagement team in a timely manner to perform

To see	Final amendment to ISRE 240 as approved by the IAASB in October 2021
	the engagement, considering the nature and circumstances of the engagement, the company's policies or procedures, and any changes that may occur during the engagement; (3) Be satisfied that the engagement team collectively has the appropriate skills and capabilities, including sufficient time, assurance skills and techniques, and financial reporting experience, to: - to carry out the engagement according to legal provisions and applicable professional standards and - to allow the issuance of a report appropriate to the given circumstances; (4) Is responsible for maintaining documentation appropriate to the engagement; (5) When an engagement quality review is required in accordance with ISQM 1 or enterprise policies or procedures, not to date the report until the engagement quality review is complete.
	Compliance with relevant ethics provisions The engagement partner, through observation or discussion with members of the audit team, has the responsibility to identify any evidence of non-compliance with the ethics provisions. If he finds directly or through the quality management system implemented at the entity level, violations or suspicions regarding the violation of the Code of Ethics by an auditor, then he must take the sanctioning measures, but with the prior consultation of the persons from the entity's management.
ISRE 2400, paragraph A31	Assignment of Engagement Teams Each auditor's understanding of the entity's policies or procedures for engagement quality management may be an element that the engagement partner considers when determining the competence and skills of the audit team.
ISRE 2400, paragraph 28	Monitoring and remediation An audit entity's quality management system also includes monitoring and, last but not least, remedial actions, where appropriate. These actions are part of the process of improving the quality of engagements as a whole, because: (a) provides concrete, relevant, and timely information regarding the operation of the system implemented through procedures; (b) appropriate measures can be taken to remedy identified deficiencies in a timely manner. The engagement partner is responsible for reviewing information communicated within the entity and, as appropriate, other companies in the network, regarding the monitoring and remediation process, and deciding whether such information is likely to affect the review engagement.

To see	**Final amendment to ISRE 240 as approved by the IAASB in October 2021**
ISRE 2400, paragraph 92	Date of the practitioner's report The auditor practitioner must date the audit report only after he/she is satisfied that he/she has adequate, correct and complete evidence capable of supporting his findings and conclusion in the audit opinion on the audited financial statements. Such evidence includes, but is not limited to, checks carried out to show that: - the preparation of the financial statements was carried out in accordance with the applicable reporting framework containing all the mandatory forms and explanatory notes; - the management or the persons responsible for the governance have made available to the auditor the statement of assumption of responsibility for the preparation and presentation of the financial statements according to the applicable legal provisions.
ISRE 2400, paragraph 94	Documentation When documenting the nature, time frame and extent of audit procedures performed in accordance with ISRE, the auditor must record: - who performed the activity and the date on which it was completed; and - who reviewed the activity performed for the purpose of quality management related to the engagement, the date and extent of the review. One of the quality objectives provided by ISQM 1 is that the collection and archiving of engagement documentation should be done diligently, in a timely manner, after the date of issue of the audit report.
ISRE 2400, paragraph A32	Accepting/continuing the relationship with a new/recurring customer ISQM 1 requires audit entities to establish for quality review engagements and objectives regarding the acceptance of an audit engagement for a (new or recurring) customer. engagement to determine whether the entity's policies or procedures for accepting and continuing customer relationships and whether review engagements have been followed and the conclusions reached are appropriate may include information about: - the integrity of the main owners, key management personnel and persons responsible for governance; and - any aspects intervened during the performance of the review engagement (including in the history) able to affect the acceptance of a new commitment for a recurring customer.
ISRE 2400, paragraph A34	The conditions of acceptance and continuation of the relationship with a customer (new or recurring) are checked throughout the course of the audit engagement, including at the date of completion Initial procedures provide the auditor with the information on which to base his actions and decisions before the start of the engagement, but they must to be permanently updated depending on the circumstances that have occurred to the extent that they affect his independence.

To see	**Final amendment to ISRE 240 as approved by the IAASB in October 2021**
ISRE 2400, paragraph A4	According to the provisions of ISQM 1, a quality management system implemented within entities that provide audit and related services, including the review of financial statements, must have the following characteristics: -ensures the fulfillment of the responsibilities of the audit entity and the employed or collaborating auditors, in compliance with the legal provisions and the applicable professional standards; - the suitability of the reports issued by the audit entity or the Engagement Partners to the circumstances of each engagement.
ISRE 2400, paragraph A5	National provisions that present the attribution of the enterprise regarding the design, implementation and operation of a quality management system are similar in rigor to ISQM 1 if they deal with the requirements of ISQM 1 and impose obligations on the enterprise to achieve the ISQM 1 objective.
ISRE 2400, paragraph A27	In the context of ensuring a quality management system, the audit teams are responsible for applying the enterprise policies or procedures applicable to the engagement and for communicating to the enterprise the information generated by the review engagement that must be communicated by the enterprise policies or procedures to support the system of its quality management.
ISRE 2400, paragraphs A28 and A29	Points A28 and A29 regarding the attitude of the Engagement Partner responsible for the quality management of each review engagement and guarantor of the engagement quality, highlight the essential character of the quality of the audit work and the importance of the quality management of the review engagement in order to: - Carrying out an activity in accordance with professional standards; -In order to comply with the requirements of the company's quality management policies or procedures; - Issuance of an engagement report that is appropriate to the circumstances; - The ability of the engagement team to express their concerns without fear of repercussions. As a rule, the audit team is influenced by the quality management system promoted at the level of the audit entity. However, there may also be situations where, based on the auditors' experience, they believe that this quality management system does not deal effectively with the circumstances of each engagement through clear procedures or policies. If, from the information available to the management of the audit entity from an internal or external source, there is doubt that the audit team is not affected by or does not consider the system of quality management, imposed by clear policies and procedures, then an analysis is required appropriateness of this information by the Engagements Partner to establish possible violations of the Code of Ethics. The audit team and each individual auditor depend on the quality

To see	**Final amendment to ISRE 240 as approved by the IAASB in October 2021**
	management policies implemented by the company regarding: - The competence and capabilities of the staff through their recruitment and formal training; - Independence by accumulating and communicating relevant information regarding independence; - Maintaining relations with customers; - Compliance with legal provisions and professional standards applicable to the monitoring and review stages. In reviewing identified deficiencies that may affect the review engagement, the engagement partner may consider remedial actions taken by the company to address those deficiencies.
ISRE 2400, paragraph A30	A deficiency identified in the management system implemented for quality assurance does not necessarily mean that a review engagement did not comply with applicable legal provisions and professional standards or that the audit report was not adequate.

Source: Made by the author according to IAASB[1]

6. The Analysis, Results and Conclusions of the Application Study Regarding the Evaluation of the Implementation of the Standards Regarding the Quality Management of the Audit Mission

A company providing financial audit services was considered, where an analysis was carried out on how to implement the financial audit quality management standards for the years 2020, 2021 and 2022.

The objectives pursued by this analysis aim at:

1. the assessment of the auditors' independence upon acceptance of the audit engagement;
2. the assessment of the procedures carried out for the planning of the audit engagement.

6.1. Assessing the Auditors' Independence Upon Acceptance of the Audit Engagement

Specific objective: ensuring the independence of financial auditors upon accepting a number of 3 audit engagements (three consecutive years).

[1] www.iaasb.com.

According to ISA 200, auditor independence provides a guarantee that the auditor has the ability to issue an audit opinion without any reason intervening to compromise the opinion. By ensuring his independence, the auditor enhances his professional skepticism, objectivity and professional integrity.

In order to verify its independence from the audited entity, the following points from the "Acceptance of designation or re-designation" work program were completed (Table 5):

Table 5. Acceptance of Appointment

No.	Objectives: verification of Auditors' Independence	Yes/No	Verification method
1	Ensuring that each member of the audit team has the competencies and skills appropriate to the engagement and has sufficient time to complete assigned tasks (does NOT have other engagements at the same time)	Yes/No	Test 1
2	Ensuring that no member of the audit team is also an employee of the audited entity	Yes/No	Test 2
3	Ensuring that no member of the audit team was an employee/collaborator in the audited entity	Yes/No	Test 2
4	Ensuring that the engagement partner or each auditor involved in the engagement, including close relatives (first degree) who is an employee of the audited entity has not left the audited entity in the last 2 years	Yes/No	Test 2
5	Ensuring that no employee or his close relative has been appointed to a management or control position in the audited entity or in another entity in which the customer directly or indirectly holds more than 20% of the total voting rights	Yes/No	Test 2
6	Ensuring that the fees received from the customer (including from the group of which it is a part, as the case may be) are less than 10%, or at most 15% of the turnover of the audit entity	Yes/No	Test 3
7	Ensuring that the fees received from the customer (including from the group of which it is a part, as the case may be) are greater than 15% of the turnover of the audit entity	Yes/No	Test 3
8	Ensuring that the audited entity, if it is a recurring customer, does not appear with outstanding fees for payment	Yes/No	Test 4
9	Ensuring that contingent fee agreements have/have not been concluded between the audit entity	Yes/No	Test 4

No.	Objectives: verification of Auditors' Independence	Yes/No	Verification method
10	Ensuring that the engagement partner, auditors or their close relatives do not have direct or indirect financial interests for the audited entity	Yes/No	Test 5
11	Ensuring that no loans or guarantees are received from the audited entity by the audit company or its affiliate	Yes/No	Test 5
12	Ensuring that there are no business relationships between the audited entity and the audit company other than those circumscribed by the audit engagement	Yes/No	Test 5
13	Ensuring that there are/are no litigious actions between the audited entity and the audit company	Yes/No	Test 5
14	Ensuring that no gifts, donations, sponsorships were received/given between the audited entity and the audit company	Yes/No	Test 5
15	Ensuring that non-audit services were/were not provided to the audited entity	Yes/No	Test 5
16	Ensuring that there are no current or potential reasons or other situations of conflict of interest that affect the independence and objectivity of the audit company	Yes/No	Test 5

Source: Made by the author

a) Objective: to complete tests 1, 2 and 3

Actions taken:

The existence of violations of the existing provisions in the Code of Ethical Conduct, is analyzed by the Engagement Partner, before accepting the contract, because it may determine its non-acceptance.

The verification of the above objectives was achieved by following the compliance with the audit company's own quality control procedures regarding the fulfillment of the conditions that determine the level of independence in front of the customer.

Financial independence was also verified.

The share that the audit customer has in the total revenues of the Company:

Year 2020: 24,000/420,000 = 6%

Year 2021: 34,000/660,000 = 5%

Year 2022: 34,000/1,200,000 = 3%

The share of the customer's fee in the total turnover:

Year 2020: 24,000/480,000 = 5%

Year 2021: 34,000/660,000 = 5%

Year 2022: 34,000/1,200,000 = 3%

Result:

Following the activity carried out, no threats were identified regarding the independence of the customer entity.

Conclusion: customer acceptance and signing of audit engagement.

b) Objective: to complete tests 4 and 5

Performed activity:

To address tests 4 and 5, the existence of declarations of independence was verified for each member of the audit team and for the Engagement Partner.

The customer's recurrence was checked, respectively the type of services provided to him and the existence of any unpaid fees.

Afterwards, discussions were held both with the members of the audit team and with the management team of the customer entity. The objectives pursued by tests 4 and 5 were discussed.

Result:

From the corroboration of the verified documents with the conclusions of the discussions held, no threats were identified regarding the independence of the customer entity.

At the end of the performed activity, the non-existence of outstanding amounts that can be considered as a loan was highlighted.

This customer is not a repeat customer.

At the end of the activity carried out, the non-existence of outstanding amounts that can be considered as a loan was highlighted.

Conclusion:

There are no financial dependency issues.

The audit company is independent from the customer. Therefore, there are no situations in which the Code of Ethical Conduct is violated.

Conclusions on the independence of the auditors and the audit company

Based on the checks performed, reasonable assurance has been obtained that the requirements of the Code of Ethics are respected by each member of the audit team and for the Engagement Partner.

No reasons were identified for not accepting the audit engagement at this entity.

Audit engagement partner: N.D.

Date: 31.09.2023

6.2. The Assessment of the Procedures Carried Out for The Planning of the Audit Engagement

The audit plan was prepared based on the general audit strategy established according to the field of activity and the time period subject to the audit. The audit procedures were correlated with the results of the analysis of the entity's control environment, with the characteristics of the accounting system, the use of accounting and reporting IT systems.

Estimating audit risks and determining the materiality threshold involved the use of the auditor's professional judgment.

To establish the basis of calculation in determining materiality for the financial statements, the indicators presented in Table no. 6. from the point of view of the users' interest in a certain element of the financial statements (in this case turnover), but also of the evolution of the respective indicator.

Table 6. Analyzed indictors to establish the materiality calculation base

Indicator (lei)	**2020**	**2021**	**2022**	**Percentage range**
Total revenue	12.156.731	18.102.540	20.144.713	0.5-2%
Total equity	3.131.818	255.963	2.054.591	1-5%
Total assets	27.410.447	13.580.087	9.520.073	0.5-2%
Result before tax	2.554.855	-1.175.855	-1.735.266	5-10%

Source: Made by the author

According to the audit company's internal procedures, the most constant indicator is selected as the basis of calculation (revenues related to the turnover), considering at the same time the interest shown by the users of the financial statements, especially for assets.

Assessment of audit risk based on its components (inherent risk, control risk and non-detection risk) is necessary to determine the types of procedures to be used, the period allocated and their extent.

The risk factors were assessed based on professional judgment on a scale from 1 to 5, each level of inherent risk being substantiated as presented in Table 7:

Table 7. Description of how to assess inherent risks

	The degree of probability of the occurrence of risks	Description of the general risk assessment
1	Very low	it does not occur under usual conditions and no cases have been reported in history
2	Low	it can occur under ordinary conditions but the frequency is rare
3	Average	occurs under ordinary conditions with a constant frequency
4	High	it is reasonable to produce, at least in the next period
5	Very high	is clearly manifested in the current period

Source: Made by the author

Based on the risk assessment (inherent and control), the sample and the sampling plan were determined for each audited component of the company, as presented in Table 8, respectively Table 9:

Table 8. Sampling plan

Item from the financial statements	Value in lei	Significance threshold	Risk factor 3	Control risk	Relevance given to auditing 4	Sample size
	A	B	C	D	E	F = A/B/ (CxDxE)
Tangible assets	330,000	76,085	2.5	1	2	1
Debtors	860,000	76,085	2.5	1	2	2
Own equity	(2.050,000)	76,085	1.5	5	3	1

Source: Made by the author

Table 9. Matrix of specific risks

Inherent Specific	Very low	Low	Average	High	Very high
	1	2	3	4	5
Very low	5	4	3	2	1
Low	4	3.5	2.5	1.5	1
Average	3	2.5	1.5	1.25	1
High	2	1.75	1.5	1.25	1
Very high	1	1	1	1	1

Source: Made by the author

At this stage, a checklist of inherent risks specific to the company’s field of activity was created, which we find in Table 10 (assessment of the quality of the financial audit at the audit company).

Table 10. Checklist of inherent risks associated with each analysis area -2020

Index	Risk factor	1	2	3	4	5
	Description	Very low	Low	Average	High	Very high
1	Factors associated with management					
1.1.	If there are shareholders/associates of the entity in the management team				4	
1.2.	The professional experience of the management team and in particular the technical knowledge of financial accounting and business management			3		
1.3.	Fluctuation at the management/administrator level			3		
1.4.	Fluctuation at the level of external consultants or auditors				4	
1.5.	History regarding the adequacy of internal control established by management			3		
1.6.	Extent of management turnover	1				
1.7.	Management’s attitude to risk, especially the pro-earnings attitude				4	
1.8.	Level of remuneration and benefits granted to management and whether it corresponds to the nature, scope, tasks, responsibilities assumed and performance achieved in carrying out the activity				4	

Index	Risk factor	1	2	3	4	5
	Description	Very low	Low	Average	High	Very high
1.9.	Significant changes regarding the entity's Liquidity Indicators				4	
1.10.	Significant fluctuations in profitability and liquidity/solvency indicators				4	
1.11.	If the financial statements are also used by other third parties		2			
1.12.	If there is a proven history of misrepresentation of accounting information and/or misrepresentation of financial statements			3		
2	The operational environment					
2.1.	Field of activity-specificity, authorization conditions, general characteristics: old/new, national/international market trends			3		
2.2.	Threats of competition			3		
2.3.	Evidence of trading without an adequate debt recovery policy (number and value of doubtful customers)			3		
2.4.	Prior or current disputes including complaints/actions directed against the entity or persons in the management of the natural/legal persons				4	
2.5.	Probability of a strategic investor taking over the business, selling a significant part of the shares, merging with other entities or dividing the business		2			

Index	Risk factor	1	2	3	4	5
	Description	Very low	Low	Average	High	Very high
2.6.	Fulfilling the obligations undertaken through external financing contracts (banks and other natural/legal persons)		2			
2.7.	Existence of Prior Financing Agreements		2			
2.8.	Existence of some customers – public authorities, with a significant impact on the public procurement policies and procedures developed by the entity		2			
2.9.	Employees' attitude towards risk		2			
2.10.	History regarding the presence of erroneous and uncorrected accounting information		2			
2.11.	Complexity of the organizational structure and the accounting structure, relative to the size of the business	1				
3	The accounting environment					
3.1.	Competences held by accounting employees	1				
3.2.	Continuous professional training of accounting staff	1				
3.3.	New or substantially changed accounting policies		2			
3.4.	Complex accounting policies			3		
3.5.	Uncertainty associated with accounting estimates			3		
3.6.	Volume of transactions in the vicinity of the balance sheet closing date		2			

Index	Risk factor	1	2	3	4	5
	Description	Very low	Low	Average	High	Very high
3.7.	Number and value of unusual transactions		2			
3.8.	Existence of malfunctions in the accounting computer system			3		
3.9.	Existence of some evidence regarding the intervention of some dysfunctions in the way of making accounting records and in the presentation of reports		2			
3.10.	Implementation of a preventive financial control		2			
3.11.	Operational procedures specific to the document flow		2			
3.12.	Written procedures specific to the professional accountant's ethics			3		
4	Factors specific to the financial audit					
4.1.	History of audit opinions		2			
4.2.	History of the auditor's relationship with the entity's management		2			
4.3.	Recording of possible difficulties in obtaining audit evidence, especially of complex or unusual transactions, even if they are specific to the entity's object of activity			3		
4.4.	Transactions not sufficiently documented by the entity, difficult to audit			3		
4.5.	Transactions not sufficiently documented by the entity, difficult to audit		2			
Total	Frequency of occurrence of the risk	4	16	13	7	0

Source: Made by the author

At this stage, a comparative checklist was created for the evaluation of the quality of the financial audit at the audit company, from the perspective of the inherent risks associated with each area of the audit, the period studied being between the years 2020-2022 and we find it in Table 11:

Table 11. Comparative checklist for the evaluation of the quality of the financial audit at the audit company, from the perspective of the inherent risks associated with each field of audit performance in the period 2020-2022

Risk factor index/risk factor assessment – annual average	Year 2020	Year 2021	Year 2022	Average Risk Occurrence Frequency 2020-2022
1	3.16667	3.25000	3.25000	3.22222
1.1.	4	4	4	4.0
1.2.	3	3	3	3.0
1.3.	3	3	3	3.0
1.4.	3	3	3	3.0
1.5.	3	3	3	3.0
1.6.	1	1	1	1.0
1.7.	4	5	5	4.7
1.8.	4	4	4	4.0
1.9.	4	4	4	4.0
1.10.	4	4	4	4.0
1.11.	2	2	2	2.0
1.12.	3	3	3	3.0
2	2.36364	2.36364	2.36364	2.36364
2.1.	3	3	3	3.0
2.2.	3	3	3	3.0
2.3.	3	3	3	3.0
2.4.	4	4	4	4.0
2.5.	2	2	2	2.0
2.6.	2	2	2	2.0
2.7.	2	2	2	2.0
2.8.	2	2	2	2.0
2.9.	2	2	2	2.0
2.10.	2	2	2	2.0
2.11.	1	1	1	1.0
3	2.16667	2.16667	2.16667	2.16667
3.1.	1	1	1	1.0
3.2.	1	1	1	1.0
3.3.	2	2	2	2.0
3.4.	3	3	3	3.0
3.5.	3	3	3	3.0

Risk factor index/risk factor assessment – annual average	Year 2020	Year 2021	Year 2022	Average Risk Occurrence Frequency 2020-2022
3.6.	2	2	2	2.0
3.7.	2	2	2	2.0
3.8.	3	3	3	3.0
3.9.	2	2	2	2.0
3.10.	2	2	2	2.0
3.11.	2	2	2	2.0
3.12.	3	3	3	3.0
4	2.40000	2.20000	2.00000	2.20000
4.1.	2	2	2	2.0
4.2.	2	2	2	2.0
4.3.	3	2	1	2.0
4.4.	3	3	3	3.0
4.5.	2	2	2	2.0
Average frequency of occurrence of risks at the level of the period	2.5242424	2.4950758	2.4450758	2.43185

Source: Made by the author

Based on the evaluation, a distribution of the identified risks was carried out on the audit areas during the studied period using an evaluation scale from 1 to 5 and a risk evaluation matrix as presented in Table 12, respectively Table 13:

Table 12. Distribution of risks identified by audit areas

Year/risk category	Very low risk 1	Low risk 2	Average risk 3	High risk 4	Very high risk 5	Annual risk assessment (average frequency of occurrence of risks by identified risk category)
2020	4	16	13	7	0	2.5242424
2021	4	17	13	5	1	2.4950758
2022	5	16	13	5	1	2.4450758
total risk factor occurrences in the period	13	49	39	17	2	2.4881313

Source: Made by the author

Table 13. Risk assessment matrix (probability and vulnerability)

Vulnerability	significant	Average 39	High 17	Very high 2
	potential	Low 49	Average 39	High 17
	negligible	Very low 13	Low 49	Average 39
		Negligible	Potential	Significant
		Probability		

Source: Made by the author

At this stage, an average of the frequency of occurrence of risks was made, which was reported to the risk category identified in the reference period, namely 2022-2022, as can be seen in Table 14 and graphically represented (Figure no. 2) the evolution of the risks studied during the reference period.

Table 14. Average frequency of occurrence of risks related to the identified risk category

Index	Synthetic description of risk source	The average frequency of occurrence of risks related to the category of identified risks			Manifested trend in control risk
		2020	2021	2022	
1	Management aspects	3.1666667	3.2500000	3.2500000	Significant risk
2	The accounting environment	2.3636364	2.3636364	2.3636364	Potential risk
3	The operational environment	2.1666667	2.1666667	2.1666667	Negligible risk
4	Audit aspects	2.4000000	2.2000000	2.0000000	Potential risk
	Average of the annual risk occurrences	2.5242424	2.4950758	2.4450758	Potential risk

Source: Made by the author

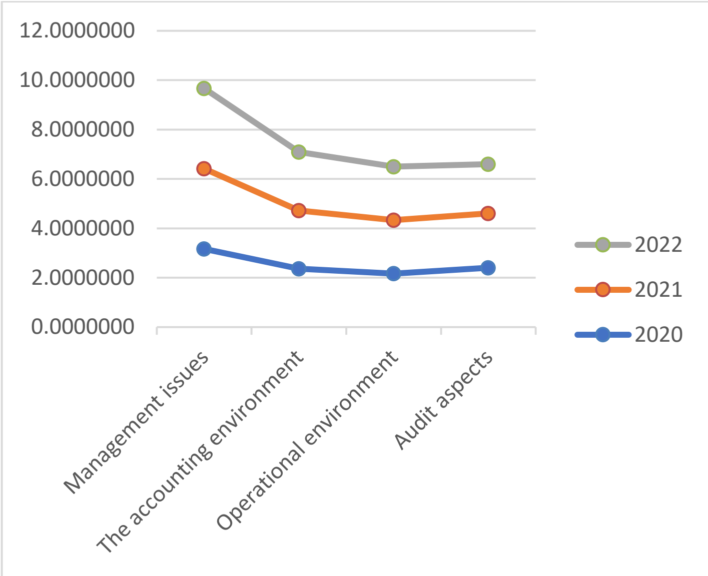

Figure 2. Evolution of identified risks 2020-2022

Source: Made by the author

7. Conclusions

The company presents a negligible risk associated with carrying out a quality financial audit, at the level of 2020. In 2021, there is a high risk associated with aspects related to management (for example, the desire to maintain earnings), which is also maintained at the level of 2022.

However, there is an improvement in the evolution of the indicators regarding the assurance of quality management at the level of the human resource employed in the position of auditor, an aspect that constitutes the premise of a quality financial audit, independent of the attitude towards risk of the audit company's management.

As a result of the analysis of the requirements of the international standards on audit quality management, it can be concluded that the audit company has the obligation to review its audit quality management system in order to create conditions for conducting audit inspections in accordance with professional standards.

According to the performed applied study, it can be observed that at the level of the Company, a financial audit quality management system is not implemented, the current internal regulations being still associated with quality control and not quality management.

Considering the transition to quality management standards, more critical analysis and internal restructuring will be required on the part of the audit entity than simply connecting to the revised standards so far.

Correlating the results of this study with the validation or invalidation of the research hypotheses, we conclude as follows:

a. The methods, techniques and tools for carrying out the financial audit must be perfectly adapted to the needs of the quality management.

The identified problem: A financial audit quality management system is not yet implemented, the current internal regulations are still associated with quality control and not quality management.

b. The audit companies in our country can quickly adapt their procedures for the transition from quality control to quality management of financial audit engagements

The identified problem: The financial audit methods and techniques are presented in the working documents according to the procedures established in 2019. It means that the company must ensure a constant update of the working procedures, in order to adapt to national and international regulations.

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