

audit FINANCIAR

Anul XIX, nr. 164 - 4/2021

4/2021

- Al VII-lea Congres al profesiei de auditor financiar din România:
MODERNIZAREA PROFESIEI DE AUDITOR FINANCIAR ÎN CONTEXTUL ACTUALELOR PROVOCĂRI GLOBALE
- 7th Congress of the Romanian Audit Profession:
RESHAPING THE FINANCIAL AUDITOR PROFESSION IN THE LIGHT OF THE CURRENT GLOBAL CHALLENGES



- 100 de ani de profesie contabilă reglementată în România
- IFRS: provocări „la zi” pentru auditorii financiari
- Structura pieței de audit financiar în Uniunea Europeană din perspectiva onorariilor
- Factorii care influențează raportarea aspectelor cheie de audit
- Fundamentarea deciziilor privind investițiile de portofoliu pe baza opiniei de audit

- Regulation of the Romanian Accountancy Profession – 100 years Celebration
- IFRS: Up-to-Date Challenges for Financial Auditors
- The Structure of the Financial Audit Market in the European Union from Fees Perspective
- Factors Influencing KAM Reporting
- Can the Audit Opinion Influence the Portfolio Investment Decisions?

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Cu prilejul celui de-al VII-lea Congres al profesiei, Consiliul CAFR a conferit Premiul pentru cercetare științifică **prof. univ. dr. Maria Manolescu** și **prof. univ. dr. Vasile Răileanu**. Au fost premiate și două importante lucrări de cercetare științifică din anul 2021, publicate în revista „Audit Financiar”.

On the occasion of the 7th Congress of the Profession, the Council of CFAR granted the Award for Scientific Research to **Univ. Prof. Maria Manolescu, Ph. D.** and to **Univ. Prof. Vasile Răileanu, Ph. D.** Also, awards were granted for two important scientific research papers in 2021, published in "Audit Financiar".

Fundamentarea deciziilor privind investițiile de portofoliu pe baza opiniei de audit în cazul firmelor cotate / Can the Audit Opinion Influence the Portfolio Investment Decisions? The Case of Listed Companies



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4/2021

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7th Congres of the Romanian Auditor Profession, 29 October 2021

Revistă editată de
**Camera Auditorilor Financieri
din România**

Str. Sirenelor nr. 67-69, sector 5,
București, OP 5, CP 83

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Indexare în B.D.I.:

Cabell's;
Deutsche Zentralbibliothek für
Wirtschaftswissenschaften;
DOAJ;
Ebsco;
ERIH PLUS;
Global Impact Factor;
Google Scholar;
Index Copernicus;
ProQuest;
Research Papers in Economics
(RePEc);
Ulrich's

Marcă înregistrată la OSIM,
sub nr. M2010 07387

Telefon: +4031.433.59.22;

Fax: +4031.433.59.40;

E-mail: auditfinanciar@cafr.ro;
revista@cafr.ro; <http://revista.cafr.ro>;
facebook.com/revistaauditfinanciar

ISSN: 1583-5812,

ISSN on-line: 1844-8801

Tipar: SC Print Group Serv SRL
Str. Baicului nr. 82, sector 2, București
e-mail: office@printgroup.ro

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- the article must mention the title, the research methodology used, authors' contributions, the impact on the accounting profession and the references;
- an Abstract is compulsory, which must be written at the 3rd person plural, presenting the subject of the research, the main problems and authors' contributions;
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4/2021

Journal published by the
**Chamber of Financial Auditors
of Romania**

67-69 Sirenelor Street, District 5,
zip code 050855, Bucharest, OP 5,
CP 83

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International Databases:

Cabell's;
Deutsche Zentralbibliothek für
Wirtschaftswissenschaften;
DOAJ;
Ebsco;
ERIH PLUS;
Global Impact Factor;
Google Scholar;
Index Copernicus;
ProQuest;
Research Papers in Economics
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Ulrich's

OSIM Trademark no. M2010 07387

**Chamber of Financial Auditors
of Romania**

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Fax: +4031.433.59.40;

E-mail: auditfinanciar@cafr.ro;
revista@cafr.ro;

<http://auditfinanciar.cafr.ro>;
facebook.com/revistaauditfinanciar

ISSN: 1583-5812,

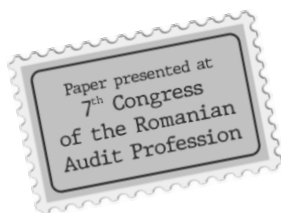
ISSN on-line: 1844-8801

Printing:

SC Print Group Serv SRL

Str. Baicului nr. 82, sector 2, București

e-mail: office@printgroup.ro



Regulation of the Romanian Accountancy Profession – 100 Years Celebration. A History Lesson for Today's Professionals

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Abstract

On July 15th 1921, the Official Journal of Romania witnessed the publication of the Law on the organization of the Body of Licensed and Expert Accountants.

The longtime wish of higher school of business graduates thus became true, they established their first association in 1888. Since then, until the law was published, the regulation of the accountancy profession was the main topic of various discussions and attitudes, of several pleadings addressed to public authorities and debates held at the meetings of a multitude of institutes representing these graduates' interests, grouped within the Union of Business Schools Graduates, subsequently the Body of Higher Schools of Business Graduates, which acquired legal personality in 1916.

There were also other subjects, directly related to accountants' activity, that drew the graduates' attention, both before and after the law was published, such as: censors' statute, accounting expertise, visas on trade registers; business education reform; the Body's relations with authorities.

A number of public figures linked their faith to asserting the accountancy profession, its regulation and the ongoing representation of its interests. We should mention here, among many other, Nicolae Butculescu, I. St. Rasidescu, Vasile M. Ioachim, Petru Drăgănescu-Brateș, Grigore Trancu-Iași, George Alesseanu, Spiridon Iacobescu, Alexandru Sorescu.

An important activity of the Body was the organisation of congresses. They began taking place every two years, uninterruptedly, starting 1923 until 1939.

The activity of the Body of Expert and Licensed Accountants was influenced by the political and social events of its time, especially since 1935. Beginning with 1940, its activity saw a significant decrease.

To cite this article:

Botez, D., (2021), Regulation of the Romanian Accountancy Profession – 100 Years Celebration. A History Lesson for Today's Professionals, *Audit Financiar*, vol. XIX, no. 4(164)/2021, pp. 693-705, DOI: 10.20869/AUDITF/2021/164/022

To link this article:

<http://dx.doi.org/10.20869/AUDITF/2021/164/022>
Received: 3.08.2021
Revised: 18.08.2021
Accepted: 1.09.2021

On 13 March 1951, by the decree of the Presidium of the Great National Assembly of the People's Republic of Romania, the Body was disbanded. The first legal acts regulating the accounting expertise activity in line with period-specific trends were published in 1957 and 1958.

After 1989, the Romanian accountancy profession regained its statute and is represented by the two professional bodies, the Body of Expert and Licensed Accountants of Romania and the Chamber of Financial Auditors of Romania. These bodies, and along with them, Romanian professional accountants, joined the regional, European and international professional organizations.

Key words: *accountancy profession; history of the accountancy profession; Romanian accountancy profession*

JEL Classification: *M40, M41, N93, N94*

Introduction

The regulation of the Romanian accounting profession dates back 100 years. The law on the organization of the *Body of Expert and Licensed Accountants of Romania* was voted by the Chamber of Deputies on 18 June 1921, by the Senate on the 1st of July 1921, signed by King Ferdinand on 13 July 1921 and published in the Official Journal of 15 July 1921.

This event was the success of more than 30 years of intensive and ongoing efforts of promoting accounting professionals. The actions carried out by people who devoted most of their time to supporting professional associations led to this moment, and even afterwards, they continued to fight for the enforcement of the law and the acknowledgement of the accountancy profession.

These godsend individuals, the majority of which were graduates of higher schools of business, some of them professors at the Academy of Higher Business and Trade Studies, laid the foundations of the profession today. Their memory deserves to be honored and cherished.

Even if, in time, various circumstances led to the existence of two professional qualifications within the Romanian accountancy profession, of expert accountant and financial auditor, the people back then, during that period, formed an accountancy profession that provided the professional services nowadays shared and separated between the two professional bodies. The censors of that

period, for example, can be considered the ancestors of the current financial auditors.

A journey back in time is needed and important, in order to highlight the significant stages of the emergence and development of the Romanian accountancy profession, while naming the people without which these would not have been possible.

The beginnings

We consider that the first significant moment in the process of emergence and development of the Romanian accountancy profession is represented by the education reform initiated by the ruler Alexandru Ioan Cuza.

Even before this there were accountants and accounting records. The rulers of Wallachia and Moldavia kept rigorous books on stewardship, receipts and tribute paid to the Ottoman Empire. Merchants had their own rules of recording business and sent their young to study trade in Italy and other Western European countries. Accounting literature already witnessed important benchmarks, such as the works of Emanoil Ioan Nichifor, Dimitrie Jarcu and Ion Ionescu de la Brad.

In November 1864, the *Law on education applicable in the Romanian United Principalities* was published, establishing the primary mandatory education for children of both sexes, between 8 to 12 years.

Section III of this law, *On science education*, stipulates: "Business schools are to be established in the cities of Bucuresti, Iasi, Galați, Brăila, Ploesti, Craiova and Turnu-Severinu." Children between 12 and 18 years were admitted to these schools, former graduates of primary school. The length of studies was set to 4 years.

That year, Theodor Ștefănescu, son of a merchant, student at St. Sava high-school in Bucharest, left high-school, together with 4 other colleagues and enrolled at the recently opened business school.

Theodor Ștefănescu

He was born in Bucharest in the year 1842. An important part of his activity was related to the accountancy chair of the Higher School of Business in Bucharest, of which he was a professor until 1901. He was also the principal of this school. His accountancy course, published in 1874, entitled "Double party accountancy course", was republished several times.

In 1880, upon the establishment of the National Bank of Romania, he was appointed as its director, being reelected seven times within his 28 years of service. He was vice-governor and even governor between 1907-1909. From this position, he supported many series of graduates of higher schools of business in choosing their profession.

Nicolae Butculescu was a deserving student of the higher school of business in Bucharest. He had Theodor Ștefănescu as one of his professors and he graduated in 1886. In the first issue of the *General Business and Accountancy Magazine*, no. 1/1908, the article *The role of business schools graduates* was published, from which we shall now quote: "When business schools were first created in our country, the objective was to provide the country with young trained and active, capable of taking a leading role in business, at some point. Unfortunately, this desire, at least from the Romanian perspective, did not fulfil, given that only a few sons of merchants enrolled at the business schools."

Nicolae Butculescu

He graduated business studies in Anvers, in 1889 and, upon his return to the country, he enrolled at the Business Studies Club. His name is linked to all the significant events asserting the Romanian accountancy profession, both before and after its regulation by law.

He acted as vice-manager and manager of the Royal House.

He was Dean and Honorary Dean of the Body of Licensed and Expert Accountants of Romania until his passing, in 1944.

After the country gained its independence, in 1878, the economic situation made it difficult for the graduates of the higher schools of business. It was then when the idea of an individual professional association was born, capable of debating all pending concerns and representing professional interests. Consequently, in 1888 the first grouping of graduates was formed, under the name "The Club of Higher Business Schools Graduates", which subsequently changed its name into "The Association of Higher Business Schools Graduates". Afterwards there were other professional bodies that emerged, representing the interests of various categories of graduates.

Steps towards the regulation of the accountancy profession

On 22 April 1901, when Professor Theodor Ștefănescu was celebrated on the occasion of his retirement, after 30 years of teaching, the participating graduates began discussing the older idea of requiring the regulation of the right to carry out accounting expertise. The discussions took the form of a memoire addressed to the President of the Bucharest Chamber of Commerce. Among the participants, we can name Nicolae Butculescu and Grigore Trancu-Iași.

During the first congress of the graduates of the higher business schools, in 1906, one of the topics focused on "the need for regulating the accountant and expert accountant profession", together with other issues related to their activity. This meeting anticipated the establishment, in 1907, of the Union of Graduates of Higher Business Schools, by the merger of existing associations, under the chairmanship of I. H. Rasidescu. During this same congress the launch of a magazine was also decided.

In 1908, the first issue of the *General Business and Accountancy Magazine* (RGCC) was published, coordinated by the Union of Graduates of Higher Business Schools, headquartered in Bucharest. When the first issue was published, on 31 January 1908, the editorial board consisted of:

- St. Rasidescu, merchant and trader, President of the Union of Graduates of Higher Business Schools, Bucharest
- G. Lucian Boltuș, with a Ph. D. in Public Science, Head Accountant of the Central Agricultural Credit institution
- Ulpiu Hodoș, trader, former professor at the business school
- N. Butculescu, Business science graduate, former professor at the business school
- Al. G. Spirescu, Former bank director, professor at the Herăstrău Agriculture School
- G. M. Eftimiu, Banker, diplomat of the Higher School of Political Sciences in Paris
- Gheorghiu, accountant at the Natural Gas and Electricity Company

- Otto Herbst, representative of the national paper factories
- V. I. Stănculescu, accountant at the Agricultural Bank and Romanian Weaving Factory
- Isac Rosen, accountant, professor at the “Cultura” business school
- Th. Sersca, official within the Public Debt Department
- I C. Negrescu, accountant at the public liability company “Petrolifera”, editorial secretary
- G. Plopeanu, accountant at Public Sugar Refining Factory, manager, Bucharest

Among other collaborations, we can name the following:

- I G. Munteanu, Principal of the Galați Higher School of Business, business graduate
- Chr. Staicovici, Secretary of the Bucharest Chamber of Commerce
- Gh. Alesseanu, Professor at the Bucharest Higher School of Business, Secretary of the High Court of Accounts
- G. L. Trancu, Lawyer and Professor at the Galați Higher School of Business
- Spiridon Iacobescu, Head accountant of the Bucharest Trading Bank
- Petre Drăgănescu, Lipsca, State scholarship holder, business studies
- D. Mociorniță, Paris. State scholarship holder, business studies

In 1908, the *General Business and Accountancy Magazine* publishes the announcement of the Ministry of Trade and Industry on the call addressed to higher business schools' graduates for two business and trade practice abroad.

I. St. Rasidescu

Graduate of the Bucharest higher business school in 1883, on the 22 June of the same year he joined the National Bank of Romania, where he worked until 1890. He started a trade and business activity that led, in 1915, to one of the most developed

businesses in the field of graphic art, the Institute of Graphic Art “Carol Gobl” S-sor I. St. Rasidescu. In 1915, at the age of 50, I. St. Rasidescu acted as Chair of the Body of Higher Schools of Business Graduates, President of the Trade Council, member of the Bucharest Chamber of Commerce and of the Workers Association.

He attended the first assembly in 1888 when the establishment of the Graduates Club was decided. Unfortunately, he passed the following year, in 1916.

In November 1908, the *General Business and Accountancy Magazine* publishes the pleading addressed to the Ministry of Trade and Industry by the unions of higher schools of business graduates, on the organization of the Body of Accountants.

At the end of 1908, there were 14 “bodies” of graduates, on whose flags it was written on one side “Honesty and Work”, and on the other “Protecting the interests of our profession by obtaining a law meant to restrict and determine accountants' duties and rights”.

During the XIth Congress of the Chambers of Commerce and Industry, held in Focșani between 21-22 May 1910, several measures related to business education were proposed, such as:

1. Business secondary schools are to be established in all county capitals;
2. Higher business schools are to be established in all county capitals where there are branches of the Chamber of Commerce;
3. Business university courses are to be organized by the universities in Iași and Bucharest.

In 1912, the *General Business and Accountancy Magazine* publishes a letter addressed to fellow deputies, given that five graduates of the business schools were deputies, among which the secretary of Ministry of Trade and Industry, summing up graduates' claims:

«1. The law on the body of accountants – as it is well known, nowadays anyone, absolutely anyone, can be an accountant. No qualification is required, no permit to carry out this profession – therefore no obligation is involved, no responsibility, no penalty can be imposed to an accountant.”

2. Modification of a part of the commercial code on public limited companies – All public limited companies should have, in their managing boards, especially in the censors' board, at least a graduate of a business school, whether elected or appointed.
3. All ministries and State-owned companies should exclusively use for their accounting services business school graduates.
4. Expert accounting – there is no norm, no regulation for the judges when selecting an expert accountant
5. Business education – business professors are not adequately trained
6. The body of higher schools of business graduates should be acknowledged as an autonomous legal person»

Establishment of the Academy of Higher Business and Trade Studies

In October 1912, The Body of Higher Schools of Business Graduates sent a pleading to N. Xenopol, the minister of Trade and Industry, on the need of establishing a higher business education institution, a Business Academy, a Trade Faculty, in order to overcome certain social- related issues: matching the cultural level represented by the MSc diplomas awarded to the leaders of various Romanian public and private activity areas of the time; and this Business Academy will provide the teaching staff for many of the national business schools.

In the 3rd issue/1913 of the General Business and Accountancy Magazine the explanatory memorandum of the ministry of Trade and Industry, N. Xenopol, was published, related the draft law on the creation of the Academy of Higher Business and Trade Studies: «However, we completely lack a business education system, of a truly high quality, a school which, according to the dean of the Cologne business faculty, is capable to train young students who will serve the big trade by “understanding the subtleties of the economic architecture, which tend to increasingly overcome national barriers” and teach them to quickly move from findings to practice and “enables them to meaningfully acquire the rich intellectual and moral culture offered by the economic scene itself, to all those adequately equipped to receive it”.

At that time, all countries set the foundations of this business education, of a truly high quality.

If 15 years ago there were only 5 or 6 of these schools in the entire world, and barely three in Europe..., today there is no civilized country without at least a Business Academy or Faculty, accompanied by several secondary or higher schools- such as those existing in our country, which, in certain areas, are tens or even hundred years old.

In our country, the need for such an education system is felt nowadays more than ever. Besides the duty – dictated by the progress registered by all other countries – of matching our merchants and traders with their foreign fellows, to allow them to fight with the same weapons, the political transformation should be taken into account, which is on the point of taking place in the immediate proximity of our borders.»

The law on the establishment of the Academy of Higher Business and Trade Studies was published in the Official Journal of Romania no. 12 of 13 April 1913.

Moving forward towards regulation

On 17 February 1916, King Ferdinand signed the law acknowledging the legal personality of the “Body of Higher Schools of Business Graduates”.

In 1918, the “Association of Graduates in Business Science” was set up, as well as the “Business Studies” Club. During the Club's meeting on the 5th of May 1919, Petru Drăgănescu-Brateș hold a speech during the conference on *The status of Expert Accountants in Romania*, when he gave the notion of „expert accountant” a larger meaning than that of legal accounting expertise. Following this conference, it was agreed that a draft norm on the regulation of the expert accountant was to be prepared, by Prof. Vasile M. Ioachim, Ph. D. and Petru Drăgănescu-Brateș, Ph. D. This draft was amended by provisions regarding the accountancy profession in general, upon the recommendation of N. Butculescu to take into account the 1908 draft. This draft was debated by the members of the Business Studies Club. It was also made available, at national level, and shared among all

accountants, but few proposals and observations were received.

Vasile M. Ioachim

Vasile M. Ioachim (1891-1976) was an assistant, lecturer and professor at the Academy of Higher Business and Trade Studies.

He attended the higher business school in Ploiești, based on a scholarship awarded by the State. He also attended the Higher Business School in Berlin (1911-1912), where he was the student of Werner Sombart. Beginning with 1912, he worked for the National Bank of Romania and the Bucharest Chamber of Commerce and Industry.

Between 1921-1939 he was the manager of the Body. In 1925 he also appears as vice-president of the Ploiești Stock Exchange, and in 1927 as the latter's President.

He was vice-president of the Body of Higher Schools of Business Graduates.

The Official Journal of 10 September 1920 saw published the explanatory memorandum presented in the Assembly of Deputies of the draft law on the regulation of the accountant and expert accountant profession.

Petre Drăgănescu Brateș

Petre Drăgănescu Brateș graduated the Bucharest higher school of business, valedictorian in 1904.

In 1915, in the first issue of the General Business and Accountancy Magazine, the Managing Board comprises, among others, Petre Drăgănescu, National Bank, Professor.

Petre Drăgănescu opened the series of conferences of the Business Studies Club in 1919 with the conference entitled "The status of Expert Accountants in Romania" and he marked the second year of the Club on the 5th of December 1920 with the conference "Business Education in Romania in connection with the country's economic needs".

In 1924, in relation with Petre Drăgănescu, in the section entitled "Fellows" from the General Business and Accountancy Magazine, it is mentioned that he left for Vienna to work on the closing balance sheet of the previous Austro-Hungarian Bank.

In February 1921, the labor minister, Grigore Trancu-Iași, and the deputy and questor of the Chamber, Virgil Slăvescu were invited, among others, at a graduation charity event. On this occasion, Grigore Trancu-Iași asked Virgil Slăvescu to work on the draft law. The very second day, the draft was back on the table and sent to the Chamber's President to be submitted to the Labor Commission for debate. Virgil Slăvescu was also one of the members of this commission.

Grigore Trancu-Iași

Born on 23 October 1873, in Târgu Frumos, Iași county, in the household of the Armenian merchant Lazăr Trancu, former mayor assistant and central figure in the city. Between 1884 and 1890 he attended the courses of the Business school in Iași, where he was the student of Constantin Petrescu. In 1901 he enrolled the Law Faculty of the „Al.I. Cuza” University.

Beginning with 1933, after obtaining his PhD title in economic science, he was appointed professor at the Academy of Higher Business and Trade Studies of Bucharest. During his academic activity of more than 25 years (1913-1939), Grigore Trancu-Iași contributed to the development of the Romanian economic education.

In 1917 he founded the Labor Party, which was only active for a year and in 1918 he joined the People's Party, founded by Alexandru Averescu. In the inter-war period, he was member of two governments led by Averescu: as a Labor and Social Protection Minister – ministry created by his initiative – between March 1920 – December 1921 and Minister of Labor, Cooperation and Social Security, between March 1926 – June 1927.

He was member of the associations of higher schools of business graduates, as a supporter and promoter of the law regulating the accountant profession. He was honorary president of the Body of Licensed and Expert Accountants until his passing, in 1940.

On the 1st of April 1921, the Labor Commission issued a favorable report on the draft law, accompanied by several amendments, before the law was debated by the Assembly of Deputies. One of the commission members was Virgil Madgearu, the future minister.

These amendments were not accepted by the initiators of the law, the higher business schools graduates, who organized two "protest meetings", on April 10 and 17. Nicolae Butculescu, Vasile M. Ioachim, G. Leonte, T. A.

Teodoru, N. Arghir, S. Blumenfeld, C. Hurmuzache represented the graduates' interests and presented their arguments.

On June 18th, the law was voted by the Chamber of Deputies. An essential role was played by the deputy D. R. Ioanițescu, president of the commission, professor of the Business Academy. On July 1st, the Senate also voted the law. It was signed by King Ferdinand on 13 July 1921 and published in the Official Journal of 15 July 1921.

The activity of the Body of Licensed and Expert Accountants

Even from its initial stage, the law depicted a democratic exercise, difficult to match, even for our current period. Thus, the Superior Council of the Body comprised appointed and elected members. Appointed members ensured the continuity of measures meant to stabilize the profession within its normal coordinates and represented at the highest level the professionals' interests, based on geographical considerations. All eight regions of the Greater Romania had a representative in the Superior Council, elected by the branches in each region.

The law on the organization of the "Body of Licensed and Expert Accountants of Romania", in its 1921 form, provided the following:

"The Superior Council is composed of:

- a) the president of the Bucharest Chamber of Commerce, or a delegate;
- b) the rector of the Bucharest Academy of Higher Business and Trade Studies or a delegate and an accounting professor;
- c) a director of the Romanian National Bank;
- d) the director of the Business School or a delegate;
- e) the president of the Body of Higher Schools of Business Graduates or a delegate;
- f) the president of Bucharest branch and three elected members of the Bucharest branch;
- g) a representative of the branches in Muntenia, Oltenia, Dobrogea, Moldova, Transylvania, Banat, Bucovina and Basarabia, elected by the branch committee of each of the 8 regions."

On 6 November 1921 the first Superior Council of Body was constituted, with the following structure:

- Grigore Trancu-Iași, honorary president
- Nicolae Butculescu, president and dean of the Body
- Gheorghe Leonte, secretary general
- Vasile M. Ioachim, vice-president of the Ploiești Stock Exchange, Muntenia delegate – director
- Petru Drăgănescu-Brateș, superior officer at the National Bank, Bucovina delegate, standing delegation member
- Dem. Constantinescu, standing delegation member
- Nicolae Arghir, director in the Ministry of Trade and Commerce, member
- Stanislas Cihoski, rector of the Academy of Higher Business and Trade Studies, member
- Dimitrie Dumitriu, director of the Râmnicu Vâlcea branch of the National Bank of Romania, Oltenia delegate, member
- Grigore Eremia, director in the National Bank, member
- C. Lungu, director of the Chișinău branch of the National Bank of Romania, Basarabia delegate, member
- Ion Negrescu, vice-director at the Affordable Housing Company, member
- Spiridon Iacobescu, professor of the Academy of Higher Business and Trade Studies, member
- Ilie Mecu, director of the Constanța branch of the National Bank of Romania, Dobrogea delegate, member
- V. Th. Orghidan, vice-president of the Bucharest Stock Exchange, member
- V. Popovici, trade inspector, Banat delegate, member
- E. Pașcanu, director of the Bucharest Higher School of Business, member
- V. Puiu, director of the Galați branch of the National Bank of Romania, Moldova delegate, member
- D. Rațiu, director of the Agricultural Bank in Cluj, Transylvania delegate, member
- Christian D. Staicovici, secretary general of the Bucharest Chamber of Commerce, member

After the law was issued, the main interests of the Body management were to ensure its enforcement.

In 1921, Spiridon Iacobescu makes certain observations in the *General Business and Accountancy Magazine*, after the law was published, on issues to be taken into account: the practice of the accountancy profession; expertise and counter-expertise; censorship in public limited liability companies.

During the meeting of 1 September 1922, the report presented by the standing delegation to the Superior Council mentions that the composition of the Council was amended by regional delegates: Dominic Rațiu – director of the Agricultural Bank in Cluj, Transylvania delegate, member; V. Puiu – director of the Râmnicu Vâlcea branch of the National Bank of Romania, Oltenia delegate; C. Lungu, director of the Chișinău branch of the National Bank of Romania, Basarabia delegate; Petre Drăgănescu from the National Bank, Bucovina delegate and V. M. Ioachim, director of the Body, Muntenia delegate. At that time, the Body comprised 49 branches, the most recent ones from Basarabia: Soroca, Tighina and Bălți, from Ardeal: Lugoj and Zalău, and from Muntenia: Dâmbovița.

The main issues the management of the Body focused on were discussed in the management bodies meetings, were reflected by various articles published in the *General Business and Accountancy Magazine* and/or debated during the congresses held beginning with 1923. These issues mainly consisted of the following:

Business and accounting expertise

Art. VI of the law on the organization of the Body of Expert and Licensed Accountants stipulates: "Financial, administrative and legal authorities shall use an expert accountant from the body's register for any expertise related to bankruptcy and default cases, judgements where accounts and tax charges are imposed, inventories and balance sheet-related arbitrage, shared management, revenues and expenses decisions, based on experience and rotation criteria, to the extent possible."

Unfortunately, this provision was not taken over in the Commercial Code, therefore, many years after the law was published, the management of the Body fought for its application.

In 1928, a deputy inquired the ministry of justice why legal courts appointed as business experts individuals other

than those stipulated by law, namely the members of the Body. As a consequence, the minister of justice sent a message to all national legal courts to abide by the law.

In 1934, the Body sent a pleading to the minister of finance regarding the appointment of expert accountants by the appeal commissions. The appointment was made by the Ministry of Finances who only included in the list 30-40 expert accountants in Bucharest and 3-4 regional experts, thus affecting the Body's appointment. We shall hereby quote from the pleading: "We have been fighting for years to stop the de facto monopoly on the expertise activity, which always caused severe and rightful dissatisfaction. If we were not able to reach the legal courts on the rotation stipulated by law, in terms of tax expertise we managed to give a shape to this principle, by introducing a limitation to a single expertise per month, with the support of the minister back then, Virgil Madgearu. Because of this legal disposition, last year, from the 220 expert accountants listed in the ministry-approved register, 150 accountants carried out expertise services, compared to 10-20 as before. Whereas now, by limiting the number of individuals entitled to carry out tax expertise services to 30, the monopoly is being reintroduced, and this time under a legal umbrella."

Company censors

Regarding the censors, the law stipulated, under art. V: "At least one of the members of the censors' committee of public limited companies with a capital of at least 5 million lei, established after the publication of this law, shall be expert or licensed accountants, observing all the requirements imposed by the code of commerce."

The first article on censorship was published in 1914 in the *General Business and Accountancy Magazine*, signed by Alexandru Sorescu, at that time officer of the Trading Bank, future professor of the Academy of Higher Business and Trade Studies.

On this topic, the law was again applied with difficulty, following several pleadings addressed to authorities.

In July 1921, Alexandru Sorescu already raises several issues in the article "Accountants, beware!", where he notices that the publication of the law was a difficult process, but its application is even more difficult. In terms of the legal provision to have at least an expert accountant in the censors' committee of public limited companies whose capital equals at least 5.000.000 lei, he

mentions that these companies do not hurry to apply this requirement. He highlights the challenge comprised by the fact that the law did not foresee any non-compliance sanctions.

Closing and endorsing traders' registers

The code of commerce stipulated that trade registers had to be annually closed and endorsed, for conformity, by commercial courts.

On the status of accountants, the law mentioned, under art. II: "The profession of licensed accountants working for the State and commercial undertakings, of a capital exceeding 500.000 lei, which are loan beneficiaries, as well as the expert accountant professionals working with legal, administrative, financial authorities, shall only be carried out by individuals- members of this body.", and under art. V: "The undertakings in art. II will not be entitled to receive the endorsement visa on their registers from the commercial courts, unless their registers are signed by a licensed accountant." But the same law stipulated that the entrepreneurs keeping their registers by themselves were exempted from this obligation.

Moreover, it was found that, when endorsing registers, the court made observations on their accuracy, which exceeded their powers.

In 1925, the Bucharest Court of Appeal received a claim from "Alianța" public limited company, contesting the closing visa of the court on the ledger, arguing that it was inadequately kept, since daily operations were not registered; it admitted the appeal and ruled that the court "shall apply on the registers kept by the undertaking, upon their submission at year end, under the last record, the Court visa in the wording expressly dictated by this text, without any control on the adequacy and order of the register operations."

In 1933, the proposal for the General Ledger to be introduced as mandatory register was approved. At that time, the mandatory registers were the ledger and the inventory. Also, another proposal was to have the registers adequacy certified in advance by the signature of an expert or licensed accountant.

Introducing double party accounting in public administration

This topic was an ongoing concern for Body members, but the public administration's attitude did not always raise to the expectations.

In 1925 a pleading was sent to the minister of finances, claiming that the appointment of specialized staff was limited to those observing the requirements in the respective Body law and the accountants were not included in these provisions.

In 1929 a public accounting reorganization process was launched, calling upon foreign experts from countries where this reform had been initiated but without a broad consultation with Romanian experts. Prof. G. Alesseanu had been appointed as a member of the newly created commission, however, despite all assurances expressed by the minister of finances, M. Popovici, Romanian experts were not consulted.

Trade schools graduates' enrolling at law faculties

An issue on which the management of the Body sent countless pleadings to various education ministers and covered many years was the request that trade schools graduates, higher or secondary courses, were allowed to take the law faculty exam. Even after the reforms of the education system, which no longer foresaw such situations, these graduates' access was restricted. For example, higher studies graduates were allowed to take the exam including at the Academy of Business Studies.

The Congresses of the Body

In accordance with the regulatory provisions on the organization and functioning of the Body, congresses were organized every two years, beginning with 1923. They were true discussion fora on different challenges often faced by Body members. The topics under debate were directly and openly presented, under all their positive and negative aspects. During every Congress, V. M. Ioachim, the chair of the Superior Council, presented a report on his activity and a general report of the Body.

The first congress was held in **Bucharest**, on 27 – 28 May 1923, at the Carol I Foundation. Here is a quote from the article signed by Petru Drăgănescu-Brateş published before the Congress in the *General Business and Accountancy Magazine*, entitled “Our Congress”: “Why did we choose the month of May? Because it is the nicest weather to travel, because the needs of spring weigh on us less than the needs of autumn, in terms of mind and pocket and the impetus of the mind is freer and more spontaneous. Why the agenda comprises general cultural-economic topics instead of professional business issues, such as the debate surrounding the law on the Body of accountants? Because it was felt that our first gathering should not focus on small, petty talks, centered on profession; instead, starting from strengthening general interests, we will have afterwards the time to step towards consolidating our individual interests or our group-restricted issues.”

The second Congress was held in **Cluj**, in 1925.

The chair of this Congress was Nicolae Chirculescu. Here is a quote from his address: “Gentlemen! This is a reward of our work when we think from where our colleagues started and where we are now, from the darkness of the offices, lacking any solidarity, a toy in anyone’s hands, our colleague was splashed with mud the second day and thrown away like a squeezed lemon, since his work was no longer needed. Things have changed. Now you are a strong force and the proof is our Congress today and the topics to be discussed. These are general and relevant issues, which will show that we raise to the challenges of the problems we encounter.

Gentlemen! Allow me to say, when you gained certain rights, you must show your worthiness. Each one of us needs to highlight his work, to make proof of his honesty, to develop himself.”

In his Report, V. M. Ioachim mentioned that the number of regional branches reached 56.

The membership structure of the Body of Licensed and Expert Accountants at 31 December 1924 was:

Expert accountants	Licensed accountants	Trainees	TOTAL
2013	4901	453	7367

The number of members in all 56 branches is significantly different, depending on the geographical area and the town. The branches with a larger number of members were Ilfov, Craiova, Cluj, Galaţi, Oradea, Satu Mare, Timişoara. There were also branches without any expert accountants: Buzău, Călăraşi, Caransebeş, Deva, Orhei, Slatina, Soroca, Tecuci, Tighina.

Between the congresses, the articles published in the *General Business and Accountancy Magazine* outlined and discussed the membership of the Body.

In relation to members, in a complex article entitled *The institution of expert accountants abroad and in Romania*, V. M. Ioachim makes the following remark: “Before the 1921 law, we used to experience the same situation as in France, the only difference being that for us too few people made use of the expert accountant title, even if they were among the ones who were commissioned to carry out expertise engagements by the legal court, since this type of services were carried out by anyone, irrespective of their connection to accountancy.

In the effort to put an end to this, we went to the other extreme, because we considered as expert accountants all those who had taken a higher full time or evening business course and a number of years passed after their graduation, even if during that period they operated in agriculture, arts or army, so we managed to have more than 800 expert accountants in Bucharest.”

In his presentation on *The role of business graduates in the economic life, in relation to trade and industry*, he lists the reasons why business graduates were not significantly involved in the economic life: “I will refer to some of the main causes, to be able to analyze afterwards the means to remove them. These causes can be summed up as follows:

- 1) The material and social condition of students, namely business schools’ graduates
- 2) The lack of a defense mechanism of our profession
- 3) The lack of solidarity in relation to the Body
- 4) The preconceived ideas
- 5) The development of our economic life.”

In terms of the relation between the Body of Higher Schools of Business Graduates and the Superior Council of the Body of Expert and Licensed Accountants, in the former’s report for 1926, it is mentioned that: “the cultural activity and the social-economic stage go hand in hand.”

The third Congress was held in **Chişinău** on 14 – 15 October 1927.

In the opening of the Congress in Chişinău, Grigore Trancu-Iaşi took the floor: “It was with deep emotion that we travelled to Chişinău to express the Body’s power of solidarity which, even if only 6 years old, brings together central figures of our economic and financial stage, company managers, high private and public officials, members of the academia, irrespective of their political views and religious beliefs, guided by the only wish to pave a smooth way for our nation’s economic development.”

An important point of this Congress was the debate on the balance sheet model, to be used by public limited companies and cooperative undertakings. The related statement of reasons mentioned:

“In accordance with the balance sheet scheme, voted by the International Accounting Congress in Brussels, in July 1926, the Balance Sheet Model would comprise: under assets, the accounts listed and grouped after their degree of liquidity and under debts their degree of chargeability. The suspense accounts, listed at the end of the balance sheet, outside the body of the balance sheet, will include all values held for safe-keeping, administration or consignment, listed under main categories, and the pension funds or staff social assistance funds will be listed so that their separate placing and management is clearly illustrated in the balance sheet.

The law should require that the profit or loss account is published jointly with the balance sheet and comprises under the Credit category: all sources of revenues, including their gross amounts and under Debt: all expenses divided into relevant categories, illustrating production costs and taking into consideration tax law provisions.”

In his closing remark, Grigore Trancu-Iaşi added: “If 12 years ago I would have spoken to someone and told him that in 1927, in the month of October, a Congress will take place in Chişinău, gathering accountants from the Greater Romania, joined under a single Body, I would have been called a dreamer... Let us thank once again our friends in Chişinău, who welcomed us according to the Moldavian hospitality tradition... Many think that if three Romanians gather, they will fight over political or some other type of differences of opinion. I am glad that our Body taught a valuable lesson: no personal divergence was brought forward – despite the different ideals we all have.”

The fourth Congress of 1929, took place in **Constanţa** between 22-24 June 1929 and gathered over 200 members. Following the discussions therein, several motions were adopted, one regarding “the issue of the business education”, the other on “the issue of the Assurance and Pensions Institution”. A series of proposals on the amendment of the *Commercial Code* on the functioning of stock companies were also adopted, as well as a motion on expert accountants’ liability.

The fifth Congress of 1931, was also the **VIIth International Accounting Congress** and was held in Bucharest. The event took place under the presidency of professor Nicolae Iorga, President of the Council of Ministers. The guests included foreign participants from Spain, France, Belgium, Switzerland, Brazil, Italy, USA, the Netherlands, Austria, Germany, Bulgaria, Czechoslovakia, Turkey, Poland. Rene Delaporte, President of the French Union of Accounting Associations was one of the central figures attending this Congress.

In 1932 the first *General Directory of Romanian Accountants* was published, prepared by Alexandru Botez, Superior Council member and Constantin Vicol, lawyer. It was issued and published by the former’s printing house, called *Profit şi Pierdere*. This directory comprises a register of the Body, structured at county-level and for every county information on the respective region is included, its capital, number of inhabitants and the main economic activities in the region. The opening date of each regional branch is indicated. Then, the expert and licensed accountants, as well as the trainees are listed in alphabetical order, for some of them the address is mentioned, for some others the relevant education.

During the sixth Congress of 1933, organized on **Cernăuţi**, many of the discussions were centered on accounting unemployment – an important issue for the members. We hereby quote from the Congress question of order: “The members of the Body of Expert and Licensed Accountants, gathered within the VIth Congress in Cernăuţi, notice that the accounting unemployment is caused, let aside the economic crisis, by the legal and administrative measures, disregarding accounting and its benefits.

The Body hereby adopts a pledge to fight these measures and procedures, especially against the imposition system based on assessment and by rejecting trade registers.”

Beginning with 1935, the national events and circumstances, especially from a political point of view, led the Body's ongoing actions in the members' interests, always aware of the internal situation.

The VIIth Congress took place in **Timișoara**, on 22-23 September 1935. During his presentation, V. M. Ioachim refers to 67 branches aggregating 12.000 members. He complains that certain courts still use experts lacking the qualification required by law. The cooperation law included expert accountants providing expertise services in the field of cooperative establishments.

The VIIIth Congress of the Body was organized in **Galați**, on 19-22 June 1937. Looking back, V. M. Ioachim makes a summary of the possible achievements (which he calls desires) following the discussions and motions of previous Congresses:

- The introduction of double party accounting for State, municipal and local companies, by the 1929 law, a main discussion of the 1925 Congress held in Cluj;
- The balance sheet model, which was the main focus of the Chișinău Congress in 1927, was introduced, for that time, only for banks, by the Banking law of 1934;
- The amendment of the Commercial Code, debated during the congresses of Bucharest – 1923, Constanța – 1929 and Bucharest – 1933, was given appropriate follow-up;
- The business education reform debates were taken over in the recent reform, namely the continuity between the secondary and higher courses, the employment of professors among the graduates of the Academy of Higher Business and Trade Studies;
- The access of members, which were private servants, in the field of social assurance, due to the 1933 law;
- The benefits participation, a topic discussed during the Congress in Cluj, was required by law, for municipal companies and State – owned enterprises.

It was only in 1937, that the law on the Body was amended and included the provision that in order to register as a member, one had to be graduate of a high national or international business studies academy or graduate of a higher full-time business school.

In 1939, by the amendment of the Commercial Code, the closing and stamping of registers was taken over by the Registry of Commerce, instead of the courts. It was in the same year that the annual exercise notion was introduced by the tax law.

The last Congress of the Body, its IXth, was held between 26-27 February 1939, in **Brașov**. Concluding that economic skills based on titles and expertise were not acknowledged, as well as identifying the lack of enrollment norms for public and private services, the proposal for a College of Economists took shape (the Economic, Cooperation and Accounting College), to be in charge of control, discipline and professional qualification, as well as of qualification recognition, based on titles and the establishment of differences and various member categories.

From 1940, the branches of the Body were managed by interim commissions, appointed by labour minister decision. However, their activity decreased, in the light of the historical turmoil. Until 1946, the *General Business and Accountancy Magazine* continued to publish many articles highlighting the difficulties of the economic life and the expression of members' patriotism, by the voice of the Body management.

The *Body of Licensed and Expert Accountants of Romania* was disbanded by decree of the Presidium of the Great National Assembly of the People's Republic of Romania no. 40 of 10 March 1951, published in the Official Journal no. 31 of 13 March 1951. The decree was based on the Decision of the Council of Ministers no. 201 of 8 March 1951. Following this decree, all Body assets were taken over by the Scientific Association of Engineers and Technicians – ASIT. Between 1951-1953 this association comprised an "Accounting Registry" division.

The subsequent events casted a shadow on the accounting expertise activity and on the professional accountant profession, as a whole. New unprecedented rules changed the profession, despite all prior efforts and perseverance. Censors were no longer needed. Accounting lost its importance and was submitted to forces that no longer saw its true value. Accounting expertise was only later regulated, by two decrees of 1957 and 1958, in a limited form, subject to administrative procedures, far from the practice before. A decree in 1971 set out the framework governing the accountancy expertise until 1989.

On a final note: An arch over time

Romanian accountancy profession arose and developed in strong connection with the progress of the Romanian society in the modern age. Essential social transformations, such as industrialization, the development of the monetary and credit system, the reform of the education system, the evolution of the local capital and so on, called for the development of the accounting system and the rise of professionals. They came forward and played their part with responsibility and devotion. Major historical events completed the picture of circumstances shaping society. Their way of overcoming hardship and turmoil, still standing, not giving up their ideals and professional purposes, teaches us a valuable lesson.

After 1989, the accountancy profession took back its regulated character, as an independent and autonomous profession. The first step was the establishment, in 1992, of the professional association, the *Body of Licensed and Expert Accountants of Romania* (after the creation, in 1190, of a *General Association of Technical and Accounting Experts*), which set up local branches and organized professional training courses. In 1994, the Government Ordinance no. 65 established the *Body of Expert and Licensed Accountants of Romania*, as a legal non-profit public interest person.

This legal act also stipulated the requirements for obtaining the expert or licensed accountant title. Soon

after its set up, the Body was directly involved in the reform of the Romanian accounting system, initiated in 1994.

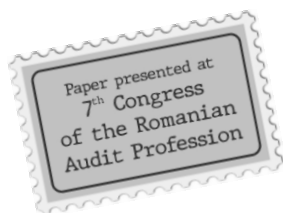
Towards the end of the '90s, the economic and accounting reforms triggered the need for an important professional accountant, existing in all worldwide developed economies, the financial auditor. It was in this context that the Government Emergency Ordinance no. 75/1999 was issued, laying down the requirements for obtaining the financial auditor qualification and the setting up the *Chamber of Financial Auditors of Romania*, legal public interest non-profit person, the professional body in charge of financial auditors.

Today, the two professional bodies are full members of the *International Federation of Accountants* – IFAC, of *Accountancy Europe* and of various regional structures. They also play an active part in discussing all relevant issues affecting professional accountants, having in mind their ongoing challenges, such as new information technologies, the digitalization of information and communication, business diversity, as well as the ever-changing demands of the economic environment.

A fact is certain: the Romanian accountancy profession proved its importance for the European and international profession. We only need to welcome and face challenges.

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Valences of Financial Reporting According to IFRS. Up-to-Date Challenges for Financial Auditors

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Abstract

Through this paper, the authors want to mark the centenary of the accounting profession in our country (1921-2021). They aim to analyze the evolution of financial reporting, at the national level, in the last three decades, parallel to the natural development of the accounting profession and to bring into the spotlights:

- *how developments at the national level have kept pace with the ever-changing European and international financial reporting requirements;*
- *the current challenges for the accounting profession in general and financial auditors, in particular, generated by the frequent and particularly complex changes of international standards in the field, changes generated precisely by the need to strengthen the quality of the information provided by financial reporting;*
- *the natural steps to be taken to strengthen professional cooperation and collaboration within and in the interest of the accounting profession, to respond effectively to the expectations of all stakeholders in the development of financial reporting.*

Keywords: financial reporting; accounting profession; IFRS; professional judgement; statutory audit; audit opinion

JEL Classification: M41, M42, M48

To cite this article:

Manolescu, M., Petre, G., Lazăr, A. (2021), Valences of Financial Reporting According to IFRS. Up-to-Date Challenges for Financial Auditors, *Audit Financiar*, vol. XIX, no. 4(164)/2021, pp. 706-723, DOI: 10.20869/AUDITF/2021/164/023

To link this article:

<http://dx.doi.org/10.20869/AUDITF/2021/164/023>
Received: 19.08.2021
Revised: 30.08.2021
Accepted: 21.09.2021

Introduction

We consider it necessary to mark the centenary of the accounting profession, respectively the 100th anniversary of the approval by "ROYAL DECREE no. 3063/1921 of the Law for the organization of the Body of Certified Accountants and Expert Accountants in Romania", by highlighting the main steps in achieving, in the last three decades, modern accounting fully connected to European and international concepts in the field.

In this "anniversary frame", we consider that it is not a lack of modesty if we emphasize the fact that the authors of this article had the determination and conviction, but also the chance to get involved in this valuable country project whose general objective was to achieve the long-term strategy, harmonization, convergence and then compliance of Romanian accounting with the concepts and principles of European and international accounting.

The strategic objective, as was natural, had several dimensions, and the projects of the packages of normative acts had to be permanently synchronized with the requirements of the stages completed by Romania after its opening to the competitive economy.

The main pillars on which the whole process-focused, which made possible the achievement of all the assumed objectives, we appreciate that are as follows:

- emphasis on ensuring the basic legal framework for the organization and functioning of new entities specific to a market economy; we mention first of all the Company Law and the Accounting Law, normative acts whose process of elaboration, endorsement, and approval took place simultaneously and their initiators (Ministry of Justice and Ministry of Public Finance) conducted a wide public consultation and debate throughout their promotion and improvement;
- recognition of the role and importance of regulated professions specific to the accounting field. Thus, the first set of draft normative acts on the re-establishment of the profession of expert accountant and certified accountant and the Organization and Functioning Regulation of this profession was started by the Ministry of Public Finance at the same time as the draft of Accounting Law, so that the new liberal accounting profession to be functional, based on the Company Law, of new entities specific to the market economy. We also note on this occasion the role of the Association of Expert Accountants and Certified

Accountants (which some of the former members of the Professional Body approved in 1921 registered as a foundation immediately after 1990, a foundation which, through its members, was particularly active and involved in the whole process of legislative consolidation of the accounting profession and with which an exceptional collaboration was achieved);

- achieving a very consistent professional collaboration and dedicated to the legislative developments in the field, collaboration initially realized within the Accounting Advisory Board (established by GD no. 575/1992 which later, in 2005, became the Accounting and Financial Reporting Council), body with the role of consulting and endorsing all regulations in the field, of approving training programs for accounting staff based on new regulations approved and of experimenting on representative samples of entities, which included representatives of regulators, such as Ministry of Public Finance and Ministry of Justice; of professional bodies, first the Association of Expert Accountants and Certified Accountants, then Body of Expert and Licensed Accountants of Romania (CECCAR), The National Association of Romanian Authorized Valuers (ANEVAR), Chamber of Financial Auditors of Romania (CAFR), and The Chamber of Tax Consultants from Romania (CCF), after their establishment by law; of the universities with economic profile from the representative university centers (The Bucharest University of Economic Studies, the universities from Timișoara, Cluj-Napoca, Iași, Craiova), and last, but not least the business environment, through the representative employers' organizations. We are very pleased to highlight on this occasion the exceptional collaboration achieved within this professional body between all its members throughout its operation, collaboration noted and mentioned appreciably by the various external institutions and bodies that have overseen legislative developments overtime of the accounting field in Romania;
- access to external resources needed to finance some training programs for all professional categories with responsibilities in the field of accounting and financial reporting;
- ensuring the effective implementation of major legislative changes in the field of accounting only after completing "pilot stages", which included representative samples of entities from all economic sectors of activity and which supported the process of

consolidating the accounting practices imposed by those changes;

- providing professional practitioners in the accounting field with professional guidance appropriate to the level of development and complexity of accounting regulations (guidelines first developed by regulators and then, of course, by professional bodies);
- the major concern of the economic universities from all over the country for updating and adapting the accounting curriculum with the current legislative developments and with the European and international requirements in the field and launching training programs based on bilateral agreements with universities from main countries. At the same time, all the research appropriate to the periods completed by the teams of these universities and published during all this time were of real use for professionals in the accounting field.

At the same time, we are very pleased to mention the positive way in which professionals in the accounting field have received these major changes, the responsible involvement in the implementation of these substantive reforms, the availability and conviction of the importance, usefulness, and necessity of new approaches.

1. Review of the specialized legislation

The objectives of our research lead us to an adequate approach to the issue of specialized literature, namely the synthesis of the documentary fund involved in the scope of the reforms of the accounting field, carried out over a representative period. Thus, for the first objective of the research aimed at the evolution of the accounting system reform in general and financial reporting in particular, we focused mainly on the legislation that defined its essential stages.

1.1. The period of the "first steps of the reform" was marked by the concern to ensure the legal framework of the accounting field is appropriate to the new context. The basic responsibility of the accounting regulatory authority which has the legal responsibilities to ensure the process of transition of the legal framework of the accounting field from the requirements of the centralized economy to the new approaches of an open economy (whose buds materialized in the first draft acts norms that highlighted

substantive changes), assumed naturally a solid documentation base.

In the case of the field of accounting, the documentation process started with the national legislation of the accounting field, before the transition to the centralized economy.

We consider it important to mention that the first meeting of accounting specialists, organized in early 1990 at the Ministry of Public Finance, chaired by the Minister of Public Finance and attended by specialists of the Ministry of Public Finance, representatives of universities, specialists in economics, including accounting experts – former members of the Body of Certified Accountants and Expert Accountants – established in 1921, representatives of the Ministry of Justice, etc., had as a starting point for discussions the following regulations:

- Law since 31 July 1929 on public accounting and on budgetary control and public patrimony (published in Official Gazette no. 167 of 31 July 1929); and
- Law for the organization of the Body of Certified Accountants and Expert Accountants in Romania, promulgated by King Ferdinand I of Romania on July 13, 1921.

The purpose of these first meetings of specialists was to launch the process of updating the legal framework of accounting and the accounting profession and, at the same time, to ensure a common vision on the regulatory framework of the accounting field. At that time, there were some opinions according to which the regulations regarding companies, including accounting ones, should be comprised in the same law, and others argued that these regulations should be included in an updated Commercial Code for the new conditions, etc.

The legislation specific to the field of accounting in countries with a solid and functional market economy has been documented and understood, to avoid the risk of loopholes in the new regulatory process.

1.2. We consider that the identity document of the accounting field reform was represented by the signing on February 1st, 1993 of the Association Agreement of Romania to the E.U. Based on this act, all the professional approaches of the period were focused on the understanding and gradual takeover in the internal legislation of the provisions of three European Directives, the representative for the field of accounting and the accounting profession:

- The European Directive No IV (Directive No. 78/666/EEC), which provides that the individual financial statements of companies reflect in a real and fair manner the financial resources, the liabilities, the financial position, the profit and loss and establishes the structure of the Balance Sheet, of the Income Statement, assessment rules, publication rules, etc.;
- Seventh Directive (Directive No. 83/349/EEC) on consolidated accounts, which sets out clear requirements for parent companies for the purpose of drawing-up consolidated financial statements, so that they can offer a true picture of the assets and financial position of those companies;
- The Eighth Directive (Directive No. 84/253/EEC) laying down strict requirements concerning the qualification of persons responsible for carrying out statutory audits of financial statements drawn up under the Fourth and Seventh Directives.

Over time, these directives have undergone numerous changes which have been taken up at the right time in the relevant national accounting legislation.

1.3. The act of maturity and full compliance of national accounting regulations with the European ones is certainly represented by the signing of the Treaty of Accession of Romania to the European Union, at which time the European Commission's assessments found and recorded the high degree of compliance.

1.4. The process of transition to the implementation of international accounting standards by some categories of companies has been influenced by the acceptance of international accounting standards at the European level, a process marked by several stages, of which we aim to focus on the most representative ones.

After 1990, the European Union accepted the IASB's invitation to participate as an observer in the process of harmonizing international accounting and became a member of the Advisory Group. In 1995, at IOSCO Conference, a list of accounting areas to be reviewed until 1999 was established by IOSCO AND IASC so that financial statements prepared under IASC rules could be recognized in all financial markets of the world. All this time, at the E.U. level, steady progress

has been made towards accepting international accounting standards, so that – in 1995 – the European Commission's Decision was issued to support IFAC's initiatives and efforts to bring European accounting requirements to a common denominator with international accounting standards developed by IASC.

The decisive moment is marked by the approval on July 19, 2002, of Regulation No. 1606 of the European Parliament and the Council on the Implementation of International Accounting Standards.

In Romania, this moment of reference at the European level was preceded by national regulations that launched the privatization process of the representative companies of the Romanian economy, namely G.O. No. 40/1999 for the ratification of the PSAL loan agreement – for the institutional development of the private sector.

On this basis, the first program for the application of international accounting standards was established in our country, which targeted this category of companies, and the national legislation in the field of accounting gradually took over both the IASC and IFAC regulations.

It should be noted that the whole period of accounting reforms can be considered as "the most prolific" if we consider the specialized research published by many authors and which covered the requirements of documentation and professional development of practitioners and training of new specialists. This effort was joined by the researches of specialists published in the pages of the „Financial Audit” journal, researches that accompanied all important changes in the field and covered through the scientific content the very complex issue of new approaches to IFRS.

We consider it necessary to mention the fact that a decisive factor in the successful implementation of an accounting reform is the tax settlement of its effects. That is why we appreciate in this context the fact that the taking over of the fiscal solution of the impact of the application of IFRS through the Fiscal Code (and, respectively, through the regulations for its modification and completion) represented support in the implementation process. Thus, the need for the elaboration by the state institutions of the Decisions of the Central

Fiscal Commission and, respectively, the Manuals of fiscal reconciliation was eliminated. We consider that future actions should be oriented more towards the overlap of the tax settlement deadlines with those of the entry into force of IFRS so that there are no more "periods of non-coverage of some accounting treatments provided by IFRS with related fiscal solutions".

2. Research methodology

Through this current paper, we aimed primarily at the dynamic analysis of the evolution of accounting reforms, in the last three decades, to conclude on their "current situation".

The research undertaken aimed to highlight the direct purpose of the reform of the accounting field, respectively: the quality of the information provided to users of financial information; how all the reforms carried out in time were correlated with the political objectives of the periods covered; to identify the factors that decisively influenced the whole course of the reforms and, last but not least, the strategy followed for their implementation.

After concluding on the fact that from the point of view of the in-force regulations, Romania is in total agreement with the concerns at the European and international level, as was natural, we followed a research approach aiming at the issue of up-to-date practice in the accounting field. In this context, the second research objective was to objectively observe the aspects related to the effective implementation of IFRS as a basis for accounting – having as a source of research the public financial reports and the audit reports related to a representative number of companies considered to be with enough experience in the accounting field. The objective was to identify the elements of difficulty that the practice faces after a significant period of implementation of IFRS, how the recent changes brought by IFRS 15, IFRS 16, IFRS 9, etc. were assimilated, the main causes generating difficulties and some ways to be followed. The results of the observations were particularly conclusive and the inexplicable elements we want to draw attention to concern "the existence of public interest companies that, although they claim

to implement IFRS, have not yet taken the first step – ie they have not adapted their accounting policies to the international accounting standards applicable, so about these entities we can say that they are still in the beginning.

We consider it important to mention in this context the fact that, through the Reports of Analysis of the Implementation of Standards and Codes (ROSC) prepared by the World Bank, after 2000, for many countries (including Romania) a special emphasis was placed on "accountability of the Government of each country in terms of regulation of financial reporting". The justification for this responsibility, which is considered not to be delegated by governments, is as realistic as possible: "Because negative information, as a rule, is not published on its initiative."

We are now in a situation where we can say: The public nature of the information provided by the financial reports is regulated, the information is available, and can be researched and analyzed without limitations. The natural question that can be asked now is the following: Who and how can act to correct non-compliances in the application of IFRS by public interest entities?

In our opinion, an answer to the identified issue is ensured by the provisions of the "Regulation (EU) No. 537/2014 on specific requirements regarding the statutory audit of the public interest companies", and financial auditors have an essential role in this regard.

We remind that, within the meaning of the national legislation, in the category of legal persons of public interest are included not only the companies whose securities are admitted to trading on a regulated market, the entities from the regulatory area of the NBR, respectively of Financial Supervisory Authority (ASF) but also the national companies; companies with full or majority state ownership; autonomous companies.

We emphasize that neither the accounting regulations, nor those relating to the statutory audit make any ranking of the entities in terms of the usefulness of the information provided through the financial statements prepared by them and, consequently, neither in terms of the need to provide users with reliable information.

3. Conceptual approach of the accounting system reform in general and of the financial reporting especially in Romania

3.1. The process of harmonization, convergence, and compliance with the european directives

We consider it necessary to point out that the initial major concerns regarding the draft packages of basic normative acts were focused on European legislation given the natural and immediate steps to open negotiations for the signing of the EU Association Agreement with Romania, an event that took place effectively on February 1st, 1993.

A realistic and careful analysis shows that the fundamental reforms of the Romanian accounting system and a gradual but sure process of assimilation of the accounting concepts and principles provided by the European Directives underlying the financial statements began with the elaboration of the first accounting regulations of implementation of the Accounting Law no. 82/1991.

We must also mention the fact that, over time, there were some assessments (in our opinion quite simplistic and lacking sufficient documentation) according to which Romania would have opted after 1990 for the French accounting model – and after 2000 – for the Anglo-Saxon model, assessments that were probably based on the fact that Romania has signed bilateral agreements with the respective states and has benefited from the collaboration and direct support of renowned specialists in the accounting field in these countries. In this context, it should be clarified that the main funding for the major reforms of the pre-accession period was realized through the PHARE program, and an essential conditionality of this funding was that the reforms benefiting from those funding should be based on conceptual approaches in line with European Directives.

The complexity of such a profound reform of the accounting field required a staging in correlation with: the evolution of the legal framework specific to the competitive economy, with the development of the

accounting profession, with the creation of the capital market, and last but not least with the dynamics of the business environment, and followed by the White Paper on Romania's accession to the European Union.

The opening of the negotiation process for our country's accession to the European Union in February 2000, including for Chapter 5 "Company Law", found the field of accounting and auditing at a high level of compliance with European Directives, so that on November 28, 2001, negotiations for this chapter have been provisionally closed precisely as a result of major developments in legislation found in the evaluation process.

3.2. Developments marked by the increasing interest in the quality of information provided by financial reporting

An important stage in the evolution of Romanian accounting was marked by the ratification of the Loan Agreement between Romania and IBRD on the project of institutional development of the private sector in Romania, signed on June 17, 1999 (Government Ordinance No. 40/5 August 1999, published in the Official Gazette of Romania No. 382/12 August 1999).

To agree, a particularly rigorous diagnostic analysis on the state of development of national regulations in the field of accounting and financial audit was carried out based on a specialized assistance agreement concluded between the Ministry of Public Finance and the UK Government – through Know How Fund – project agreed by the international financial bodies in the perspective of the negotiations for the ratification of the mentioned agreement, an agreement that marked the opening of the privatization process of the big Romanian companies.

The assessments concerned both the level of compliance with the European Directives in the accounting field, at that date, but also the capacity to gradually implement international accounting standards and the General Framework for the preparation and presentation of financial statements developed by the IASC and also the need to create the profession of financial auditor – a profession that applies international auditing

standards and complies with all IFAC's rules of ethical and professional conduct. Last but not least, the regulation of liability for the opinion expressed by the auditor regarding the financial statements prepared based on the application of international accounting standards was considered, doubled by the accountability of those responsible for preparing financial reports as real guarantees to ensure the quality of financial information.

The "PSAL" loan agreement provided a set of major conditions in the field of accounting and financial audit, supported by the need to meet the requirements of international investors interested in the extensive privatization process to be launched in Romania.

Among those conditions we mention:

- the implementation of the International Accounting Standards and the General Framework for the preparation and presentation of the financial statements elaborated by IASC, by all the representative companies of the Romanian economy;
- the establishment of the Romanian Chamber of Financial Auditors, whose members can apply the International Auditing Standards in the audit missions of the financial statements prepared based on the International Accounting Standards;
- the support by the Romanian Government of these actions and the approval through the Government Ordinance of the establishment of the Chamber of Financial Auditors;
- providing comprehensive training programs for professionals involved in the implementation of International Accounting Standards and International Auditing Standards, respectively.

In this context, at the end of 1999, the "Plan for the further development of the Romanian accounting system" was elaborated, whose objectives were pursued with priority:

- improving the quality of financial reporting in terms of addressability of national accounting regulations to two broad categories of users, namely:
 - users who will apply the provisions of the Accounting Law and accounting regulations based on European Directives;

- users who will apply the provisions of the Accounting Law, the provisions of the International Accounting Standards, and the General Framework for the preparation and presentation of financial statements developed by the IASC. In this regard, in 2000 the IASC authorized the publication of the official version of the International Accounting Standards in Romanian;
- finalizing the accounting regulations for the two major categories of users and preparation for the launch of the "pilot" phase for the experimental application of International Accounting Standards on a representative sample of entities;
- launching the national training program for staff involved in the implementation of International Accounting Standards, a program funded by the World Bank;
- launching by the Ministry of Public Finance of the first practical guide for the implementation of the International Accounting Standards, published in 2001;
- launching of the first practical guides on the reconciliation between fiscal and accounting results based on European Directives and International Accounting Standards (initially approved by the Decision of the Central Fiscal Commission, then by the Accounting Advisory Board).

The launch of this program took place during the first National Conference on accounting with the theme "ACCOUNTING OF THE THIRD MILLENNIUM", organized in Bucharest in June 2000 attended by prestigious European and international personalities in the accounting field representing: the European Union; the International Accounting Standards Committee (IASC); the European Federation of Experts (EFE); The International Federation of Professional Accountants (IFAC), representatives of the professions from France, Great Britain, Belgium, etc. with which the Romanian professionals had a very good collaboration, in time. The unanimous assessments were positive, highlighting the progress already made in the field of accounting reforms and appreciating the new objectives launched as being in full agreement with the concerns at the European level.

The process of implementing this set of measures has been carried out, as is well known, in stages between

2001 and 2005, to ensure the time needed to properly assimilate the new regulations with a high degree of complexity and to make it possible the appropriate adaptation of the behavior generated by the specific cultural tradition and by mentality.

The financial scandals that have shaken the United States, Italy, and the Netherlands since 2000, and the economic crises that have erupted in Asia and South America have raised major concerns for the World Bank in assessing the consistency of financial reporting regulations and their implementation, in many countries, including Romania. Those assessments comprised in the Reports of Analysis of the Implementation of Standards and Codes (ROSC) were addressed to state Governments and included clear objectives for the short and medium-term directions of action in the accounting field.

The World Bank's assessment of Romania started in 2002, was materialized in the "ROSC" report issued in May 2003 and highlighted the main progress made by Romania in the last decade (1993-2002) on accounting regulations and their implementation, and recommended some steps to be taken to further improve the quality of the information provided by the financial reports.

It should be noted that for the field of accounting the year 2002 remained as a reference year marked by the approval of Regulation (EC) no. 1606/2002 of the European Parliament and the Council since 19 July 2002 on the implementation of International Accounting Standards.

That Regulation aimed at adopting and using International Accounting Standards in the European Union, to ensure a high level of transparency and comparability of the consolidated financial statements of listed companies. To achieve this objective, listed companies under the law of a Member State were required to prepare their consolidated accounts (for each financial year beginning on or after 1st January 2005) under the International Accounting Standards in force. At the same time, some derogations were regulated in the sense that the Member States could provide that the requirements for the application of International Accounting Standards for listed companies to be applied from the financial year 2007 onwards for those entities that were covered by the Regulation.

In the new context generated by the provisions of Regulation EC No. 1606/2002, as well as based on the

fact that in 2003 the European Council established the timetable for Romania's accession to the EU, respectively the completion of negotiations in 2004, the signing of the Accession Treaty in 2005 and the effective accession on 1st January. 2007, all subsequent reforms had to be subordinated to these major objectives.

Based on the objectives of the field of up-to-date accounting and the World Bank's recommendations formulated by "ROSC", in the first part of 2004, Romania adopted the "Country Action Plan for Improving Financial Reporting". The strategic objective of this plan was "Fulfillment before 2007 – the year of Romania's accession to the EU – the main accounting and financial audit obligations arising from the *acquis communautaire*" and several major objectives have been identified for achieving this target, including:

- ensuring that national accounting and auditing legislation complies with the *acquis communautaire*;
- the program for the implementation of International Accounting Standards and International Auditing Standards that target public interest entities and correlate with their effective ability to apply them;
- identifying and promoting concrete measures to improve public oversight and transparency, as well as corporate governance.

At the end of 2004, the Romanian Government approved the "Strategy for the Implementation of the Country Action Plan for Improving Financial Reporting", a document that placed major emphasis on holding all institutions and stakeholders accountable for the quality of the information provided by financial reporting.

As an institution responsible for the implementation, monitoring, and periodic reporting to the Government of the achievement of the Plan's objectives, the Accounting Advisory Board was nominated, which in 2005 became (by GD No. 401/2005) the Accounting and Financial Reporting Council (CCRF), within which also included representatives of financial market and capital market surveillance bodies and which had clear objectives for monitoring measures to increase the confidence of users of accounting information in financial reporting and corporate governance. The main purpose of this body was "to develop on a national scale the competence and capacity of the institutions involved in the implementation of the

acquis communautaire and international standards in the field of accounting and regulated professions, as they are taken over in national law".

A summary assessment of developments in the field in correlation with the objectives set by the Strategy shows the major interest for compliance, as follows:

- In 2005, the CCRF approved the accounting regulations under European Directives, applicable from 1st January 2006 approved by Order of the Minister of Public Finance, regulations on which, following the evaluations carried out, the European Commission ruled on the high degree of compliance of them.
- In the first part of 2006, CCRF approved the Strategy on the application of IFRS in Romania, in correlation with the provisions of Regulation 1606/2002 of the European Parliament and the Council. Thus, by the Order of the Minister of Public Finance no. 1121/2006 on the application of International Financial Reporting Standards provided that, starting with the financial year 2007, companies whose securities are admitted to trading on a regulated market prepare consolidated financial statements under IFRS. Also, according to the same order, the consolidated financial statements of credit institutions had to be prepared under IFRS.
- The other public interest entities (as initially defined by OMPF No. 907/2005 on the approval of categories of legal persons applying accounting regulations compliant with International Financial Reporting Standards, respectively accounting regulations compliant with European Directives, and then by Accounting Law) could prepare consolidated financial statements either based on national regulations based on the 7th EEC Directive or based on IFRS.
- Concerning the preparation of individual annual financial statements of public interest entities, they had a legal obligation to apply national regulations based on European Directives, but also had the option to prepare a separate set of IFRS compliant financial statements for their own needs of information of users other than state institutions. An example in this respect is represented by the credit institutions for which, in 2006, the CCRF together with the NBR launched

a questionnaire in which the answers received showed the following:

- for the financial year 2005, several banking institutions representing about 74% of the total assets of the banking system prepared a separate set of financial statements under IFRS (and these financial statements were prepared by restatement under the guidance of financial auditors);
- to the question of the extent to which credit institutions would be prepared to apply IFRS as a basis for accounting (including the preparation of individual financial statements), several banking institutions representing about 72% of the assets of the banking system answered positively.

However, the major problems generated by the adaptation of software, the reconciliation of accounting and tax treatments, the natural requirements to strengthen the training of staff involved led to a prudent approach so that in 2010 by Order No. 9/16 July 2010 was approved the application of IFRS as the basis for the accounting by credit institutions for the annual individual financial statements starting with the financial year 2012, an order that also established a list of general and specific objectives that had to be ensured for this purpose.

In 2012, the IFRS program as a basis for accounting continued with entities whose securities were admitted to trading on a regulated market (OMPF No. 881/2012 and OMPF No. 1286/2012, respectively), according to which with the financial year 2012, the respective entities applied IFRS to the preparation of the individual financial statements.

A few years after the establishment of the obligation for the respective entities to apply accounting regulations compliant with IFRS, by the Order of the Ministry of Public Finance No. 666/2015 on the application of the Accounting Regulations compliant with the International Financial Reporting Standards by some entities with state ownership, it was established that the legal entities included in the appendix to the

mentioned order to apply the respective regulations starting with the financial year 2018.

We consider that the establishment of such a requirement is proof of the need for transparency of the financial information reported by those entities.

In 2014, as a result of the Government Emergency Ordinance No. 79/2014 for the amendment and completion of the Accounting Law no. 82/1991, CCRF ceased its activity in all respects in the field of accounting of economic entities and regulated professions, remaining valid special attributions regarding the field of public accounting. The decision was based on the fact that its objectives regarding the accounting of economic entities and regulated professions were achieved.

At that time, some of the CCRF members considered it necessary to hold a public "final" meeting to present and disclose the results. However, the option was for a "quiet" end, considering that this is how all the activity took place during over 22 years of activity of the Accounting Advisory Board and then of the CCRF: "quietly, with professionalism, responsibility and in an assumed collaboration".

We allow ourselves to take advantage of the fact that it is the "anniversary year for the accounting profession" and to address – albeit belatedly – congratulations and thanks to all those who have made their professional contribution in all that have meant "reform of the accounting system in Romania".

We also pay a pious tribute and bow our heads with respect and deep gratitude to our beloved colleagues, friends, and good collaborators who, in recent years, have left this world, perhaps to solve equally important reforms in other unknown worlds.

We use this opportunity to bring our thanks to the faculty of the West University of Timisoara for the beautiful initiative to mark in 2018 – with the CENTENNIAL OF THE GREAT UNION both achievements and contributions to accounting reform in our country. Thank you, dear professors, we appreciate you and confess that we have always felt close to you and we want to remain "close" to each other in our profession.

We can rightly say that all the achievements in the field so far have been largely possible through the fact that we have collaborated and, therefore, we have been close.

To the natural question "if we started a reform of the field now, could we be as close?" We cannot answer because in time "vanity" began to appear in our profession, too. Maybe it's good to remember that the importance of everything we do now will only be decided by time.

4. Perspectives in the field of accounting and financial reporting

It is well known that to understand the present and future of a field it is necessary to first understand its past. That is why this retrospective on the evolution of the field of accounting over the last thirty years has allowed us to make an objective analysis of the present to see if we are prepared for the challenges of its future. We can ask the natural question: *Is there a possibility that the future of accounting will bring new challenges?* The answer is: definitely "YES", as the information provided by the accounting is essential for the decision-making process. We consider relevant in this context the statements of Prof. Emil Horomnea, according to which "In a world of competition, great wealth is measured in the quantity and quality of information held at a given time" (Emil Horomnea, "Scientific social and spiritual dimensions in accounting", Moldavia Tipo Publishing House, 2010, p. 180).

To be able to identify the perspectives of the field, we intend to briefly summarize the current situation of the regulations underlying the obtaining of accounting information.

a) Categories of entities that apply IFRS as a basis for accounting:

- credit institutions (starting with the financial year 2012);
- companies whose securities are traded on a regulated market (starting with the financial year 2012);
- entities authorized, regulated, and supervised by the FSA in the Financial Instruments and Investments sector (starting with the financial year 2016);
- the entities provided by OMPF no. 666/2015 (starting with the financial year 2018).

b) Entities that prepare for informational purposes a set of individual annual financial statements under 2IFRS, by reprocessing the information determined according to the provisions contained in the national accounting regulations. This category of entities includes non-banking financial institutions that until 2022 – inclusive – apply IFRS for information purposes, and starting with the financial year 2023 will apply IFRS as a basis for accounting.

c) The other categories of economic actors apply National Accounting Regulations under the relevant European Directives.

It is surprising that among the entities that apply IFRS as a basis for accounting we do not find the field of insurance, a field which through the activity profile implies an urgent need for quality financial information precisely because of the inherent risks to which it is subject. In these circumstances, we ask ourselves: *Why is not at least a timetable made public indicating the prospects in this regard, after many years of extra-accounting application of IFRS in this field, in parallel with the accounting regulations compliant with European Directives?* We consider that an authorized response in this regard can only come from the Financial Supervisory Authority.

Given the situation presented above, it is found that Romania compared to other EU Member State is at this time in the general trend of applying IFRS.

Regarding the application in the E.U. of IFRS, we mention that at this date we do not have information according to which there is any intention to amend Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of International Accounting Standards, to extend the application of IFRS. We note that the latest official EU situation in this regard concerns information from December 2018 and can be found on the European Commission site, at: https://ec.europa.eu/info/law/international-accounting-standards-regulation-ec-no-1606-2002/implementation/implementation-eu-countries_en.

The document published on that website highlights the options made by the Member States regarding the extension of the use of IFRS to the preparation of the annual (individual) financial statements of listed companies and the annual and consolidated financial statements prepared by entities other than listed ones.

Consequently, regarding the application of IFRS, future concerns (in the short and medium-term) at the national level will follow the rigorous application of the current standards and for their future amendments will ensure the timely issuance of amending and supplementing regulations – as were, for example, OMPF No. 3189/2017 and 3456/2018, which provided the legal framework for the application of the recent IFRS.

Initiatives at the level of European structures for the next period refer to the reporting by entities of information on sustainability. Thus, in April 2021 the European Commission published the proposal for a Directive on Corporate Sustainability Reporting (CSRD), which complements Directive 2014/95 / EU (known as NFRD – Non-financial Reporting Directive), the provisions of which have been taken up in due time in our national legislation.

The draft Directive launched in April this year and to be applied from 1st January 2023 proposes the amendment of four basic European normative acts in the field of accounting and auditing: Accounting Directive 2013/34/EU; Directive 2006/43/EC on statutory audit and EU Regulation no. 537/2014 on specific requirements regarding the audit of public interest entities; Directive 2004/109/EC on the harmonization of transparency obligations.

The revision of the provisions of these basic regulations on accounting and auditing of entities was generated by the deficiencies found by the EC services regarding the reporting of non-financial information, as well as the need to connect their provisions with other European acts adopted in the field, such as European Ecological Pact; European Regulation on the establishment of a framework for facilitating sustainable investments, etc.

We exemplify in this regard the provisions of the Accounting Directive in force (Directive 2013/34/EU) which does not require the presentation of financial statements and the directors' report in a digital format, and users of sustainability information expect that such information can be found in a digital format.

Specifically, the draft Directive proposes that companies prepare their financial statements and directors' reports in XHTML (single electronic reporting format). These proposals are connected with the provisions of art. 3 of the Delegated Regulation of the Commission (EU) 2018/815 of 17 December 2018 and art. 8 of Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020.

A separate article proposes to amend the Audit Directive (Directive 2006/43/EC) so that it meets all sustainability reporting requirements, including the auditor's assessment of how the audited entity's reporting on sustainability complies with EU Regulation no. 2020/852, mentioned above.

Regarding the Audit Committee of public interest entities, it will also have concrete attributions regarding the sustainability reporting process.

Last but not least, the provisions of Regulation (EU) no. 537/2014 (Audit Regulation) are supplemented with references to consultancy service providers for the preparation of sustainability reporting when statutory auditors or audit firms provide sustainability reporting services.

As mentioned before, the changes presented above are due to take effect on January 1st 2023 covers all categories of entities, regardless of the applicable accounting reporting framework, so that all authorities with responsibilities in the field of accounting regulation and statutory audit are to be involved and ensure understanding, takeover in the field regulations and proper application of the new provisions of the mentioned Directive.

We consider that it is fully accepted that the regulation is part of a whole represented by authorities, profession, customers, and third parties, and a good collaboration between them is for the benefit of all.

5. Relevant aspects regarding IFRS implementation in Romania

We can say with certainty that after 2000 the concern for the application of IFRS in Romania was continuous, and the main reason consisted precisely in the nationally and internationally recognized values of the financial reports prepared on their basis. As previously shown, the major complexity of this approach has determined that in Romania, as in other countries that have adopted IFRS as a basis for accounting, the strategy applied should be based on a responsible and prudent approach. We detail some aspects in this regard:

- entities that have applied IFRS as a basis for accounting have been required to prepare financial statements under IFRS for several annual financial years by restating the information presented in the financial statements prepared under national

regulations. The differences between the accounting treatments compliant with national regulations and IFRS had to be presented for each element of the financial statements, together with the necessary explanations.

- IFRSs as a basis for accounting have been applied together with the Accounting Law and other applicable legal provisions (Chart of Accounts and content of each account; examples regarding the reflection in the accounting of different new or high difficulty operations; the layout of the transposition of account balances; situation including the results of the restatement on IFRS of the information from the accounting organized according to the national regulations). The elements of support in the application of IFRS were appreciated as welcome by all those involved in this process and were intended to contribute to ensuring a high degree of transparency and comparability of the annual financial statements.

To carry out this paper, we set out to analyze – based on legal public reporting – the current situation of the application of IFRS by 12 entities whose securities were traded on the Bucharest Stock Exchange on 31 December. 2020 (Appendix 1) and 12 entities from the list – Appendix to OMPF no. 666/2015 (Appendix 2). The analysis was based exclusively on the information publicly presented by these entities on the financial reports for 2020, which is also the reason why we did not intend to make concrete references in our examples.

I. The results of the research on the first category, namely the entities whose securities were traded on the Bucharest Stock Exchange and for which the year 2020 represented the 8th financial year for the application of IFRS as a basis for accounting can be summarized as follows:

- for 11 entities The Audit Reports expressed the opinion of the compliance of the financial statements with the provisions of IFRS and the presentation of a true and fair view of the financial position, performance and cash flows concerning the applicable regulatory framework; for a single entity the auditors expressed an opinion with reservations;
- the significant accounting policies presented by these entities in the "Notes" inform users of the measurement bases used for the items in the annual financial statements in a systematic and intelligible manner, indicating the relevant accounting standards.

These accounting policies are updated, including references to recently applied standards (IFRS2-15 and IFRS 16);

- the statutory auditors have identified and highlighted some key issues in some of these entities, namely:
 - a) the existence of risks regarding the recognition of income and receivables, generated mainly by the following:
 - sales to customers in a difficult financial situation (bankruptcy, insolvency), with the risk of non-recovery of receivables and with some difficulties in applying professional reasoning in estimating adjustments for their depreciation;
 - sales with a policy of granting commercial discounts for which there is a risk that their estimation at the end of the year will be difficult;
 - the existence of pressures that the management of some of the respective entities feel for the realization of the budgeted revenues;
 - b) the existence of risks generated by difficulties in applying professional judgement regarding the estimation of the recovery period of the book value of some fixed assets and, respectively, in the estimation of the provisions for decommissioning. These risks are mainly generated by the fact that the recoverability of the value of the operating assets of some entities is determined by the estimation of natural reserves (oil, natural gas, etc.), for the exploitation of which these assets are held.

In conclusion, it can be appreciated that the experience gained by this category of entities in the process of theoretical and practical acquisition of IFRS has allowed to provide relevant information based on which their users can make decisions.

II. Following the analysis of the annual financial statements prepared by the entities included in the list annexed to OMPF no. 666/2015 (Annex 2) and the audit reports issued on their basis at the end of 2020, given that that year represented the 3rd financial year for the application of IFRS as a basis for accounting, is at least a worrying situation if we consider the following:

- for six entities (out of the 12 analyzed) the audit opinion is with reservations, and for two entities the opinion is contrary;

- the accounting policies presented by some entities are general, not adapted to the specifics of the unit, without references to the relevant accounting standards, and not updated concerning the accounting standards applicable in that year (for example IFRS 15; IFRS 16; IFRS 9);
- the existence of erroneous valuation rules that have been identified in the accounting policies presented in the "Notes" to the financial statements (for example references to standards are erroneous; reference is made to the provisions of the regulations approved by OMPF No. 1802/2014; revenue recognition are those in IAS 18, regarding the time when the seller transferred to the buyer the main risks and rewards of ownership of the goods and can correctly estimate the value of the income);
- some of these entities are heavily dependent on their revenues from resources coming from state authorities. Sometimes the revenues from the budget subsidies exceed by more than 200% the revenues realized from the carried-out activities;
- the existence of major litigation pending in some entities, for which the volume of provisions that would be established and the related expenses recognized, represent significant values;
- risks identified concerning the professional judgement adopted by some entities in this category concerning the accounting of concession contracts;

In the current legal context, the accounting of concession contracts that entities with majority state ownership have concluded with state authorities is a key issue for all factors involved in financial reporting;

- the financial auditors also highlighted the existence of risks, sometimes major, regarding the recognition of revenues due to the pressure felt by the management of some entities for the realization of budgeted revenues and the probability of non-collection from state institutions, of revenues represented by subsidies;
- in the case of entities with branches in the territory, the financial auditors identified risks arising from the lack of integrated information systems to obtain operational and essential information from those branches;
- the existence in the records of some of the analyzed entities of some lands for which they do not yet hold property titles.

In these circumstances, the credibility of the information presented in the financial statements is considered to be affected by non-compliance with certain requirements of the IASB General Framework regarding the quality of financial information, with major effects on:

- a) business continuity, in the context in which all 12 analyzed entities mentioned that they prepared the annual financial statements based on the premise that they will operate in the foreseeable future, based on the fact that the areas in which they operate are strategic for the national economy and is of social importance. The auditors of some of these entities expressed reservations in the audit reports regarding the continuity of the activity based on "significant uncertainties" found and which are generated by: significant annual and cumulative accounting losses; negative net asset values in the last three years for some of the entities; current liabilities that exceed current assets and other causes.
- b) comparability of information, in some entities, which in the opinion of financial auditors could be affected as a result of corrections determined by the application of IFRS 9, the reason for which they expressed reservations about the comparability between the information presented in the financial statements of 2019 and 2020.

In conclusion, the existing problems in these entities reflect in our opinion major dysfunctions whose causes can be:

- the exercise without the necessary coherence of corporate governance at the level of these entities, if we take into account the frequent changes of their management, including possible political interferences in the respective appointments;
- the lack of follow-up or insufficient follow-up by the Audit Committees of their major objective regarding the monitoring of the financial reports;
- poor professional training or disinterest in the executive management of entities that have such shortcomings in the final reporting

Given that the financial auditors warned in some audit reports about: the non-compliance of the financial statements with IFRS; the risk of

discontinuity of the activity of some entities; non-compliance with the provisions of the Companies Law regarding the level of equity and others, we consider that some measures must be taken to protect both the entities concerned and financial auditors who in turn are subject to major risks in case of bankruptcy of strategic entities.

First of all, we consider that the provisions of Regulation (EU) no. 537/2014 it is transmitted to the body with equivalent functions.

The Regulation also provides that the Member States may lay down additional requirements as to the content of the supplementary audit report.

Based on the above, some measures can be initiated to streamline the communication of financial auditors with those responsible for corporate governance and the Audit Committees of public interest entities, which are not provided with supervisory bodies, to avoid shortcomings such as presented, the consequences of which may be among the most worrying.

Last but not least, it may even be necessary to promote an attitude of discouraging the lack of interest in IFRS financial reporting by public interest entities, including by announcing reservations when concluding contracts for the provision of audit services until obtaining assurances of compliance with the rules of the audit mission and, as a result, of avoiding implicit risks.

We believe that it is important to bring to the fore the "up-to-date" challenges of our profession – the digitization process – which is considered a "real opportunity" in redefining all practical activities and procedures specific to the accounting and financial audit profession. In our opinion, digitalization represents not only a real challenge for the profession but also the way to achieve the objective regarding the quality of the information provided by the accounting reporting. However, the risks arising from the digitization process cannot be ignored, and to avoid them, concrete and well-managed actions are needed to standardize specific procedures and activities, to optimize information flows, to secure the programs/sets of software used, and last but not least, the consolidation of continuous professional training – with the well-defined aim of removing some of the barriers still felt.

6. Conclusions and future research approaches

The evolutions of the national legislative framework, the assimilation of all the professional and ethical standards and norms specific to the accounting field ensure the basic pillars for positioning the accounting profession in our country, in full agreement with the evolutions and concerns "up-to-date" at both European and international level.

We can notice the preoccupations of the professional bodies for the permanent adaptation of the content of the programs regarding the continuous professional training with the elements of actuality and interest for the profession; the interest is shown for increasing the scientific and practical content of specialized publications and for organizing joint workshops of the liberal professions, actions that through the thematic content and the quality of the debates enjoyed a real interest from the participants.

We also suggest a set of proposals, that we believe can bring a contribution to a better understanding of the issue in the accounting field and a better solution of complex issues, strictly topical and long-awaited by stakeholders, for example:

- Periodical organization of workshops aimed at the integrated approach to financial reporting, with a program containing all the underlying elements (on accounting recognition, accounting assessment, and estimation, professional judgement, representative tax issues for financial reporting, etc.). In our opinion, such consistently prepared and well-publicized professional events are not only necessary but also highly anticipated by stakeholders.
- The agreement by the professional bodies Certified Accountants, then Body of Expert and Licensed Accountants of Romania (CECCAR), The National Association of Romanian Authorized Valuers (ANEVAR), Chamber of Financial Auditors of Romania (CAFR), and The Chamber of Tax Consultants from Romania (CCF), on the integrated approach of the whole issue of financial reporting, within their continuous professional training programs. To achieve this objective, we believe that a set of topics should be selected by common agreement to be prepared, debated, and covered in all the aspects mentioned above.

- Strengthening professional cooperation and collaboration – in the interest of the profession – between the professional bodies that form the "accounting profession" in Romania. The complexity and magnitude of the natural changes generated by European and international concerns for increasing the quality of financial information for decisions can only be addressed in a full availability of involvement in cooperation and collaboration, and the successful examples of this approach are innumerable.
- Given the relatively recent Wirecard event, on which more and more analysts point out the similarity with the collapse of the American group Enron in early 2000, we consider it necessary and propose the organization of joint regular actions, with a well-defined theme, of The Authority for the Public Oversight of the Activity of the Statutory Audit (ASPAAS), The Body of Expert and Licensed Accountants of Romania (CECCAR), Chamber of Financial Auditors of Romania (CAFR), The Authority of Financial Supervisory (ASF), and The Bucharest Stock Exchange (BVB), intended to assess the extent to which Romania is protected against large-scale fraud risks, including falsifications of financial reports. We also take into account the fact that the European Commission pays special attention to this European event, and its Vice-President stated that he could also consider changing the transparency rules for listed companies and of accounting rules.
- Encourage and further support of scientific research in the field of accounting and financial audit, including by professional bodies in the field under the well-established European and international practice. We mention that such a punctual proposal was launched and accepted during the paper works of the previous Congress of Chamber of Financial Auditors of Romania (CAFR) and the concrete solution of this action is expected. The complexity of financial reporting fully justifies the scientific investment in an integrated research approach, and a rigorous process of establishing the criteria for candidates' access (for the first year can start with a single candidate) can ensure the expected scientific results as following the research.

Instead of an EPILOGUE

This paper is an approach generated by the authors' concerns to bring to the forefront of accounting and

financial audit the real course of its reform, achieved in over three decades of profound and necessary changes.

Institutional actions and approaches are reflected – exactly as they unfolded and ultimately led to the current status of compliance with European and international rules and practices.

Throughout the paper, we highlighted the fact that, permanently, the final goal was aimed at the quality of the information provided by the accounting reporting. To ensure that the aim was achieved, we completed our research with an up-to-date objective observation on the quality of the information provided by accounting reporting on several public interest entities that are representative of the Romanian economy.

A correct answer to this approach presupposes a realistic and pertinent reflection on all the expected desideratum.

That is why our final message to the accounting profession as a whole and to the financial auditors, in particular, supervisors, audit committees, and not only is the following: Dear professionals, implement exactly and responsibly the accounting legislation and regulations specific to the field of activity.

We consider that this is the only way to provide stakeholders with real and quality information and to protect the Romanian economy from major events whose consequences can be difficult to estimate.

Last, but not least, by dealing with problems with maximum accountability, you protect your much deserved reputation, earned through hard work and professionalism.

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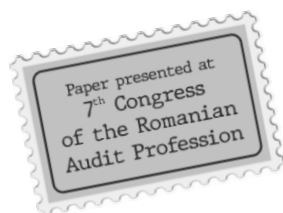
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Appendix 1. Entities whose securities were traded on December 31st, 2020

No.	Company
1.	ALRO GROUP
2.	ANTIBIOTICE SA
3.	CONPET SA ROMÂNIA
4.	SOCIETATEA ENERGETICA ELECTRICA SA
5.	SN NUCLEARELECTRICA SA
6.	SOCIETATEA OIL TERMINAL SA CONSTANTA
7.	SOCIETATEA OMV PETROM SA
8.	SC ROMCARBON SA
9.	SOCIETATEA NAȚIONALĂ DE GAZE NATURALE "ROMGAZ " SA
10.	ROMPETROL RAFINARE SA
11.	SOCIETATEA NAȚIONALĂ DE TRANSPORT DE GAZE NATURALE "TRANSGAZ" SA
12.	ZENTIVA SA

Appendix 2. Entities with majority state ownership (OMPF No. 666/2015)

No.	Company
1.	COMPANIA NAȚIONALĂ AEROPORTURI BUCUREȘTI SA
2.	SOCIETATEA NAȚIONALĂ DE TRANSPORT FERVIAR DE CĂLĂTORI „CFR CĂLĂTORI” SA
3.	SOCIETATEA NAȚIONALĂ DE TRANSPORT FERVIAR DE MARFĂ „CFR MARFĂ” SA
4.	CNAIR SA
5.	SOCIETATEA COMPLEXUL ENERGETIC HUNEDOARA SA
6.	SOCIETATEA COMPLEXUL ENERGETIC OLTENIA SA
7.	ELECTROCENTRALE BUCUREȘTI SA
8.	S.P.E.E.H. HIDROELECTRICA SA
9.	SOCIETATEA COMERCIALĂ DE TRANSPORT CU METROUL "METROREX" SA
10.	SOCIETATEA NAȚIONALĂ DE RADIOCOMUNICAȚII SA
11.	REGIA AUTONOMĂ REGISTRUL AUTO ROMÂN SA
12.	SOCIETATEA NAȚIONALĂ A SĂRII "SALROM" SA



Aspects Regarding the Structure of the Financial Audit Market in the European Union from Fees Perspective

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Abstract

The audit market, developed out of the need to strengthen the credibility and the quality of financial reporting, has led since the 1980s to a concentration around large audit firms, the dominance effect being marked on the one hand by the auditor's increasing reputation and notoriety, and on the other hand by the client's association with a reputed auditor, which contributes to improving the company's image on the market.

In this context, a major issue is represented by the level of the fees charged, as they represent key elements that may affect the auditor's independence. Moreover, a sensitive aspect is the relationship between the fee charged for financial audit services and the one for non-audit services and the compensation practices between them.

The European Commission wants to facilitate competition in an overly concentrated market and also provide the opportunity for small and medium-sized audit firms to become active players in the large corporate audit market through joint audit, in which at least one of the audit firms is not part of the Big4 group.

The mandatory audit firm rotation and the limitation on the non-audit services provided are the main aspects of the recent audit reform that directly influences the fee level.

The main purpose of this study is to analyse whether there is a pattern of audit costs at the community level. In this context, this paper aims to assess the uniformity of audit costs, namely to determine the structure of the audit market in the European Union. The research involves data set comparison methods, by analysing a sample of 2,896 firms listed on the stock exchange in 35 different states over the period 2013-2021.

To cite this article:

Bunget, O.-C., Dumitrescu, A.-C., Blidișel, R.G., Bogdan, O. A., Burcă, V. (2021), Aspects Regarding the Structure of the Financial Audit Market in the European Union from Fees Perspective, *Audit Financiar*, vol. XIX, no. 4(164)/2021, pp.724-742, DOI: 10.20869/AUDITF/2021/164/024

To link this article:

<http://dx.doi.org/10.20869/AUDITF/2021/164/024>
Received: 1.09.2021
Revised: 7.09.2021
Accepted: 5.10.2021

The main results of the research highlight the fact that entities outside the Big4 charge lower rates than large firms for the audit or audit-related services they provide. There is an obvious declining trend in the percentage of non-audit fees against the total fees since the entry into force of the two European reform regulations in 2014.

Key words: *audit market structure; fees; financial audit services; non-audit services;*

JEL Classification: *M42, M48*

1. Introduction

The major financial scandals have revealed the instability of the economic and financial system, having required the adoption within the European Union of a new legislation on auditing financial statements issued by public-interest entities, the entities listed on a regulated market representing a significant percentage, being designed to help increase the quality of audit missions and reinforce the credibility of financial reporting.

Through the Directive 56/2014/EU (European Commission, 2014a) and the Regulation 537/2014/EU (European Commission, 2014b) issued in 2014, applicable since 2016, the European Union aims to reform the architecture of the audit market and to create a single market for professional services among the member states.

The concentration around large audit firms began in the 1980s, when the market included 8 major players. Over time, the Big Eight group has become the Big Five (Abidin et al. 2008). Since 2002, Arthur Andersen's involvement in the Enron scandal has generated further massive market concentration around the four firms that form the Big Four, namely KPMG, PricewaterhouseCoopers, Ernst & Young and Deloitte, which dominate the audit market of listed companies within the EU member states. On the one hand, the audit of a large company listed on regulated markets increases the auditor's reputation and notoriety (European Commission, 2010), which can amplify, through a domino effect, the concentration and lack of dynamism of the market. On the other hand, the client's association with a reputed auditor leads to the improvement of the company's image on the market (Chersan et al., 2012a), which may determine the

concentration of the market around the auditors who contribute to increasing investor confidence.

Thus, the excessive concentration of the market harms the competitiveness, impacts the independence, but also the level of the fees charged by external auditors for the services provided (Bottaro de Lima Castro et al. 2015; Xu, 2017). Researchers have shown interest in establishing the level of fees charged ever since 1980 (Simunic, 1980), but the topic is still relevant nowadays (Averhals et al., 2020; Cho et al., 2020; Zhang, 2021). Legislative texts issued at the European Union level, through which the European Commission aims to reform the statutory audit among member states, consider fees as key elements that may affect the auditor's independence. Moreover, a sensitive issue requiring additional regulations is the relationship between the fee charged for financial audit services and the one charged for non-audit services and the compensation practices between them. Thus, the high fees for non-audit services as opposed to low audit fees may pose a threat to the auditor's independence, with a negative impact on the opinion expressed in the report, or they may reveal an attempt to corrupt it in order to influence opinion (Robu, 2014).

The mandatory audit firm rotation and the limitation on the non-audit services provided are the basic aspects of the audit reform that directly influence the level of the fees charged. Through these measures, the European Commission aims to facilitate competition on an overly concentrated market and provide an opportunity for small and medium-sized audit firms to become active players on the market for large-scale corporate auditing through joint audit, where at least one of the audit firms is not part of the Big4 group.

Do the measures adopted change the market structure at the EU level? Does the implementation of legislative regulations influence the level of the fees charged? Does the market allow the access of small players or is auditor rotation limited to Big4 firms?

The topic of our research led us to the following objectives:

- OB1: *assessing the uniformity of audit costs, and*
- OB2: *determining the structure of the audit market at EU level.*

The proposed study is structured in five sections. The first section presents the context of our research. The second section is dedicated to reviewing the literature, and the next two sections present the research methodology, the results obtained and the discussions around them. The last section, the fifth, highlights the conclusions of the case study.

2. Literature review

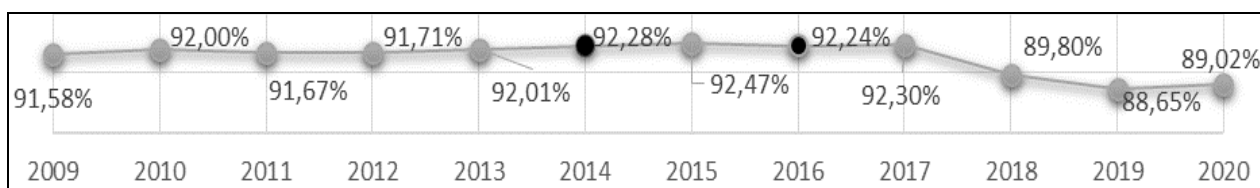
The audit reform was based on the regulators' concerns regarding the negative effect that the excessive market concentration may have on the quality of the services provided by the statutory auditor and on its independence, which may be threatened by the level and structure of the fees charged. On the one hand, the studies performed highlight a direct link between the level of concentration and the audit fees, namely the more concentrated the market, the higher the fees charged by the auditor (London Economics, 2006; Audit Analytics, 2020; Xu, 2017). On the other hand, the market is concentrated around

the strongest consulting and audit companies, capable of providing insurance services to large corporations and of aligning with new trends, such as auditing a new asset class, the cryptocurrencies, a service found in the portfolio of the giant PwC (PwC, 2019). Large audit firms also invest in digitization and emerging technologies such as Blockchain, Big Data, Data Analytics, Cloud Accounting or RPA that take over redundant tasks in the audit business and contribute to increasing efficiency, work productivity and the quality of the services provided (Farcane & Deliu, 2020; Tiron-Tudor et al., 2021; Tiron-Tudor & Deliu, 2021; Oncioiu et al., 2019).

The overall picture of the market structure at European level highlights the market concentration around the large audit firms in the Big4 group. The latter hold a dominant position on the market of statutory audit services provided to public-interest entities, with an average of over 90% of the total revenues (European Commission, 2021), an aspect highlighted in

Figure no. 1.

Figure no. 1. Big4's share of fees



Source: Authors' processing after Audit Analytics database

Regardless of the level of market concentration, the fees charged in the statutory audit sector must justify the auditor's effort to ensure the quality of the information presented in the financial statements, being correlated with the audit risk associated with the audited entity (Robu, 2014). The higher the risk, the higher the fees charged by the auditor (Popa et al., 2014). Thus, the entities operating by the going concern principle, which are efficient and transparent in financial reporting, pay lower audit fees compared to entities that have low

financial performance (Chersan et al., 2012a). However, due to the high-quality services they provide, large audit firms charge higher rates than the rest of the competition (Chersan, 2012b). Nevertheless, studies reveal that there are also situations where, with a view to attract new clients in the portfolio, some firms set lower rates than the audit cost during the first year of contracting the audit mission, a practice known as "low balling", and which may threaten the auditor's independence and audit quality (Desir et al., 2014). Thus, the

reduced fee represents an incentive to retain the customer for several commitments, so that the initially granted discount is recovered (Cho et al. 2020). Naturally, the fee for the first year should be higher because the time invested in getting to know the customer, in analysing the internal control system, etc. is higher during the first year. Signing multi-year contracts reduces the pressure of the first-year budget. There are also studies showing that, in order to lower the fee level, audit firms are committed to providing other non-audit services to compensate for them (Antle et al., 2006), but which negatively affect independence (Meuwissen & Quick, 2019; Dart, 2011; Chen et al., 2005).

In this context, the provisions of the Directive 56/2014/EU and of the Regulation 537/2014/EU generate significant changes both for professional audit service providers and for audited entities, in order to contribute to the stabilization of the financial markets in the European Union and to increasing the trust in the statutory audit (Ratzinger-Sakel & Schoenberger, 2015).

A first measure prevents the auditor from providing non-audit services, within the meaning of article 5, para. (1) of the Regulation 537/2014/EU. However, statutory auditors are allowed to provide other non-audit services, but are limited to no more than 70% of the average of the fees paid in the last three consecutive financial years for the statutory audit performed (European Commission, 2014b).

The impact of the legislative provisions issued in 2014 at the European level with regard to the percentage of fees for audit and non-audit services provided for the entities listed on regulated markets in the European Union can be seen in **Table no. 1**. There is an obvious declining trend in the percentage of the non-audit fees against the total fees since the entry into force of the two European regulations, in 2014, when the fees charged for non-audit services represented the largest percentage against the total fees. In 2016, when the provisions began to be transposed into the national regulations of the member states, there was a 10.36% drop in percentage, a decreasing trend that continues until 2020.

Table no. 1. Audit services fees vs. non-audit service fees Big4 (euro)

Year	Big4 audit fees	Non-audit service fees – Big4	Share of non-audit services in total – Big4
2009	3,454,952,106	530,198,981	13.30%
2010	4,138,909,059	668,022,294	13.90%
2011	4,306,551,137	670,896,691	13.48%
2012	4,417,345,853	712,032,547	13.88%
2013	4,532,882,208	725,734,298	13.80%
2014	4,886,852,289	799,224,420	14.06%
2015	5,020,277,229	777,305,318	13.41%
2016	5,134,304,686	593,292,544	10.36%
2017	5,197,008,745	594,683,534	10.27%
2018	5,408,955,237	612,747,892	10.18%
2019	5,578,161,748	585,979,758	9.51%
2020	5,328,177,152	555,846,278	9.45%

Source: Authors processing based on information extracted from the Audit Analytics database

The same decreasing trend can be noticed for the entities that are not part of the major market players' group (**Table no. 2**). The fees charged confirm that the entities outside the Big4 charge lower rates for the audit or audit-related services they provide, compared to big audit firms.

The trust relationship between the auditor and the client is built over time, but there are fears that a

long-term partnership might reduce professional scepticism and threaten the auditor's independence. Thus, the mandatory audit firm rotation after a maximum period of ten years is another measure through which the European Union wants to ensure the auditor's independence and objectivity and, at the same time, contribute to the dynamization of the audit market.

Table no. 2. Audit services fees vs. non-audit service fees non- Big4 (euro)

Year	Non-Big4 audit fees	Non-audit service fees – non-Big4	Share of non-audit services in total – non-Big4
2009	342,837,021	23,744,549	6.48%
2010	391,702,914	26,260,791	6.28%
2011	418,255,755	34,037,043	7.53%
2012	431,148,437	32,415,414	6.99%
2013	423,598,256	33,323,247	7.29%
2014	438,519,916	36,934,081	7.77%
2015	440,580,684	31,451,705	6.66%
2016	453,634,123	28,026,749	5.82%
2017	458,136,173	24,933,810	5.16%
2018	652,576,364	31,270,022	4.57%
2019	765,800,871	23,334,750	2.96%
2020	702,801,921	23,037,106	3.17%

Source: Authors' processing based on information extracted from the Audit Analytics database

In the study performed on 198 companies listed on the Warsaw Stock Exchange, Indyk (2019) points out that the mandatory audit firm rotation does not reduce the level of market concentration because the auditors' rotation is also performed in Big4 firms. Moreover, in the context imposed by the legislative provisions, the entities in the Big4 group have a greater bargaining power and benefit more from customer rotation than from their retention. The results of the study conducted on the Polish market are also supported by those identified by Bleibtreu & Stefani (2013), attesting that, in concentrated markets, the mandatory audit firm rotation determines an even greater homogeneity, thus opposing the objectives of the European Commission.

However, there are other studies that highlight the positive impact of this measure imposed among the EU member states, such as those performed by Bulucea (2020) and Kim et al. (2015), which highlight that the mandatory audit firm rotation improves audit quality.

A solution to reducing concentration may be the joint audit, a concept rooted in France but not so widespread among other member states. This practice involves auditing the entity by at least two auditors who share the audit work and prepare and sign a joint audit report. Companies opting for such a mechanism benefit from a longer auditor rotation period (the Regulation 537/2014/EU provides in this context a 24-year period without the need for a tender) compared to single auditors, who can audit the same public-interest entity for 20 years only if a public tender takes place after the first ten years.

Joint audits represent a way to improve the European audit market (European Commission, 2010), and the EU is promoting this concept through legislative provisions issued in order to reform the audit. The Regulation 537/2014/EU requires the audit committee to make two or more recommendations on the choice of the new auditor, while ensuring that small audit firms are not ignored during the tender process. Thus, the aim is to reduce the level of concentration by facilitating market access for audit firms that are not part of the Big4.

The studies performed show that hiring two Big4 audit firms does not ensure a higher quality audit mission, than in the case where both a Big4 firm and one outside the group are involved in the engagement (Lobo et al., 2017). In the research undertaken, Bianchi (2018) finds that joint audits facilitate knowledge transfer, increase the auditors' expertise and investor trust, the audit quality being influenced by the collaboration between the firms involved in the joint audit mission. However, there are also studies that reflect the opposite. André et al. (2016) analyse the situation of the listed entities in France, a country where joint audit is mandatory, and finds out that joint audit involves higher fees than in other countries such as the UK and Italy, where this system is not required. The authors also point out that these higher rates do not implicitly improve audit quality, as there is no direct relationship between the two variables.

The globalization trend has also left its mark on the business environment. Companies have expanded and

diversified their activities both within and outside the European Union, thus generating the need for audit firms to adapt and widen the range of insurance services provided to their customers. However, large audit firms are becoming stronger, with an increasingly rich client portfolio, representing an important market segment. This is a concern for regulators who need to ensure the proper functioning of the market in order to allow for fair competition and help improve the quality of the audit missions performed.

3. Research methodology

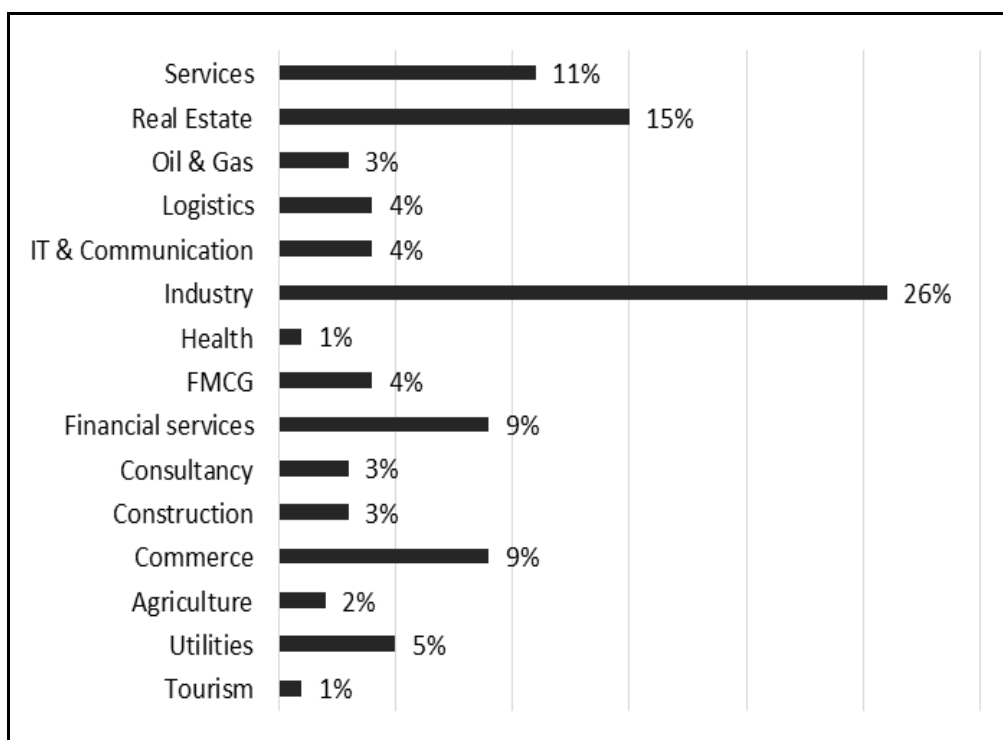
3.1. The structure of the analysed sample

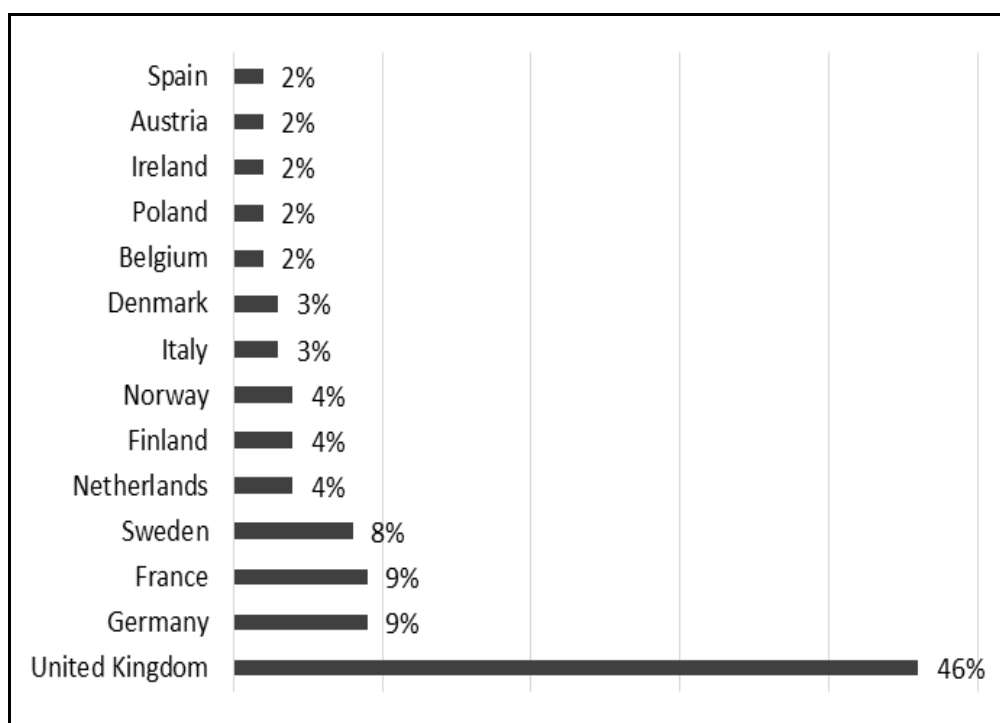
The analysis of the audit market from the fees' perspective is performed on a global sample, consisting of listed companies. The 2,896 companies included in the analysis belong to 35 states. In total, the sample we refer to includes 9,489 observations. Due to the availability of the data

extracted from the Audit Analytics database, we notice that 93.79% of the total sample is covered by companies in 14 states. The distribution of the companies by their country of origin is described in **Figure no. 2**. This graph illustrates that around 46% of the analysed sample are UK companies, followed by 9% companies from Germany, 9% companies from France and 8% companies from Sweden.

Although the sample reflects to a greater extent the audit market in the United Kingdom, the distribution of the sample describes a mix of information regarding the audit market in the Community economic space. Given the analysed period, and despite the fact that the United Kingdom has left the EU since 2021, the sample best reflects the pre-Brexit period. The period under study is 2013-2021. Most of the observations included in the analysis (84.99%) refer to the 2017-2020 period. Consequently, the analysis of the available information will also be linked to the significant changes made in terms of the Community acquis on the audit market.

Figure no. 2. Sample distribution





Source: Authors' processing

Our approach focuses on analysing the specific effect of the business segment where the analysed companies operate. We notice in **Figure no. 2** a concentration of observations showing that most companies operate in industry (26%), real estate (15%), services (11%), financial services (9%) and trade (9%), representing over 70% of the total sample of analysed data.

3.2. The empirical data analysis

The main objective of this study is to analyse the extent to which there is a pattern of audit costs at the Community level. For this purpose, we proceeded to assess the existence of regional disparities and disparities in the business segments under analysis, from the perspective of the statutory audit costs. The amplitude of these disparities was highlighted by conducting an assessment of the degree of concentration of audit costs, especially in the business segments where the analysed firms operate.

The concentration analysis concerns, on the one hand, the extent to which the Big4 market share has changed substantially during the period

analysed. Moreover, we proceeded to analyse the degree of uniformity of audit fees, by calculating a concentration coefficient, taking into account the analysis at the level of the business segment covered by the analysed sample. At the same time, we performed the dynamic analysis of the concentration coefficient, by checking the existence of a significant evolution that could be generated by any substantial legislative change to the methodology for calculating the audit fee.

The concentration coefficient is calculated by using the trapezoidal estimation method, starting from the definition of the Lorenz curve and the two consecrated areas. In a formal expression, considering n intervals and a variable x representing the amount of audit costs corresponding to the analysed audit reports, we calculated both A and B areas corresponding to the Lorenz curve. We therefore considered the probability distribution of the variable x as variable:

$$X: \begin{pmatrix} x_1, & x_2, & \dots, & x_i, & \dots, & x_k \\ x_1, & n_2, & \dots, & n_i, & \dots, & n_k \end{pmatrix}$$

The cumulative frequencies relative to the analysed audited reports are given by the relation $N_i = \sum_{i=1}^k n_i$, for each value group of the level of logarithmic audit costs. Based on the resulting histogram, starting from intervals of equal values, we obtained 9 such intervals, so that $k = 9$. The probability starting from the number of audited reports that have associated audit costs falling within the value interval i of the audit cost population is determined by the relation

$$q_i(\%) = \frac{N_i}{\sum_{i=1}^k n_i}. \text{ The probability corresponding}$$

to the cumulated product corresponding to the value interval i of the audit costs, is given by the

$$\text{relation } p_i(\%) = \frac{\sum_{i=1}^k x_i \cdot n_i}{\sum_{i=1}^k x_i \cdot n_i}.$$

We calculated the cumulative probability of the number of audit reports that do not exceed the upper limit of the interval i , starting from the relation $Q_i(\%) = \sum_{j=1}^i q_j(\%)$. Similarly, we calculated the cumulative probability of the cumulative amount of the audit costs corresponding to the intervals up to the maximum limit of the interval i , namely $P_i(\%) = \sum_{j=1}^i p_j(\%)$. The difference $Q_i(\%) - P_i(\%)$ is applied to each value interval i .

By summarizing the differences

$Q_i(\%) - P_i(\%)$ we obtained the area of the zone A specific to the representation of the Lorenz curve. In parallel, we proceeded to the cumulation of probabilities $\sum_{i=1}^{k-1} n_i$, describing the area $A + B$ corresponding to the representation of the Lorenz curve. We thus obtained the concentration coefficient defined by the relation $\frac{\sum_{i=1}^k (Q_i(\%) - P_i(\%))}{\sum_{i=1}^{k-1} n_i}$ (Tarca, 1998).

This indicator reveals a high level of uniformity of audit costs as long as its value approaches 0. On the other hand, it is recommended that a high

level of disparities of the fees charged approaches the value 1 of this concentration indicator.

The analysis of the degree of concentration of the audit services market is performed by using the Herfindahl-Hirschman concentration index, calculated with the relation $HH_i = \sum_{j=1}^k s_j^2$, where s_j is the market share of the firm j , corresponding to the analysed sample, i represents the analysed industry, and k represents the number of audit firms that provided services and obtained revenues from the statutory audit activity in industry i . The market share s_j is calculated at the level of the revenues obtained from the audit activity, limited to the sample analysed.

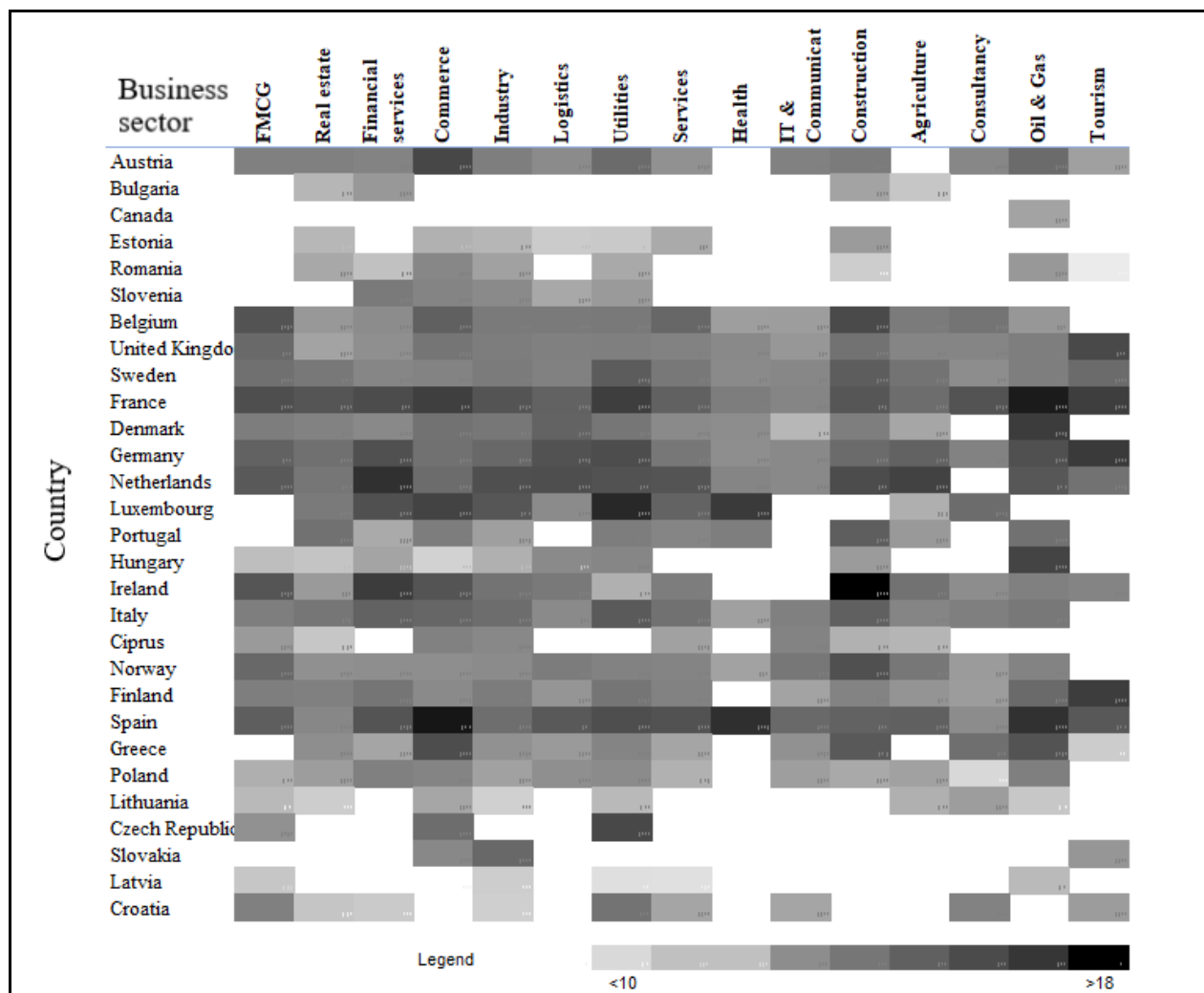
4. Results and discussions

4.1. Assessing the uniformity of audit costs

In *Figure no. 3* we represented the matrix of the fee level of the statutory audit services, corresponding to the analysed sample. We easily notice a high level of audit fees, especially in highly developed economies. As noted by Gunn et al. (2019) or Eierle et al. (2021), the differentiation of audit fees is significantly influenced by economic and institutional factors specific to each jurisdiction. The more developed national economies are, the more complex business models become and the more exposed they are to interference with other national economies, with direct implications for the level of audit risk that increases significantly.

Consequently, audit fees are higher, covering the audit risk supplement assumed by the auditors (Popa et al., 2014; Chersan et al., 2012). There is a similar explanation for the high level of audit fees in certain business segments, such as extraction and production of petroleum products.

Figure no. 3. Audit fee market map – average analysis (logarithmic)

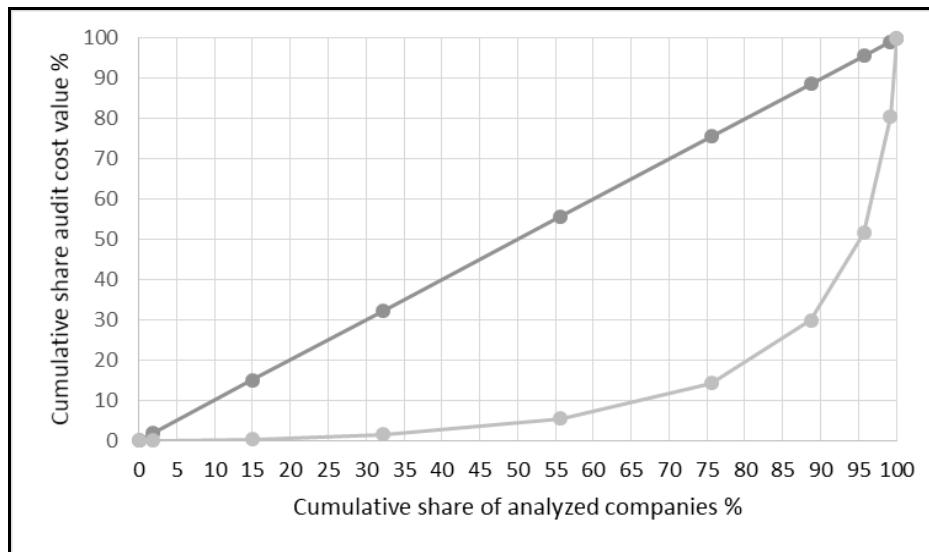


Source: Authors' processing

At the same time, it should be noticed that audit fees do not have standard patterns, as each audit commitment is described by a significant degree of specificity. This differentiation of audit fees is also noticed in the degree of uniformity of audit costs, represented by the Lorenz curve in *Figure no. 4*. This graph is representative of a concentration (standardization) coefficient of audit fees of approximately 0.605, which is a significant standardization level. However, this level of uniformity of audit fees is largely due to the high degree of concentration of the audit market, where most of the revenue from audit activities is

obtained by Big4 audit firms (London Economics, 2006; Audit Analytics, 2020; European Commission, 2021). These companies are known for the high level of standardization of audit activities, implementing policies, processes, procedures and support tools that outline a framework which allows the systematization of audit activities to a significant extent. At the same time, these audit firms are, in most cases, promoters of the adoption and implementation of emerging technologies and best auditing practices, both internationally and regionally or locally.

Figure no. 4. Evolution of the degree of standardization (concentration) of audit costs

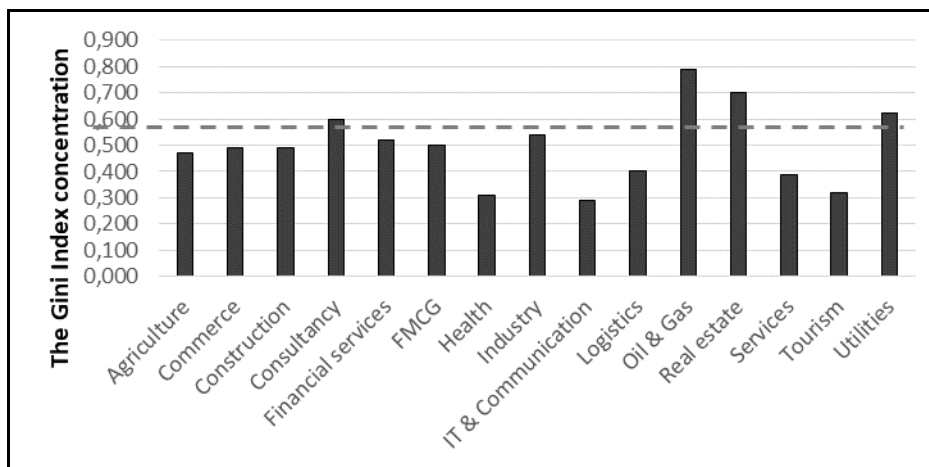


Source: Authors' processing

However, these results have to be analysed with caution, given that the sample analysed by the authors consists of large firms listed on international capital markets, which is why most audit engagements are contracted by Big4 audit firms, with direct negative implications on establishing competitive audit fees throughout the bidding process. Big4 audit firms have similar bargaining power, and the approach to audit

commitments is similar for the most important key elements, which is why there is a relatively high level of uniformity of audit fees. However, we would like to point out that there are differences in the audit fees charged, even among Big4 audit firms. The differentiation is reduced mainly to the specifics of the audited firms and less to the institutional framework and the level of macroeconomic development.

Figure no. 5. The degree of concentration of audit costs across business segments



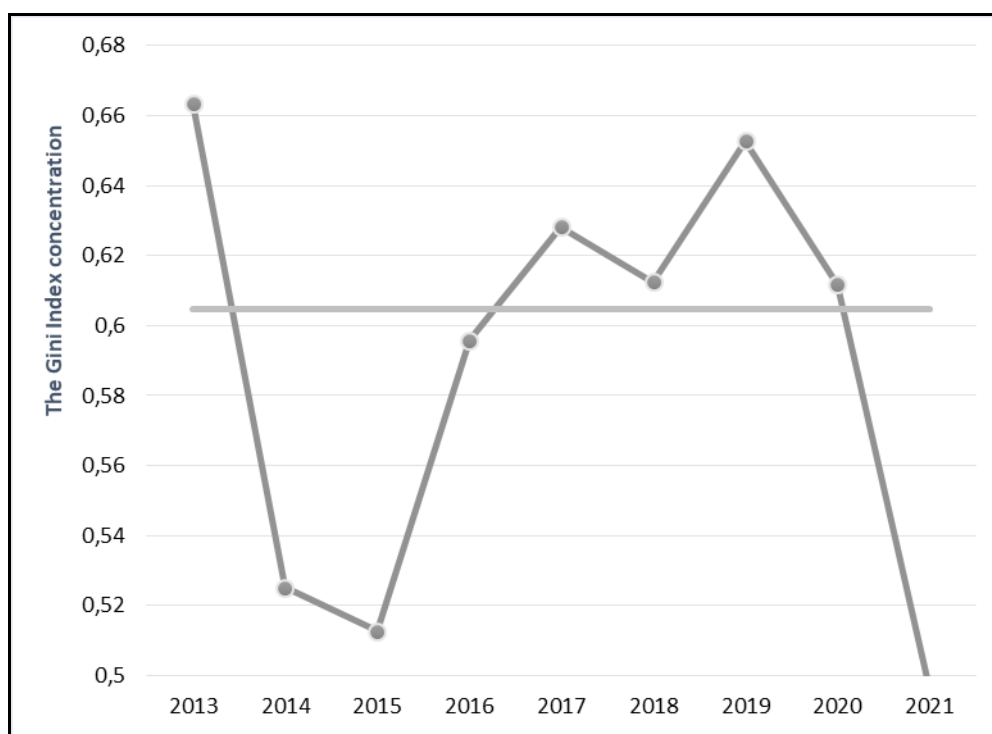
Source: Authors' processing

Figure no. 5 shows visible differences in terms of the inequalities of the aggregate audit costs across the business segments where the audited firms operate. As expected, in business sectors with a higher degree of specificity of the audited companies' operations, there is a higher level of uniformity, precisely because there is a lower margin for negotiating audit fees, as the audit firms must be specialised in the specifics of the business model and the implications on accounting estimates, and on the audit risk assumed. This is the case of oil and gas extraction, or real estate investments sectors. On the

other hand, in the sector of services, tourism, or IT, the audit activity is characterised by a lower level of complexity, and the audit risk is lower, which is why in these areas the bargaining power of audit clients is higher.

In time, the degree of uniformity of audit fees has fluctuated, as can be seen in **Figure no. 6**. However, there is a significant increasing trend in the degree of uniformity (concentration) of audit fees with the adoption and implementation of the Directive 2014/56/EU, which has been integrated into national regulations over a period of 2 years.

Figure no. 6. The evolution of the degree of concentration of audit fees



Source: Authors' processing

However, we equally have to mention the opinion of Zhang et al. (2021), who point out that reducing audit costs should not be confused with a decline in audit quality, but it may also be associated with improving the auditor's efficiency, who may propose bids for more competitive bidding audits, in the context of certain cost reductions. These cost savings are even greater for large audit firms, given the more rigorous systematic approach to audit commitments. However, the common approach to

audit activities across multiple audit engagements is closely linked to the homogeneity of the business models in the business segment where audit clients operate, leading to significant economies of scale, with indirect effects on the audit firms' competitiveness by price (Bills et al., 2015).

At the same time, we notice the impact of the COVID-19 crisis on the audit market, through a significant drop in the degree of uniformity of

audit fees, most likely due to the intensification of activities meant to capitalize the competitive advantage. Under the conditions imposed by the COVID-19 crisis, the high level of economic uncertainty leads to an increase in audit risk, which generates more differentiated audit fees in pandemic times. In the context in which economic crises increase the degree of economic uncertainty, companies are forced to reduce costs, which is why audit firms reduce their audit fees until the return of economic growth (Zhang et al., 2018). Under these conditions, audit firms carry out different marketing strategies and pricing policies in order to remain competitive (Cho et al., 2020; Desir et al., 2014) and avoid impacting the quality of audit services (Popa et al., 2014). This behaviour is all the more visible at the level of Big4 audit firms that have to face real competition from competitors of the same size and bargaining power (Francis et al., 2013; Willekens et al., 2020).

4.2. Assessing the degree of concentration of the audit services market

The overall picture of the audit market shows that the size of the audit market, the existence of real competitors and the emergence of a competitive advantage by specializing in specific business segments are the main pillars in shaping the structure of the audit market and its degree of concentration. However, given the higher degree of concentration of the audit market, it seems that the central pillar conditioning audit quality is the dominant position of the market leader over its competitors, while the competitive advantage obtained by industrial specialisation is of secondary importance (Willekens et al., 2020). The indirect effects of the degree of concentration of the audit market are felt, most often, at the level of audit costs, especially in the case of certain heterogeneous business segments, in which audit firms must specialise. However, indirect effects are also felt at the level of the financing costs of audit clients, given that financial institutions perceive negatively an increased level of audit market concentration, with possible negative implications on audit quality (Geng et al., 2019). Under these

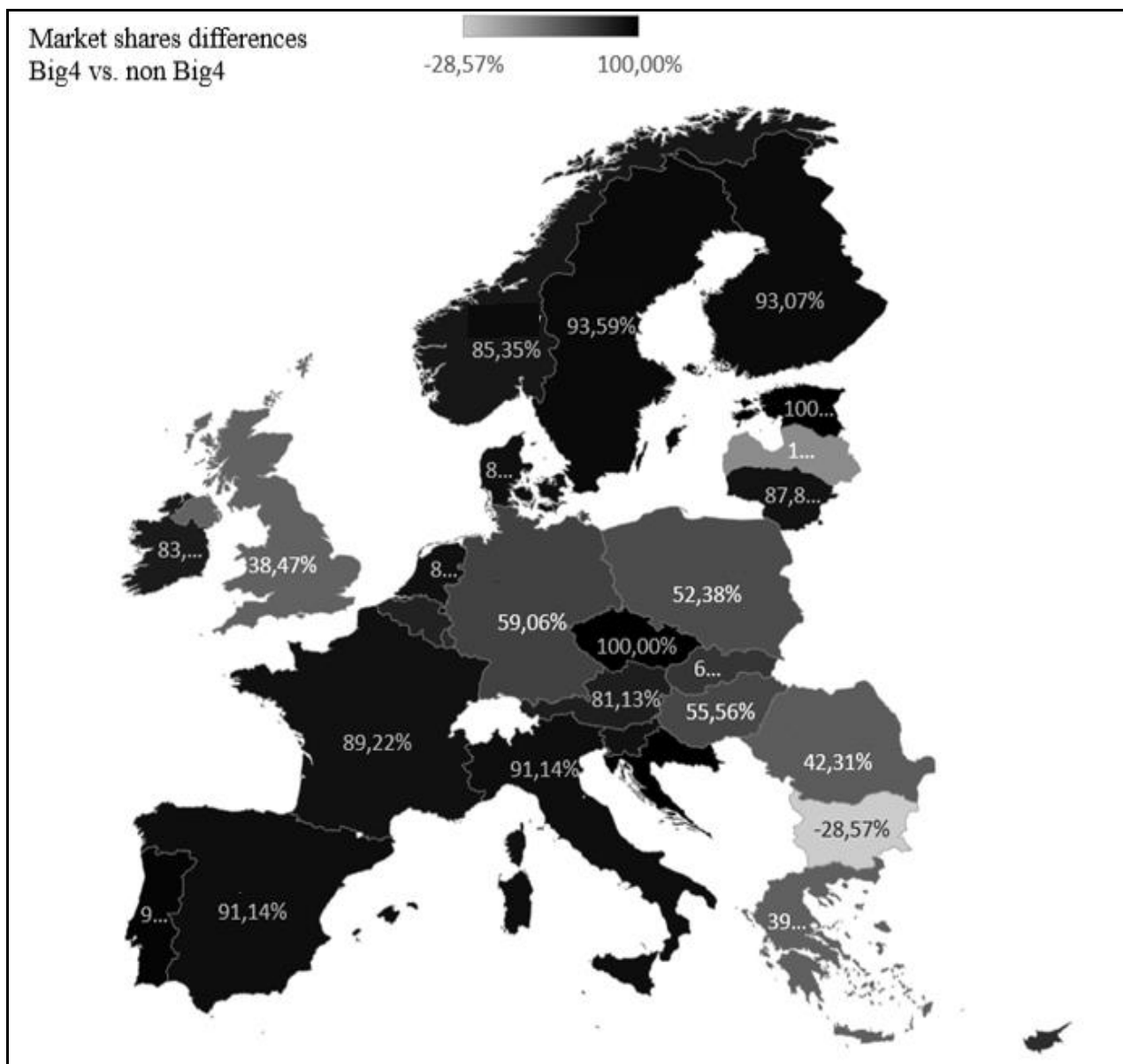
circumstances, domestic regulators are not the only ones interested in reducing disparities on the audit market, but audit clients as well.

The audit market is currently perceived as an oligopoly formed by Big4 audit firms, with implications on the level of audit fees and barriers imposed on new audit firms that wish to bid at the request of listed firms to select an auditor. As long as the process of negotiating audit commitments does not allow or condition the quality of the information disclosed in the audit report at the level of audit fees, there are no signs of concern. However, this negotiation process is implicitly reflected in the quality of audit reports, precisely for the auditor to ensure continuity and keep the audit client in its own portfolio and in the following financial years (Cho et al., 2020; Desir et al., 2014).

The literature reveals an increase in audit fees if there is an oligopoly of audit firms on the audit market, in the context of a limited number of audit firms that offer audit services with a high degree of specialisation in each business segment. On the other hand, at the level of the audit market where audit clients do not require auditors' specialisation in the particularities of the field they operate in, a concentration of the audit market is achieved only in the context of a significant reduction of audit fees (Xu, 2017).

Figure no. 7 shows a higher concentration of the audit market in highly developed economies, justified by the higher complexity level of audit commitments and by the need for auditors to specialise in various business segments, with a direct effect on the level of audit fees (Guo et al., 2020; Scheidt, 2020). However, these additional costs paid by audit clients for the specialisation of large audit firms are rather accepted by large firms, as smaller firms prefer to turn their attention even to smaller audit firms, that do not specialise in specific business segments (Zhang et al., 2021). Thus, the premises of a higher level of audit fees are outlined especially in the case of highly developed economies and with a consolidated institutional framework, which is mature enough to sanction any non-compliance with the domestic legal framework (Eierle et al., 2021).

Figure no. 7. Differences between the number of audit missions performed by Big4 companies vs. non- Big4

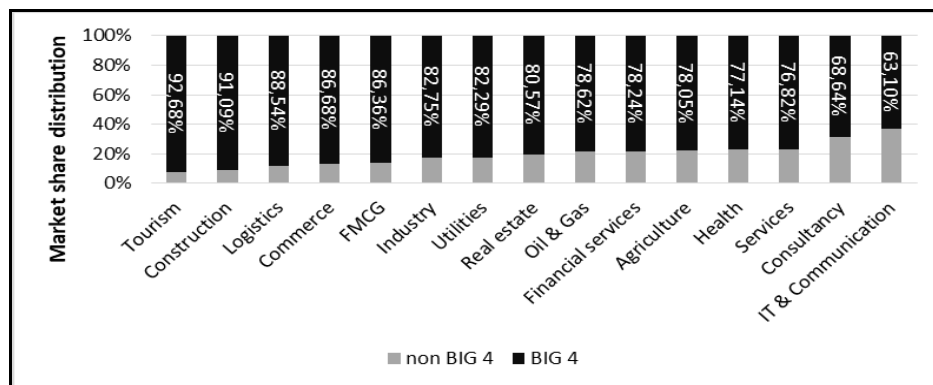


Source: Authors' processing

Figure no. 8 emphasizes the existence of an oligopoly type of audit market, outlined at the level of audit services requested by the large listed companies included in our sample. As mentioned above, the requirements for auditor specialisation prevent the

entry of non-Big4 firms in the bidding process, which explains the high degree of concentration in the business segments characterised by companies with complex business models and significantly higher audit risks.

Figure no. 8. Distribution of market share according to the class of the audit firm

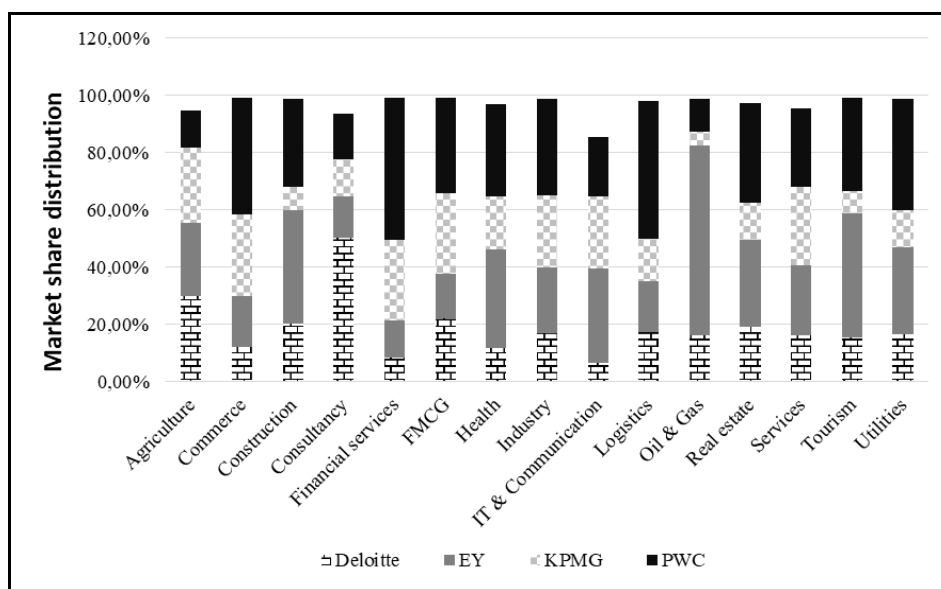


Source: Authors' processing

Under these circumstances, audit clients have limited opportunities to obtain competitive rates, especially in the context of bidders with similar capabilities in terms of business specialisation and a coherent framework for planning and performing audit commitments. However, we notice that Big4 audit firms are not present to the same extent in all business segments, as revealed by the market share we calculated, corresponding to the sample under analysis. For example, in *Figure no. 9* we

can easily notice that Ernst & Young is more present in the gas and oil extraction segment, or in tourism. On the other hand, PwC is more present in the financial services sector. We are used to the research activities, the guides and public consulting campaigns of these audit firms in different business segments. These tools are fundamental marketing elements of Big4 firms that illustrate the degree of specialisation in certain business segments.

Figure no. 9. Representation of the market share of Big4 audit firms by business sectors



Source: Authors' processing

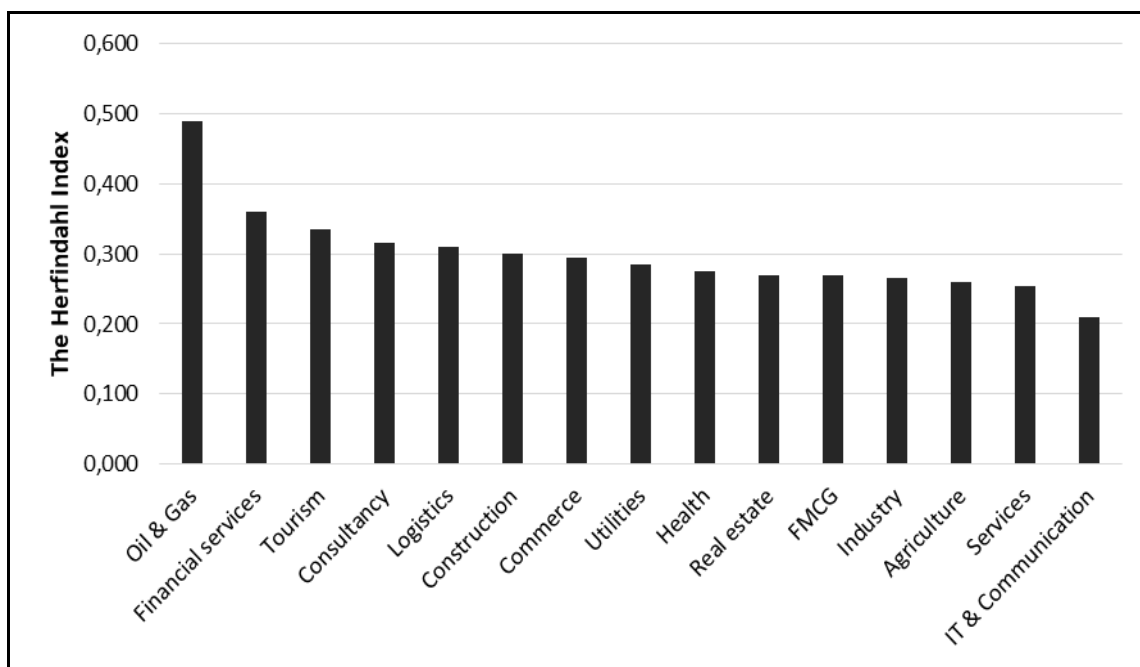
Figure no. 10 illustrates a representation of the HHI index (Herfindahl–Hirschman index) for audit market concentration. As noticed earlier, in the business segments that require the specialisation of audit firms, there is a higher level of audit market concentration, precisely because Big4 audit firms have turned this business specialisation into a competitive advantage, which has reduced competitiveness and raised visible barriers preventing the entrance of other audit firms.

The relationship between the level of audit fees and the degree of audit market concentration is even more visible in large economic sectors with a small number of customers (Xu, 2017). However, Francis et al. (2013) pointed out the importance of Big4 audit firms seen as leaders and promoters of audit practices that ensure the detection and punishment of the earnings

management reported by audit clients. However, the authors point out that this position as a promoter of sound audit practices is conditioned by similar market shares of the Big4 audit firms. This conclusion is similar to the position of Willekens et al. (2020), who emphasize the importance of the audit firm's dominance over its competitors in ensuring a quality audit.

Thus, the dominance of Big4 audit firms can be perceived as a good sign in the audit market. However, the institutional framework of each jurisdiction should be able to control and monitor this phenomenon, either by a more careful regulation of the audit market, or by implementing a transparent, continuous, efficient and fair penalty system for the violation of legal provisions or the auditors' ethics and professional conduct.

Figure no. 10. Statutory audit services market concentration index



Source: Authors' processing

In this respect, we reiterate some of the most acknowledged regulations outlined at an international level, namely:

- the mandatory auditor rotation;
- the mandatory audit partner rotation;

- mandatory joint-audit auditors, in the case of companies of public-interest or of key importance for the economy;
- limiting the percentage of revenues from an audit client, in relation to the total revenues obtained by an audit firm (fee caps);

- the mandatory transparency in reporting audit costs;
- preventing or limiting the provision of insurance services or of joint-audit services, exclusively to statutory audit services.

Conclusions

In the context of an excessive audit market concentration marked by the presence of the Big4 group, especially in highly developed economies, the arising issue is the damage to competitiveness, the influence of independence, but also the level of fees charged by external auditors for their services. At the level of literature, we identified ideas arguing that high values of non-audit fees as opposed to low values of audit services may pose a threat to the auditor's independence, with a negative impact on the opinion expressed in the report or they may reveal an attempt to corrupt it in order to influence opinion.

In order to facilitate competition in an overly concentrated market and provide the opportunity for small and medium-sized audit firms to become active players in the audit market of large corporations, the European Commission has initiated reforms in the field of joint audit, which specify that at least one of the audit firms is not part of the Big4 group. Another aspect of the reform concerns the mandatory audit firm rotation and the limitation on the amount of non-audit services provided, which have a direct impact on the level of fees charged.

By analysing the literature, we can conclude that the structure of the audit market at the European level focuses on Big4 dominance. However, regardless of the level of market concentration, the fees charged in the statutory audit sector must justify the auditor's effort to ensure the quality of the information presented in the financial statements, being correlated with the audit risk associated with the audited entity.

The study of the impact of the legislative provisions issued in 2014 at a European level regarding the percentage of audit and non-audit fees charged for the entities listed on regulated markets in the European Union reveals an obvious declining trend in the percentage of fees for non-audit services

against the total fees since the entry into force of the two European regulations, in 2014, when the fees charged for non-audit services represented the largest percentage of the total fees. In 2016, when the provisions started to be transposed into the national regulations of the member states, there was a 10.36% drop in percentage, a decreasing trend that continues until 2020.

Given the specifics of the business segment where the analysed companies operate, we noticed that over 70% of the analysed companies operate in industry (26%), real estate (15%), services (11%), financial services (9%), trade (9%), 46% being concentrated in Great Britain, 9% in Germany, 9% in France and 8% in Sweden.

In order to highlight the regional disparities in terms of the reported costs of statutory audit in the analysed business segments, we calculated a concentration coefficient based on a significant market share for a small sample of audit firms, or by practicing differentiated audit rates, thus concluding that Big4 audit firms form an oligopoly in the audit services market, due both to their experience, expertise and global exposure, but also to the power to negotiate with the audited firms.

At the level of highly developed economies, we noticed a high level of audit fees, justified by the complexity of audit commitments and by the need for auditors to specialise in various business segments, with a direct effect on the level of audit fees. We identified the increasing tendency in the degree of uniformity (concentration) of audit fees with the adoption and implementation of the Directive 2014/56/EU, which was integrated into national regulations over a period of 2 years. The impact of the COVID-19 crisis cannot go unnoticed either, as we identified a significant drop in the degree of uniformity of audit fees, most likely due to the intensification of the competitive advantage. The high level of economic uncertainty leads to an increase in audit risk, which generates more differentiated audit fees in pandemic times. In the context in which economic crises increase the degree of economic uncertainty, companies are forced to reduce costs, which is why audit firms adjust their audit rates until the return of economic growth.

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Factors Influencing KAM Reporting: A Structured Literature Review

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Abstract

The disclosure of KAMs contribute to the increase of financial-reporting quality, the value of the audit report and implicit interest in it. Moreover, KAM's disclosure has a positive influence over the expectation gap between the auditors and other users of the audit report and financial statements. This study aims to identify relevant drivers influencing the Key Audit Matters (KAMs) disclosed in the audit report, based on a review of the articles published in top accounting journals. Our results reveal the fact that the audited company itself especially influences the disclosure of the KAMs, emphasizing the size of the company, the complexity of the business, the applicable regulation of the industry in which the company operates, all of which impact the overall client-risk level. Other relevant factors are the accounting standards with which the company must comply and on which it must report, the audit company ('Big Four' or not) and the audited company's location.

Keywords: Key Audit Matters; Audit Report; ISA 701

JEL Classification: M41, M42

To cite this article:

To link this article:

To cite this article:

Porumbăcean, T., Tiron-Tudor, A. (2021), Factors Influencing KAM Reporting: A Structured Literature Review, *Audit Financiar*, vol. XIX, no. 4(164)/2021, pp. 743-758, DOI: 10.20869/AUDITF/2021/164/025

To link this article:

<http://dx.doi.org/10.20869/AUDITF/2021/164/025>

Received: 19.08.2021

Revised: 30.08.2021

Accepted: 9.09.2021

Introduction

The purpose of the audit reports is to facilitate the communication of the auditors' concerns and opinions, regarding the accuracy and completeness of the financial statements, to various categories of stakeholders, such as investors, debtholders, shareholders, standard setters, regulators and other external users (Pratoomsuwan & Yolrabıl, 2018).

Prior research raises several concerns regarding the quality of the audit report and the expectation gap between the stakeholders and the auditors (Church et al., 2008), also highlighting situations in which the auditors fail to identify financial statements that do not present a true and fair image of the audited company's actual financial information (Guiral-Contreras et al., 2007). All these aspects generate an overall distrust of the auditor's work and lead to continuous debates on the matter (Vanstraelen et al., 2012).

The International Auditing and Assurance Standards Board (IAASB) adopted International Standard on Auditing (ISA) 701 in response to concerns that stakeholders raise, and in an attempt to reduce the information gap and the information asymmetry between the users of the financial statements and the auditors, as well as to improve transparency, increase audit quality and make the audit reports more relevant for their users.

Consequently, the audit report suffered some modifications and the auditor has an additional objective, namely, to determine key audit matters (KAMs) and communicate those that in the auditor's professional judgement were of most significance in auditing the financial statements of the current period, by describing them in the auditor's report.

Before the implementation of ISA 701, 'the auditor's report structure had been much simpler than it is today, with reports usually comprising of brief paragraphs' (Tiron-Tudor et al., 2018). However, a gap between auditors and users also existed, particularly due to the users' comprehension of a report that had become even more complex and quite difficult to follow.

After the introduction of the KAMs paragraph to the audit report, the fieldwork included performing more audit procedures on the audited financial accounts. Marques et al. (2019) and Moroney et al. (2020) demonstrate that the inclusion of the KAMs paragraph in the audit report improves its perceived value and offers greater credibility

only when a Non-Big Four audit company issues it. On a more positive note, Sirois et al. (2017) suggest that particularly due to the high level of the KAMs specificity, users can acquire a better understanding of the disclosures: 'KAMs can improve information search and acquisition efficiency by reducing attention to less relevant disclosures' (Sirois et al., 2018). However, to the authors' best knowledge, the gap in the literature remains; no study performs a rigorous literature review on factors influencing the KAMs disclosure (Sirois et al., 2018).

Thus, this paper aims to identify and discuss the key drivers that influence the disclosure of the Key Audit Matters in the audit report based on a structured literature review.

The study intends to contribute to the development of knowledge as follows. First, performing a comprehensive review of articles published in top accounting journals. Second, this study intends to facilitate better understanding of the KAMs, by explaining how some factors correlate with the matters disclosed, to enable more informed decision-making based on the information the audit report provides.

KAM emergency: role and debates

Nowadays, users' expectations of the financial statements and audit reports have increased tremendously, and so has the implicit pressure on authors to provide as much assurance as possible regarding the financial statements. In an attempt to decrease this expectation gap, to increase the quality of the audit and make the audit reports more relevant for users, the International Auditing and Assurance Standards Board (IAASB) adopted International Standard on Auditing (ISA) 701, 'Communicating key audit matters in the independent auditor's report', which became effective for audits of financial statements for periods ending on or after December 15, 2016.

The purpose of ISA 701 is to improve communication with not only the users but also the regulators, perhaps to continuously improve the audit reporting quality and further diminish the expectation gap.

ISA 701 defines KAMs as "those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements". Accordingly, the auditor should refer to areas with high risk of material misstatement (RMM) or significant risks identified as required by ISA 315 (revised); areas that

imply significant management judgement, such as accounting estimates that have a high level of uncertainty; and the impact on the audit of significant events or transactions that took place during the audited period (Jermakovicz et al., 2018). Regarding the KAM, the auditor should explain the rationale for selecting the matter and how the audit addressed it. Also, at least one KAM must be disclosed (Jermakovicz, et al., 2018).

The structure of the key audit matters consists of the introduction and the body. Each KAM is individually described, and all are sorted based on their priority, though in some cases, they appear sequentially as the notes to the financial statements. When communicated, these matters require attention to not only their level of completeness and appropriateness but also their wording in the requisite language appropriate to the matter (Hui, 2020).

According to Hui (2020), the subjects disclosed can fall into two categories: “firstly, areas of significant risk assessed by the auditor and secondly, areas of management’s major judgments designed in financial reports”. The second category directly connects with two relevant aspects, namely, accounting areas that require more time and a particular level of attention from the auditor and areas that involve professional judgement, such as accounting estimates.

The auditors have a unique perspective on the audited company’s activity and prospects, and they should be able to pass this along, so users get an insight into the important identified risks, quality of the internal controls, risk-management systems the company has implemented and the quality of its accounting policies. Also, most users believe that a significant amount of the audit report’s credibility comes from the audit firm’s prestige and reputation (Vanstraelen et al., 2012).

Some debates in the literature refer to the fact that since the implementation of ISA 701, the audit procedures have become more formalized, including additional documentation of the work performed and the rationale behind the areas that require professional judgement, and more audit procedures are performed, to mitigate the audit risk (Marques et al., 2019).

Moreover, an important objective of a KAM is to increase the usefulness of the audit report. However, this objective carries significant risk if the audit report discloses too many matters, nullifying the initial purposes and leading to its misinterpretation (Milton, 2019).

Others consider that ‘disclosing KAMs in the audit report does not affect the audit expectation gap’; moreover, the expectation gap ‘actually increases on measures associated with perceptions on the reliability of the audited financial reports when the audit report includes a KAM that follows a precise accounting standard, suggesting some potential unintended consequences of this reporting change’ (Coram & Wang, 2020). Also, in line with previous opinions, this process ‘increases audit fees, but it does not adversely impact audit quality’, and stakeholders question if the disclosure of KAMs ‘adds enough, if any, value to justify its costs’ (Daugherty, et al., 2020).

Other direct impacts on auditors refer to a more conservative audit approach, higher evaluation of the audit risk and the fact that auditors have greater liability and exposure to litigation risk (In et al., 2020). Pratoomsuwan and Yolrabil (2020) conclude that ‘disclosures reduce auditor liability only in cases of fraud and not in cases of errors’, putting the focus on a perceived benefit and reduction of liability.

According to Sirois et al. (2018), “KAMs have attention directing impact, in that participants access KAM-related disclosures more rapidly and pay relatively more attention to them when KAMs are communicated in the auditor’s report”; however, the users “devote less attention to the remaining parts of the financial statements”. The auditors must carefully consider the reporting drivers influencing KAMs and properly disclose them in a manner that avoids information overload in the audit report, which decreases its utility.

As the beginning of this section shows, the wording of the KAM is highly relevant, as nonprofessional investors might encounter difficulties with ‘processing the information conveyed with KAM’ (Koehler et al., 2020).

Other researchers do not identify a significant added value and believe that “standard setters should carefully analyze the effect of additional information before making decisions on expanding the content of the audit report” (Boolaky & Quick, 2016). In line with this opinion, no sufficient market reaction to KAMs disclosure and no significant impact on the audit report, audit quality or audit fees were identified (Bedard et al., 2019).

From a more positive perspective, Cordos and Fulop (2014) conclude that “KAMs are an important concept and that it will have a positive effect in the audit profession”. Also, Gold, et al. (2020) point out that “KAMs serve as a beneficial mechanism for enhancing financial reporting

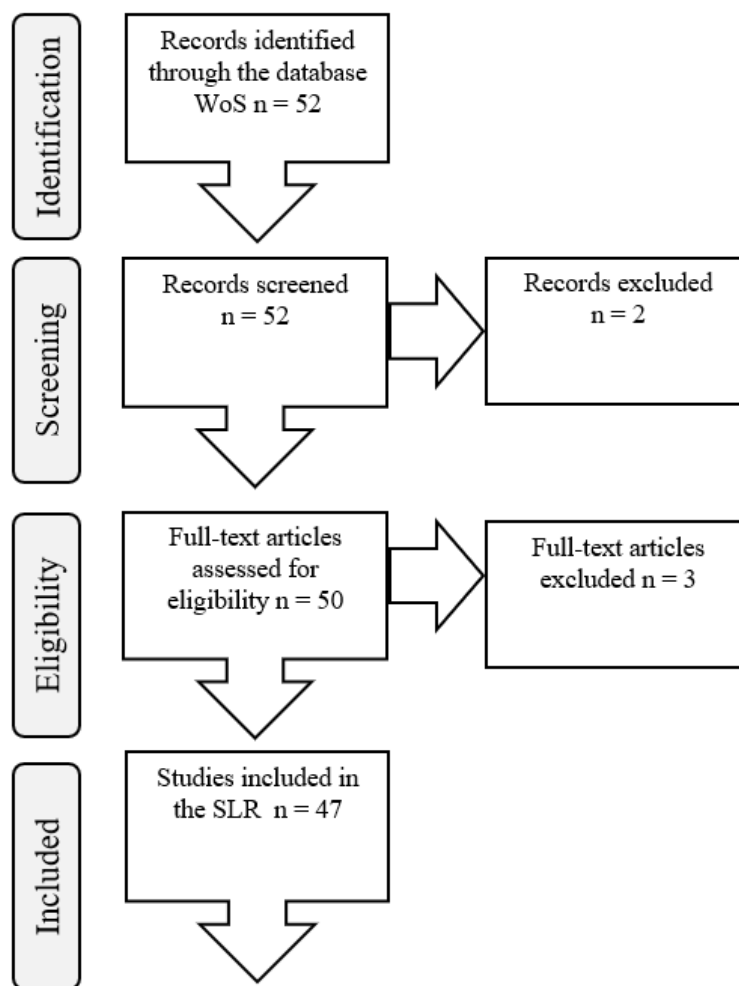
quality by attenuating aggressive financial reporting behavior, regardless of the precision employed by auditors". For now, the question of whether the initial purpose of ISA 701 is achieved remains unanswered (Christofferson & Gronberg, 2018).

Methodology

The purpose of this literature review is to critically analyze the relevant literature in the field, to identify the key drivers that directly or indirectly impact the disclosure of the audit matters in the

audit report. Accordingly, a structured literature review was performed. The search was conducted in Web of Science database using the keywords: KAM or Key Audit Matter and Audit or Auditing. The preliminary result of this research was 52 articles, of which 47 were considered representative for the study, based on an analysis of the abstract. No period filters were applied because the requirement for KAMs disclosure began in 2016. *Figure no. 1* illustrates the filtration and selection method that the authors applied, based on the study's purpose.

Figure no. 1. SLR flowchart



Source: Authors' projection

Then, analytical criteria were used such as: location, sector focus, focus of the article, measurable and non-measurable KAM disclosure factors.

Applying the manual coding procedure structured the data, and both qualitative and quantitative analysis ensued. The quantitative analysis was performed using software solutions VOSviewer and Bibexcel. VOSviewer visualises results in a compacted manner and is “widely used because of its easy use and beautiful graphics in co-occurrence analysis of keywords, topic words, and authors” (Xiyang, 2020). Bibexcel, designed for bibliographic analysis, “provides additional data statistics including author, affiliation and keyword statistics” and is also used to “prepare the input data for a detailed network analysis” (Fahimnia et al., 2015).

The qualitative analysis used NVivo software, useful for unstructured and qualitative data and helping the researcher to classify, arrange, sort and examine the data (Woods et al., 2015). Once

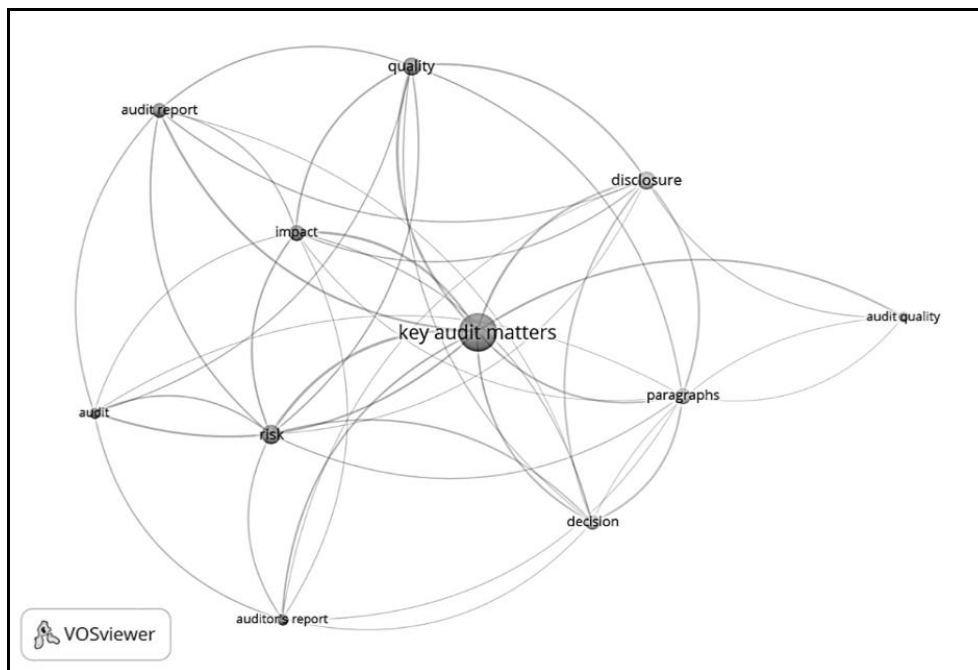
the articles were properly segregated, the authors performed the synthesis of the relevant data, by categorizing the findings of each paper and grouping similar results into relevant categories.

Sample description

The generated sample is composed by 41 articles and 6 proceedings papers. Only two articles were published before the implementation of ISA 701, but they focus on the topic by assessing the expectations and assumptions when the standard was still in the implementation-proposal stage. The remaining 45 articles were published between 2017 and 2020.

Wiley published the largest number of articles – 9 out of 47, followed by Emerald – with 7 and Taylor and Francis – with 4; thus, listed publishers published 43% of the total sample population. The total population of sample articles was published by 22 publishing houses. The majority, specifically 13% of the articles, were published in the *International Journal of Auditing*, not a surprise, considering the research field.

Figure no. 2. Analysis of the co-occurrence of the keywords

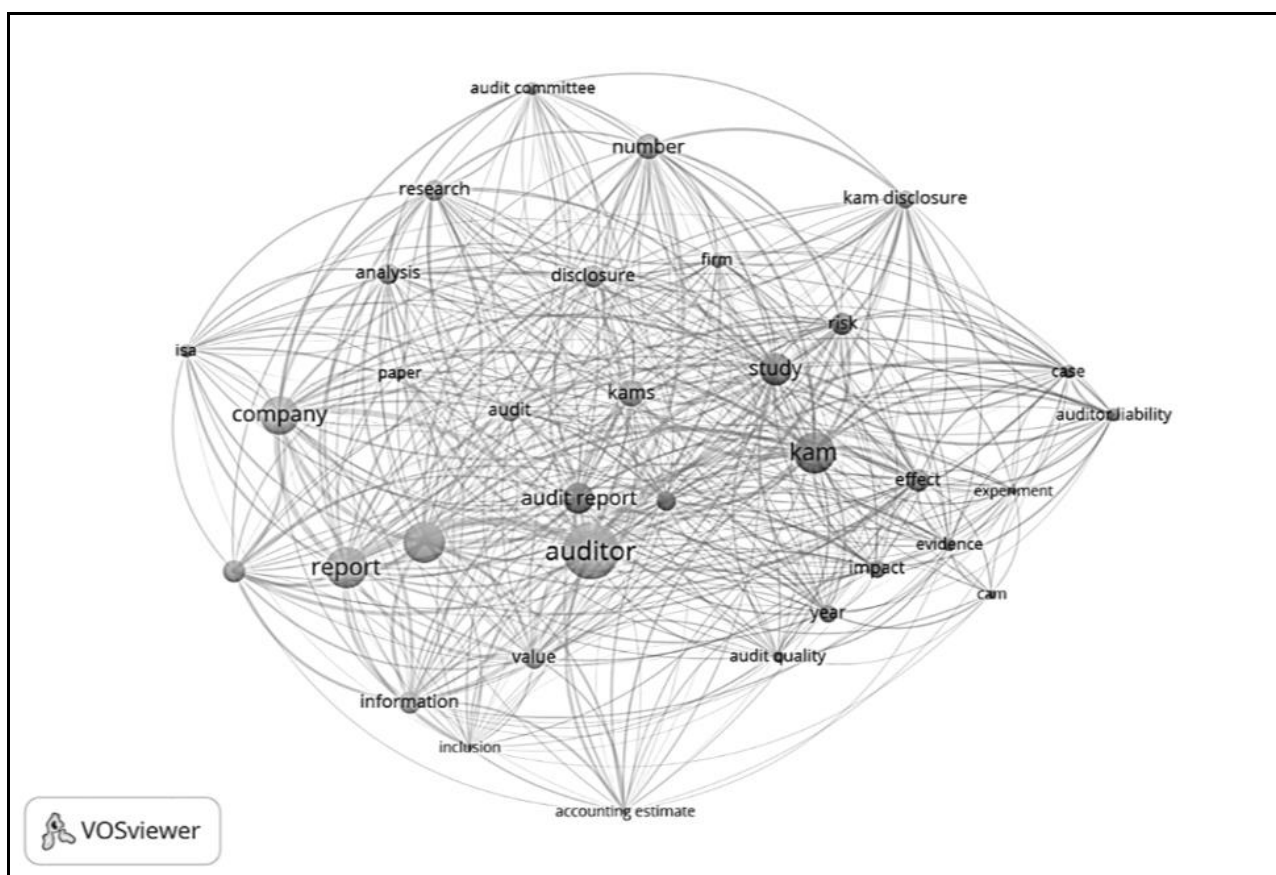


Source: Authors analysis, VOSviewer

An additional analysis based on the bibliographic data shows the co-occurrence of keywords in the selected articles. A significant occurrence threshold was set at 5 keyword occurrences. Therefore, out of 250 available keywords, only 11 keywords met the specified threshold. The most frequently used keyword is 'key audit matters', with a 62-link strength and 32 occurrences. **Figure no. 2** presents link strength as concern correlation of the keyword with others used in the articles.

The third data analysis is a mapping of the text data, co-occurrence of terms from the abstract and the title. The minimum occurrence threshold was established at 10 times. Of the 1,125 terms, 34 met the criteria, and the top three keywords identified are: *auditor*, with link strength of 3,461 and 105 occurrences; *report*, with a 2,226-link strength and 70 occurrences; *KAM*, with a 1,178-link strength and 67 occurrences, presented in **Figure no. 3** which shows the clusters formed from the corpus of scientific literature in the field.

Figure no. 3. Analysis of co-occurrence based on text data



Source: Authors analysis, VOSviewer

The purpose of the corpus of scholarly literature analysis, using the text mining functionality of VOSviewer, is to provide a better understanding and visualization of the research data, offer insights about the most frequently used keywords and validate the presumption that the

selected data is relevant for this research (Van Eck, 2010).

Of the 47 selected academic papers, 87% are in the field of Business and Economics, while those remaining are from business and affiliated fields: Chemistry,

Engineering, Agriculture, Environmental Sciences and Ecology, International Relations and Social Sciences.

Concerning the location, more than half of the studies concern companies located in Europe (55%), the most-studied region, followed by a significant distribution in Asia (23%), and the remaining regions have a total distribution of 21%. The analysis of the location is significantly important, showing the areas of most interest to the researchers and drawing attention to the regions that might require additional research.

Within Europe, the dominating country is by far the United Kingdom, where the audit report has integrated the KAMs paragraph since 2013 (Gambetta, et al., 2019). By far, the least represented locations are Australia (4%) and Africa (2%). In the case of Africa, the low involvement relates to the incipient phase of the audit-standards implementation (Dumay et al., 2015). In Australia, the auditing regulations around Key Audit Matters (KAMs) were fully adopted, as in the majority of the European countries, in 2016 (Kend & Nguyen, 2020), a short time span that would allow the collection of representative data.

North and South America's share of the distribution of studies is about 15%, quite a low sample size in this respect. The applicable similar disclosure requirement,

introduced in 2017, is Critical Audit Matters (CAM) in the USA, part of the Public Company Accounting Oversight Board (PCAOB) regulations. As the research focused on KAM, the results mostly focused on ISA 701, 'Communicating Key Audit Matters in the Independent Auditor's Report', in the International Auditing and Assurance Standards Board (IAASB) regulations.

However, the justification of the large percentage of papers concerning European companies lies with the "progressive spread of value co-creation that starting from the first years of the new millennium and has involved an increasing number of scholars operating within the European continent" (Tommasetti, et al., 2020).

KAM Disclosure factors measurable

The first criterion used in this SLR is KAM Disclosure Factors Measurable (A), to address the first study research question. These factors were split into 'measurable' and 'non-measurable' types, to provide insight into factors for use in certain research models for further study and development of the topic. By applying the criterion of measurable factors, 16 subcategories were identified, as shown in **Table no. 1**.

Table no. 1. KAM Disclosure factors measurable	
Factor	Reference
A1. Gender of the auditor/audit partner (male/female)	Abdelfattah et al., 2020
A2. Cultural/ Other external factors	Velte, 2018
A3. Industry of the audited company	Abdullatif & Al-Rahahleh, 2020 Pinto & Morais, 2019 Sierra-Garcia et al., 2019 Velte, 2020 Wuttichindanon & Issarawornrawanich, 2020
A4. Presence of significant accounting estimates and uncertainty directly related	Asbahr & Ruhnke, 2019 Lau, 2020
A5. Country of the audited company	Ciger et al., 2019 Lau 2020 Wuttichindanon & Issarawornrawanich, 2020
A6. Existence of an Audit Committee in the company	Abu & Jaffar, 2020 Vasconcelos et al., 2020 Wuttichindanon & Issarawornrawanich, 2020

Factor	Reference
A7. Type of audit company (Big Four/Non-Big Four)	Abdullatif & Al-Rahahleh, 2020 Filipovic et al., 2019 Kend & Nguyen, 2020 Moroney et al., 2020 Sierra-Garcia et al., 2019
A8. Audit market structure	Gambetta et al., 2019
A9. Accounting standards applied on particular accounting item/financial statement line item	Cortes de Vasconcellos et al., 2019 Kend & Nguyen, 2020 Pereira et al., 2020 Pinto & Morais, 2019 Warzocha, 2018
A10. Audit fee	Mamcarczyk et al., 2020 Pinto & Morais, 2019 Sierra-Garcia et al., 2019
A11. Number of business segments (complexity of the company's business)	Pinto & Morais, 2019 Sierra-Garcia et al., 2019
A12. Level of regulation of the market	Pinto & Morais, 2019 Sierra-Garcia et al., 2019
A13. Client risk level	Pinto & Morais, 2019
A14. Existence of directors and officers (D&O) liability insurance at the company	Lin et al., 2020

Source: Authors' projection

In addition to these factors, two other subcategories were created to also map articles that do not present measurable disclosure factors (A15) and the papers that contain multiple factors (A16), under which category four articles fall. The most common drivers within the papers were "Type of audit company (Big Four/Non-Big Four)" (A7) and "Accounting standards applied on particular accounting item/financial line item" (A9), both emphasized in five articles.

The audit companies are split into two relevant categories: Big Four and non-Big Four. This status also influences the nature of the KAMs because Big Four companies have a more standardized approach, to mitigate the auditor's liability. Studies show that 'Deloitte, EY and KPMG tend to report fewer entity-level-risk KAM (ELRKAM) than PwC, while KPMG and BDO report fewer account-level-risk KAM (ALRKAM) than PwC' (Sierra-Garcia et al., 2019).

The type of audit company plays a significant role, due to the subjectivity and skepticism level of each auditor and each company's methodology. Thus, it comes as no surprise that variations in judgement and different interpretation methods surrounding ISA 701 arise from one company to another, 'differences between large and small audit practitioners related to the average number of KAMs disclosed and the average number of audit procedures undertaken per KAM' (Kend and Nguyen, 2020).

Abdullatif and Al-Rahahleh (2020) also demonstrate that "audit firms generally disagree on the nature and content of KAMs, overwhelmingly tend to report industry-specific KAMs rather than entity-specific KAMs and avoid reporting KAMs related to governance or internal controls".

Multiple studies assess which accounting standards apply to a particular accounting item or financial statement line item (A9), most impacting the content disclosed in the

KAMs paragraph. De Vasconcellos et al. (2019) report that 'the main KAM[s] observed were assessment of the recovery value of non-current assets, revenues, provisions and contingent liabilities, investments in directly or indirect subsidiaries and realization of deferred taxes and taxes recovering'.

Additionally, 'KAM disclosures are related to impairments of goodwill and intangible assets, asset valuation' (Kend and Nguyen, 2020). These facts directly correlate with the company's business and the risk of material misstatement, depending on the most vulnerable and uncertain audited areas. Accordingly, 'it was tentatively assumed that risks relating to revenue recognition will in general be regarded as significant and therefore be identified and communicated in the key audit matters by the auditors' (Warzocha, 2018).

Pinto and Morais (2019) conclude that the difference between rule-based and principle-based accounting also influences the position of the auditors with respect to KAMs. In the first situation, the auditor's tendency is to disclose more KAMs, in the second case disclosing a lower number of KAMs. This relates to the fact that 'under a less precise accounting standard, auditors might find it easier to justify not disclosing a KAM' (Pinto & Morais, 2019).

Directly connected with the audit procedures is the complexity of the audited company (A11); 'a higher number of business segments (complexity) and more precise accounting standards lead to the disclosure of a higher number of KAMs' (Pinto and Morais, 2019) – quite an expected outcome since 'the more complex a client, the riskier auditing the firm is' (Pinto and Morais, 2019).

Directly correlating with the complexity of the business and the approach of the auditor is the risk to which the auditors are exposed. Therefore, they 'aim to reduce their liability and maintain their reputation, thus they tend to disclose more KAMs in firms with a higher number of business segments' (Pinto and Morais, 2019).

In addition to the complexity of the business, the studies also reveal that the industry of the audited company (A3) influences the disclosed KAMs. From one angle, Abdullatif and Al-Rahahleh (2020) observed "a tendency to avoid entity-specific matters and a preference to concentrate on industry-specific matters".

Even though ISA 701 emphasizes its intention to disclose KAMs that are as entity-specific as possible, 'using overly standardized wording is to be avoided by audit firms'. In

some instances, particular matters could appear in multiple companies from the same industry, but it seems that 'auditors resorted to reporting industry-specific KAMs that do not harm the clients because they did not want to annoy them in fear of losing them or causing problems with them that may affect the audit firm's reputation and its fees' (Abdullatif & Al-Rahahleh, 2020).

In addition, Abdullatif and Al-Rahahleh (2020) also suggest that 'the tendency of auditors to report industry-specific KAMs can be seen as a response to the need to apply ISA 701'. From a different angle, Velte (2020) shows that a good understanding of the industry and the existence of "financial experts, industry experts and the combination of financial and industry experts on the audit committee increase readability of KAM disclosure".

Wuttichindanon and Issarawornrawanich (2020) demonstrate that 'firms with many subsidiaries and firms in the technology, property and construction and finance have higher numbers of KAMs', a conclusion that is quite in opposition to Pinto and Morais's (2019) findings, which show that 'auditors disclose less KAMs for financial institutions; although auditors may disclose more KAMs in banks due to the complexity and opacity of this industry, the fact that the industry is very well regulated and supervised may lead them to find less areas of risk'.

This could be due to regulated industries (A12) already having a good level of monitorization and supervision, leaving less space for possible errors and implicitly needing to disclose KAMs.

Another crucial factor directly linked with those above is the audit fee that also varies with the size of the company and the risk associated with that business. Thus, 'a positive association exists between the audit fee and the number of KAMs disclosed' (Pinto and Morais, 2019). Also, 'the higher number of reported KAM was connected with the amount of an audit fee' (Mamcarczyk et al., 2020).

The correlation itself is quite controversial; 'as audit fees are the main source of income for auditors, the level of relevance of a client can determine the incentive that auditors have to compromise their independence' (Pinto and Morais, 2019).

The audit fee correlates with the number of KAMs disclosed, one again due to the size and complexity of the audited company, considering multiple variables and the type of the company, i.e., a public interest entity (PIE) or non-PIE client. The disclosure of KAMs is required only for listed companies; therefore, from the very beginning, no

insignificant fees can be charged for these types of companies (Pinto & Morais, 2018).

After all, the choice of disclosing a certain KAM or a particular number of KAMs is purely the auditor's. ISA 701 points out that the auditor should explain the rationale for selecting the matter and how the audit addressed it. Disclosing at least one KAM is expected; however, there is no imposed limit. There might be cases when no KAM was identified, but in such circumstances, the auditor must issue a statement in the audit report to address this aspect (Jermakovicz et al., 2018).

Another key factor relevant to the number of disclosed KAMs is the existence of an audit committee (F6), a factor brought up in three of the assessed papers. Abu and Jaffar (2020) propose testing the correlation between the presence of the audit committee and disclosed KAMs. However, their statistical model indicates a 'negative association between independent of audit committee with the number of KAMs'.

From a slightly different angle, Velte (2018) manages to demonstrate that 'KAM readability is positively associated with the proportions of female audit committee members and with the financial and industry expertise of the audit committee'. Wuttichindanon and Issarawornrawanich (2020) show the existence of such correlation only to a limited extent, without obtaining very conclusive results; thus, the matter is still open to investigation and provides a future research path.

Continuing with the importance to KAMs of the gender of the auditor/audit partner (A1), the study's findings reveal that 'female audit partners are more likely than male audit

partners to disclose more KAMs with more details after controlling for both client and audit firm attributes' (Abdelfattah et al., 2020).

From a geographic perspective, the country of the audited company (A5) could also correlate with the KAMs disclosure. Ciger et al. (2019) identify some countries from CEE, namely Poland, Romania, and Turkey, that see up to six KAM subheadings reported. However, on the opposite side, the Czech Republic is 'the only country in which all auditor reports include a KAMs section', whereas 'Romania has the highest percentage of audit reports that do not include a KAMs section'. The results are purely statistical; no hypothesis was tested respecting this factor, but further research might benefit from investigating possible differences between the regions of Europe.

KAM disclosure factors non-measurable

The second criterion applied is 'KAM disclosure factors non-measurable' (B), which mainly refers to aspects influencing the disclosure of KAMs. However, no measurement can be performed on these. The most discussed (9%) non-measurable factor within the analysed papers is the complexity and subjectivity involved in accounting treatment (B2), followed by auditor's litigation risk (B3) at 4%, while the uncertainty level of understanding of ISA 701 (B1) was identified in only one paper. The remaining 85% is papers that do not refer to any non-measurable factors (B4) – **Table no. 2.**

Table no. 2. KAM disclosure factors non-measurable	
Factor	Reference
B1. Uncertainty level of understanding of ISA 701	Abdullatif & Al-Rahahleh, 2020
B2. Complexity and subjectivity involved in accounting treatment	Asbahr & Ruhnke, 2019 Lau, 2020 Pereira et al., 2020 Pinto & Morais, 2019
B3. Auditor's litigation risk	In et al., 2020 Wuttichindanon & Issarawornrawanich, 2020

Source: Authors' projection

The measurement uncertainty refers to ‘uncertainty that arises when monetary amounts in financial reports cannot be observed directly and must instead be estimated’ (IASB, 2018). Thus, ‘accounting estimates such as fair valuation and impairment loss estimation require management judgment and assumptions and hence are subject to measurement uncertainty and estimation errors’ (Lau, 2020).

With the introduction of ISA 701, ‘one of the most important changes in the report is the expanded information on key audit matters (KAMs) that are areas identified as significant risks, significant transactions or events, or significant judgments by auditors (including the audit of accounting estimates)’ (Pinto & Morais, 2019).

Lau (2020) argues that “despite pervasive recent debate, fair value estimation represents only a small proportion, while impairment review and loss estimation makes up the major portion of the total KAMs related to accounting estimates”, also explaining that “measurement uncertainty is the determinant of auditors reporting KAMs related to accounting estimates”.

Some accounting classes are more difficult to audit than others. As mentioned above, in almost all cases, difficulties arise respecting financial line items that refer to accounting estimates. Hence, the higher the uncertainty level, the higher the risk of management bias. According to Lau (2020), “measurement uncertainty is the major determinant of auditors reporting KAMs related to accounting estimates and impairment of assets”.

In a direct correlation with the previous section describing the measurable factors, Pinto and Morais (2019) state that ‘a higher number of business segments (complexity) and more precise accounting standards lead to the disclosure of a higher number of KAMs’.

The complexity involved in the accounting treatment is also likened to the regulations applicable in specific industries. Hence, ‘auditors may disclose more KAMs in banks due to the complexity and opacity of this industry’ (Pinto & Morais, 2019). Arguably, perhaps a complex industry comes by default with complex accounting treatments of fact that indeed influence KAMs disclosure.

Once introduced, a standard could be interpreted in various ways from different perspectives; much subjectivity undoubtedly exists when discussing audits at all, but especially when focusing on KAMs. According to Abdullatif and Al-Rahahleh (2020), “audit firms generally disagree on the nature and content of KAMs, overwhelmingly tend to report industry-specific KAMs rather than entity-specific KAMs and avoid reporting KAMs related to governance or internal controls”. With such reflection, this subsection was introduced in the analytical framework, to address the level of understanding respecting ISA 701’s requirements that also affect KAMs disclosure.

The last subsection refers to the auditor’s litigation risk (G3), which, according to In et al. (2020), is quite high when key audit matters apply. Thus, ‘in the case of companies being audited to which key audit matters are applied, the conservatism of the auditors will increase to lower the risk of litigation’ (In et al., 2020).

Additionally, Wuttichindanon and Issarawornrawanich (2020) argue that “KAM disclosures safeguard the auditors against litigation in connection with undetected misstatements”; therefore, “the number of KAM disclosures is associated with the auditor’s litigation risk and firm characteristics”. Considering this, the tendency of the auditors, when perhaps in doubt about the treatment of an accounting situation, such as a significant transaction, re-evaluations, accounting estimates, is to be covered. Thus, according to Wuttichindanon and Issarawornrawanich (2020), a greater number of KAMs is disclosed in such situations, to mitigate the audit risk.

Discussions and Further Research Paths

Contouring the research path to compute the foundation for predicting future directions of literature is the final essential step of any literature review.

In response to our research purpose, we conclude that there are multiple drivers that correlate with an increase/decrease of key audit matters that the audit report discloses. The study splits them into two subcategories – measurable and non-measurable, to

facilitate understanding the factors and the quantification possibilities.

The audited company itself especially influences KAMs disclosure, emphasizing the company's size, the complexity of the business and the regulation of the industry in which the company operates, all of which impact the overall client risk level. Both applicable regulations and the accounting standards with which the company must comply play a significantly important role.

From this perspective, some classes of accounts and/or financial-statement line items require a deeper understanding and estimation from the management, such as accounting estimates, revaluations and impairment. In such circumstances, the accounting treatment is quite sensitive and the subjectivity level increases, along with the level of uncertainty and the likelihood of such matters being disclosed as KAMs, based on the auditor's judgement. Another relevant cluster of factors are those related to the audit company, identified mostly with respect to how Big Four companies disclose and the content disclosed as KAM, the standardization level, the readability of the matter and the impact of the audit partner.

Finally, not to be neglected are the location of the audited company and the fact that it also can impact the number of the disclosed KAMs. However, some relatively small amount of research has taken this direction, perhaps also due to time limitations; ISA 701 applies in almost all countries, starting with 2017. A relevant path for further research could outline this relationship.

Conclusions

As our study reveals, there are multiple challenges for the audit respecting KAMs disclosure. The impact of ISA 701 is significant and directly influences the reduction of information asymmetry between investors and auditors. Therefore, the auditor's responsibility is to provide a clear and informative report, to decrease the information gap and diminish the risk of risk-averse investors misinterpreting the information and reconsidering investment decisions.

Today's uncertain and complex business environment brings new challenges for auditors regarding corporate reporting and the necessity of meeting user demands. The paper provides some key drivers that influence the

disclosure of KAMs in the audit report. The most common drivers that influence KAMs are the higher number of business segments that correlate with precise accounting standards, particularly because a company with such attributions is a big corporation that frequently brings to the auditor's attention specific and complex issues that increase audit risk.

Additionally, the audit fee correlates with the number of KAMs disclosed, once again reflecting the size and complexity of the audited company. The audit fee takes account of multiple variables and the type of company (i.e., PIE or non-PIE client). The disclosure of KAMs is required only for listed companies; therefore, from the very beginning, such companies pay no insignificant fees (Pinto & Morais, 2019).

Auditors from larger firms make more specific disclosures to maintain their company's reputation. An analysis of the Big Four companies shows that auditors from Deloitte and EY are more focused on numerical information, with respect to KAM reporting, than PwC. Also, judging by the structure and format of the information, each Big Four audit company will likely have a slightly different internal guideline with respect to KAM reporting (Christofferson & Gronberg, 2018).

Regarding the shareholders, the disclosure of KAMs may lead to a greater expectation gap. Hence, the auditors must carefully consider the reporting drivers influencing KAMs and properly disclose them, in a manner that avoids information overload in the audit report, which decreases the utility of KAMs.

With regard to KAMs disclosure and informativeness level, the opinions in the literature are various and contradictable. They have been realized only to a limited extent, and ISA 701 has not met its initial purpose, considering that KAM disclosures do not hold a high level of specificity that would increase the quality of the audit report, as intended (Christofferson & Gronberg, 2018).

The limitation of this research refers to the time frame; the Key Audit Matters disclosure (ISA 701) became mandatory in most of the countries starting with 2017. Prior research on KAMs focuses on the United Kingdom, where the audit report has integrated the KAM paragraph since 2013. Considering the limited research period, the literature available for compiling the SLR was also quite limited and, implicitly, that impacted the article analysis. Second, subjective

observation, understanding and experience are the basis for arguments regarding KAMs in the analysis as well as the interpretation of the findings and further research path development. In this respect, other researchers having the same data available may reach different interpretations and results. Finally, the authors take responsibility for any possible errors and/or omissions.

Further research developments target the correlation of the geographic location of the audited company with the disclosure of the Key Audit Matter, but also and an in-depth analysis of the additional benefits brought since the implementation of this audit standard and the identification of methods for optimizing ISA 701.

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Can the Audit Opinion Influence the Portfolio Investment Decisions?

The Case of Listed companies

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Abstract

As a part of their strategic transactions, corporations often acquire stakes in other companies that do not grant them control, but allow them to use their resources to increase their profitability, access technological progress and innovation, develop products, or obtain dividends. The main objective of this paper is to identify the factors influencing the behavior of acquirers who buy securities in the capital of the target companies, listed on Bucharest Stock Exchange, without intending to control them. The study aims to describe two dimensions of the buyers' behavior, when they buy shares that do not lead to the control of the target companies (below 50%). The first dimension refers to the buyer's decision to invest in a certain share of capital, influenced by the profitability of the target company and its market capitalization (dimensions of their performance), but also by the audit opinion on the annual financial statements. The relationship is positive and significant. The second dimension focuses on the decision of the acquirers to invest or not in a blue-chip company (top companies, considered the most efficient and stable on the financial market), with the main purpose of obtaining dividends or trading the respective securities on the capital market, in order to generate cash flows. The result shows that investors buy small shares in blue chip companies, compared to other companies, taking into account their performance and the audit opinion on the annual financial statements.

Key-words: audit opinion; portfolio investments; blue chip companies; stock market capitalization; Return on Equity, Bucharest Stock Exchange;

JEL Classification: E22, G32, M42, M48, O16

To cite this article:

Aevoae, G.-M., Robu, I.-B., Dicu, R. M., Herghiligiu, I.-V. (2021), Can the Audit Opinion Influence the Portfolio Investment Decisions? The Case of Listed companies, *Audit Financiar*, vol. XIX, no. 4(164)/2021, pp. 759-768, DOI: 10.20869/AUDITF/2021/164/026

To link this article:

<http://dx.doi.org/10.20869/AUDITF/2021/164/026>

Received: 2.09.2021

Revised: 13.09.2021

Accepted: 7.10.2021

1. Introduction

Globalization and rapid economic growth have led to a new strategic approach for companies, which have begun to look for investment opportunities in emerging economies. As a result, the volume and number of mergers and acquisitions (M&As) involving resident companies in emerging markets has increased significantly, becoming comparable to developed economies (Zhou et al., 2016). Some papers pay particular attention to companies' external growth strategies, with a focus on those in and from developed economies (Yang and Deng, 2017; Lin et al., 2009; Cheng and Yang, 2017; Caiazza et al., 2017), given that they are involved in most of these strategic transactions (Aevoae et al., 2019; Lucas, 1990).

Known in the 1980s as *newly industrialized countries*, applied to several rapidly growing Asian and Latin American countries, emerging economies have their origins in the widespread liberalization and the adoption of market-based policies by most developing countries. Hoskisson et al. (2000) identified, in their study, a list of 64 emerging economies, including Romania, based on criteria related to GDP, GNP per capita and inflation rate. Given their attractive economic conditions, these economies have become, on one hand, focal points for global expansion, providing opportunities for corporate strategies. On the other hand, emerging economy governments have adopted market-based policies related to the strategic decisions of private enterprises, such as alliances, mergers and acquisitions, adapting Western practices to national conditions. Thus, as part of their strategic transactions, corporations often acquire stakes in other companies that do not grant them control, but allow them to use their resources to increase their profitability, access technological progress and innovation, develop products or to simply get dividends.

Considering the case of Romania, as an emerging economy, the main objective of this paper is to identify the factors influencing the behavior of the acquirers who buy securities in the capital of companies listed on the Bucharest Stock Exchange, without intending to control the target companies. Also, their intention to prefer blue chip

companies over others is analyzed. As influencing factors, the performance of the target companies is considered (reflected in the return of equity and the market capitalization), but also the audit opinion on their annual financial statements.

The results of the study show that the financial performance negatively and significantly influences the share acquired in the target company, in the conditions of an unqualified opinion of the auditor. Considering the second part of the study, buyers buy small shares in blue chip companies that perform well, financially and on the capital market. Therefore, the intention to improve cash flows is correlated with the investment in profitable companies, while the high shares are acquired in unaudited companies, for which we consider that there is an intention to keep them on a medium and long period of time.

2. Literature review

As a result of its 30-year history of being a free market economy, Romania is considered by many authors (Albu and Albu, 2012; Filip, 2010; Albu et al., 2013), as well as by financial institutions (IMF, 2019) an emerging economy. Romania is a country that has gone through several stages to achieve, in September 2020, the status of secondary-emerging economy, granted by FTSE Russell (FTSE Russell, 2020; Dicu et al., 2019), despite its controversial evolution and various privatization methods proposed by the Romanian government, which stimulated market for corporate control like nowhere else in the Central and Eastern Europe (Pop, 2006).

Market for corporate control is a theory specific to M&As, which considers that, if the owner of a company is not able to add value to the business, then the assets generate economic benefits below the standard level, the business tends to be undervalued and, eventually, becomes a target company (Robins and Wiersema, 1995). An example in this regard is the case of OMV, which completed, on 14 December 2004, the takeover of the 51% stake in Petrom. The Austrian company paid the Romanian Ministry of Economy and Trade the amount of 669 million euros for the direct acquisition of a package of 33.34% of Petrom

shares and participated with another 830 million euros to increase the capital, which led to a majority stake. After the completion of the transfer of 51% of the shares to OMV, the participation of the Ministry of Economy and Trade decreased from about 93% to 40.74%. The European Bank for Reconstruction and Development also became a shareholder of Petrom, with a 2.03% stake, by converting a sum of 73 million dollars from a loan granted to the Romanian company.

Given the evolution of Romania, after the fall of communism in 1989, it was mainly characterized by a very high inflation rate (256% in 1993) (World Bank, 2019). The 2000s were influenced by NATO membership in 2004 and the accession to the European Union in 2007. After a robust annual GDP growth of 21.64% between 2000 and 2005 and a major increase of 42.42% in the year of EU accession, the effects of the global economic crisis began to manifest in Romania as well, leading to the decrease of GDP in 2009 (19.19%) and again in 2010 (3.45%).

In recent years, Romania's GDP has grown steadily (World Bank, 2019). In 2020, according to the Index of Economic Freedom, Romania ranks 38th in the world with a score of 69.7, being placed between Cyprus (a largely free economy with a score of 70.1) and Kazakhstan (also considered a moderately free economy, with a score of 69.6 points). In 2021, Romania fell to 43rd place, with a score of 69.5, between Thailand (score 69.7) and Uruguay (score 69.3).

One of the symbols of the market economy is the Bucharest Stock Exchange, after its reopening on April 21, 1995. Since then, it has reached a number of 84 companies listed on the main brand, 281 listed on the alternative market AeRO (Alternative Exchange in Romania) and 15 companies listed on SMT International, dedicated to financial instruments admitted to trading on a regulated market or on a market equivalent to a regulated market, in a third country (BVB, 2021). Many of them were involved in M&As, as targets or acquirers. Of these, acquisitions that did not lead to the control of target companies are at the main point of our study.

There is plenty literature on the reasons for M&As to take place (Calipha et al., 2010; Nguyen et al., 2013). When discussing M&As which have

involved a stake leading to controlling the target company, the reasons can be reduced to three main aspects that characterize these inorganic growth operations: synergy, agency and hubris (Seth et al., 2000; Hayward and Hambrick, 1997; Berkovitch and Narayanan, 1993). When research focuses on non-controlling acquisitions, the reasons that lead acquirers to buy shares that do not allow them to take over target companies are related to sharing the acquired company's profitability, sharing technology or developing common products (Nain and Wang, 2018). Used to improve operational efficiency, acquisitions that do not lead to control of the target company can reduce costs, alleviate financial constraints and facilitate innovative activities (Fee et al., 2006).

Regarding the reasons given by the acquiring companies to get involved in M&As, numerous empirical papers have tried to identify *external factors*, related to the sector and the environment, as well as *internal factors*, related to the companies involved in the process, which influence different aspects of the M&As. External factors are usually related to cross-border M&As and include the influence of the quality of the legal and institutional environment and market capitalization on M&A flows (Hyun and Kim, 2010), the size of the stock market and corporate governance (Chen et al., 2009), the positive and significant influence of GDP per capita, relative geographical distance and GDP (Byun et al., 2013), the money supply, stock prices and the effective exchange rate (Boateng et al., 2014). Economic, legal, institutional environmental factors in a country mainly influence M&A flows, inside and outside, but do not explain a specific behavior of the acquirers or target companies, in terms of transaction price, investment volume, method of payment and so on.

Company-specific factors include, but are not limited to the financial constraints of the target company (Chen et al., 2009), the technological and market connection between the companies involved (Cassiman et al., 2005; Hussinger, 2010), the financial information (Kiymaz and Baker, 2008), sustainable approach (Hu et al., 2020; Sarabia et al., 2019) etc. Recent scientific papers are also sometimes focused on the connection between M&As and related accounting procedures (Sedláček et al., 2012).

3. General research hypothesis and working hypotheses, proposed for testing and validation

Starting from the existing research, our study aims to test and validate the following general hypothesis:

General research hypothesis: *The opinion in the auditor's report significantly influences the decisions of investors in trading the shares of companies listed on the regulated capital market.*

Given this general hypothesis, the study considers the following two working hypotheses:

Working Hypothesis 1: The opinion in the audit report accompanies the informational content of the financial statements in substantiating the investors' decisions regarding the stake acquired in the target companies listed on the regulated capital market.

Working Hypothesis 2: The opinion in the audit report accompanies the informational content of the financial statements in influencing the probability of acquisition of stakes in blue chip companies.

The hypotheses will be tested and validated, using SPSS 25.0.

4. Research methodology

In order to test and validate the proposed research hypotheses, the study follows a positivist, logical

approach. Thus, we start from the target population and argue the analyzed sample, and, with the help of advanced statistical methods of data analysis, the parameters of the regression models proposed in the study are estimated. In order to validate the proposed research hypotheses, generalized linear models, logistic regression, and ANOVA are used (Grosu et al., 2015; Jaba, 2002; Jaba et al., 2012; Robu, 2012) will be used.

4.1. Target population and analysed sample

For testing and validating the research hypotheses, the target population is represented by the companies listed on the Bucharest Stock Exchange, involved in M&As in the period 2010-2019. For this purpose, we will consider a number of 710 M&A. The study included only transactions that include an acquiring company and a target company, the latter being located in Romania and listed on the Bucharest Stock Exchange.

4.2. Proposed models for analysis, variables used and data source

The study analyzes a series of factors that influence the acquired stake by an acquiring company in the target company, as well as the decision to invest in blue chip companies, considering the target companies listed on Bucharest Stock Exchange, for the period 2010-2019.

The proposed variables are presented in **Table no. 1**.

Table no. 1. The proposed variables			
Variable (symbol)	Representation	Description	Explanation
Stake (S)	%	Dependent variable	The stake represents the purchased capital in the listed target company.
Return on Equity (ROE)	%	Independent variable/numerical	Return on equity is calculated as a ratio between the net income and the shareholders' equity of the target company.
Market capitalization (Mkt)	Numeric	Independent variable/numerical	The value of the target company on the capital market, proportional to the stake acquired in the transaction.
Audit opinion (Audit)	1. Qualified opinion 2. Unqualified opinion 3. Unaudited company	Independent variable/nominal	The audit opinion issued for the annual financial statements of the target company, according to the legal regulations in force.
Category of the company (Blue_chip)	1. Blue chip 2. Non blue chip	Independent variable/nominal	The companies considered top, which are the strongest, most efficient and most stable on the market.

Source: Authors' own projection.

For the first hypothesis, the model considers the factors Capital Stake (S), as a dependent variable, and Return on Equity (ROE), Market capitalization (Mkt) and Audit opinion ($Audit$), as predictors. Since we intend to see if the predictors have a significant influence in estimating the share of capital acquired in the target company, we consider the model presented in Ec. (1):

$$S = \beta_0 + \beta_1 \cdot Audit + \beta_2 \cdot ROE + \beta_3 \cdot Mkt + \varepsilon \quad (1)$$

where,

S represents the stake purchased by the acquirer in the listed target company;

$\beta_i, i = 0, \dots, 3$ represent the parameters of the regression model;

ε represents the error.

For the second hypothesis, we consider the probability of acquirers to invest in blue chip companies, as it can be seen in Ec. (2):

$$\ln(p/1-p) = \gamma_0 + \gamma_1 \cdot Audit + \gamma_2 \cdot ROE + \gamma_3 \cdot Mkt + \varepsilon \quad (2)$$

where,

p represents the probability that the acquirer will choose to invest in the shares of a listed company, in the blue chip category, and $(1-p)$ represents the difference, i.e. the probability that the investor will not choose to invest in the shares of a listed company;

$\gamma_i, i = 0, \dots, 3$ represent the parameters of the regression model;

ε represents the error.

The proposed third model uses *logistic regression* and interactions between the *Audit* categorical variable and other influencing factors.:

$$\ln(p/1-p) = \theta_0 + \theta_1 \cdot Audit + \theta_2 \cdot ROE + \theta_3 \cdot Mkt + \theta_4 \cdot Audit \cdot ROE + \theta_5 \cdot Audit \cdot Mkt + \varepsilon \quad (3)$$

For the period under review, data on M&As were collected from two databases, namely from the Zephyr database (country of target company, country of acquiring company, deal value, NACE Rev.2 primary code for both and acquiring target companies) and the financial information was collected from the Orbis database (equity, market capitalization, return on equity, audit opinion).

5. Results and discussions

Following the analysis of the data collected, the study presents a series of descriptive statistics for the analyzed variables (by total and categories considered in the

analysis), ANOVA results for capital share according to Audit variable, as well as model parameters estimates proposed regression.

In **Table no. 2**, are presented a series of descriptive statistics on the numerical variables on the sample, considered for testing the working hypotheses.

According to the information in **Table no. 2**, the lowest investment is 0.03% of the capital of the target company, with a maximum of 21.20%. Also, there are negative values for the ROE variable, which means that there are target companies, listed on BVB, which are inefficient in using equity in order to record profit.

Table no. 2. Descriptive statistics of the sample – numerical variables

	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
S	.03	21.20	3.2933	5.78432	2.084	.092	3.311	.183
ROE	-15.30	21.20	7.3612	7.36654	-.371	.092	.021	.183
Mkt	.03	708.54	139.8276	130.36818	1.663	.092	3.384	.183

Source: Authors' own projection using SPSS 25.0.

In **Table no. 3**, the descriptive situation of the target companies is presented, considering the

audit opinion on the annual financial statements or its absence thereof.

Table no. 3. Descriptive statistics of the sample – categorical variables

Audit_	Mean	Std. Deviation	N
Qualified opinion	5.2310	7.01864	7 (1%)
Unqualified opinion	2.5517	5.06878	615 (86,6%)
Unaudited company	8.3222	7.62716	88(12,4%)
Total	3.2933	5.78432	710 (100%)

Source: Authors' own projection using SPSS 25.0.

Regarding the situation of the target companies, taking into account the audit opinion or its absence, we notice that the vast majority of them have an unqualified audit opinion on the financial statements (615 companies, representing 86.6% of the sample). The number of companies for which the opinion expressed by the auditor, regarding the annual financial statements, was qualified is only 7 (representing 1% of the sample). There are also 88 unaudited companies, listed on the alternative market AeRo, representing 12.4% of the sample.

The results of ANOVA show the testing of the existence of significant differences between the averages of the capital stakes acquired by categories, depending on the categorical variable Audit, using the post hoc LSD test (Jaba, 2002). Presented in **Table no. 3**, the results indicate a significant difference between the averages of the capital stakes acquired in the target companies, taking into account the audit opinion regarding the financial statements of the target companies listed on the Bucharest Stock Exchange.

Table no. 4. ANOVA results, considering the acquired share and the audit opinion

(I) Audit	(J) Audit	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Qualified opinion	Unqualified opinion	2.67929	2.07811	.198	-1.4007	6.7593
	Unaudited company	-3.09125	2.14700	.150	-7.3065	1.1240
Unqualified opinion	Qualified opinion	-2.67929	2.07811	.198	-6.7593	1.4007
	Unaudited company	-5.77054*	.62310	.000	-6.9939	-4.5472

*. Significant at a level of 0.01

Source: Authors' own projection using SPSS 25.0.

Based on the results obtained following ANOVA from **Table no. 4**, we note that there is a significant difference between the capital stakes purchased in unaudited companies, compared to those purchased in companies for which the audit opinion on the annual financial statements was unqualified. The acquiring companies buy higher shares in the

unaudited companies, compared to those that have the correct annual financial statements (sig. = 0.000), which means that the acquirers are interested in the correctness of the data published in the annual financial statements if they want to improve their cash flows. If they buy higher shares, they are not interested in the target company being audited.

Table no. 5. The estimated parameters for the model in equation (1)

Parameters	B	Std. Error	t	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Intercept	9.430	.561	16.820	.000	8.329	10.530
[Audit = Qualified opinion]	-4.732	2.031	-2.330	.020	-8.721	-.744
[Audit = Unqualified opinion]	-4.192	.613	-6.843	.000	-5.394	-2.989
[Audit = Unaudited company]	0 ^a
ROE	-.212	.028	-7.646	.000	-.267	-.158
Mkt	-.006	.002	-4.071	.000	-.009	-.003

Audit = Unaudited company is the reference category
R Squared = 0,213

Source: Authors' own projection using SPSS 25.0.

Considering the parameters from **Table no. 5**, we note that all predictors have a significant influence on the share of capital acquired in the target company. The results show that acquirers buy higher shares in unaudited companies compared to those which are audited. This aspect underlines the fact that investors who buy shares on the Bucharest Stock Exchange and have in mind the security of their investment will take into account the auditor's opinion on the annual

financial statements issued by the target company. Buyers also consider the performance of the target company in the case of low quotas, as they are interested in improving their cash flows. In the case of the acquisition of high shares, the intention is to accumulate a significant share of capital. Therefore, in this case, the takeover intention takes precedence over the performance, whether financial or manifested on the capital market.

Table no. 6. The estimated parameters for the model in equation (2)

	B	S.E.	Wald	df	Sig.	Exp(B)
Audit = Unaudited company			39.534	2	.000	
Audit = Qualified opinion	6.369	1.296	24.154	1	.000	583.726
Audit = Unqualified opinion	3.596	.622	33.475	1	.000	36.461
ROE	.072	.013	29.855	1	.000	1.075
Mkt	.006	.001	39.258	1	.000	1.006
Constant (for category Unaudited company)	-4.406	.639	47.487	1	.000	.012

a. Variables considered in stage 1: Audit, ROE, Mkt.
b. Cox & Snell R Square = 0,287

Source: Authors' own projection using SPSS 25.0.

The data presented in **Table no. 6** reflects the fact that, in choosing a blue-chip company, the considered predictors have a positive and significant influence. Thus, the probability of the acquirers to invest in a blue-chip company is positively influenced by the existence of an audit report, but also by the financial and capital performance of the target

companies. The intention to invest in blue chip companies is not accompanied by the intention to take over or influence their activity, but by the objective to improve the cash flows of the acquiring company, as a result of the collection of dividends or speculative transactions carried out on the regulated market.

Table no. 7. The estimated parameters for the model in equation (3)

	B	S.E.	Wald	df	Sig.	Exp(B)
Audit = Unaudited company			12.657	2	.002	
Audit = Qualified opinion	22.519	10765.528	.000	1	.998	6026556763.166
Audit = Unqualified opinion	2.575	.724	12.657	1	.000	13.128
ROE	-.088	.106	.688	1	.407	.916
Mkt	.005	.006	.808	1	.369	1.005
Audit = Unaudited company * ROE			2.408	2	.300	
Audit = Qualified opinion * ROE	-8.101	2645.856	.000	1	.998	.000
Audit = Unqualified opinion * ROE	.167	.107	2.408	1	.121*	1.181
Audit = Unaudited company * Mkt			.048	2	.976	
Audit = Qualified opinion * Mkt	-.004	192.923	.000	1	1.000	.996
Audit = Unqualified opinion * Mkt	.001	.006	.048	1	.826	1.001
Constant	-3.461	.702	24.332	1	.000	.031

a. Variables considered in stage 1: Audit, ROE, Mkt, Audit * ROE, Audit * Mkt.

b. Cox & Snell R Square = 0,299

c. * significant for a 0,15 risk level

Source: Authors' own projection using SPSS 25.0.

Considering the combined influence of the considered predictors, we notice a change in the influence of financial performance on the probability of choosing a blue-chip company, compared to other companies. If the target company proves inefficiency in using its equity, then the loss has a negative influence on the probability of choosing an investment in the best listed companies on the Romanian capital market.

Conclusions

The acquiring companies, which are involved in acquisitions on the Bucharest Stock Exchange, show a behavior dictated by two directions of action. On the one hand, they buy high stakes in target companies, preferring companies that are not audited. In our opinion, this leads to the conclusion that the intention is to involve in long-term investments and to influence the activity of the acquired companies. The fact that the acquirers are not interested in the existence of an audit report indicates that they are not interested in the quality of the information reported by the target company, but its object of activity and how its assets and activity may influence the financial situation of the acquiring company in the future. In this sense, we have in mind future studies that will follow the influence of the core activity and its relation with that of the acquiring company on the share of capital acquired on the regulated market in Romania.

On the other hand, low capital shares are acquired in companies that show a high financial performance on the capital market. Proof of this is the return on equity and the market capitalization, which significantly and also negatively influence the share of capital purchased in the target companies listed on the Bucharest Stock Exchange. The results of the study also show that the audit opinion, whether qualified or unqualified, positively influences the option for blue chip companies, but only the unqualified opinion has a positive and significant influence in this regard. If we consider the combined influence of predictors, we see that financial profitability has a positive influence on the decision to invest in a blue-chip company, given that the opinion on the annual financial statements is unqualified.

In conclusion, the behavior of the acquirers on the Bucharest Stock Exchange is oriented either to buy securities in unaudited target companies, in order to keep them, or to invest in audited companies, in order to improve their cash flows through dividends. or speculative actions.

As future research directions, we consider the analysis of the influence of the core activity of the two companies involved, in order to conclude whether or not it has a significant impact on the investment decision of the acquiring companies, which are involved in acquisitions on the Bucharest Stock Exchange.

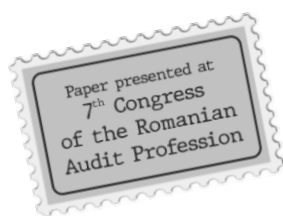
Acknowledgements: This work was supported by a grant of the Romanian Ministry of Education and Research,

CNCS – UEFISCDI, project number PN-III-P1-1.1-TE-2019-1642, within PNCDI III.

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Digitalization in the Accounting and Auditing Profession through ERP Systems

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Abstract

The objective of this paper is to observe the possibility of digitizing the accounting and auditing profession by implementing ERP systems, as a result of massive changes in technology over time. The purpose of this paper is to add value to the literature, given the positive or negative aspects of the digitization of the accounting and auditing profession using information systems such as ERP.

ERP systems such as information systems have a key role in managing and conducting accounting and auditing, providing support to professional accountants and auditors.

The research method used to identify the possibility of digitizing the accounting and auditing profession through ERP information systems is based on the analysis of the archive (literature review), collecting data and information from selected articles from different databases.

Following the study, the authors concluded that the accounting and auditing profession can be digitized through the use of ERP information systems, as it allows the automation of a large number of tasks, and the information processed with these systems is much more transparent and accurate.

Key words: digitization, ERP systems, accounting profession, audit, internal control

JEL Classification: M15, M40, M41, M42

To cite this article:

Ionescu, B.-Ș., Barna, L.-E.-L. (2021), Digitalization in the Accounting and Auditing Profession through ERP Systems, *Audit Financiar*, vol. XIX, no. 4(164)/2021, pp. 769-778, DOI: 10.20869/AUDITF/2021/164/027

To link this article:

<http://dx.doi.org/10.20869/AUDITF/2021/164/027>

Received: 30.07.2021

Revised: 6.08.2021

Accepted: 26.08.2021

Introduction

Information systems have evolved very quickly in a short period of time, becoming essential in the day-to-day activities of professional accountants and auditors, so companies have begun to implement a large number of these systems in order to significantly improve their work. Due to technological progress, the accounting and auditing professions had to adapt quickly to technological alternatives. Thus, according to the study conducted by Market Intelligence and Consulting Institute (2009, cited by Chang et al., 2014), it was found that most companies that have implemented ERP systems are large, because the activities carried out by these companies are much more numerous, and the possibilities for implementing these systems are much greater financially.

The organization's decision to implement these ERP systems depends very much on the "possibility of meeting the organization's objectives in real time" (Galani, Gravas and Stavropoulos, 2010), ensuring that the information presented is correct and complete. ERP systems have the role of significantly influencing the performance and strategy of the organization through the digitization of as many activities as possible (Hietala and Päiväranta, 2021), as well as the advantages and disadvantages of data processing with these ERP systems (correct and complete data, transparency data, increased efficiency and effectiveness because all data is stored in a single database). All processed data can be disseminated much more easily between organization departments, providing a "correct and complete picture of the organization's situation" (Kanellou and Spathis, 2013). The main purpose of the paper is to highlight the positive and negative aspects of the digitization of the accounting and auditing profession using ERP systems, as well as the position and role of the professional accountant in the company in the age of technology digitization.

The term digitization means "the use of new technologies, robotics, cloud services, intelligent systems and Big Data that quickly entered the accounting area" (Boghian and Socoliu, 2020) and mainly contributed to increasing the efficiency of

the activity carried out by organizations and the accuracy of the data processed with this ERP system.

The use of ERP systems leads to the digitization of as many activities as possible, so accounting professionals "are less involved in manual data processing" (Rodriguez and Spraakman, 2012), allowing organizations to perform various analyzes based on data processed with these systems and considerably minimizing possible human errors.

This article is structured in 4 parts: a section of the literature review where the authors presented the main concepts specific to the topic of the paper, a section on motivating the choice of research method through which the way of collecting relevant information and data was presented, a section for the analysis of the data collected and a section in which the main conclusions of the paper were presented and some directions for future research.

1. Review of specialty literature

ERP systems have evolved over time, continuously improving their functions, ensuring a correct and complete processing of information entered by users (Seethamraju and Sundar, 2013). At the same time, this evolution of the ERP system among accountants and auditors is due to the fact that "many customers in the business field" use these ERP systems, because they incorporate a large number of functions. These constantly evolving systems can substantially change the accounting environment and practice, so a professional accountant or a good auditor must always be prepared for new changes in information systems and the business environment (Groșanu et al., 2020).

ERP systems are defined in the literature as "complex integrated applications" (Spathis and Ananiadis, 2005) consisting of a "set of integrated application modules covering most business functions (including accounting and auditing)" (Scapens and Jazayeri, 2003 cited by Hassan and Mouakket, 2016, p. 488). All information processed with these ERP systems is stored in a single database, giving users the ability to access and generate information in real time. Each module of

the ERP system represents a different function of this system such as: specific modules “supply activity, finance, accounting, production, human resources, sales and specific activities for different customers” (Rajal and Baral, 2015). These modules integrate most of an organization's activities. ERP systems offer the opportunity to develop and streamline their business, organizations starting to implement integrated ERP systems in as many as possible, because these systems allow the automation of a very large number of activities.

Automation is defined in the literature as “the process of digital transformation of business”, especially the accounting and auditing profession, by using integrated ERP systems. The digitalization of the accounting and auditing profession depends on the “perception and analysis capacity” of the organization's employees (Lacurezeanu, Tiron-Tudor and Bresfelean, 2020, p. 623).

The digitization process is an opportunity for “redefining the role of the accounting profession” and auditing, as well as the degree of involvement of professional accountants and auditors in the decision-making process (short, medium and long term) (CECCAR, 2019).

In the following subchapters we will address the possibility of digitizing the accounting and auditing profession by using ERP information systems.

1.1. Digitization of the accounting profession

The accounting profession is often compared in the literature with “a living being that evolves to an increasing extent as a result of progress in the IT and economic and social field”, everything being in a continuous change (CECCAR, 2019). Thus, professional accountants play an important role in “managing the systems and processes that support the acquisition, management, analysis and distribution of information” in the digital age (Pavel, 2017 cited by CECCAR, 2019).

The automation of the accounting processes can be accomplished only by implementing ERP systems that ensure the fulfillment of work tasks through the implemented modules. According to

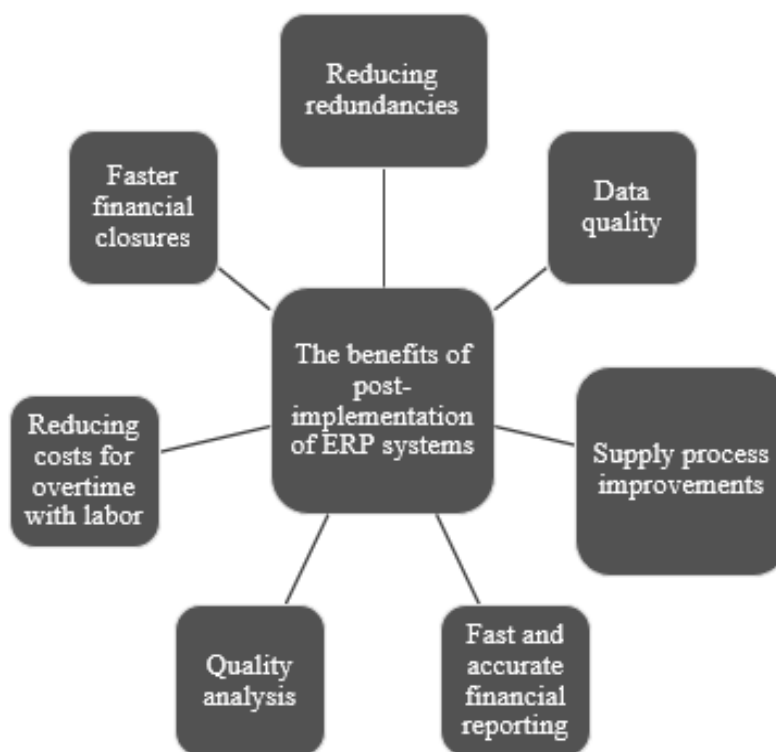
Cooper et al. (2019), the role of the professional accountant will no longer be limited only to the actual data processing (most of the activities being performed by ERP systems), but to allocating more time to analysis and forecasting activities to the detriment of routine ones. The main roles that a professional accountant can play as a result of automating accounting processes using ERP systems are: consulting, analysis and strategic planning. Rodriguez and Sprakman (2012) observed that the implementation of ERP systems leads to the elimination of manual workloads by providing “support in the processing of daily transactions, support in internal decision-making and fulfillment of obligations related to administration (legal obligations)” (Spathis and Constantinides, 2004). Other advantages of digitizing the accounting profession are: efficient communication of results or information between departments (because the processed data is saved in the database of the ERP system), fast access to documents, and faster data processing with these systems.

These ERP systems offer the organization's managers the opportunity to have a more complex financial vision of the entire organization (Galani, Gravas and Stavropoulos, 2010).

The implementation of ERP systems usually has a “significant impact on the entire organization”, because the information provided by these ERP systems provides support in substantiating managers' decisions on the entire activity of the organization (Grabski and Leech, 2007). In general, the implementation of ERP systems is quite expensive, and the failure of the implementation would have a devastating impact on the organization (example: bankruptcy). Thus, one year after the implementation of ERP systems, users of financial-accounting information have a much more positive perception compared to the pre-implementation period of these systems (Spathis and Ananiadis, 2005).

The authors Galy and Saucedo (2014) identified some benefits of post-implementation of ERP systems within the organizations shown in *Figure no. 1*.

Figure no. 1. The benefits of post-implementation of ERP systems



Source: Galy and Saucedo, 2014

Managers of organizations that have implemented ERP systems have seen a significant increase in resource efficiency and much better performance control.

Lazarus and McManns (2006, cited by Al-Jabri and Roztock, 2015) defined the transparency of information as “access to financial-accounting information by users of these systems” needed to make business decisions. Street and Meister (2004, cited by Al-Jabri and Roztock, 2015) identified two types of information transparency: internal and external. Internal transparency reflects the degree to which an organization's employees have access to the information needed to perform their tasks, while external transparency reflects how information is shared outside the organization.

The way is data stored and shared with ERP systems provides a higher level of transparency to this information.

In addition to data transparency, the systems also offer the ability to assess risks and increase the quality of audit due to process automation (Făniță, 2020a). However, it should also implement a series of controls in order to ensure that the data stored in the application database is secure. Control can be ensured by implementing and exercising mechanisms that lead to the regulation of user behavior in order to avoid intentional or unintentional alteration of data stored in the application database.

1.2. Digitization of the audit profession

Regarding the process of digitization of the audit profession, the digital infrastructure (platform, software) must be considered that “it ensures the connection between the members of the audit team and the audited organization” (Făniță, 2020a).

The digitization of the audit process allows the audit team to identify any anomalies in the ERP systems with which the accounting data were processed, as well as the opportunities and financial risks of the organization. Other benefits of digitizing the audit process would be a much deeper understanding of the data processed with ERP systems, as well as a much more effective monitoring of fraud controls on the basis of which to provide a recommendation to improve financial-accounting reporting processes. A digitally transformed audit is based on “the use of digital channels from start to finish in the audit process of the client organization” (EY.com, 2019).

Făniță (2020b) considers that a digitized audit can be successfully completed only if the audit team has real-time access to “data, systems and analytical applications of the client organization” to avoid duplication of data collection efforts.

Following the digitalization of the audit process, “auditor skills will no longer be limited to the analysis of financial statements”, especially audit evidence, but will also to have IT skills (Șuşnea, 2019).

2. Research methodology

The main objective of our paper is to observe whether the accounting and auditing profession can be digitized by using ERP systems, mainly showing the advantages and disadvantages of the digitization process.

The research method used started from the exhaustive analysis of the works dealing with the subject of digitization of the accounting and auditing profession through ERP type information systems. To select articles relevant to the research topic, we used various databases such as: Google Scholar, ScienceDirect, Web of Science, Emerald Management Ejournal in which we conducted a search based on the following keywords: “digitization of the accounting profession through information systems such as ERP systems”, “digitization of the audit profession through ERP systems”, “implementation of ERP systems”, “advantages and disadvantages of ERP systems implementation” and “digitalization of the audit process”. The criteria on the basis of which we selected the articles were the year of publication and the relevance for the subject of this paper.

Based on the selected articles, we also established some research questions:

- Q1.** *What does it mean to implement ERP systems in an organization that provides accounting and auditing services?*
- Q2.** *What are the factors for the successful implementation of ERP systems?*
- Q3.** *What is the relationship between the post-implementation effects of ERP systems and financial performance?*
- Q4.** *What is the satisfaction of professional accountants and auditors in using ERP systems?*
- Q5.** *What are the advantages and disadvantages of ERP systems in the accounting and auditing profession?*
- Q6.** *What are the future digital advances in accounting?*
- Q7.** *What are the main skills that future professional accountants and auditors should have as a result of digitization?*
- Q8.** *What are the main audit and inspection challenges regarding the use of ERP systems?*

These questions will be analyzed in the next section, based on the selected articles from different databases.

3. Results analysis

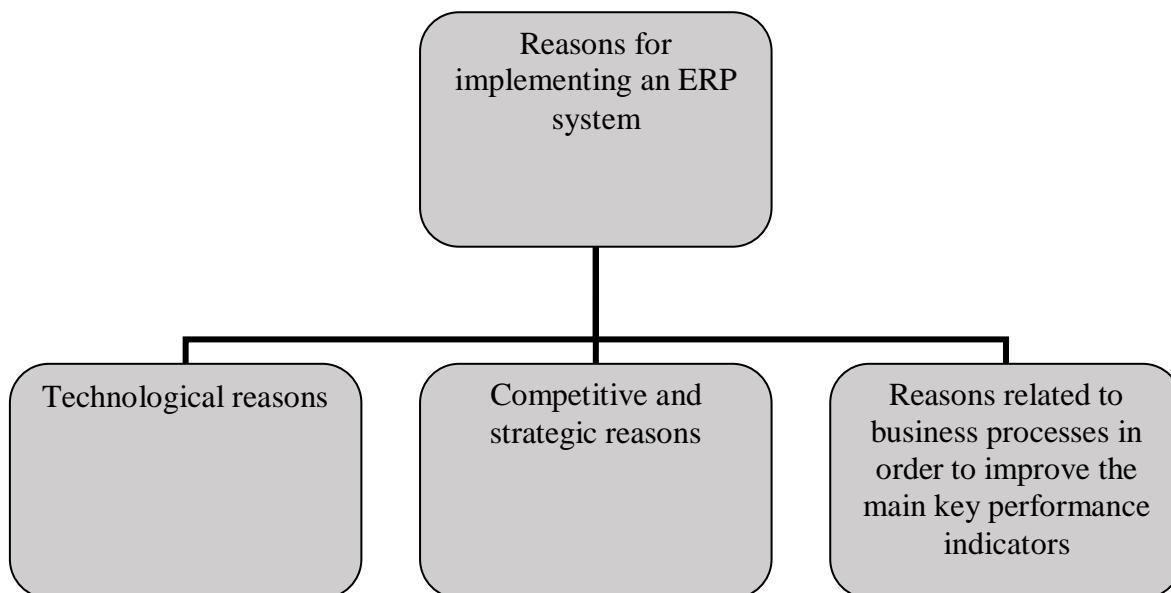
In this section, the authors identified in the selected articles the main key issues to answer the questions mentioned in the previous section.

- Q1.** *What does it mean to implement ERP systems in an organization that provides accounting and auditing services?*

The implementation of a new IT system (*for example: ERP system*) within the organization involves the complete redesign of the processes of existing IT systems and the reorganization of the entire flow of information and activities, as well as a restoration of the organizational culture. The ERP system implementation process consists in analyzing the main risks to which the organization may be subjected during or after the completion of the ERP system implementation. The implementation period of the ERP system can be between 6 months and 2 years.

The reasons why the managers of the organizations decide to implement ERP systems are: the large volume of activities or transactions, the manual processes prone to errors or redoing, the high human effort to execute various activities or periodic changes in the IT field. Other reasons for deciding to implement ERP systems within the organization are shown in *Figure no. 2*.

Figure no. 2. Reasons to implement an ERP system

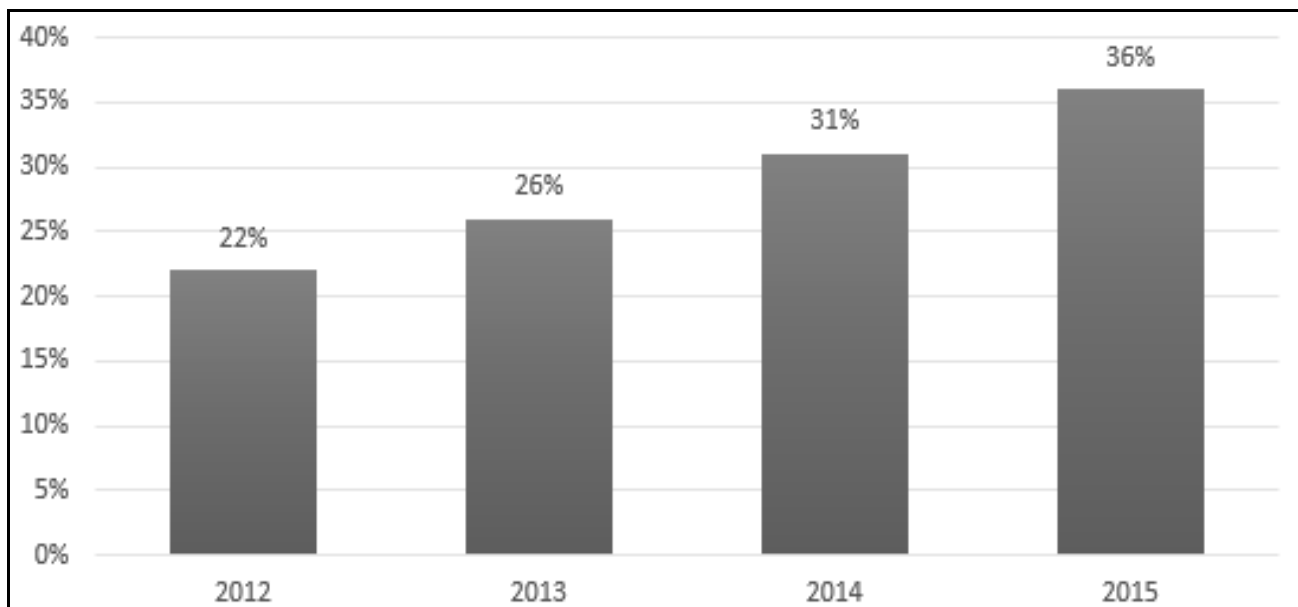


Source: Authors' creation

The authors Amado and Belfo (2021, p. 581) researched the implementation rate of ERP systems within

organizations in the period 2012-2015, noting a significant increase in these rates (*Figure no. 3*).

Figure no. 3. Evolution of ERP systems implementation rates



Source: Amado and Belfo, 2021, p. 581

The main purpose for which the implementation of the ERP system is desired is the efficiency of the entire activity and offering credibility and a greater degree of transparency to the processed information.

Q2. What are the factors for the successful implementation of ERP systems?

The main factors for the successful implementation of an ERP system are:

- identifying business processes that could be vulnerable in the process of implementing ERP systems
- the use in implementation of a larger number of people from the IT department and other departments to ensure an efficient communication between them in order to implement the system in optimal conditions.
- gradual implementation of the ERP system because it is a complex IT system, requiring a careful and well-planned implementation.
- completing each stage established in the implementation plan.
- establishing a maintenance plan after completing the implementation of the ERP system.

Q3. What is the relationship between the post-implementation effects of ERP systems and financial performance?

Any organization that decides to implement ERP systems wants to improve its financial performance, but also other indicators such as: market position, cash used from one period to another or earnings per share.

The main purpose of the ERP system in financial reporting is to reduce the working time to perform a certain task or reduce redundancy so that the financial data processed with these systems are much clearer and more concrete, facilitating much faster financial reporting.

Thus, there is a strong relationship between the implementation of the ERP system and the financial performance, because the data processed with these systems provide credibility and transparency, resulting in a significant improvement of the financial indicators.

Q4. What is the satisfaction of professional accountants and auditors in using ERP systems?

Following studies by Kanellou and Spathis (2013), they found that the volume of information that needs to be processed manually has been significantly reduced following the implementation of ERP systems, leading to increased satisfaction of accountants and auditors as long as ERP systems meet its requirements in information processing (content, accuracy, format).

Q5. What are the advantages and disadvantages of ERP systems in the accounting and auditing profession?

In **Table no. 1** we highlighted the advantages and disadvantages of ERP systems in the accounting and auditing profession.

Q6. What are the future digital advances in accounting?

According to the study conducted by Groșanu et al. (2020, p. 55), future digital advances in accounting could be represented by:

Direct exchange and processing of data with the customer or supplier

Reading or recognizing documents

Electronic payments

Replacing Excel with other more automated calculation tools

Much more prompt answers to technical questions in the field of accounting.

Table no. 1. Advantages and disadvantages of ERP systems in the accounting and auditing profession

User category	Advantages	Disadvantages
Accounting profession	<ul style="list-style-type: none"> – fast processing of financial-accounting information – storing information in a single database and controlled access to data – a better control and monitoring of the information processed with these systems – better management of resources (financial, material and human) – accuracy and completeness of information – maximum profit – cost reduction – time saving – limitation of human errors 	<ul style="list-style-type: none"> – permanent changes of legislation, so the ERP system must always be updated – difficult adaptation to new IT systems of users who do not have sufficient IT skills or do not participate in training programs
Auditor	<ul style="list-style-type: none"> – fast processing due to the digital connection between the auditor and the client organization – increased efficiency – quick access to key information (no need to manually search for information) 	<ul style="list-style-type: none"> – the retention of the client-organization regarding the security of information sharing electronically – incompatibility between the information system used by the client organization and the information system used by the audit team

Source: Authors' processing after Hietala and Päiväranta (2021), Hsu, Yen and Chung (2015), Kanellou and Spathis (2013), Nwankpa (2015)

Q7. What are the main skills that future professional accountants and auditors should have as a result of digitization?

Due to the rapid evolution of information technology and the digitization of activities, both professional accountants and auditors must have in addition to the usual skills (accounting, finance, auditing) and digital skills (in the use of information systems).

Following the digitization of the activities carried out by professional accountants and auditors, they will be able to devote more time to consulting, data analysis and strategic planning, to the detriment of routine activities.

Q8. What are the main audit and inspection challenges regarding the use of ERP systems?

The main audit challenges could be related to the identification of risks following the implementation of the new system, as the entire structure of the

organization changes as a result of this process. The main problems are related to the security of the internet network, the database and the computer system.

After the implementation of ERP information systems, a detailed analysis of data security in the new information system must be performed. Auditors must first understand the architecture of ERP systems in order to identify vulnerable areas of the system (Chang et al., 2014).

Conclusions

The massive evolution from recent years in the field of technology has a significant impact on the process of digitization of activities carried out daily by people. The accounting and auditing professions are increasingly digitized as a result of technological progress, as more and more organizations implement high-performance ERP systems in order to automate a growing number of activities,

especially those that are repeatable, procedural, structured or simple. Thus, ERP systems are becoming more and more present in financial-accounting or auditing activities due to the many advantages they offer: fast processing of a large volume of data, reduction as much as possible of "dead" times, of errors or additional costs. The data processed with ERP systems are much clearer and more transparent and provide support in substantiating the decision-making process.

After the implementation of ERP systems, a detailed analysis of the security of the data that will be stored in

the system database will be necessary, for a better redefinition or a reorganization of the internal controls.

As a result of the continuous digitization of specific activities of accounting and auditing professionals through the implementation of ERP systems, we have identified in the literature (in selected articles) that future generations of professional accountants and auditors will need in addition to traditional knowledge of accounting, finance or audit and IT knowledge, but also social skills to be able to provide consulting in the field of accounting or auditing.

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