

RELEVANCE AND ROLE OF COMMUNICATION BETWEEN AUDITORS AN THE AUDITED ENTITY IN THE AUDIT MISSION**Sergiu ȘOIMU**Academy of Economic Studies of Moldova
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Abstract

One of the tools of restructuring strategies that can contribute to adjusting of attitudes, to the way of looking at things and changing behaviors in order to improve the performance of an audit entity is the effective and efficient communication. In the audit process, the communication process generally takes place directly between the auditor and the persons responsible with the governance in the audited entity. The issue of communication appears systematically in professional auditing standards, because the audit involves in its development numerous communication processes. This study is a research on the ethics of communication, developed in order to discover the basis on which an ethical infrastructure can be designed in such a way that it sustains the trust in the provided information by the audit activity. Such an investigation brings two benefits: it gathers information on audit communication and offers guidance for planning improvements in audit practice. The research results can be used both in the practice of the entities and for didactic purposes.

Key words: *audit; effective mutual communication; inadequate mutual communication; ISA.*

JEL Classification: *M42.*

I. INTRODUCTION

The way in which the communication processes can best be observed, analyzed and evaluated, as a preliminary step towards improving communication practices, remains a challenge for both researchers and practitioners. The audit profession has undergone a series of controversies recently, which have led to the need to change and review the quality of the audit.

In the process of auditing the financial statements, communication is an essential component, but at the same time rarely discussed. Practice shows that, in most cases, the success of an audit engagement depends on facilitating communication between the auditors and the audited entity. The level of performance of the audit engagement is also related to the way in which the dialogue between the members of the audit team takes place during the process of planning, collecting audit evidence and completing the audit engagement. Thus, communication is a delicate aspect that must be performed at each stage of the audit mission, respecting the existing standards and norms and also understanding the positive aspects that are generated in an entity by an audit of the financial statements. Lack of good communication, good collaboration or hiding information that is relevant to the auditor can be a barrier to the presentation of errors, possible weaknesses and timely recommendations.

The term of communication is found in the professional auditing standards, which provide the auditor's communication with the management and with those charged with governance, analyzing the aspects that must be presented and informed, the communication process, the documents that record the verbal communication and the requirement to inform the management about the imperfections in the internal control.

In this context, we emphasize that communication is necessary and useful in the audit of the financial statements, the requirement to present important information in writing, starting with the audit plan and ending with the audit report, being among the most important. The written communication in the audit of the financial statements is materialized in audit evidence that is used to confirm the auditor's opinion, to guarantee the quality of the audit engagement, to ensure that the performed audit work complies with ISA's requirements and with the entity's audit policies and procedures. A qualitative audit mission is performed when there is a two-way communication in the client-auditor relationship, when the client understands the role of the auditor and takes all measures to provide him with all the necessary documents and relevant information, in a timely manner.

The objective of the research is focused on the synthesis and analysis of the international audit provisions related to the communication phenomenon that appears in the process of auditing the financial statements.

The research method is comprehensive, based on the provisions of ISA and on the analysis of papers that describe the communication process and comparisons with practical situations specific to the audit of financial statements.

II. RESULTS AND DISCUSSIONS

It is known that the purpose of an audit is to increase the degree of confidence of the targeted users in the financial statements. This goal can only be achieved if the financial statements are prepared in accordance with the applicable financial reporting framework, from all significant points of view, and the auditor can express his opinion. In most reporting frameworks, the auditor's opinion reveals the extent to which the financial statements present a fair presentation and are fairly prepared in all material respects. Thus, an audit conducted in accordance with ISAs and the relevant ethical provisions will enable the auditor to form that opinion (ISA 200, 2018).

In order to express an audit opinion, ISAs require the auditor to obtain reasonable assurance about the extent to which the financial statements are free from material misstatement, whether due to fraud or error. The high level of reasonable assurance can only be obtained when the auditor has accumulated sufficient appropriate audit evidence. Thus, this aspect will contribute to reducing the audit risk, to an acceptably low level. At the same time, we note that due to inherent limitations of auditing, reasonable assurance is not an absolute level of assurance, as the auditor formulates his conclusions and forms his opinion based on audit evidence, which in most cases is more persuasive than conclusive (ISA 200, 2018)

In this context, communication in audit engagements plays an important role. Firstly, it is set out in the standards that the auditor of financial statements must comply with, secondly it is the basis for obtaining assurance that the audit engagement is qualitative and thirdly, the audit missions cannot be performed without good and effective communication.

Due to the fact that the communication process is a component of countless systems, it is very difficult to find a unitary meaning of this process, respectively of a definition. There are also many contradictions or even overlaps of meaning for the communication concept.

From a general point of view, the research of the numerous approaches related to the communication process, has allowed the systematization of its following particularities:

- the role of communication consists in establishing links between people, in the environment in which they develop;
- through communication, the aim is to achieve certain tasks and convey clear meanings through the message;
- the meaning given to a message can be different both between the partners of the communication act and between the receivers of the same message;
- any message has a manifest and a latent content, often the latter being more significant;
- communication has a dynamic character, because once initiated, it has a certain evolution, it is modifying and it changes the people involved in the process;
- in crisis situations, communication has a faster pace and a larger scope (Stănciugelu et al., 2014).

Because communication underlies all processes, interactions and interpersonal relationships, it carries major meanings in itself, as shown in Figure 1.

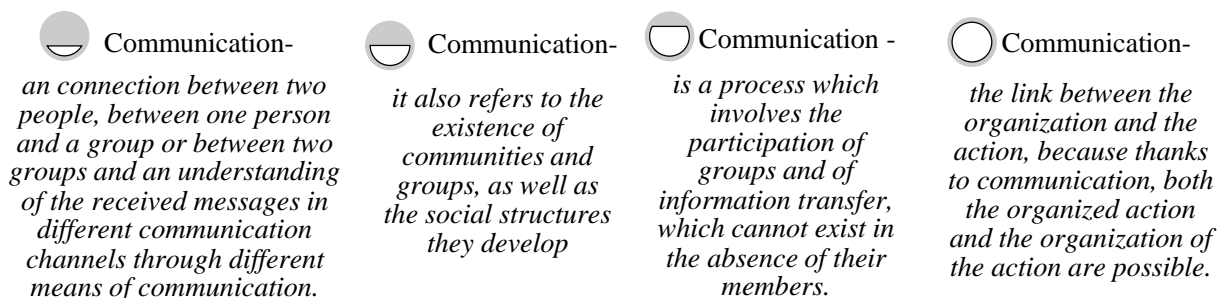


Figure 1 - The significance of communication

Source: Călin Rus, 2002

Explicitly, communication takes place between the auditor and the persons charged with governance, as well as with the management of the audited entity. So, communication in the audit takes place between the auditor employees as well as between the persons with whom the entity has contracted the audit services, such as those charged with governance. Thus, during the audit mission, in order to obtain adequate and sufficient audit evidence,

the auditor communicates with the persons charged with governance, shareholders, employees and specialists according to the entity's field of activity.

The auditor's responsibility to communicate with those charged with governance in an audit of financial statements is addressed through the provisions of ISA 260, which applies regardless of the governance structure or size of an entity. If all persons charged with governance are involved in the management of the entity, the standard provides for the application of special considerations. We remind you that this ISA does not establish provisions regarding the auditor's communication with the entity's management or owners, unless they have a governance role (ISA 260, 2018).

ISA 260 focuses primarily on the communication from the auditor to those charged with governance. In this context, we deduce the role of communication in an audit of the financial statements:

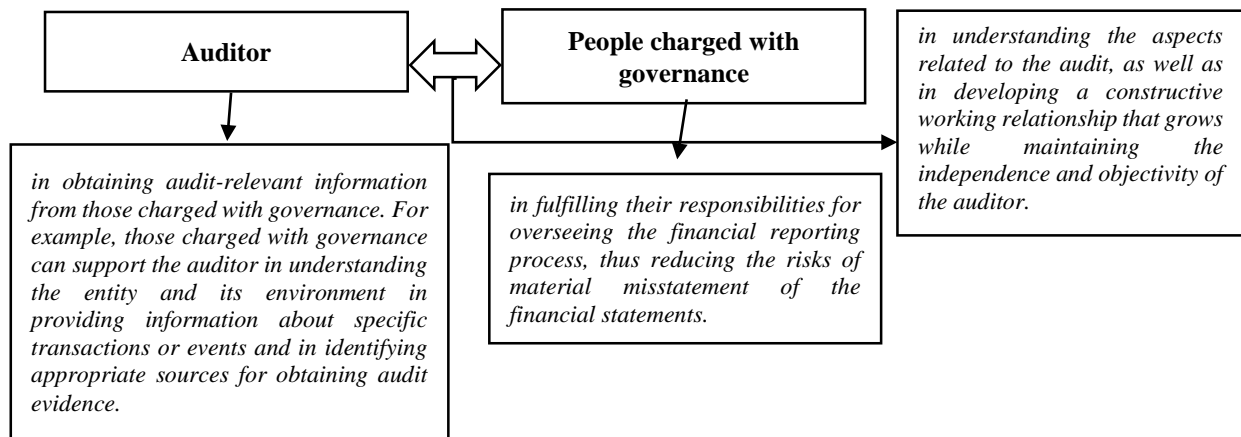


Figure 2 - The role of efficient mutual communication through the prism of ISA 260

Source: prepared by the authors

According to the ISA provisions, the persons charged with governance represent the “person (s) or organization (s) that have the responsibility to oversee the strategic direction of the entity and the obligations related to the entity's liability. This also includes overseeing the financial reporting process. For some entities in certain jurisdictions, the term "persons charged with governance" may include management staff, for example, executive members of the governing board of a public or private sector entity or an owner-manager (ISA 260, 2018).

The standardization of official communication is ensured by IFAC and the European Commission, but also by the professional body and the national supervisory body, through precise regulations that also include strict ethical norms. Therefore, both general and strict ethical rules apply to the auditor's responsibility to communicate.

Although the auditor is responsible for communicating matters under ISA 260, management is also responsible for communicating matters of interest to governance to those charged with governance. Clear communication of the specific issues to those charged in governance represent according to the ISAs, an integral part of each audit, as shown in Figure 3.

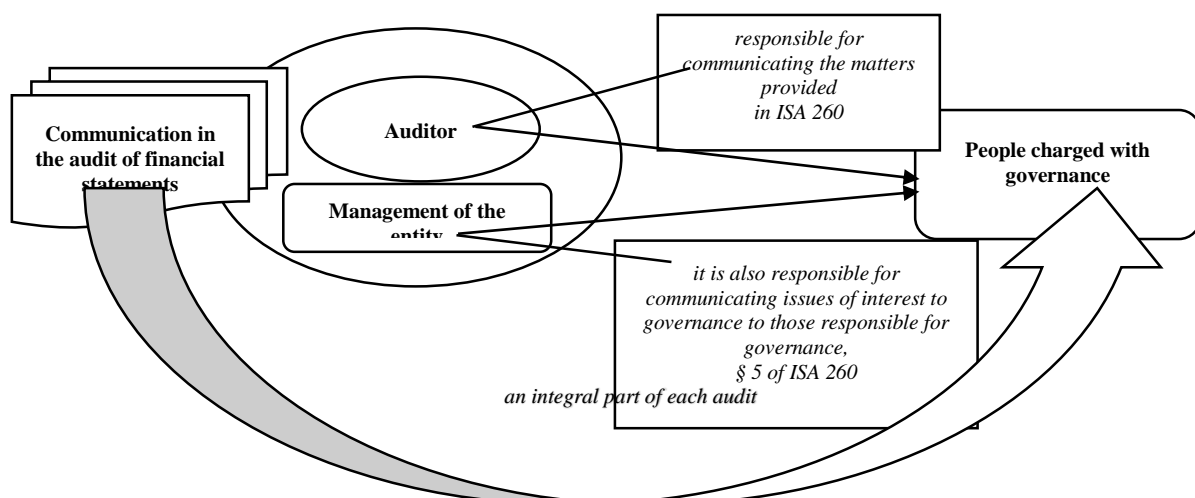


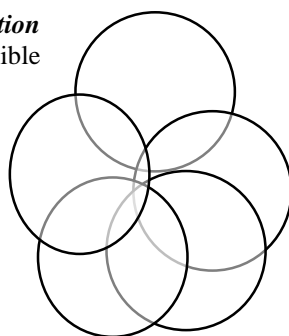
Figure 3 - Communication requirements for specific issues under ISA 260

Source: prepared by the authors

Based on the information above, the auditor's objectives in communicating with those charged with governance are presented in Figure 4 below.

Promote effective mutual communication between the auditor and those responsible for governance.

Clearly communicate to the persons responsible for governance the auditor's responsibilities in relation to the audit of the financial statements, as well as an overview of the coverage area and the planned timing of the audit.



Obtain audit-relevant information from those responsible with governance.

Provide **timely feedback** to auditors that are meaningful and relevant to their responsibility for overseeing the financial reporting process.

Figure 4 - Auditor's objectives in communicating with those charged with governance

Source: prepared by the authors after ISA 260

In the auditor's professional judgment, if verbal communication is not appropriate, the auditor must communicate the significant audit findings to those charged with governance in writing. In this context, effective communication involves well-structured written reports and presentations, as well as less structured communications, including discussions. Written communications may only include some of the issues that emerged during the audit. At the same time, the auditor must communicate in writing with those charged with governance regarding the auditor's independence.

In the view of some researchers, communication is a process in which information is given and received, a process in which the participation of members of a certain group is needed (Țiura & Domnișor, 2018). Libby and William (2020), consider that misrepresentation raises questions about the effectiveness of corporate governance.

Investigations allow us to find that mutual communication can be effective and inadequate.

Effective mutual communication provides support both to the auditor in obtaining relevant information and to those charged with governance in fulfilling their responsibilities, with a view to understanding the audit process and developing constructive relationships, as shown in Figure 2. Furthermore, ISA 315 (revised) identifies the participation of those charged with governance as an element of the entity's control environment (ISA 701, 2018).

Inadequate mutual communication notes a poor control environment with an impact on the auditor's assessment of the risks of material misstatement because, in order to form an opinion on the financial statements, there is a risk that the auditor has not obtained sufficient appropriate audit evidence.

If mutual communication between the auditor and the persons charged with governance is inadequate and the situation cannot be solved, the auditor may take measures such as:

- changing the auditor's opinion based on the limitation of the coverage area;
- obtaining legal advice on the consequences of various steps;
- communication with third parties or a higher authority within the governance structure outside the entity, such as the owners of a business or the responsible ministry in the case of the public sector;
- withdrawal from the mission, if permitted by applicable law or regulations (ISA 260, 2018).

Research in the field allows us to specify that the communication of significant deficiencies to the persons charged with governance and management, identified in the audit process of the financial statements in internal control, represents the provisions of ISA 265 "Communicating Deficiencies in Internal Control to Those Charged with Governance and Management." Please note that these provisions must be read in parallel with ISA 200 "Overall objectives of the independent auditor and the conduct of an audit in accordance with international standards on auditing". Thus, the auditor's objective is to properly communicate - to those charged with governance and management - the deficiencies that he identified in the internal control during the audit and which, according to the professional reasoning, are important enough to keep their attention.

In order to minimize the risks of material misstatement, regardless of the timing of the written communication of the material deficiencies, in a first phase, the auditor may verbally communicate the deficiencies to management to help them adopt timely remedial measures and, if appropriate, to the persons charged with governance. However, this approach does not relieve the auditor of the responsibility to communicate significant deficiencies in writing, as required by ISA 265 (ISA 265, 2018).

In order to improve the audit report, from the point of view of communication, it is necessary to present the key aspects of the audit, which provides greater transparency regarding to the conduct of the audit. The communication of key audit issues provides additional information to the users of the financial statements, helping them to understand those issues that, in the auditor's professional judgment, had the greatest importance in auditing the current financial statements. Communicating key audit issues can also help users understand the entity and sections of the audited financial statements that required significant management reasoning (ISA 701, 2018). Disclosing key audit issues in the auditor's report may also provide users with a basis for future interaction with management and those charged with governance regarding certain issues related to the entity, the audited financial statements or the conducted audit engagement.

In the vision of the researchers Cordos George-Silviu and Fulop Melinda Timea, the presentation of the key aspects in the audit report means the improvement of the communication in the audit, respectively the quality of the audit of the financial statements (Cordos & Fulop, 2014).

Evoking that key audit aspects are those that, according to the professional reasoning of the auditor, were identified as most important in the process of auditing the financial statements of the current period and which, being selected from the issues that were communicated to those charged with governance. In this context, the auditor should decide which of the identified issues were most important in the audit of the current financial statements and are therefore key audit issues. The auditor's decision-making process regarding the determination of key audit issues aims to select a smaller number of issues from the issues communicated to those charged with governance, based on the auditor's reasoning.

The description of each key audit aspect in the auditor's report consists of indicating a reference, if any, regarding the presentation of information from the financial statements and the treatment of the reason why the aspect was considered of particular importance for the audit (ISA 701, 2018). To facilitate the discussion with those charged with governance, the auditor may provide them with a preliminary form of the audit report.

In this context, we mention that it would be relevant for the auditor to analyze whether in the audit report of the previous period, key audit matters for the audit of the financial statements were presented, even if the auditor determines the key audit matters for the audit of the financial statements of the current period. We remind that ISA 701 does not require the auditor to update the key audit matters included in the audit report for the previous period. However, in our opinion, it would be favorable to research the aspects, which represented key audit aspects for the audit from the previous period and continue to represent key audit aspects for the audit of the financial statements from the current period (ISA 701, 2018).

In order to improve the communication between the auditor and the persons responsible with governance, as well as to minimize the audit risk, the auditor is obliged to communicate the key aspects of the audit in the auditor's report. This will help to increase the attention paid by management and those charged with governance to the financial statement disclosures referred to in the audit report. It is certain that the preparation of an adequate audit report and timely communication favors confidence of the audited entity by obtaining answers, correcting errors and weak points (Silva & Imoniana, 2021). Consequently, issues that raise the auditor's difficulty in obtaining sufficient appropriate audit evidence or that raise the auditor's ability to form an opinion on the financial statements, may be particularly relevant when the auditor determines key audit issues.

III. CONCLUSIONS

This research provides an understanding of the relationships between audit standards and the role of effective mutual communication of auditors with those charged with governance. Thus, in order to understand the significance of the communication in the audit, the provisions of the ISA become mandatory. Professional auditing standards recommend in some situations the obligation to communicate in written form and in other contexts, it is possible to use the verbal form. The issue of communication appears systematically in many professional standards, because in its development, the audit involves many communication processes.

In this regard, a well-written and issued on time report gives confidence to the audited entity, because communication is the basis for obtaining assurance that the audit mission is of quality. Although the auditor is responsible for communicating issues of interest to governance, the audit entity's management is also responsible for communicating to those charged with governance.

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