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THE INFLUENCE OF THE RISK OF FRAUD AND ACCOUNTING ERRORS IN THE FINANCIAL STATEMENTS ON THE OPINION OF THE FINANCIAL AUDITOR

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Abstract
The paper aims to highlight the risk of fraud and the errors with which a financial auditor can be confronted in his professional activity, but also, the presentation of these situations in the financial statements, starting from the entity's policies and the professional judgment required by legal rules. The paper reports the importance and the consequences that have these two concepts about the accounting and the financial audit. The practical part of this paper is represented by a case study accomplished on a sample of 64 companies, listed on Bucharest Stock Exchange, with non-financial activity, grouped on 6 industries according to the each entity activity. The data was synthesized following the analyzed of the annual reports published (financial statement and auditor's reports), grouping the results by category, according to the patrimonial item over who was corrected the accounting errors, because was not found fraud cases. The main conclusion that result from the case study, is that the entities that have declared accounting errors, have been corrected these according to the legislative rules, in order to present a more faithful image, because, many time, the accounting errors can distort the result, or even affect the dividends already distributed.

Key words: *audit; accounting error; correction; fraud risk; financial reporting; significant error.*

JEL Classification: *M40, M41, M42.*

I. INTRODUCTION

It is known that a company which presenting financial statements, and faithfully respects Accounting Standards, performs a fair and credible activity. To increase the quality of the financial information, an entity can opt for an analysis of activity by a professional.

The risk of fraud and error is an inherent risk of an economic activity, which can be determined by several factors, depending on the appearance moment and the significant impact on the financial statements.

Although that the responsibility for the prevention and detection of frauds and errors belongs to the entity's management, the auditor also has an important role in preventing their occurrence, starting from planning the audit with an attitude of professional scepticism and knowing that is possible to have situations or events that indicate the existence of a fraud or error.

The research of the risk of fraud is a fundamental step in the audit engagement. Even if that in the internationally level is a continue research of the fraud risk, in Romania this problem remains insufficiently addressed (Socoliuc, Mihalciuc & Cosmulese, 2018).

Taking into account the signal indicators of the fraud risk, the auditor should use the best procedures to obtain sufficient and suitable audit evidence. This evidence supports the audit opinion related to the accuracy of the audited statements and help to estimate the risk of fraud at the company level.

I chose this domain because I think that a practical analysis of the accounting errors and the occurred frauds in the current activity of an economic entity, is very opportune, because we need to know the main activity of the audited entity, which are the accounting policies that the entity was adopted, what method of correction of the accounting errors did choose, and if the legal rules that regulates this area are respected.

In the case study was debated why is important to present and record correctly the accounting errors, in order to not generate a negative impact of the current result, or to not produce an overvaluation, or under-valuation, of the patrimonial elements from the financial statements

The main conclusion that result from the case study, argues that even if not have been identified cases of fraud, the entities put a particular emphasis on detecting this risk, applying methods and procedures to decrease the occurrence of this concept. Accounting errors discovered in the analyzed sample have been corrected and presented correctly in the financial statements, and the auditors analyzed the encountered cases.

The paper was structured in four parts, in the first part was presented a synthesis of the specialty literature, national and international, the second part of the paper was dedicated to describe the research methodology, followed by the presentation of the results to the case study, done by the analysis of the 64 entities listed on the BSE. The paper was finished with the last part that contains the final conclusions.

II. LITERATURE REVIEW

The literature is not very extensive; most researches have been achieved on researching the legislative aspects of this area. Therefore, in Munteanu, Zuca and Munteanu (2017) vision an error can occur by omitting a value, by not publishing it, or even involuntary, in comparison with the fraud that occur voluntary.

Costi and Coman (2018) foresee that the accounting errors can occurred due to several factors, through which lists: erroneous application of the accounting policies, misinterpretation of events, or even if data is taken from one computer software to another. Accounting policies must be adapted to the entity's specificity according to professional rationality to prevent the errors occurrence (Haţegan, Imbrescu & Pavel, 2010).

In practice, is more difficult to make the difference between the two concepts, the expertise and the scepticism of the investigator being the main tools that lead him to the right framing of the situation. For make the difference between fraud and error, can simply transpose that the error can be done involuntary, while fraud is based on an intention (CECCAR, 2018).

The frauds and the accounting errors are governed by two important standards, respectively: IAS 8 and ISA 240. If IAS 8 is the international accounting reference, in the Romanian system, Minister of Finance Order no. 1802/2014 for the approval of the Accounting Regulations on individual annual financial statements and consolidated annual financial statements (OMFP 1802), regulates the issue of the accounting errors correction.

The first standard, IAS 8, specifies that an error will need to be corrected by adjusting the open balance of the reported result and according to the alternative accounting treatment, the error will need to be corrected on account to current result of the financial year, while OMFP no. 1802/2014 proposes the following correction of the accounting errors:

- On the account of the profit and loss, when talking about the errors discovered in the current year;
- On the account of the reported result, if the error is significant;
- Both on the account of the reported and the current result, when the error is insignificant.

Tanasă (2013) found that many companies are still victims of the fraud, 16% of the respondents who participated on the author’s survey, have reported that the companies for which work have experienced, at least, one significant case of fraud during the past two years. Values vary from 9% in Northern Europe to 21% in Western Europe and Latin America.

Robu and Robu (2013) has conducted an investigation based on a sample from 64 entities listed on the Bucharest Stock Exchange, during the period 2010-2012, using the SPSS 20.0 software. The research result argues that based on the detection indices of fraud and errors, the analyzed companies can be grouped according to different risks of fraud.

According to Brazel, Jones and Zimbelman (2009) the public information about non-financial client's performance can contribute, also, to determinate the risk of fraud when some indicators are incompatible with the financial performance.

In the point of view of the authors Stolk and Tesliuc (2010), any entity must have procedures and suitable administrative capacity that prevents the risks of fraud. These vary from the supply of adequate IT systems and the ability to train the staff, of clear delimitation of the administrative procedures, in processing and verification of benefits.

Specialists from PricewaterhouseCoopers (PwC) have ascertained that corporate fraud is a persistent fact of business life, which affect the companies of all sizes and all industries. Thus, 49.5% from Australian enterprises suffered various situation of fraud between 2005 and 2007 (PwC, 2008). The risk of fraud can make the audit mission more difficult, because to determinate this risk is necessary to apply the audit tests by the auditors, analyzing later just the errors and the fraud that exceed the materiality threshold. This inevitable risk may occur as a result of fraudulently denigrated the annual financial statements or may be the result of some embezzlement of assets (ISA 240).

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Robu and Robu (2013) considers that the auditor should disclose to the management any suspicion of fraud, for accurately predict the honorarium and the insurance policy for professional civil liability.

In the opinion of the authors Bunget and Dumitrescu (2009), the auditor's opinion of the financial statements is based on obtaining a reasonable certification. Thus, in an audit mission, the auditor does not guarantee that will be identified the significant misstatement which result from fraud or from errors. Considering the inherent limitations of an audit engagement, the risk of not identifying the significant misstatement caused by fraud is higher than the risk of not identifying a significant misstatement caused by errors, because fraud involves sophisticated and carefully organized actions, with the purpose of hiding as a deliberate omission of transactions or inaccurate statements intentionally provided to the auditor. The audit procedures that are effective for identifying an error can be ineffective to identify frauds.

Marinescu (2018) have concluded that an audit does not have to be compared with an official investigation, because the auditor does not have the necessary legal skills, his responsibility being to ensure that the audited financial statements not contain significant distortions as a result of fraud or error.

Ionescu (2016) considers that the auditor has the obligation to communicate his findings to the entity's management, if him suspect the existence of fraud, even if the potential effect about the financial statements would be negligible or if has been detected the existence of a fraud or a significant error. These frauds are done by those responsible for managing the company and aim to manipulate the financial information, falsifying the financial statements to mislead the users of these.

Bunget (2009) suggests that based on the audit risk assessment, the auditor should elaborate the audit procedures for obtain a reasonable assurance on the fact that the financial statements not contain significant errors. The auditor should apply the procedures that lead to discover the errors or fraud without a significant impact on the financial statements, but cannot be considerate responsible for these irregularities.

Mironiuc, Chersan and Robu (2011) believe that issuing an independent opinion, objective and professional, supposed to obtain evidence on which to base and be sustained. An important element that influences the audit risk is represented by the financial fraud. Identifying the risk of fraud may lead the auditor to take the best audit judgment.

According to Tomasic (1992), the auditor's responsibilities have become the subject of an international interest, taking into account the decline of the corporate collapses from the recent years. Even if this subject has continued to be debated over the last decade or even longer, the clarification of the rules from this area has become a very special problem. This thing is applied in special regarding to the reporting of financial fraud or unlawfulness. This issue has become a subject of debate in many countries, except Australia.

Asare, Wright and Zimbelman (2015) have conducted an investigation for identify the factors that explain that the auditors that have not detected fraud accessing the experimental knowledge base of fraud examiners, interviewing four fraud experts, with extensive experience and knowledge about fraud detection, for identify the main factors which influence the effectiveness of the auditors in detected fraud.

Hammerslez (2011) has developed a model that describes the factors that could affect the auditors' perceptions relating to the risk of fraud and answers to this risk that was resulting during the audit planning. A specific model of fraud planning tasks is necessary for explain the relationships between the auditor's characteristics and the audit setting characteristics which are unique or used in a unique way for establishing the fraud.

Alrawashdeh and Al-Rawashdeh (2016) have developed a study for identify the role of the external auditors relating to the errors and frauds from the financial statements in the public entities in Jordan. The researcher chose a random sample consisting of external auditors affiliated to the Jordanian Association of Authorized Public Accountants, who have audited the financial statements of the public entities from Jordan.

Al-Hilu (2012) has conducted a study applied to a sample of 40 audit offices from the Gaza Strip, using the descriptive analytical approach for identify issues related to the auditor's professional responsibility in discovery of fraud and error from the financial statements. The results showed that the practitioners of this profession are able to discover the risks of fraud or error, which affects the compliance with audit standards.

Ghawali (2013) has sought in his case study, answers relating to the role of the external auditor in fulfilling the requirements of the users of the financial statements and the responsibilities of the external auditor in discovering all the illegal discrepancies from the financial statements, for give an absolute confirmation regarding to the fairness and credibility of the financial statements, for their users. The results showed that the

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role of the external auditor does not differ from the role of a police officer, because in their view, an auditor who does not discover errors and defects is not necessary in the organization.

III. METHODS

For this case study, were studied 62 companies listed on Bucharest Stock Exchange (BSE), with non–financial activity. Based on the annual reports published for the period 2015 -2017 the companies were grouped on 9 sectors of activity as fallowing in Table 1:

Table 1. Sectors of activity from the analyzed companies

No.	Sectors of activity	Total no. of entities
1	Mining	3
2	Manufacturing	42
3	Supply	2
4	Construction	3
5	Trade	4
6	Transportation and storage	4
7	Accommodation and food services	4
8	Financial and insurance activities	1
9	Professional, scientific and technical activities	1
	Total	**64**

Source: author's projection

The financial statements and auditor's reports were analyzed over a period of three consecutive years, respectively 2015, 2016 and 2017, highlighting if the entities have declared the errors and the produced frauds, the impact that these concepts produce on the financial statements and on the entity's activity, and the measure to which the auditor took these into account when expressing his opinion.

IV. RESULTS AND DISCUSSION

After studying the financial statements and the audit reports issued by the independent financial auditors, were not found suspicious of fraud in the analyzed companies, only accounting errors that will be detailed in this part. I synthesized in the Table 2, for each year of analysis, the number of the companies that reported accounting errors in the financial statements and the activity domain of those companies.

Table 2. Statistics of the accounting errors identified during the period 2015-2017

Year	No. of entities	Activity's area					
		Mining	Manufacturing	Accommodation and food services	Supply	Trade	Transportation and storage
2015	6	0	3	1	1	1	0
2016	16	1	12	1	1	1	0
2017	20	1	14	2	1	1	1
Total	**42**	**2**	**29**	**4**	**3**	**3**	**1**

Source: author's projection

In 2015, from the total of 64 companies, only 6 entities (9, 37%) declared in the published annual reports that have recorded accounting errors, and these have been corrected both on the basis of the reported and the current result.

In 2016 was an increase of the number of accounting errors reported of 15.63% (from the 9, 37% to 25%) in comparison to the previous year, being 16 entities that have recorded accounting errors during the financial year.

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In 2017, there has been identified a continuation of the trend, with a significant increase of 15.62% in comparison to the previous year, (from the 25% to 31, 25%) and of 21, 88% compared to the first year of analysis (from the 9, 37% to 31, 25%), presenting 20 entities that recorded accounting errors. The patrimonial elements of which was made the corrected of the accounting errors are explained in the Table 3.

Summing up data, are obtained a total of 42 entities that recorded and corrected accounting errors during the interval 2015-2017. In percentage terms, this sum represents approximately 22% of the total chosen sample.

Due to the accounting errors published, to show the most affected patrimonial element, was made a classification in the following table.

Table 3. Patrimonial elements affected by the correction of the accounting errors

Patrimonial elements	Audited company	Auditor category	Audit opinion	Audited period	Industry
Reported result	ALTUR S.A	Non Big 4	Unqualified opinion	2017	Manufacturing
	ANTIBIOTICE S.A.	Non Big 4	Unqualified opinion	2017	Manufacturing
	COMPA S.A.	Non Big 4	Unqualified opinion	2017	Manufacturing
	ELECTROARGEŞ S.A.	Non Big 4	Unqualified opinion	2017	Manufacturing
	GRUPUL INDUSTRIAL ELECTROCONTACT S.A.	Non Big 4	Unqualified opinion	2017	Manufacturing
	GRUPUL INDUSTRIAL ELECTROCONTACT S.A.	Non Big 4	Unqualified opinion	2015	Manufacturing
	IAR S.A. Braşov	Non Big 4	Unqualified opinion	2017	Manufacturing
	IAR S.A. Braşov	Non Big 4	Unqualified opinion	2015	Manufacturing
	SANTIERUL NAVAL ORSOVA S.A.	Non Big 4	Unqualified opinion	2017	Manufacturing
	UAMT S.A.	Non Big 4	Unqualified opinion	2017	Manufacturing
	VES S.A.	Non Big 4	Qualified opinion	2017	Manufacturing
	C.N.T.E.E. TRANSELECTRICA	Big 4	Unqualified opinion	2017	Supply
	C.N.T.E.E. TRANSELECTRICA	Big 4	Unqualified opinion	2015	Supply
	COMPA S.A.	Non Big 4	Unqualified opinion	2016	Manufacturing
	CONTED S.A.	Non Big 4	Unqualified opinion	2016	Manufacturing
	ALTUR S.A	Non Big 4	Unqualified opinion	2016	Manufacturing
	PETROLEXPORTIMPORT S.A.	Non Big 4	Unqualified opinion	2017	Trade
	SIF HOTELURI SA	Non Big 4	Unqualified opinion	2017	Accommodation
	OIL TERMINAL S.A.	Non Big 4	Unqualified opinion	2016	Transportation
	TURISM, HOTELURI, RESTAURANTE MAREA NEAGRA S.A.	Non Big 4	Qualified opinion	2015	Accommodation
	TURISM, HOTELURI, RESTAURANTE MAREA NEAGRA S.A.	Non Big 4	Qualified opinion	2016	Accommodation
	TURISM, HOTELURI, RESTAURANTE MAREA NEAGRA S.A.	Non Big 4	Qualified opinion	2017	Accommodation
	UAMT S.A.	Non Big 4	Unqualified opinion	2016	Manufacturing
	MECANICA FINĂ S.A.	Non Big 4	Qualified opinion	2016	Manufacturing
Profit	OMV PETROM S.A.	Big 4	Unqualified opinion	2017	Mining
	CEMACON S.A.	Big 4	Unqualified opinion	2017	Manufacturing
	CONTED S.A.	Non Big 4	Unqualified opinion	2017	Manufacturing

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Patrimonial elements	Audited company	Auditor category	Audit opinion	Audited period	Industry
	ELECTROARGEŞ S.A.	Non Big 4	Unqualified opinion	2017	Manufacturing
	C.N.T.E.E. TRANSELECTRICA	Big 4	Unqualified opinion	2017	Supply
	OIL TERMINAL S.A.	Non Big 4	Unqualified opinion	2017	Transportation
	IAR S.A. Braşov	Non Big 4	Unqualified opinion	2016	Manufacturing
	OMV PETROM S.A.	Big 4	Unqualified opinion	2016	Mining
	MECANICA FINĂ S.A.	Non Big 4	Qualified opinion	2016	Manufacturing
	OIL TERMINAL S.A.	Non Big 4	Unqualified opinion	2016	Transportation
	TURISM, HOTELURI, RESTAURANTE MAREA NEAGRA S.A.	Non Big 4	Qualified opinion	2016	Accommodation
	VES S.A.	Non Big 4	Qualified opinion	2016	Manufacturing
Loss	COMELF S.A	Non Big 4	Unqualified opinion	2017	Manufacturing
	COMPA S.A.	Non Big 4	Unqualified opinion	2017	Manufacturing
	ANTIBIOTICE S.A.	Non Big 4	Unqualified opinion	2016	Manufacturing
	RETRASIB SA	Big 4	Disclaimer of opinion	2016	Manufacturing
	MECANICA FINĂ S.A.	Non Big 4	Qualified opinion	2017	Manufacturing
	CEMACOM S.A.	Non Big 4	Unqualified opinion	2015	Manufacturing
	C.N.T.E.E. TRANSELECTRICA	Big 4	Unqualified opinion	2015	Supply
	PETROLEXPORTIMPORT S.A.	Non Big 4	Unqualified opinion	2015	Trade
Revaluation reserves	TURISM, HOTELURI, RESTAURANTE MAREA NEAGRA S.A.	Non Big 4	Qualified opinion	2017	Accommodation
	TURISM, HOTELURI, RESTAURANTE MAREA NEAGRA S.A.	Non Big 4	Qualified opinion	2015	Accommodation
	OIL TERMINAL S.A.	Non Big 4	Unqualified opinion	2017	Transportation
	CEMACON S.A.	Big 4	Unqualified opinion	2017	Manufacturing
	RETRASIB SA	Big 4	Disclaimer of opinion	2016	Manufacturing
Tax	OMV PETROM S.A.	Big 4	Unqualified opinion	2017	Mining
	OIL TERMINAL S.A.	Non Big 4	Unqualified opinion	2017	Transportation
	ROMCAB S.A.	Non Big 4	Qualified opinion	2016	Manufacturing
	OIL TERMINAL S.A.	Non Big 4	Unqualified opinion	2016	Transportation
Dividends	SANTIERUL NAVAL ORSOVA S.A.	Non Big 4	Unqualified opinion	2017	Manufacturing
Inventories	VES S.A.	Non Big 4	Qualified opinion	2017	Manufacturing
	RETRASIB SA	Big 4	Disclaimer of opinion	2016	Manufacturing
	VES S.A.	Non Big 4	Qualified opinion	2016	Manufacturing
Receivables	ROMCAB S.A.	Non Big 4	Qualified opinion	2016	Manufacturing

Source: author's projection

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The most frequent cases of errors was presented in the manufacturing industry, which in 2015 submitted 3 cases, in 2016, 12 entities reported accounting errors, and in 2017, 16 entities reported accounting errors. This reason is also due to the fact that this industry includes a larger number of companies than other industries. The accounting error come from different sources and was corrected on account to equity and current assets.

In the accommodation area was recorded a single entity that recorded errors in the first two years of analysis, and in 2017 was an entity in addition with the previous year. The recorded errors have a significant impact on the current result, being derived from equity.

In the mining industry, only a company reported accounting errors in 2016 and 2017, respectively OMV S.A. Their correction was made on account to reported result. In the transportation and storage, industry was registered only a company, that in 2015 and in 2016 was corrected errors due to revaluation reserves and profit tax. Also in the supply industry, only a company was recorded accounting errors that was corrected an account to reported and current results.

A similar case was also meet in the trade industry, where PETROLEX S.A. recorded in 2015 and in 2017 errors derived from the reported result. The Figure 1 presents a graphical representation of the previously discussed situations.

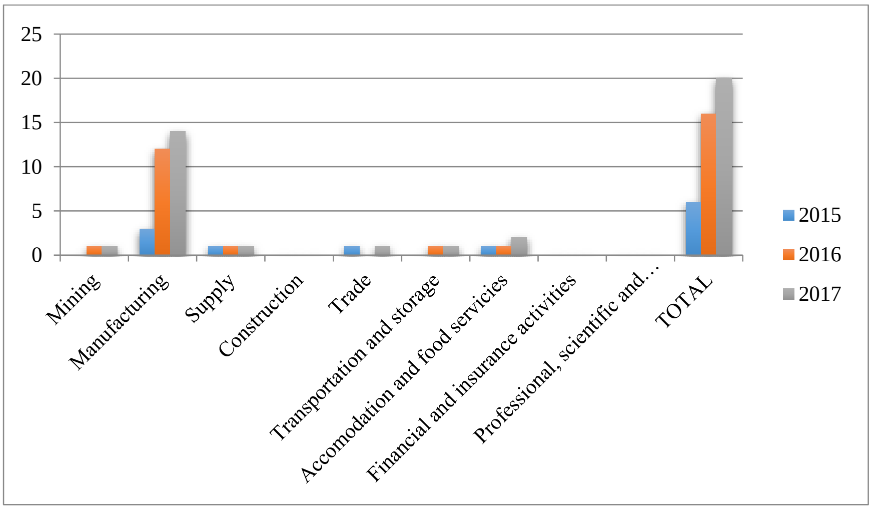

Figure 1 – Industries in which were discovered errors
Source: author's projection

As mentioned above, error correction is done by adjusting the open balance of the reported result, or through affecting the net result of the financial year. In the case of the analyzed sample, the predominant elements on account were made the error correction was the two categories of results: respectively the reported result and the current result. Besides the two patrimonial elements, were also encountered situations where the error correction was made on account to other passive elements, such as the revaluation reserve, profit tax or dividends, or asset like inventories and receivables (Figure 2).

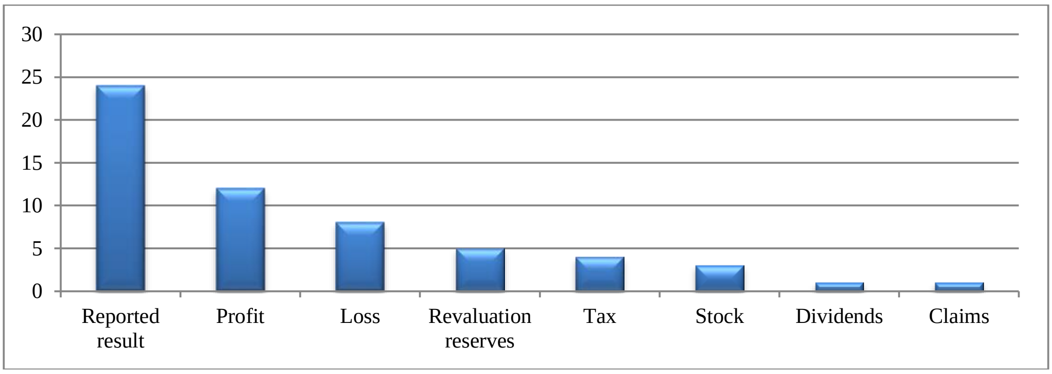

Figure 2 – The patrimonial items frequency
Source: author's projection

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All the analyzed entities have been audited of the published financial statements. According to the analyzed audit reports, the auditors issued in the three year of analysis, a total of 11 qualified opinions and two disclaimer of opinion, the difference being represented by unqualified opinions. The statistic of the modified opinions issued by the auditors was representing in the Figure 3.

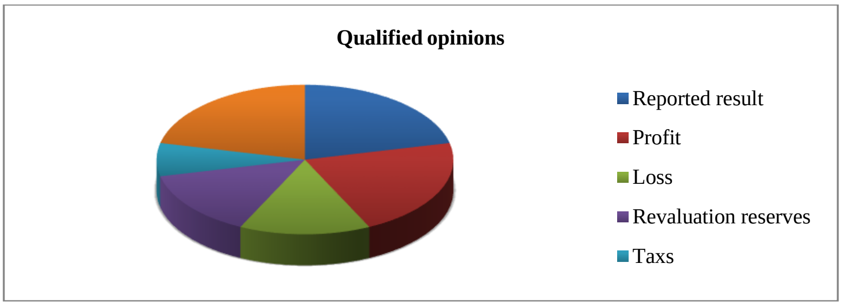

Figure 3 - Modified opinions issued by auditors during the analyzed period

Source: author's projection

In the case of the entities that have corrected accounting errors on account to reported result, was issued three qualified opinions, two in the manufacturing industry and one in the accommodation. The same number of the modified opinions was also issued in the companies that corrected accounting errors on account to current result, obtaining an additional benefit after these adjustments.

At the opposite pole, in the case of the companies that have corrected accounting errors on account to current result, decreasing this element, the auditors was issued an qualified opinion and a disclaimer of opinion, both in the manufacturing industry. In addition to the two categories of results, were other patrimonial elements on account to be made the accounting errors correction.

In the case of the errors that have been corrected on account to inventories, the auditors issued two qualified opinions in the manufacturing industry and one disclaimer of opinion, in the same industry. In case of the companies that was made the errors correction on account to revaluation reserves, was issued one qualified opinion in the manufacturing industry and a disclaimer of opinion in the accommodation industry. Was only one qualified opinion issued for a company from the manufacturing industry, and the errors correction was made on account to receivables.

After the analysis, was found that the accounting errors recorded by the analyzed companies have influenced to some extent the auditor's opinion (26%), means that the established research objective has been validated.

V. CONCLUSION

Does not been any economic activity that can be risk-free as long as the entity has contact with users. For this reason, is important to identify and correct the risks in a due time, so as not to have a negative impact in the future.

The main difference between the fraud and the error is related to the fact that fraud occurs intentionally, while an error can be made without intention, due to a mistake or an omission.

The responsibility to declare the cases of fraud or accounting errors and to present these cases in the annual financial statements is due to entity's leadership. The leadership must to report to the auditor any accounting error that they found or any fraud suspicion.

By issuing audit reports, the auditors provide reasonable assurance, not an absolute, on the fact that the financial statements do not contain significant distortions from which result frauds or errors. The auditors are not responsible to preventing and detecting the errors and fraud, even if the audit activity prevents possible negligence or mistakes.

In the case study did not find fraud cases, only a few cases of accounting errors. The most errors situations was been discovered in the manufacturing industry. Was have encountered diversified errors, most of

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that are due to the IAS-IFRS application, or provide from adjustments of the inventories, receivables, equity or even fixed assets.

The errors correction has been made predominantly, accounting to the reported result, but also on account of the profit and loss, resulting to an over-valuation or under-valuation of the current result. In addition, the errors correction has been made of the revaluation reserves or deferred tax, getting an adjustment of equity and an influence of the dividends distributed to the shareholders or associates. The inventories or receivables adjustments were been corrected by the reported or current result, depending on the affected financial year.

Following the research, I can say that when an auditor discovers a case of accounting error, this need to analyze the error originates, if it is significant, but also if its correction affects in a positively or negatively way one patrimonial element.

All these aspects are essential because, a significant error can influence the audit opinion, and in some cases lead to the modification of an initial audit report.

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