

## **FINANCIAL AUDIT BETWEEN ACCOUNTING ACCURACY AND THE VALIDATION OF THE TRUE AND FAIR VIEW**

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### **Abstract**

The debate over the accuracy of financial statements and accounting truth from the perspective of financial and accounting information providers on the one hand, and their validation through financial audits on the other, has been and will continue to be a subject that will always generate controversy and opposing views. Often, when errors and malfunctions occur, the role of financial and accounting information producers is ignored, with the blame being placed primarily on those who certify or validate them, namely financial auditors. In this context, trust has suffered the most. Unfortunately, this negative image also hangs over future professionals whose role is to make the profession accountable for the quality of the preparation and validation of financial statements/reports. The motivation for choosing this research topic stems from the desire to study the role of accounting truth and the true and fair view validated by financial auditing. This is why the scientific approach aims to highlight, at all times, the direct link between accounting, financial auditing, true and fair view, and accounting truth. None of these can exist without the other, and respecting the faithfulness and reality of transactions and events carried out within an economic and social entity is, in our opinion, the main prerequisite for regaining trust.

**Keywords:** financial audit, financial information, fair presentation, true/reality accounting, financial statements quality.

**JEL Classification:** M41 – Accounting, M42 – Auditing.

### **1. Introduction.**

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Information is the most valuable commodity of the 21st century. The unprecedented development of the economy and society as a whole has generated an exponential increase in the need for information. Information, especially financial and accounting information, is at the core of the economic life of any entity, influencing its evolution in the business environment. Accounting professionals have a duty to prepare financial statements/reports in accordance with performance, professionalism, and ethical criteria. This way, users will have access to accurate, transparent and credible information. We start from the premise that, in a market economy, the role of the accountant is essential. Accounting communication is at the heart of the decision-making process. The information provided through financial reports is complex and, depending on how it is used, offers a variety of perspectives for analysis. Knowledge is power. The path to knowledge mainly involves deciphering the unknown by discovering new truths. Since ancient times, people have tried to find the path to progress and, implicitly, a certain state of prosperity. In the current economic circumstances, accurately reflecting reality requires the use of a set of information that is subject to constant improvement in terms of accuracy. Most major financial scandals have stemmed from an inaccurate representation of reality through the generalization of error and fraud, or through its cosmetic cover-up. As long as the true picture is not based on the principles of objectivity, fairness, and transparency, the accounting profession will suffer and the social function of accounting will not serve the interests of the many but will be compromised in favor of the few. If information is not the product of ethics and compliance with standards, the truth is "manipulated," misleading investors' perceptions. In order to eliminate, even partially, these dangers, the accounting and auditing professions alike call for the intervention of regulatory and harmonization bodies. Harmonization is not a luxury or a whim, but a necessity resulting from the requirements of users of credible financial statements and quality audit reports to understand and compare the data provided, in a word, to be properly informed. At the same time, in a society often dominated by the interests of the big and powerful, the mechanism for producing information is easily influenced, and mistrust has become almost the norm. In such a relative world, we are witnessing financial scandals, to which we can add economic crises. If, following these findings, we ask ourselves why we need accounting, the answer, in its simplest but truest form, is: each of us is interested in knowing what and how much we own, whether we are referring to personal wealth or the assets of a company. Even if the law did not require accounting to be kept and organized, the need to record economic events is sufficient to establish a record-keeping system based on the actual, real situation. In our research, we found that the setbacks in the economic and business world have often been unfairly associated with the accounting profession, in its capacity as a verifier of truth and communicator of that truth. Let us not forget that ensuring the credibility of accounting data is the responsibility of financial auditors, the "spearhead" of the accounting profession, and perhaps that is why they are most exposed to criticism from the beneficiaries of the information contained in financial statements. We agree that the

current economic difficulties and imperfections are not only due to deficiencies in the legislative and regulatory framework, but especially to the deliberate circumvention of these deficiencies. This is why the financial auditor, acting as an intermediary between the producers of financial and accounting information and its users, is the guarantor of the credibility of accounting truth. That is why we have placed the trinomial accounting – auditing – true and fair view at the centre of our research, concluding that in this field, no one will ever achieve absolute truth. By applying standards, norms, professional reasoning, and professional ethics in good faith, we believe that it is still possible to obtain a representation that is as true to reality as possible. The motivation for choosing this research topic stems from the desire to study the role of accounting truth and fair presentation validated by financial auditing. With the objective of collecting, recording, and transmitting financial information, accounting is the main language of communication in the business world. Our approach considers that the relevance and reliability of financial and accounting information are fundamental to the economic activity of the company and its managerial decisions. Over time, the credibility of accounting as a field has been the subject of debate both within the profession and, particularly, outside it. Considering the major financial scandals and the recent economic crisis, it is easy to understand why the accurate representation expressed by accounting has been seriously questioned. This is why the main objective of accounting must be to obtain a picture that is as close as possible to economic reality. In developing the study, we started from researching accounting truth and the process of validating the true and fair view expressed through financial statements. In our opinion, the credibility of financial information is crucial for the economic environment. The observation and analysis of this field must take into account the interdependent relationships it establishes with the whole range of social and financial events. Therefore, we believe that the research responds to a social need represented by the need to inform users. Through the connection between accounting truth, audit, and fair presentation, we aim to contribute to strengthening confidence in the specialized accounting information system. Over time, accounting professionals have succeeded in developing advanced methods and techniques for recording a company's operations, transactions, and resources. However, we wonder how efficient and accurate such a system of translating reality into numbers is, given the particular complexity of the economic environment. In these circumstances, we consider it appropriate to examine the role of financial auditing in validating the accurate representation of financial and accounting information. The two concepts must be correlated with the notion of performance, since in the competitive environment in which economic entities operate, only continuous monitoring of the accuracy and relevance of accounting data can lead to progress. Furthermore, through such analysis, companies can identify their vulnerabilities and reduce risks. In a world where investors are increasingly skeptical, the confirmation of financial and accounting information creates the conditions for reducing the degree of uncertainty. The subject of the research study is a topical one in the current economic context of globalization. The

substantial volume of information that needs to be processed and the short time available for reporting data for decision-making purposes generate the need for confidence that the financial and accounting information prepared and processed at the entity level is transformed into knowledge that benefits users. Investors can thus find the most important answer for committing their capital, namely the credibility of information, which generates confidence in business. The purpose of our research is to provide some answers regarding accounting truth and fair presentation, the possibilities for validating and valuing accounting information, and tracing the connection between accounting truth, audit, and fair presentation. All of this aims to reasonably assure stakeholders that decisions made based on this information are timely and effective. The research also seeks to highlight the possibilities of providing a true and fair view through financial statements, or in other words, the extent to which the true and fair view expresses accounting truth.

We will specify in context the role of financial auditing in certifying and valuing accounting accuracy. To this end, we have pursued two directions:

- the first direction concerns accounting truth and the true and fair view in accounting;
- the second direction is to highlight the role of auditing in certifying or validating the truth expressed by accounting, in other words, ensuring the quality and relevance of financial and accounting information.

## **2. Literature review.**

### *a. The conceptual-philosophical approach to truth*

Truth has been, is, and will continue to be the subject of discussions that have polarized many philosophical concepts since ancient times, being practically an inexhaustible and ever-relevant topic. However, we can appreciate truth as a fundamental cultural, philosophical, and scientific category with great practical value but also universal theoretical value, expressing the ideal of knowledge in any field of intellectual activity and beyond. In this sense, the philosopher Hacob Paronian believed that it is harder to tell the truth, even harder to listen to it, and hardest of all to make it understood. Truth is the central issue of both epistemology (the theory of scientific knowledge) and gnoseology (the philosophical theory of knowledge), because it guides us towards the search for and acquisition of certain, reliable, and lasting knowledge. The Greek philosopher Parmenides said that there are two paths to knowledge: the path of truth (*alteaia*) and the path of opinion (*doxa*). In his view, the first path leads us to discover the essence of things, that is, the essence of sensible things, and is the path of certainty and conviction, while the second is the path of uncertainty and doubt, of opinion and appearances that dominate the ordinary mind of people. In classical scientific and philosophical literature, three main theories of truth have emerged, namely: the correspondence theory of truth; the coherence theory of truth; and the pragmatic theory of truth. A general feature of these three theories is that they

define truth by the relationship between the content of a judgment and the content of another object. In other words, truth is an entity that can be described based on the idea that a judgment is true because it has a special relationship either with other judgments already accepted as true, with the world of sensible things, or with people's interests.

*b. The accounting approach to truth*

Financial and accounting information, is of major significance for management, because it forms the basis for financial decisions and it is therefore particularly important that the data it presents be accurate, in other words, "true." Financial and accounting information must be transparent and accurate in order to enable relevant decisions to be made, at which point it can be said to ensure accounting truth regarding the activity of an economic entity. In this context, the factors that determine accounting truth reside in the following: accounting principles and techniques, accounting standardization, verification of accounting information (by accountants, financial auditors, internal auditors, state control bodies, etc.). For these reasons, British researchers have developed the concept of "true and fair view" associated with financial reporting, which has been translated into Romanian as "exact representation". The first part of the term has a quantitative, formalized aspect; the second has psychological, ethical, and moral connotations, i.e., informalized (Gray, Coenenberg & Gordon, 1993) [1]. This concept encompasses a quantitative, formalized aspect and a psychological, ethical, and moral connotation, and was recommended by EU Directive 2013/34/EU of June 26, 2013, with the term of French origin "true and fair view" (Colasse, 2007) [2]. Art. 4(3) of EU Directive 2013/34/EU states that "the annual financial statements shall give a true and fair view [...] of the financial position and profit or loss of the undertaking." On the other hand, we can see that the notion of accurate representation is not equivalent to a true and fair view in this directive, because paragraph 22 specifies that "the recognition and measurement of items in the financial statements are based on estimates, judgments, and models rather than on accurate representations." This is natural because the concept does not imply the existence of requirements and rules for the procedure for preparing financial reports. In Romanian, its role is clearly expressed by the term "accounting truth". The Explanatory Dictionary of the Romanian Language defines truth as "that which corresponds to reality, exists or has actually happened," although we consider that accounting truth is a much broader concept than this. The financial statements, prepared on the basis of data collected and recorded in the accounts, relating to economic events during the reporting period and confirmed by auditors, present the accounting truth of an entity. In this way, users of financial and accounting information can be sure that the information made available to them by the entity's management is accurate and that the decisions made on the basis of this information are correct. From this point of view, accurate information can be considered to be information that allows interested parties to identify a specific event or object in the economic life of the entity. However, it becomes more complicated when it is absolutely necessary to know the object of accounting as a whole and to ensure accurate representation. In this case, accounting, through symbols, applies

specific accounting standards, shapes the processes within the entity and respects the qualitative characteristics of information. The general framework for financial reporting specifies that, in order to be considered an accurate representation, a description must have the following three characteristics: it must be neutral, complete, and error-free. Practitioners in all fields know that perfection can sometimes be achieved, but accounting truth based on accounting principles makes it possible to consider that the information presented in financial reports reflects the reality of the facts and events taking place within the entity. It should be noted that maximizing the quality of financial and accounting information must be the main objective of accounting and, therefore, the information presented in the financial statements can only be recognized by users as true if it is confirmed by an independent financial auditor. In this context, auditing becomes the most important factor in ensuring accounting truth.

### **3. Research methodology.**

Methodologically, the research is mixed, theoretical-descriptive, and the topic was approached from an ethical and positivist perspective. The approach is based on multidisciplinary research that includes concepts and theories from accounting, finance, auditing, taxation, and law. The areas researched include both a qualitative and a quantitative approach. The qualitative approach was used to generate a detailed picture of the concepts of accounting truth and fair presentation, and to establish the role of auditing in validating them. The quantitative analysis was used to complement and substantiate the qualitative approach, using systematic, rational, and grouped sampling, with the sample size being determined in relation to the subject of the study. As regards the source of data, we used databases such as those of the Chamber of Financial Auditors of Romania (CAFR), the Public Supervisory Authority for Statutory Audit (ASPAAS), the Ministry of Public Finance (MFP), the National Institute of Statistics (INS), the International Federation of Accountants (IFAC), and Eurostat. The methods used in the research include observation, comparison, statistics, and specific analysis methods. The data sources are official reports, normative acts, and websites of professional associations and regulatory authorities.

### **4. Accounting truth/accuracy – the basis of a true and fair view.**

#### *4.1. Trust in accounting truth/accuracy*

Accounting truth is ensured by: the entity's accountants and management; specific rules and regulations; auditors and experts who monitor and assess compliance with accounting rules and regulations.

Schematically, the factors that influence and ensure accounting truth/accuracy are presented in Figure 1.

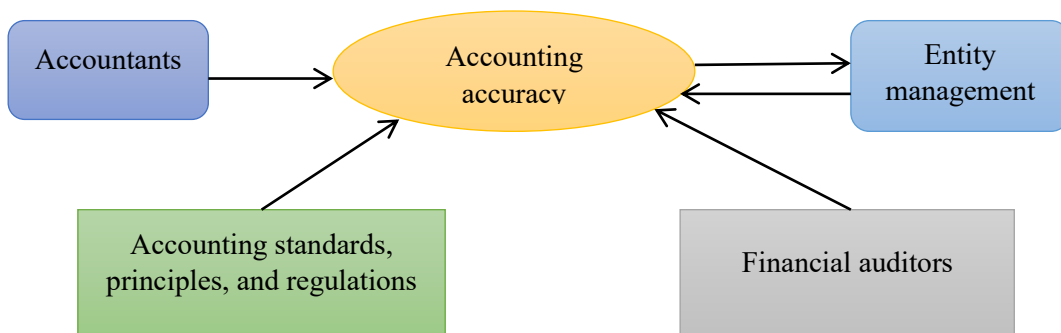


Figure 1. Factors influencing accounting accuracy

Source: author's own conception

Accountants, based on specific methods and procedures, provide financial and accounting reports to management. The accounting system allows information to be obtained on the financial position and performance of an entity. Compliance with specific rules and regulations ensures, to a large extent, accounting truthfulness because it allows the verification of the recording of economic operations in the accounts. Accounting rules, principles, and regulations form the conceptual basis of accounting and provide practical solutions for solving tasks. When preparing financial statements, accountants must apply all accounting principles, including the entity principle. According to this principle, which is based on economic, financial, and legal criteria, the accountant distinguishes between the economic entity and its owners based precisely on legal criteria, although this seems and is quite difficult. The methodology for presenting information in financial statements, as well as the accounting methodology, depend on the implementation of the principle of economic priority over legal priority. However, qualitative characteristics contribute significantly to ensuring accounting accuracy in an entity. Standardization plays an important role in ensuring accounting truth, as confidence in financial and accounting information can be ensured mainly through the application of rules issued by the competent institutions. Neither theoretically nor practically is the need for accounting standardization questioned; only the degree of standardization is debated. The discussion concerns the number of rules, as too many rules hinder the development of accounting, while on the other hand, giving too much leeway to accounting reasoning can have negative consequences. Standardization consists of fulfilling the following functions: it makes it possible to obtain financial and accounting information; it allows for the verification of financial and accounting information through internal and external control; it creates a climate of trust in the financial and accounting information presented by the entity; it ensures the arbitration of any

conflicts between the contracting parties; it allows for the comparison in time and space of the information contained in the financial statements prepared in accordance with those standards. In the view of some researchers, a set of normative acts forms accounting law because, they argue, the provisions included in those normative acts create unique requirements at the state level in this area. Financial auditing ensures the necessary confidence for users of the information contained in financial statements, and it is indisputable that, no matter how successful standardization may be, this is reflected in the audit. Auditing has emerged as a necessity for financial and accounting information to bridge the gap between providers (economic entities) and users. Independent professionals—auditors—provide confidence that accounting principles, rules, and regulations are being applied correctly. Thus, the accuracy of financial and accounting information is confirmed or refuted by auditors and expressed through the issuance of an opinion in the audit report. The entity's management is required to ensure compliance with rules, principles, and regulations, to ensure the organization and management of accounting, and to submit financial statements for verification by financial auditors, internal auditors, accountants, tax inspectors, management inspectors, and appraisers, as appropriate.

*4.2. Assertions and reflections on confidence in accounting truth/accuracy*

The key elements of ensuring confidence in the financial and accounting information presented in the annual financial statements of public interest entities and, at the same time, of consolidating accounting truth, consist of reflections and assertions according to Table 1.

Table 1. - Assertions vs. reflections on trust in accounting truth/accuracy

Assertions		Reflections
<ul style="list-style-type: none"> <li>• The assertion regarding completeness refers to the fact that financial and accounting information must include all transactions and events that could significantly affect the financial position of the public interest entity.</li> <li>• The assertion regarding accuracy focuses on the fact that financial and accounting information must be correct and reflect the reality of the economic operations carried out during the financial year.</li> </ul>		<ul style="list-style-type: none"> <li>• Financial auditing is an essential process in confirming the accuracy and reliability of financial accounting information.</li> <li>• The standards and rules for reporting financial accounting information produced at the level of a public interest entity contribute directly to maintaining the quality and accuracy of that information.</li> <li>• Transparency and communication are also central elements of reflection, increasing confidence in the accounting truth promoted to</li> </ul>

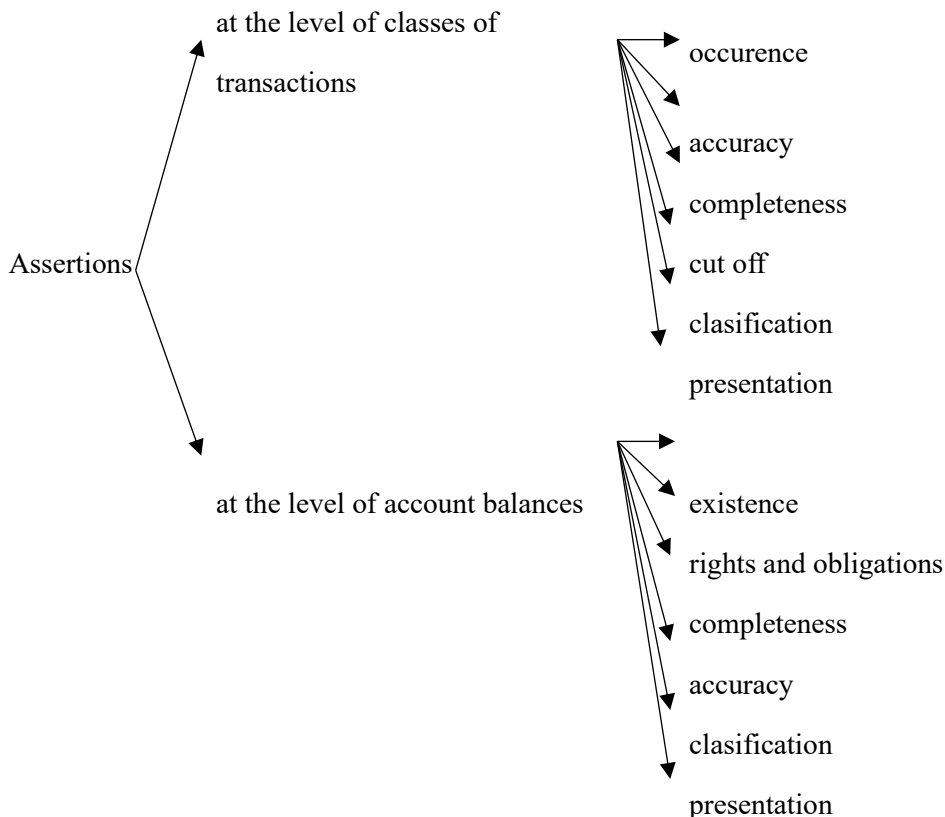
<ul style="list-style-type: none"><li>• The assertion regarding validity (timeliness) refers to all transactions and events that must be recorded in the accounting records of the public interest entity during the period in which they occurred, while complying with the applicable accounting principles and rules.</li><li>• The fairness assertion focuses on the objective presentation of financial and accounting information, without distortion or subjectivity.</li></ul>	<b>VS.</b>	<p>users of financial and accounting information.</p> <ul style="list-style-type: none"><li>• Corporate governance should provide a solid framework comprising an active audit committee and a responsible board of directors that could strengthen confidence in the accounting truth promoted through the financial statements of public interest entities, which is not the case at national level.</li></ul>
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Source: author's own conception

If we take a look at another approach, the set of assertions and reflections on accounting truth is considered to be interdependent, as follows: accuracy vs. integrity – requires that financial and accounting information be accurate and fairly reflect the transactions and economic operations of the public interest entity; relevance vs. materiality – requires that financial and accounting information be relevant on the one hand and have the capacity to influence managerial decisions on the other; completeness vs. exhaustiveness refers to the fact that financial statements must provide a complete picture of the public interest entity without material omissions; consistency vs. consistency attributes consistency over time and compliance with the applicable accounting framework to financial and accounting information; transparency vs. communication requires that financial and accounting information be subject to open communication so as to express its essentiality in constructing accounting truth; Supervision and regulation show the ongoing need for adequate monitoring and regulation of financial and accounting information in the application and compliance with accounting standards to avoid manipulation of such information according to various interests; Independent examination is the attribute of financial auditing that directly contributes to strengthening confidence in accounting accuracy by confirming or identifying deficiencies and risks associated with financial and accounting information. Governance responsibility for preparing and presenting the financial statements of public interest entities in accordance with accounting and ethical standards. Commitment to integrity unequivocally maintains confidence in accounting accuracy, with public interest entities required to demonstrate an ongoing commitment to integrity and ethics in all financial and accounting activities. dependence on financial auditing stems from the fact that financial auditing plays a decisive role in confirming the accuracy and credibility of financial and accounting information.

According to ISA 500 (IAASB - IFAC, 2018), assertions are statements contained in annual financial statements and are structured into three main categories, as follows (Table 2.):

Tabel 2. Assertions according to ISA 500



Source: author's own conception

An applied exposure regarding the assertions to be tested at public interest entities also focuses on the financial audit of fixed assets whose recognition was carried out in accordance with the provisions of M.F.P. Order no. 2844 of December 12, 2016, which specifies that fixed assets represent resources that will generate economic benefits in the future and are recorded in accordance with IFRS standards, including intangible and tangible fixed assets, assets in the process of procurement or execution, productive biological assets, rights to use leased assets, and financial fixed assets. The risk factors associated with tangible fixed assets arise from: technological advances in the sector of activity of the public interest entity under review, leading to the obsolescence of fixed assets; the closure of a sector of activity of the entity requires the valuation of fixed assets at net realizable value, if this is lower than the initial cost; estimating the economic life for depreciation purposes can be difficult, which can lead to overvaluation or undervaluation

of the value of fixed assets; the risk of holding blocked and unused fixed assets, generating uncertainty regarding their future use; fixed assets in progress that can be sold at significant amounts, but whose completion date is uncertain; capitalization of costs associated with assets produced in-house, with impediments in calculating the associated costs; movable fixed assets, which have high values and present significant risks of loss, theft, or damage. The completeness of tangible/intangible assets, for example, is tested by setting the objective of ensuring that all tangible and intangible assets have been included and presented in the financial statements. Thus, misstatement arises from: discrepancies between accounting records and operational records, which creates increased risk at the entity level due to the fact that it does not have an integrated record-keeping system, and the reconciliation between the two records, namely accounting and operational, is performed using outdated methods where human error is almost uncontrollable.

#### *4.3. Possibilities for achieving accounting truth/accuracy*

The writer Luigi Pirandello answered the question "Is there such a thing as accounting truth?" in his own style, namely, "To each his own truth." Given that for different social protagonists the truth can be presented in financial statements according to their interests, we consider that the truth for producers of financial and accounting information is a balance between compliance with fundamental rules and principles and sincerity, and for users of information it is the result of a compromise between requirements and expectations. In order to enlighten ourselves regarding the "Table of Contents of Accounting Freedoms," we present the following classification for the sake of accounting truth:

- ✚ permitted accounting policies – which are represented by the options for applying basic treatment and alternative treatments;
- ✚ accounting assessment – which involves possibilities for preferential application, as follows:
  - application of the asset impairment test;
  - application of the revaluation of fixed assets;
  - application of changes in inventory valuation methods;
  - application of subjective valuation of intangible assets and financial securities;
  - application of changes in the rate of depreciation;
  - applying flexible accounting policies with regard to the creation of provisions;
  - applying internal prices for the disposal of assets and prices for disposal between subsidiaries of the same group;
- ✚ postponing actual transactions resulting in the manipulation of accounts;
- ✚ recording large differences between the purchase price and the book value on the basis of the undervaluation of the acquired asset and charging the differences to reserves;

- ✚ applying "lease-back" operations by selling an asset and immediately leasing it back from the purchasing company. This improves cash flow, reduces the debt ratio, and increases profits;
- ✚ reducing losses recorded on receivables by taking out insurance, which leads to an improvement in the result equal to the difference between the insurance premium paid and the amount of the impairment of the receivable.
- ✚ operating a "de facto debt write-off" consisting of transferring assets to another economic entity, together with debt management.
- ✚ Prudent and aggressive accounting treatments with regard to income and expenses, thus creating a performance calculated according to interest/desire;
- ✚ Accounting treatments for increases and decreases in value due to uncertainty and risk, aggressive and conservative or through hedge accounting;
- ✚ accounting options and freedoms regarding capital maintenance through:
  - maintaining the nominal value of financial capital by recovering historical cost,
  - valuation bases,
  - time value of money;
- ✚ accounting freedoms in the delicate relationship between taxation and accounting, as follows:
  - commercial accounting versus tax accounting;
  - financial accounting versus business accounting;
  - management accounting versus cost accounting;
- ✚ multiplication and diversification of accounting freedoms regarding the presentation of information, analysis, and interpretation of general-purpose financial statements.
- ✚ analysis of forecast and interim information.

Freedom and compliance represent an equation of relevance and credibility in financial statements. Relevance is characterized by the provision of predictive and retrospective knowledge necessary for making effective economic decisions regarding the performance and financial position of an economic entity, while credibility is characterized by obtaining financial information that is free from material misstatement, unbiased, and in which users can have confidence that it represents a true and fair view as reasonably expected by them. When relevance and credibility exist, the following question stubbornly arises: is accounting capable of conveying truth and an objective message? To answer this question, the literature reveals several assessments, including the following: French professor A. Cibert states that *there are as many truths as there are recipients of information and that, to the extent that it excludes quality, the reductive effect of each measurement is inevitable, while P. Lasseque, B. Colasse, and D. Boussard admit that the truth told by accounting is nothing more than a filter that allows for the understanding of a reality. However, due to its internal consistency, which gives it both strength and weakness, accounting allows us to arrive at a formal truth based on a few postulates, conventions, norms, and classification rules.* From another perspective, the equation of freedom and conformity in

standardized/regulated accounting, with reference to IAS 1, Presentation of Financial Statements, can be expressed as shown in Figure 2:

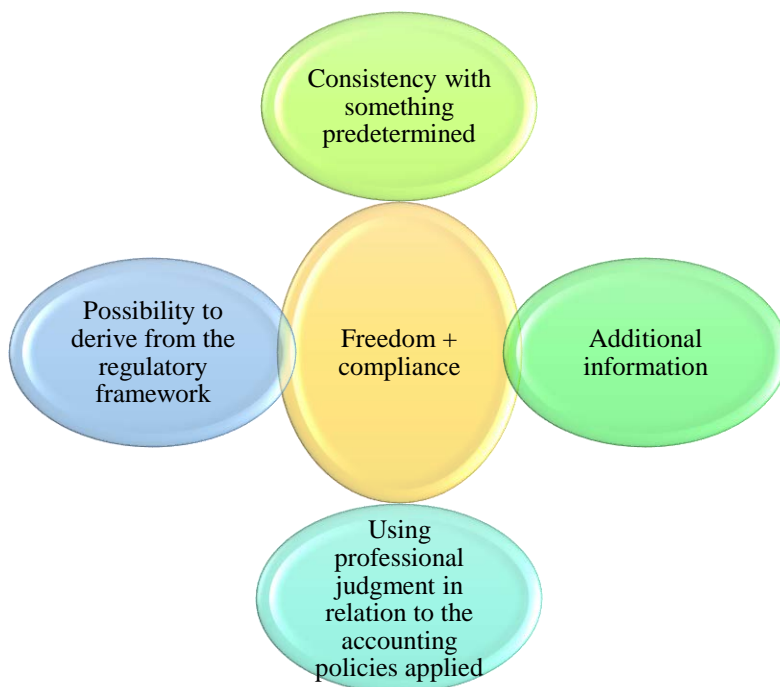


Figura 2. Freedom and compliance equation  
Source: author's conception

It should be noted that economic entities that prepare financial statements in accordance with IFRS must submit a statement in the explanatory notes regarding this compliance and, on the other hand, if they issue this statement, they must comply with all IFRS provisions. Practice has shown that in almost all cases, entities applying IFRSs present their financial statements fairly. However, an economic entity cannot justify the application of inappropriate accounting policies through notes or explanatory materials. However, in very rare cases, when the entity considers that compliance with a provision of an IFRS would be so misleading that it would conflict with the objective of financial statements set out in the Framework, it may depart from that requirement if the relevant regulatory framework does not otherwise prohibit or require such a departure (interpretation from IAS 1 Presentation of Financial Statements). The choice of accounting methods and freedom in formulating accounting policies specific to the entity's business, although viewed positively by practitioners and managers, can be a source of controversy in determining accounting truth because it has been found that the use of different methods leads to different results. For this case, the IASB recognized that to ensure harmonization, it is necessary to reduce the

possibility of using permitted alternative treatments. In exercising professional judgment, accountants and managers should consider applying the following sources:

1. guidance in standards and interpretations that deal with related or similar issues;
2. definitions, recognition criteria, and measurement concepts in the Framework for Assets, Liabilities, and Financial Statements.

In exercising the judgment presented, accountants may consider accepted practices in the field and the latest standards issued by other standard-setting bodies that use a similar conceptual framework, to the extent that they do not conflict with specific standards. We note that entities must select and apply accounting policies consistently. At the same time, we recognize that accountability and transparency are essential where freedom and compliance apply in the selection and application of accounting policies. Professional judgment is an integral part of the preparation of financial statements. All accounting professionals, including auditors, are required to use professional judgment in their work. The rules that can be derived from the need for uniformity and certainty in financial statements are:

1. rules established within the economic entity that lead to the uniform application of specific accounting policies;
2. rules established by an auditor/audit firm specific to the country in which they are applied;
3. rules established by governments and regulatory bodies with a view to standardizing them globally.

Accountants are always in the middle of this triangle of rules; in practice, they are the ones who apply their own reasoning, evaluate the reasoning of managers, and will be judged by information users (investors, the public, control bodies). To ensure uniform application of standards, professional accountants take on the challenge and implementation procedures. Accounting specialists do not have an easy life with the rules and will have to work with principles. It should be noted that the I.A.S.B. is the body that sets standards in an appropriate manner, and this is done on the basis of professional judgment. However, we believe that the attempt to classify accounting into rule-based accounting (regulations and norms) and principle-based accounting is unfounded. Opposing these two types of accounting means denying the formalism of the accounting information system. Accounting must be both constructive and normative, and if we doubt it, the only solution left is to switch from accrual accounting to cash accounting.

##### **5. From accounting accuracy to the quality of financial accounting information between uncertainty and ambiguity.**

The evolution of the quality of Romanian financial and accounting information can be analysed in correlation with the national historical context and developments in the field of accounting at the international level. On the one hand, economic relations within entities have become increasingly complex in recent years, and on the other hand, international

openness has multiplied the number of interactions between different economic entities. The paradigm regarding the global worldview has brought about changes in the political, economic and cultural environment and has accelerated the phenomenon of globalization and computerization in recent years, which has led to substantial changes in the need to obtain high-quality financial and accounting information without ambiguity and uncertainty. In this sense, the transparency of financial information and unrestricted access to reliable and timely information is essential for making decisions in conditions of performance within the environment in which an entity operates. In other words, from an economic point of view, transparency is a recognised attribute regarding the availability of relevant and reliable financial and accounting information on financial position, performance, investment opportunities and governance. The information policy is inseparable from the entity's overall communication policy and the need to convey clear, reliable, and concise information is an essential requirement of management policy. The quality of financial and accounting information is influenced by the following factors (Figure 3.):

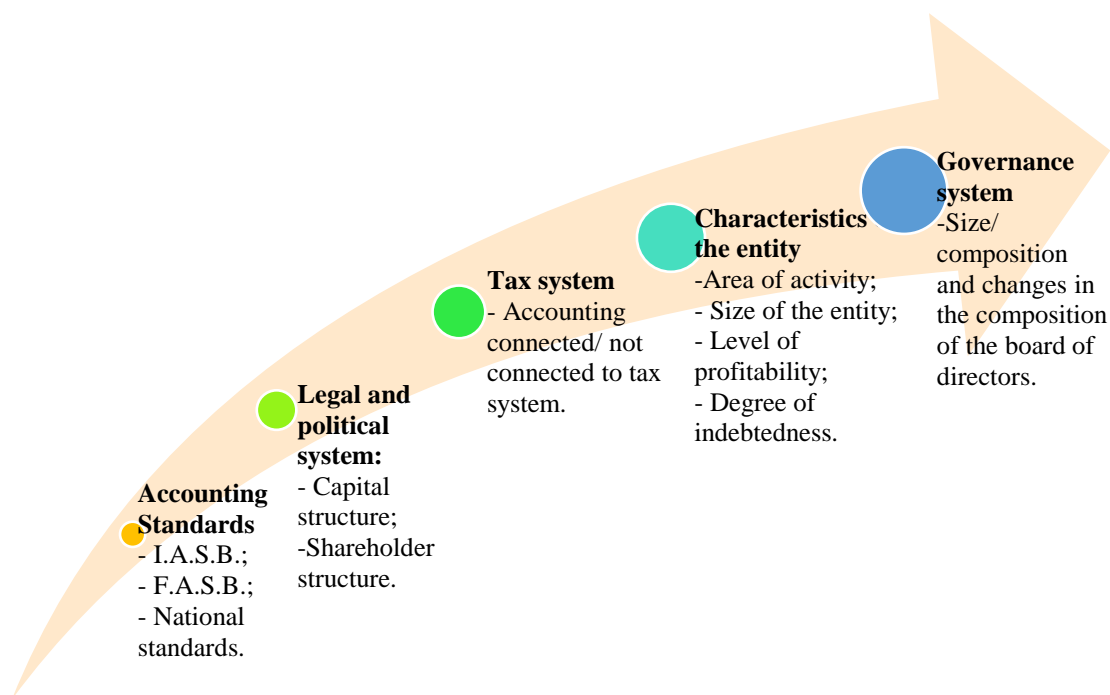


Figure 3. Factors that influence the quality of financial and accounting information

Source: author's own work based on Soderstrom and Sun, 2007 p. 688 [3]; Dechow, Ge and Schrand 2010 [4]

The preparation and presentation of an entity's financial statements in accordance with IFRS is governed by accounting rules and principles designed primarily to reduce the uncertainty affecting the measurement of income and financial conditions. For this reason, financial and accounting managers may choose the most appropriate methods for accounting for transactions according to the specific nature of the entity. This option allows accountants to create discretionary space to model financial statements without violating accounting rules. Being subordinate to the objectives of financial communication and managerial behaviour, these choices characterise the entity's accounting policy and, on the other hand, depending on their nature, mandatory or voluntary, this information is used in the communication process as necessary. While mandatory information must strictly comply with presentation rules and be verified by auditors, voluntary information enjoys a greater degree of freedom. Since these two categories of information do not correspond to the same needs, we can question the quality of periodic financial publications in managing accounting results and the role of the level of disclosure. Thus, some authors appreciate that "The issue of financial reporting quality has attracted the interest of several researchers whose opinions converge towards the idea that it can be influenced both by factors related to the company's internal environment, the corporate governance system, the activity of auditors, as well as macroeconomic factors, such as the legal and political system of a country or community or certain accounting/tax policies" (Ciocan C. Carp M. Georgescu I.) [5].

## **6. Financial and accounting information between a true and fair view and validation through financial audit.**

The most important quality that financial and accounting information must have, is a true and fair view, which is in fact the result it must achieve. According to Article 23 of the implementing regulation of Accounting Law No. 82 of December 24, 1991, financial statements must present a true, clear, and complete picture of the economic reality of an entity.

### *6.1. Fair presentation - fundamental objective of accounting: conceptual elements, interpretations*

The presentation of financial statements in accordance with the "fair presentation" principle is imperative; it is more than a guiding principle, and all accounting rules and principles shall be subordinate to this meta-principle, although it enjoys a certain degree of ambiguity. In Romania, in theory, this concept has been perceived as ambiguous due to subjective considerations related to the technical accounting mentality, but also due to some objective considerations related to the regulation of accounting law. Thus, the ambiguity denounced by the concept of a true and fair view stems from a double subjective consideration, namely: the view is provided by its producers and is intended for information users, who are most often different persons and faithfulness implies the provision of complete information, but without being limited to this criterion of exhaustiveness (which can be considered an

element of the principle of sincerity), clear, intelligible, easy to use (without losing relevance). The faithfulness of information also implies that its producers take into account external recipients and are objective. A faithful image can be represented by the phrase "an image that can be trusted," because the idea has been established that there can be several faithful images without representing an exact copy of reality. In continental Europe, accounting rules did not refer to "faithfulness" or "loyalty" in terms of accounting information because, based on a practice and doctrine that reflected economic reality accurately, accounting was considered a tool of precision, subject to proof of falsehood, and the notion of "fidelity" brought with it a shadow of uncertainty. The definition of "true and fair view" has never been given in continental accounting law. The concept of the objective of a true and fair view of financial statements was borrowed from the British, through the Fourth Directive of July 25, 1978. Although four decades have passed since the true and fair view was proposed through the Fourth Directive, there is still no universally accepted definition to this day. Moreover, each member state of the European Union, based on the prescriptive nature of European Directives, has adopted and adapted this concept in national accounting regulations, taking into account its own needs, thus managing to impose a concept foreign to its own culture. In the specialized literature, we found the existence of more or less conflicting situations between the objective of a true and fair view and certain accounting principles, the most significant of which are those concerning the effect of pessimism associated with the principle of prudence and the controversies regarding the effect of valuing items in financial statements based on historical cost to the detriment of current values. The late Professor Nicolae Feleagă argued that prudence is a complement to a true and fair view and implies not presenting an overly favorable view, nor ignoring events or facts that could have an impact on future financial situations. This reference is particularly important because it allows us to avoid deviating from the principle of prudence, namely: it is not a question of the producer of accounting information behaving "prudently" in order to protect himself, but rather of protecting the user of the information, in the sense that the latter should not base his analyses on an overvalued patrimony.

## *6.2. Fair presentation – subject of reporting in financial auditing*

Fair presentation is a qualitative criterion of standardization, being both a flexible concept, when it represents the starting point for possible developments in regulation, and a stable concept, when it supports accounting regulation. Fair presentation is the condition established for information to be credible. Financial statements are prepared in accordance with the requirements of the general accounting framework, and the accountant must ensure that the financial statements present a fair view of the entity. According to IAS 1, financial statements must present a true and fair view of the financial position and results, thus providing information to all categories of users. The concept of a true and fair view has been incorporated into European regulations through Directive IV, which sets out the requirements for the preparation of financial statements. In order to achieve a true and fair

view of the financial statements, the Directive allowed for the disclosure of information in addition to that required by the regulations, as well as the inclusion of exemptions, provided that these are presented in the notes and their impact on the financial statements is disclosed. The standardization of the concept of a true and fair view was achieved with the harmonization of International Accounting Standards with European Directives. Following the French model, Romania adopted the faithful image by adopting the principles of sincerity and compliance with the rules. The fundamental objective of the accounting informational system is the presentation of the faithful image of an entity's patrimony. Anglo-Saxon accounting uses the notion of the principle of sincerity, while continental accounting uses the notion of faithful image, which can be represented by the formula: Faithful image = regularity + sincerity. The difference between these principles is similar to that between the spirit and the letter of the law. Sincerity rather addresses complex operations that also involve professional judgment, therefore reflecting a degree of subjectivism and cannot be regulated in detail, while regularity addresses simple, repetitive operations that can be regulated and formalized in the smallest details. "Although today the faithful image seems to be a common denominator of all accounting systems in the European Union (and not only), the significance of the concept, but especially the way of application, still creates significant differences. Nevertheless, one can speak about the existence of a common core of the concept throughout the entire European Union." (Liliana Feleagă, Niculae Feleagă, 2007, [6]). There are many controversies created around the faithful image; the Anglo-Saxon world considers that it is an evolutionary process that cannot be "frozen by the will of the legislator or by the letter of a standard. In this context, the legal norm, a product of the faithful image, becomes a rule of life, and not a dead principle, without spirit." (Liliana Feleagă, Niculae Feleagă, 2007, [6]).

In a comparative table (Table 3), the fair presentation, according to IAS 1, the General Framework, and Directive IV, is as follows:

Table 3. The fair presentation, according to IAS 1, the General Framework, and Directive IV

I.A.S. 1	General Framework	Directive IV
1. The information presented must be reliable, relevant, comparable, and understandable. 2. It requires the accurate representation of transactions in accordance with the provisions set out in the general framework.	1. It is a qualitative characteristic of financial information. 2. The application of professional	Assets, liabilities, financial position, profit or loss must be accurately reflected in the accounts.

<p>3. Complying with IAS requirements ensures that a true and fair view is always achieved, as obtaining a fair presentation requires:</p> <ul style="list-style-type: none"> <li>- identifying and applying an accounting policy that ensures compliance with accounting standards;</li> <li>- the form of presentation of all accounting information should ensure credibility, relevance, comparability, and understandability;</li> <li>- when the requirements of the standards are insufficient, additional information should be provided to clarify the impact of those transactions on the financial position and results.</li> </ul>	<p>judgment needs to ensure a true and fair view in the presentation of financial statements.</p>	<p>The balance sheet, profit and loss account, and annual report forms and the minimum content of the notes are mandatorily provided.</p>
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Source: author's own work

In order to ensure a justified, independent and competent opinion on the faithful image reflected in the financial statements, statutory audit must ensure the observance of the following criteria: 1. the criterion of correct presentation and recording in accounting based on the use of accounts; 2. the criterion of the reality of the recordings. In this case, the auditor must verify whether all transaction records are verifiable and correct and whether all transactions belong to the entity. In this case, the expression, in equivalent terms, that auditors insert in audit reports when expressing an opinion is that the financial statements “*present, in all significant aspects*” or “*the financial statements provide a faithful image.*”

### 6.3. *Does the faithful image reflect the truth in accounting?*

The recommendations of the regulatory body of the American accounting profession promote the idea of the credibility of financial statements through the faithful presentation of financial–accounting information, in accordance with Generally Accepted Accounting Principles (GAAP – Figure 4), the essential framework for establishing the rules and guidelines in the preparation of financial statements in the United States of America. These two definitions are often criticized because the attainment of accounting truth cannot be linked to compliance with rules or generally accepted principles, that is, to a framework resulting from standardization, but rather to human will at a certain moment.

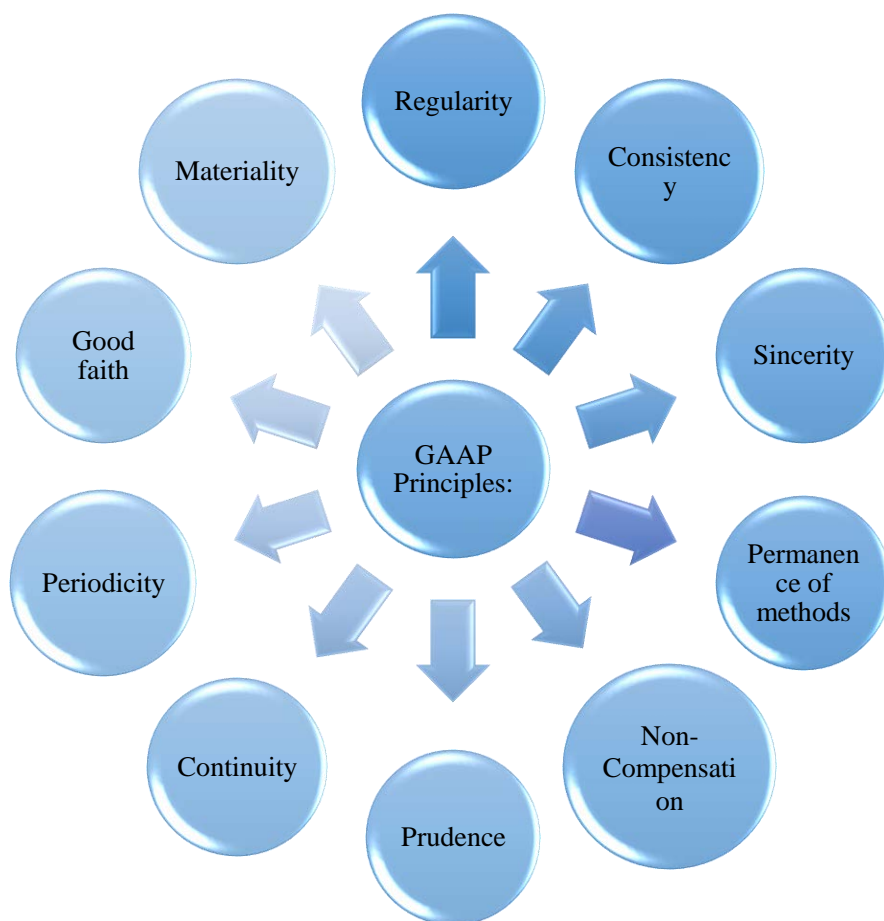


Figure 4. – The GAAP principles

Source: author's own work based on < <https://www.accounting.com/resources/gAAP/> >

Another approach to the faithful image, which in our opinion responds to the requirements of scientific truth, is characterized by completeness, being identified in the Anglo-Saxon treatment according to which sincerity and fidelity are the pillar components of fidelity. Sincerity is considered only one of the stages in the search for an authentic representation of the public interest entity, thus satisfying the requirements of fidelity in the conceptual sense, since reality may be insufficient when encountered in an unfavorable context. Thus, fidelity is not limited only to the description of reality, but also includes its sincere presentation, especially since, in Anglo-Saxon accounting, the professional judgment of the accountant is prioritized as an element capable of building credibility in accounting, the accountant being endowed with sincerity and especially with fidelity, but not least with professionalism. Therefore, we can conclude that in the Anglo-Saxon conception, a faithful image must be and is considered to be the truth in the field of accounting. The specialized literature emphasizes that “standardization contributes essentially to the presentation of

accounting truth, constrains the behavior of the management of public interest entities, and ensures the comparability of data in space and time. However, standardization cannot be perfect, and this is a fact that the management of entities may exploit in order to manipulate the information used in the preparation of financial reporting” (Țurcanu & Golocialova, 2016) [7].

## **7. From accounting truth and faithful image to the role and relevance of financial audit in the economic environment**

### *7.1. Financial audit – a relevant factor in confirming accounting truth and validating the faithful image in the accounting of the public interest entity*

Major financial scandals have, for the most part, originated in a distorted representation of reality through the generalization of error and fraud, or through their concealment. As long as the faithful image is not based on the principles of objectivity, correctness and transparency, the accounting profession will suffer, and the social role of accounting will not serve common interests, but compromise in favor of some. If financial–accounting information is not the result of ethical conduct and compliance with standards, the truth is manipulated, inducing a false perception among the users of that information and especially among investors. Accounting truth constitutes the watchword of financial audit and corporate management, the latter obviously being the most interested in its manifestation considering that corporate governance applied at the level of a public interest entity is focused on increasing transparency and “improving the quality of the information presented publicly by them, through the implementation of corporate governance principles for public enterprises,” as specified in art. 1, para. (1) of Emergency Ordinance no. 109 of 30 November 2011. Specialized literature considers accounting to function as both an information system and a control instrument at the same time, fulfilling its functions according to the requirements of the Accounting Law and the applicable regulations in force. Thus, through the use of double-entry recording and the system of accounting accounts, the activity of the public interest entity can be modeled, and the final result is materialized in the set of financial statements dedicated to satisfying the requirements of all users. Standardization has a major role in promoting accounting truth, influencing the behavior of those responsible for governance at the entity level, while also ensuring the comparability of data in time and space. Nevertheless, we could say that standardization cannot be perfect, and this can be exploited by those responsible for governance in order to manipulate financial–accounting information.

According to European and national regulations, the financial–accounting information processed through the accounting system of the public interest entity and presented in its financial statements is characterized by credibility if it is verified by financial auditors, thus increasing its value for the direct users of this information, and after auditors confirm the correctness of the financial–accounting information, it can be concluded that it may be used for making correct decisions or, in other words, it can certify accounting truth.

Presenting the accounting reality also involves disclosing its assurance factors, as can be seen in Figure 5.

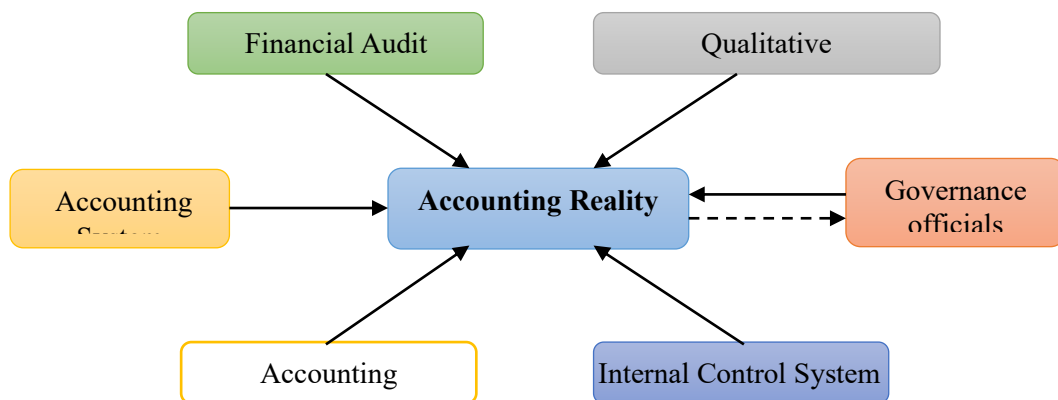


Figure 5. – Accounting reality factors

Source: author's conception

A distinctive feature of accounting is that in this field the human being is both object and subject, accounting truth being a concept that remains valid as long as the conditions that validated it remain the same, while also showing that in accounting there is not a single representation of the same reality. Thus, in the context of the present scientific approach, accounting standardization represents a pillar factor of accounting, fulfilling a series of functions, such as: “contributes to obtaining financial information; creates a climate of trust in the information presented by the entity; ensures the verification of financial information, both through internal and external control; allows the arbitration of possible conflicts between the contracting parties; makes possible the comparison in space and time of the data presented in the financial statements” (Țurcanu & Golocialova, 2016) [7].

In our opinion, due to its nature, truth represents the abstract interpretation of certain phenomena, processes and concrete realities, a fact that determines the reality captured by accounting as a form of truth through which the public interest entity exposes its own identity, considering both its present and future interests. Although audit and accounting aim to identify and validate an accounting truth, it is the result of the human cognitive process and cannot be considered absolute. Thus, we consider that accounting truth, regardless of its level of fidelity, represents the consequence of an investigation which, to a certain extent, always brings to attention an element specific to subjectivism.

*7.2. The role and relevance of financial audit in the public entity: the credibility of financial–accounting information and the degree of trust for users*

*Financial audit plays an essential role in the economic environment by providing credibility to financial–accounting information and strengthening the degree of trust for the users of this information. At the same time, the relevance of financial audit in Romania is of particular interest for several reasons, among which we mention: compliance with specific legal regulations: financial audit is mandatory for certain entities in accordance with Romanian legislation, as well as with the regulations of the European Union. It ensures compliance with accounting standards and other legal requirements regarding the preparation and presentation of financial statements; protection of stakeholders: financial audit is essential for protecting the interests of stakeholders, such as investors, creditors and other entities, ensuring that the financial information provided is correct, complete and credible, a favorable context for increasing trust in the business environment in Romania and at the same time for attracting investments; supporting the decision-making process: reliable and verifiable financial information guaranteed by financial audit is vital for the decision-making process of corporate management, investors and other stakeholders. This information contributes to the evaluation of the financial performance of a public interest entity, as well as to making informed decisions regarding investments, financing and other aspects of the business; detection and prevention of fraud and errors: financial audit plays an important role in detecting and preventing fraud, as well as errors in the financial statements of public interest entities, for which purpose financial auditors perform detailed audit procedures to identify possible anomalies and deviations from accounting practices, but also to report these issues in a timely manner; promoting transparency and good corporate governance practices: financial audit contributes to promoting transparency and good corporate governance practices within public interest entities in Romania. It ensures that internal control and reporting procedures are adequate and efficient, which increases the confidence of users of financial information.*

**Therefore, in our opinion**, the relevance of financial audit in Romania is vital for ensuring legal compliance, protecting the interests of stakeholders, supporting the decision-making process, detecting and preventing fraud, as well as promoting transparency and good corporate governance practices in the Romanian economic environment.

The main elements of the role and importance of auditing are shown in Figure 6.

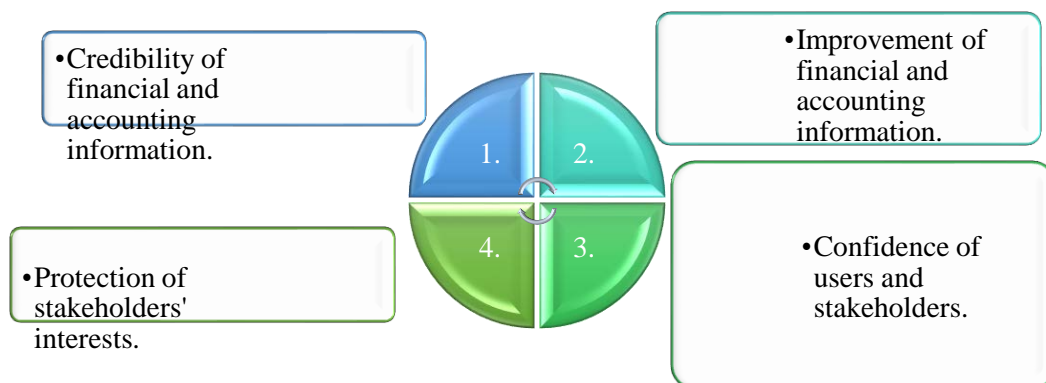


Figure 6. The main elements of the role and importance of auditing

Source: author's conception

The credibility of financial–accounting information: financial audit provides an independent and objective evaluation of the financial statements of a public interest entity, thus adding credibility to the financial–accounting information provided by that entity, confirming that it is correct, complete and compliant with the applicable accounting standards. Improvement of the quality of financial–accounting information: through the careful examination of transactions, accounts and other financial aspects, financial auditors contribute to the identification and correction of errors, fraud and other non-compliances, in this context enhancing the improvement of the quality of the financial–accounting information provided, while also increasing its usefulness in improving managerial decisions of an economic nature. Users’ confidence: the independent opinion issued by financial auditors provides the users of financial–accounting information with an increased degree of confidence in its accuracy and integrity. This is essential for investors, creditors, governments, regulators and other interested parties who rely on financial–accounting information to support their decisions and to evaluate the financial performance of an entity. Protection of stakeholders: financial audit contributes to protecting the interests of stakeholders, including investors and creditors, by identifying and reporting any significant problems or irregularities in the financial statements of a public interest entity, creating a favorable context for increasing the transparency and responsibility of those entities, while also protecting the financial interests of stakeholders.

Financial audit is essential in the economic environment to ensure credibility, quality and trust in the financial information provided by public interest entities. By providing an independent and objective opinion on financial statements, financial audit contributes to strengthening users’ confidence and protecting their interests in improving economic decisions. Financial audit is designed to provide independent assurance that financial statements are presented appropriately in accordance with the applicable accounting model and that the information provided is credible and relevant for the users of this information.

Therefore, the audit engagement plays a major role in promoting trust and transparency in the economic and financial environment.

*7.3. The responsibility of the financial auditor and the commitment to the imperative interest of strengthening trust in the quality of financial–accounting information*

The financial auditor is required to comply with ethical requirements, including those related to independence, within audit engagements carried out on the financial statements of the public interest entity, while also being subject to the fundamental principles promoted by IFAC, namely: integrity, objectivity, professional competence, confidentiality and, last but not least, professional behavior. At the same time, the financial auditor must approach the audit with an adequate level of professional skepticism, being aware of the possibility of material misstatement of the financial statements, paying particular attention to aspects such as: audit evidence that contradicts other audit evidence obtained; information that raises questions regarding the reliability of documents; circumstances that indicate the need for additional audit procedures beyond those required by ISA standards. Maintaining an adequate level of skepticism throughout the audit is essential in order to minimize the risk of overlooking unusual circumstances, excessive generalization in drawing conclusions from audit observations and the use of inappropriate assumptions in determining the nature, timing and extent of audit procedures, as well as in evaluating their results. Thus, professional skepticism is essential for critically evaluating audit evidence, including questioning contradictory audit evidence and assessing its adequacy. Professional judgment represents the cornerstone in conducting an appropriate audit and is essential especially in the decision-making process regarding certain aspects, among which the most relevant are: establishing the materiality threshold and managing audit risk; defining the nature, timing and extent of the audit procedures used; evaluating the extent to which adequate and sufficient audit evidence has been obtained; analyzing the correctness of the application by management of the general financial reporting framework; formulating conclusions based on the audit evidence gathered. Thus, in order to provide reasonable assurance, the auditor must collect adequate and sufficient audit evidence capable of reducing audit risk to an acceptable level, thus allowing the formulation of responsible conclusions on the basis of which to express an opinion. The financial auditor must comply with all relevant ISAs which, taken together, establish norms for the auditor's activity in fulfilling objectives, including general responsibilities, without neglecting legal requirements or national regulations, noting that ISAs do not substitute the laws or regulations governing the conduct of an audit. The financial auditor has the responsibility to express an opinion on the financial statements, being oriented toward verifying compliance with the conceptual framework of accounting, compliance with internal procedures established by those responsible for the governance of the public interest entity, but also toward verifying and certifying the fact that the financial statements faithfully, clearly and completely reflect the image of the entire financial year. Thus, *“the level of assurance of the auditor in an audit engagement must be*

*very high but not absolute, being based on the evaluation of the audit evidence collected as a result of the procedures applied”, following at least two essential aspects, namely: “1. the validity and correct application of the internal procedures approved by the management of the entity regarding the way internal control and internal audit are carried out, where applicable; 2. the faithful, sincere, clear and complete image of the transactions and other events that materialize in the assets, liabilities and equity of the entity at the reporting date, with the fulfillment of the recognition criteria.” (Munteanu & Duță & Soare, 2020) [8].*

## **8. Conclusions.**

Due to its nature, truth represents the abstract interpretation of certain phenomena, processes and concrete realities, a fact that determines the reality captured by accounting as a form of truth through which the public interest entity exposes its own identity, considering both its present and future interests. Although audit and accounting aim to identify and validate an accounting truth, it is the result of the human cognitive process and cannot be considered absolute. Thus, we consider that accounting truth, regardless of its level of fidelity, represents the consequence of an investigation which, to a certain extent, always brings to attention an element specific to subjectivism. In the current economic context, financial–accounting information plays an essential role, being situated between two fundamental concepts: the faithful image and validation through financial audit. The concept of faithful image implies the correct, clear and complete presentation of the economic reality of a public interest entity, in accordance with accounting rules and principles. On the other hand, financial audit represents the process of examining and evaluating financial statements in order to confirm whether they faithfully reflect the financial image of the entity and comply with accounting standards and legal regulations. Thus, financial–accounting information finds its balance between these two concepts, ensuring transparency, trust and compliance with standards in the field. The increase in rigor in regulating financial audit activity has led to a visible improvement in the quality of financial–accounting information made available to users, thus fulfilling the main objective of financial audit. Thus, financial audit actively participates in improving financial–accounting information in the sense of enhancing its value both from the perspective of users and in terms of satisfying the public interest. The certification of accounting truth is particularly important, but ensuring it does not fall exclusively within absolute assurance, especially because it is mainly achieved based on qualitative criteria rather than quantitative ones, which is why we can state that the assurance provided by financial audit cannot be considered absolute. The financial auditor assesses that the financial statements of the reporting public interest entity express a faithful image exclusively through the compliance of financial–accounting information with a regulatory framework, while the professional competence of the financial auditor and the auditor’s professional ethics in the explicit conduct of the audit engagement focus on expressing reasonable assurance regarding

accounting truth in full interdependence with the application of the principles of ethics, independence and objectivity.

Inaccurate information included in financial statements is considered significant when the combination of error and undetected fraud could change or influence the good-faith decision-maker who is a user of that information. Since quantifying the materiality threshold becomes a difficult task, auditors are responsible for obtaining reasonable assurance regarding compliance with this threshold, therefore imposing an obligation on the auditor to discover all insignificant errors and frauds would be unproductive. Within the audit strategy and planning, allocating time for discovering unintentional errors made by managers and employees is an important aspect. Auditors encounter a variety of misstatements that arise from actions such as calculation errors, omissions, misunderstanding or misinterpretation of accounting policies, or inaccurate recording and description of transactions. ISA 240 (IAASB - IFAC, 2018) precisely establishes the responsibility of the financial auditor in relation to the execution of the audit of financial statements in accordance with the ISAs in order to obtain reasonable assurance that they do not contain material misstatements resulting from errors or fraud. The uncontrollable risk that some material misstatements may not be detected even under conditions of properly designed planning represents an inherent limitation, and according to ISA 200 (IAASB - IFAC, 2018) the effects of inherent limitations are visibly manifested in situations of misstatements generated by the occurrence of fraud. Thus, the risk of material misstatement represents the risk manifested in the financial statements in the sense of distortion before the performance of the financial audit and may materialize in two directions, as follows: 1. at the level of the financial statements as a whole, referring to risks of material misstatement which, in turn, are strictly related to the financial statements as a whole and have a possible effect on assertions; 2. at the level of assertions (classes of transactions, account balances, presentations), these being evaluated in order to determine the nature, timing and extent of additional audit procedures necessary to obtain sufficient and appropriate audit evidence. It is entirely natural that both the responsibility and liability of the auditor should be proportional in the circumstances of maintaining a rational balance of responsibility, so that the auditor may achieve the main purpose, namely: providing certainty regarding the quality of the services offered by the auditor, without generating negative side effects through the creation of excessive pressure whose outcome may lead to the failure to achieve the intended objective. Moreover, specialized literature, but especially empirical studies, have demonstrated that excessive exposure of the auditor to liability has harmful consequences for efficiency and for the freedom of rational thinking. This may lead either to the commission of accidental errors or to the defective performance of an audit engagement. Due to their responsibility, auditors are inclined to reduce their potential liability in the case of a defective audit that does not comply with the necessary standards and norms.

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