

Using the Professional Judgment within the Financial Auditor's Profession

ADRIAN STEFAN-DUICU
Ph.D. candidate
Valahia University of Targoviste
35 Lt. Stancu Ion Street, Târgoviște, Dâmbovița
ROMANIA
stefanduicu.adrian@gmail.com

VIORICA MIRELA STEFAN-DUICU
Assistant Lecturer
Department of Finance and Accounting
“Nicolae Titulescu” University
185 Calea Văcărești, 4th District, Bucharest
ROMANIA
Ph.D. candidate
Valahia University of Targoviste
35 Lt. Stancu Ion Street, Târgoviște, Dâmbovița
ROMANIA
chirita.mirela@gmail.com

Abstract: - The audit mission comes to the aid of the big companies in solving the issues that occur in the financial statements. This paper aims to describe and synthesize the situations in which the auditor uses its professional judgment as a main instrument in the audit activity performed within a company. The professional judgment is a polyvalent concept that has implication on both the organizational level and the social, psychological, educational etc. The formation of such a judgment, even though it seems a flexible one, it needs accuracy and a perfect practice as a starting point.

Key-Words: - professional judgment, auditor, international accounting standards, decision making, financial statements.

1. Introduction

The audit has the mission to coordinate and to reach every phase prior to the issue of the audit opinion. In the situation in which the regulations applied, used law codes, procedures or directives do not impose a clear path for the decision process, the auditor has the option to appeal and to use his professional judgment based on the accumulated experience in practice and on his own qualities.

The research methods that can be used in practice are analysis, synthesis, and interpretation along with the statistical workings over the gathered information.

2. The auditor as a practitioner of the professional judgment

The International Audit Standard highlights the audit in the manner of an increase of confidence of the practitioners in the financial statements that are the subject of auditing, therefore the auditor will issue, at the end of the audit mission, an opinion based on the full testing of the financial statements under all significant aspects.

The regulations that guide the auditor's activity do not have an absolute character but represent a general picture, without taking into consideration the particular aspects and situations.

“It is the purpose of the professional to act in the virtues of the professional judgment in order to solve the particular issues of every entity, not stated in the professional standards” (Popa et al., 2012).

The professional judgment used by the auditor in the process of planning and conducting the audit mission over the financial statements is founded on the vast experience in the audit field and his ability to correctly interpret the ethical provisions and those stated in the ISA's (International Standards of Auditing).

We have centralized the regulations that refer to the professional judgment within the audit activity as follows:

National regulations	Number of mentions of the "professional judgment"
Ministry of Finance – Act dated 09/12/2003 Published in Official Monitor, part I no. 929 dated 23/12/2003 regarding the Ethic Code of the fiscal control inspector.	1
Ministry of Finance – Minimal internal audit note dated 21/09/2000 Published in Official Monitor , part I no. 480 dated 02/10/2000	7
The Chamber of Financial Auditors – Decision no 274/2011 dated 15/12/2011, Published in Official Monitor, part I no. 86 dated 02/02/2012 regarding the modification and completion of the Council of the Chamber of Financial Auditor of Romania's Decision no. 182/2010 regarding the approval of the procedures regarding the revision of the activity of the financial audit conducted by the financial auditors.	1
The Chamber of Financial Auditors – Decision no 73/2006 dated 20/09/2006 Published in Official Monitor, part I no 909 dated 08/11/2006 regarding the approval of the quality control procedures of the financial audit activity and related services.	6
The Chamber of Financial Auditors - Rule dated 19/01/2005 Updated version as of 08/08/2007 regarding the professional practice internship period for financial audit activity.	1
The Chamber of Financial Auditors - Rule dated 26/02/2003 Updated version as of 15/03/2006 regarding the professional practice internship period for financial audit activity.	1
	TOTAL 55

Source: Processed by the authors

The professional judgment issued is a result the competent application of the accounting principles and it is necessary in the audit especially in the decisional process that implies:

- The evaluation of the audit risk and settlement of the materiality threshold of the identification of the significant misstatements (example: the inappropriate description of the accounting policies that can mislead a user of the financial statement ISA 320; the overstatement of assets by not properly recognize and record allowances and provisions etc.).

The audit risk refers to the auditor risk to issue an inappropriate opinion in the existence of material misstatements in the financial statements.

When we take into consideration the nature of risks, the auditor takes into consideration a series of aspects, among which:

- If there is a fraud risk;
- If the risk is related to recent evolution of significant economic nature, accounting of other nature and therefore needs a special attention;
- The complexity of transactions;
- If the risk implies significant transactions with related parties;
- The subjectivity level used in the evaluation of the financial information related to the risk, especially the ones that involve a wider uncertainty interval in the evaluation;
- If the risk implies significant transactions outside the normal course of the activity that seem unusual in other ways (ISA 315).

- Conditions related to nature, time and duration of the audit procedures used in order to comply with the provisions of the international standards and in order to collect audit evidence (ISA 200).

The auditor carries, based on his professional judgment, a series of procedures needed to collect the audit evidence. The audit evidence needs to fulfill two conditions regarding the sufficiency and suitability. Sufficiency refers to the amount of evidence needed and at the quality of the evidence (ISA 540):

- the verification of the audit evidence and procedures performed in order to achieve the general objectives of the auditor established within ISA's (ISA 501);
- the evaluation of the reasonableness level of accounting estimates performed by the management in the preparation of the financial statements and the evaluation of appropriateness of the accounting principles used;
- issuing the conclusions based on the audit evidence obtained.

The issuance of the audit report that will contain the audit evidence designates the existence or the inexistence of significant misstatements in the financial statements.

Expressing this opinion represents a demarche of the whole audit process carried as consequence of using the professional judgment.

3. Conclusions

“Using the professional judgment is a result of the relative nature of the audit. The necessity of the professional judgment becomes natural consequence on one side of the over general character of the regulations that stand as basis for the audit missions, and on the other side due to the reasonable insurance provided by the auditor for the users of the financial statements” (Popa, Tiron & Span, 2012).

When talking about the known character elements, but not stated in the usual regulations, the auditor uses the professional judgment based on prior situations in which he was in the positions of taking various decisions in similar cases.

The foreignness elements can put the auditor in difficulty by bringing him in the situation to use the professional judgment in order to orient the audit process on the normal path towards a positive finality. The professional judgment of the auditor is based on his intellectual abilities, his experience, on the auxiliary mechanisms of informing, on the interdisciplinary of elements in other domains and on the inductive and deductive capacities he owns.

References:

- [1] Popa, Irimie Emil, et al. "Considerații privind exercitarea raționamentului profesional în cadrul standardelor internaționale de audit." *Audit Financiar* 10.92 (2012).
- [2] Popa I. E., Tiron Tudor A., Șpan G. A. (2012), Rationamentul profesional-factor determinant în creșterea calității misiunilor de asigurare, *Revista „Audit Financiar”* nr. 2, pp. 34-40.
- [3] International Standard on Auditing ISA 320 - Materiality in planning and performing an audit.
- [4] International Standard on Auditing ISA 315 - Identifying and assessing the risks of material Misstatement through understanding the entity and its environment.
- [5] International Standard on Auditing ISA 200 Overall objectives of the independent auditor and the conduct of an audit in accordance with international standards on auditing.
- [6] International Standard on Auditing ISA 540 Auditing accounting estimates, including fair value accounting estimates, and related disclosures.
- [7] International Standard on Auditing ISA 501 Audit evidence—specific considerations for selected items.