

THE AUDIT OF FINANCIAL SITUATIONS – PARTICULARITIES OF THE CONTROL OF THE LEVY AND TAX ACCOUNTS

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Abstract

The financial situations of an enterprise represent the main source of data and information meant to satisfy the needs of a large variety of users, because they are among the few documents which are made public. Financial situations represent the synthesis of all modifications which take place within the activity developed by the respective company, being the product of accountancy.

The accounting specialist deals with the production of accounting information, while the censor and the financial auditor are guaranties of the quality of this information. The financial auditor is the natural or legal person who has acquired this quality after a well established and carefully controlled procedure and who develops the activity of financial audit.

Audit appeared as a consequence of the conflict of interests between those who prepare the accounting information and its users, who can determine a distortion of the information and reduce the credibility. The audit's necessity refers to the fact that managers, as well as shareholders, wish an increased credibility of the firm's financial situations.

Key words: audit, levies and taxes, financial situations

JEL Classification: M41, M42

1. General framework of the financial audit

The organisation of accountancy for Romanian companies, imposed by the active legislation, implies the chronological and systematic recording of all financial and accounting operations. Moreover, we specify the fact that, the adaptation, publishing and retention of information regarding the financial situation, the financial performances and the treasury fluxes are necessary for the respective enterprise, but also for persons and entities from outside the company. Among those who are outside the firm and who have an interest in financial and accounting information, more important are the investors, the creditors, the clients, some public intitutions, etc.

The companies which organise a double-entry book keeping have the obligation to compile annual financial situations, according to norms and regulations which have been established by fiscal agencies. The structure of financial situations differs in terms of certain size criteria mentioned by the active regulations. Another important aspect is that the financial audit is mandatory for those companies which have a large activity and surpass certain values of some indicators, such as: the total of assets, the turnover, the average number of employees.

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Fig. no. 1 – The structure of the annual financial situations

The filing of the annual financial situations at the territorial fiscal institutions is accompanied by the administrator's report, the audit report/the report of the committee of censors and the proposition of profit distribution or of covering the accounting loss. A written statement from the persons in charge with the organisation and management of accountancy is also necessary, through which they assume the responsibility for compiling the annual financial situations and confirm that: the used accounting policies are in accordance with applicable accounting regulations, the annual financial situations offer a faithful image regarding the developed activity, the legal person develops his/her activity in conditions of continuity.

2. Aspects regarding the control of the levy and tax accounts in the audit activity

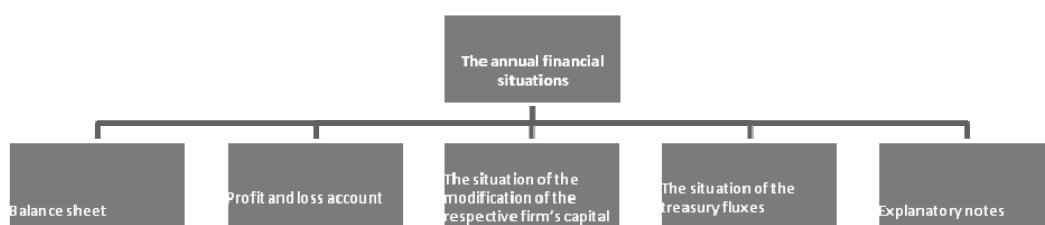
Any company has relations with the state budget and local budgets concerning the set of levies and taxes that it owes, the eventual subsidies, as well as some special funds to which it contributes. The main levies and taxes that are taken into account are the VAT, the current income tax, excises, dividend taxes, etc. The auditor's role is important in this context, because he has the mission to verify if the arrear and current debts have been correctly registered in the state budget and the special funds, debts regarding the postponed levy, as well as the possible penalties. The auditor should take into account the accomplishment of the control program, which will subsequently facilitate for him the formulation of the opinion, conclusions and propositions.

The formulation of the audit objectives should take into account the following important aspects: reality, evaluation, completeness.

- Reality refers to the fact that the sums which are owed as levies and taxes are registered accordingly, meaning that those sums are owed by the company and reflect the activity developed by the respective company.
- Evaluation means: the correct calculation of levies and taxes, the fact that the paid sums were established correctly and the possible penalties were also determined correctly.
- Completeness implies elements such as the fact that the respective levies and taxes are registered in the proper accounts, at the appropriate time and that the sums from the final sales correspond to the respective financial exercise.

Accomplishing the audit objectives depends on the manner in which the auditor manages the audit evidence. Concerning levies and taxes, the role of the auditor is to verify sales and the movements of the respective debts. Hence, the auditor should take into account several relevant phases.

Fig. no. 2 – Phases of the accomplishment of the control of levies and taxes



■ A synthetic analysis of the situation of levies and taxes

In this stage a complete analysis is realised, concerning, on the one hand, the initial sums of the levies and taxes account from the current period, which are correlated with the final sums of the same accounts from the previous period, and, on the other hand, the paid sums and the ones which will be recuperated. The analysis is recommended to be made under the form of tables, in order to have a clearer image, but also to highlight the variations of debts from one period to another, the modifications of their structure and to explain those movements which generate anomalies.

■ The situation of the levies and taxes from the previous exercise

The task of the auditor is to determine if the levies and taxes were paid in due time and in the case of certain arrear payments, he/she has to determine their causes. Another important aspect is the one regarding the recording of interest rates and the corresponding penalties.

■ Verifying the modalities in which the calculation of levies and taxes was made

All the calculations made by the company for the audited year are verified and also the sums of the reported levies and taxes. The most important documents are the ones that target buyings and active sellings, because the verification of certain

fiscal deductions is imposed or of some expenses which correspond to sales or purchases.

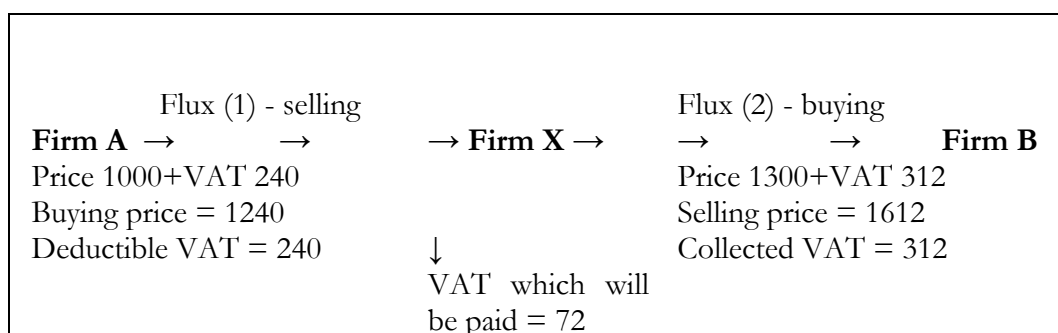
■ Fiscal reconciliations

More often than not it is useful to confirm the fairness of the income tax. Hence, the theoretical presentation of the level of the income tax is recommended and the determination of the causes which generated differences between the theoretical taxing and the one actually applied. The most obvious aspects which should be verified are the nontaxable income and expenses which cannot be deducted. The auditor should determine the manner in which the fiscal result was established and recompose it if the eventuality of the apparition of some differences is imposed.

■ VAT expense accounts – examination and possible reconciliation

For a clearer image of the VAT situation, the analysis of this tax is imposed, from the perspective of the two commercial fluxes in which it intervenes, namely the selling one and the buying one. We consider that the firm X is a buyer in relation with the firm A and a seller in relation with the firm B.

Fig. no. 3 The VAT mechanism



Source: adaptation after, L.C.G. Budacia, *Bazele contabilității*, Ed. Universitară, București, 2010, pg. 122

Avoiding penalties means an imposed fairness of the VAT expense accounts, which also imposes the correspondance between them and the book keeping. The verification of these aspects can be made through the analysis of a sample from the VAT expense account. A facilitation of the analysis can be accomplished if the verification is made under the form of tables and targets aspects such as:

✦ the declared turnover;

✦ the declared basis from the sales, purchases, cash register and the bank, as well as the advance money from clients; the accounting data registered in the declaration; the arithmetical calculations; the sum for the VAT account; the payment and the date of the transaction with the money order and the statement account;

- ✦ verifying if the sums from the collected VAT accounts and the deductible VAT are paid on the 31st of December;

- ✦ if the company asked for VAT refunds, the refund request will be verified concerning the acceptance of the funds in the statement account, the paid back sums or in process of being paid back if they were deducted from the following expense accounts.

- The correct registration of the VAT

Verifying the correct registration of the VAT which corresponds to goods or sold services is very important, because the undiscovered mistakes can generate significant debts. In this stage, the auditor combines tests concerning the entire income with those necessary for the verification of the correctness of the paid VAT, corresponding to the audited financial exercise. The final sum of the VAT, passive or active, should be tested and checked on the basis of the payment of the owed sum or of the collected sum which will be recuperated.

- The correspondence of the VAT expense accounts – company and the Ministry of Public Finances

The VAT expense accounts should be filed in time, in order for the company to avoid paying penalties. The correspondence of the VAT expense accounts between the respective firm and the Ministry of Public Finances can include notifying the obligation of paying certain penalties or interest rates or it can give notice to the company regarding the obligation to calculate the VAT for certain goods or services. No matter the subject of the correspondence, its implications should be understood, but also the establishment of remedy measures.

- The adequate presentation of the sums from the levy and tax accounts

In order to determine the correctness of levies and taxes, the auditor should check: arithmetical calculations, the application of the appropriate interest rates, the declared basis, justifying sums from the accounts from the balance sheet, the accounting allocation in the corresponding expense accounts, as well as the payment of these levies and taxes or, in the case of claims, the sums and their components.

The auditor will end the section by formulating effective conclusions of his/her work, making sure at the same time that these conclusions were read and understood and only after that signed as a sustaining act of the fact that the audit ended.

3. Conclusions

The appropriate accomplishment of the auditor's activity implies understanding the audited entity and its environment, knowing the particularities of the company, its object of activity, but also the financial – accounting organisation. Knowing this information can generate one of the auditor's following decisions: to accept the mission, in which case the decision forms vary in relation to the obtained information from the risk analysis: he/she either accepts a mandate without apparent risks or he/she accepts the mandate under an appropriate observation and special measures; he/she refuses the mission. If the auditor accepts the mission's commitment, he/she will write a letter of commitment.

Moreover, the auditor is interested in a series of risks which can disturb his/her activity; we take here into account the audit risk – the risk that the auditor expresses an audit opinion which is inappropriate when the situations are significantly deformed and the risk of them not being detected – is the risk that the auditor does not detect a deformation which exists in a statement and which can be significant, when isolated or cumulated with other deformations.

Concerning responsibility, it is important to mention the fact that managers are responsible for compiling and presenting the financial situations and not financial auditors, the latter taking responsibility only for the expressed opinion.

The services of a financial auditor have their advantages for companies, but, unfortunately, in the Romanian business environment the audit still means for many people control and they ask this service only out of obligation and not necessity. This happens because Romanian economic agents did not reach the necessary level of knowledge or did not understand sufficiently well the role and importance of financial audit in the guarantee of the quality of the information from the financial situations, in the increase of their credibility.

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