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The Role and Importance of the Financial Audit Report in the Decision-Making Process in Audited Companies

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Abstract

The financial audit report is a valuable tool for ensuring financial transparency and integrity within a company. By presenting the audit results in detail, the report contributes to creating a relationship of trust between the company and its stakeholders. By evaluating procedures and systems, auditors can identify risks and deficiencies within the company, creating the opportunity for company management to act to improve processes by effectively managing resources and achieving set goals. Starting from the premise that by presenting correct and reliable financial information, the audit report provides management and shareholders with a solid basis for making well-informed and substantiated decisions, we set out to analyze the decision-makers' perceptions of the role and importance of the financial audit for business continuity companies. The research is qualitative, as it is about the realization of a situation survey, based on a questionnaire within several companies, the respondents being their decision-makers. The conclusions of our study can be a starting point for carrying out research in the field, the issue of the reliability of the financial and accounting information presented in the financial reports remains topical, even though digitalization tends to capture the field of accounting and auditing as well, the standardization of information is one of the consequences this process.

Keywords: *financial audit, report, opinion, compliance, decision, optimization*

JEL Classification: M4, G3.

Introduction

Companies, whether small or large, resort to financial auditing to ensure the accuracy of financial data in their reports, comply with financial laws and regulations and, last but not least, to provide trust to investors and other stakeholders. Financial auditing ensures the accuracy of financial data and significantly impacts how companies are perceived and managed, with key advantages in terms of trust, compliance, and decision-making (Oprean et al., 2015).

The financial audit provides a high level of transparency on the financial activities of the company. This is essential to gain the trust of investors, customers creditors and other stakeholders. Investors are certainly more likely to invest in a company that presents financial reports verified by independent auditors.

1. Literature review

Any financial audit mission ends with an audit report that must contain a clear and coherent expression of opinion on the financial statements considered as a whole and preferably, there must be consistency in the form and content of the audit report and that is because, it contributes to improving the reader's understanding but also to identifying unusual situations in the situation in which they occur (Voinea et al., 2023).

The content of an audit report may vary considering the purpose and type of audit, but in general, an audit report contains a series of standard elements stipulated by international norms and taken up in national norms (Munteanu et al., 2020), namely:

1. Title — this distinguishes the auditor's report from other reports.

2. The addressee — most often, the report is addressed to the companies' shareholders or their management.

3. Introduction - is the opening paragraph of the report in which reference is made to the audited financial statements, the statement of accountability of management for the prepared financial statements and the statement on the fact that the auditor's responsibility is to express an opinion on the financial statements based on the audit.

The introduction section is essential in the audit report, creating the basis for understanding the later content of the report and the context in which the findings and recommendations were made. It is intended to present the context of the audit, providing essential information to understand the purpose of the audit and the specific objectives that the auditor aims to achieve.

4. Audit Methodology — the part describing how the audit mission was carried out, and what methods were used to obtain the information and evaluate the financial statements. This section provides transparency on how the data were collected, analysed and conclusions drawn, the key aspects of which are (Munteanu et al., 2020): Audit planning; Identification of risks, keeping in mind the risks relevant to the auditor; Data collection procedures; Data analysis and evaluation; Audit-specific tests and checks, if any; Aspects related to communication with representatives of the audited entity.

The audit methodology ensures that the audit process has been carried out systematically and according to the relevant standards (Law no. 162/2017). It gives the reader of the report a much clearer understanding of how the assessment was carried out and how the data and information on which the conclusions and recommendations were made were obtained.

5. Summary of findings - concise and clear presentation of the main findings and observations made during the audit to provide the reader with a faster and more synthetic understanding of the key aspects identified in the audit process, namely: the key points, i.e. the most significant aspects found; Major irregularities or problems identified; Significant risks that may affect the activity company; The impact on the company of the findings and observations mentioned.

6. Findings and recommendations — Findings and recommendations are two key elements in an audit report, bringing clarity to the identified deficiencies and providing

suggestions for improvement. They are essential to help the audited entity correct problems and improve its processes.

7. Auditor's opinion - represents a formal and professional assessment of the situation of the audited entity within the framework of an audit report. This opinion is the result of an in-depth analysis of financial information on processes and compliance with relevant standards and regulations during the audit (Law no. 162/2017).

The auditor's opinion provides insight into the correctness, accuracy and integrity of financial information or the aspects evaluated and is often a crucial component in the decision-making process for various stakeholders. The auditor's opinion can be (Voinea et al., 2023):

1. Unqualified opinion (opinion on financial information) indicates that the financial information is presented correctly and by applicable accounting standards.

2. Qualified opinion - this type of opinion signals that there are some issues or irregularities that may affect trust in financial information, but they are significant to a limited extent;

3. Negative opinion- when financial information is not presented correctly and by applicable accounting standards;

4. Withholding an opinion- this is where the auditor is unable to issue an opinion due to significant audit limitations or lack of sufficient evidence to support an opinion.

The auditor explains in detail the reasons that formed the basis of their opinion (motivation for the opinion). If there are irregularities or problems these can be explained in context, together with the causes identified during the audit (Munteanu et al, 2020).

In some cases, the auditor may include in the report a conclusion or assessment of the overall risks or effectiveness of the entity in relation to the specific audit objectives (overall conclusions). The audit report concludes with the Recommendations made by the auditor in correlation with the opinion expressed. Even if the auditor's opinion is positive, it can provide suggestions for improving the work, based on observations made during the audit (Oprean et al., 2015). Audited financial reports may be required to obtain bank loans or to be consistent with financial reporting requirements.

The financial audit helps to identify potential errors, fraud or deviations in financial management. This allows the company to identify and correct problems at an early stage, thereby reducing financial risks.

2. Methods and results

The research problem is related to the need to ensure the accuracy of the financial and accounting information presented in the financial statements, given that they form the basis for management decisions. The financial audit helps to identify potential errors, fraud or deviations in financial management. This allows the company to identify and correct problems at an early stage, thereby reducing financial risks. Given the aim of the audit report to ensure transparency of accountability and trust in the business and financial environment, we formulated the following research question: Can the financial audit report influence company management decisions?

Starting from the research question, we set as the main objective of our scientific approach to highlight the extent to which the financial audit report, through its content, contributes to ensuring the continuity of the business of companies.

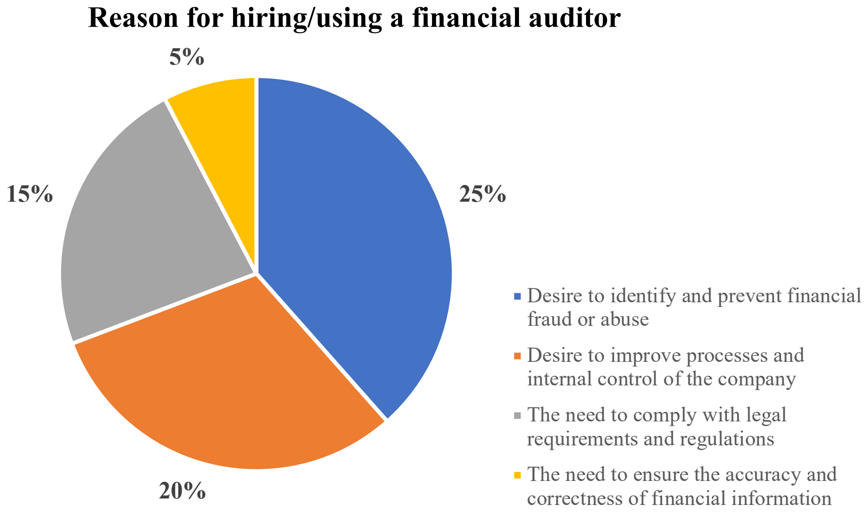
To achieve this objective and thus answer the research question, we defined the following research hypotheses:

1. The audit report has a significant impact on the decision-making process in the company, its role in the detection and prevention of financial fraud, helping to improve the integrity and transparency of the business environment.

2. There is a direct correlation between the quality of the audit report and a company or organisation's financial performance, in the sense that a more accurate and transparent report has a positive effect on financial results.

The survey was based on a questionnaire distributed on the Google platform to 20 company decision-makers. The questions were grouped in such a way as to identify, on the one hand, the expectations of the respondents regarding the results of a financial audit, and on the other hand, their degree of satisfaction as beneficiaries of an audit, implicit in the audit report prepared. Given that the purpose of a financial audit mission is determined either for legislative reasons (being mandatory for certain categories of entities) or for development reasons (the mission's applicants being the managers/administrators of the companies) we considered it necessary to know why the financial audit took place. The results are shown in Figure No. 1.

Figure 1.



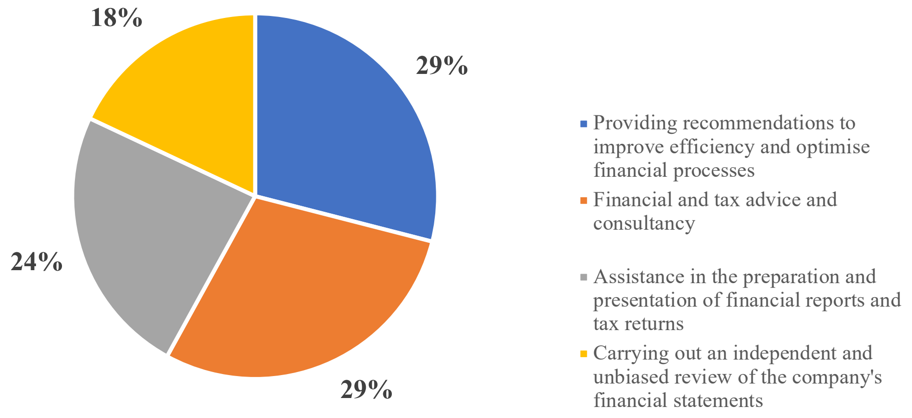
(Source: Author)

Thus, 35% of those surveyed responded that they use a financial auditor out of a need to obtain an independent and unbiased opinion on the company's financial situation, 25% answered that they use a financial auditor out of a desire to identify and prevent fraud or financial abuse, 20% out of a desire to improve the company's processes and internal controls, 15% out of a need to comply with legal requirements and regulations and 5% out of a need to ensure the accuracy and correctness of financial information.

A further 29% of respondents indicated that they would expect a financial audit to provide them with recommendations for improving efficiency and optimizing financial processes, a further 29% responded for financial and tax advice and consultancy, 24% responded for assistance in the preparation and submission of financial reports and tax returns and 18% for an independent and unbiased review of company financial statements (Figure No. 2):

Figure 2.

Decision-makers expectations from the financial audit



(Source: Author)

As to the reasons why company decision-makers find financial audits useful for decision-making, their answers were:

- Identification of possible financial fraud, abuse or accounting errors: 35%

- providing an independent and unbiased opinion on the financial statements of the company: 30%

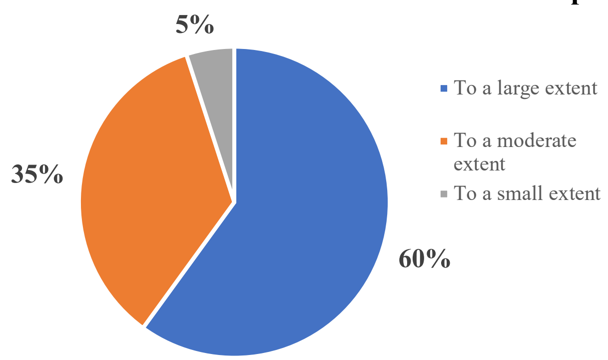
- support in strategic financial decision-making and risk management: 25%

- improving transparency and trust in the company: 10%

60% of respondents answered to a great extent, 35% to a moderate extent, and 5% to a small extent regarding the extent to which the financial audit results contribute to increasing credibility and trust in the company's financial information.

Figure 3.

The extent to which the results of the financial audit contribute to the increase of credibility and trust in the financial information of the company

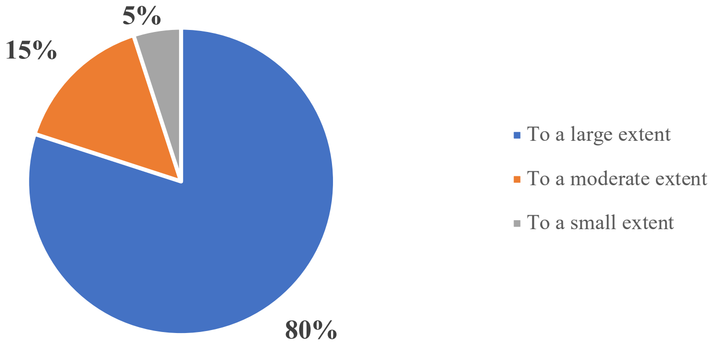


(Source: Author)

The next question concerned the assessment of the usefulness for the company of the audit reports prepared by the financial auditors, the results being conclusive for the validation of the research hypotheses: 80% rated them as relevant and valuable to the company to a large extent, 15% to a moderate extent and 5% to a small extent.

Figure 4.

The extent to which audit reports are relevant and valuable to the company

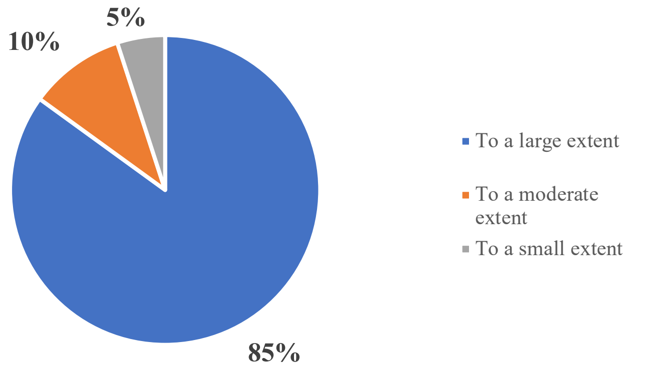


(Source: Author)

Also, 85% of respondents answered yes to the question “Do you think that financial auditing has influenced the decision-making process in your company?’’ Appreciating the extent to which financial auditing contributes to the development and success of the company is also eloquent for validating the assumptions of our research.

Figure 5.

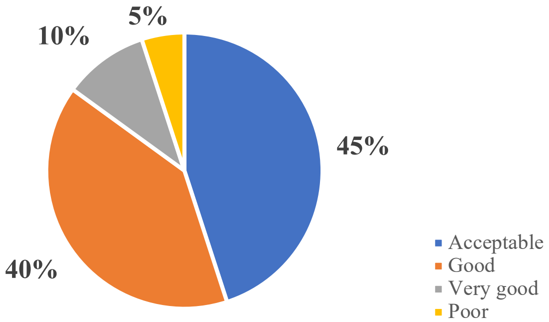
The extent to which the financial audit contributes to the development and success of the company



(Source: Author)

As every service also has a cost, we considered it appropriate to examine the opinion of the decision-makers surveyed on the quality-price ratio of the services provided by the auditors. Companies use their financial resources carefully, and the costs of audit services can be significant. The results obtained are represented in Figure No. 6.

Figure 6.
Assessment of the value-for-money ratio of financial audit services



(Source: Author)

Healthy competition in the audit services industry allows companies to choose the auditors that offer the best value for money. Choosing the right auditor who can provide high-quality services at a reasonable price is essential for a proper evaluation and for obtaining the benefits the audit can bring. Companies can get more than just compliance with legal requirements from an audit. A qualified auditor can advise and recommend improving internal control and risk management processes.

Conclusions

Financial auditing can contribute significantly to the development and success of the company from several perspectives and here we mean a better understanding of risks and opportunities, the basis for strategic decisions, regulatory compliance, risk management, identification of opportunities for improvement and last but not least, the stakeholder's trust. The financial study can bring to the surface inefficiencies in operational processes and provide recommendations for improvement.

The company can use recommendations to increase operational efficiency, reduce costs and enhance performance. Moreover, by analyzing the financial situation in detail, the audit can help the company better understand the risks and opportunities in the business environment. It allows strategies to be adapted according to the economic context and competition, helping to increase competitiveness. In other words, audit reports and recommendations can serve as a database for the company's strategic decisions. Objective information and financial analysis can help management assess the financial data of the business and plan the future accurately and clearly.

Summarizing the results of our scientific approach, we can conclude the following:

1. The financial audit is useful to identify possible fraud abuses or errors in the financial register, but also to provide an independent and impartial opinion on the financial situation of the company. 85% of those surveyed responded that financial auditing helps in the decision-making process in the company. The usefulness of financial auditing in decision-making contributes to accuracy, transparency, trust, efficient management of resources and preparation for the future. All of these are essential elements for the success and development of a company.

2. The results of the financial audit contribute greatly to increasing the credibility and trustworthiness of the financial information of the company.

3. Audit reports are relevant and valuable to the company. Overall, audit reports are valuable for the company because they ensure credibility and transparency, identify problems at an early stage, help improve processes but also comply with regulations and, last but not least, provide a solid foundation for making informed decisions.

4. According to the responses to the questionnaire, the value for money assessment of the audit services is good or acceptable. This value-for-money assessment of audit services is important in ensuring that the firm receives high-quality services at a reasonable cost, thus obtaining additional value for the expenses incurred and contributing to the harmonious development of the business.

The results of the financial audit can have a positive impact on the image and reputation of the company because when it presents audited and transparent financial reports it is perceived as more professional and responsible. The extent to which respondents recommend the use of audit services confirms this reality:

- 54% recommend using audit services to a moderate extent;
- 39% recommend using audit services, to a large extent;
- 7% recommend using audit services, to a small extent.

Subjectivity is evident when it comes to recommending financial auditing services, and this is because, in business, competition is quite high and many entrepreneurs do not want to provide solutions or ideas for other companies. But companies often recommend financial audit services to others for several important reasons, including credibility, legal compliance, problem identification, process improvement, transparency and market trust. Also, companies that have benefited from financial audits can obtain valuable feedback to improve processes and internal control, and this can lead to operational efficiency and optimization of decision-making.

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