

VULNERABILITIES OF FINANCIAL AUDITING AND ITS ADAPTATION TO THE CURRENT NEEDS OF THE USERS

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ABSTRACT:

Starting from the premise that the great economic crises of the last decades were based on the great financial scandals that shook the world economy, I found that auditing in general, and the process of auditing financial statements, has started to be questioned. Thus, I believe that it is necessary and obligatory to analyze whether financial audit, as it is now, is still suitable for modern society, i.e. whether its construction and methodology still meets the requirements of a constantly evolving market economy. Because of this, I considered it appropriate to carry out an analysis, aimed to identify new perspectives for the development of financial auditing in line with the requirements of a constantly changing market economy.

I started my scientific approach from the identification and presentation of possible vulnerabilities in the work carried out by financial auditors, which may occur when formulating the audit opinion.

My aim was to analyze the main elements that generate or enhance these vulnerabilities and to identify possible ways of combating and eliminating these effects in order to improve and increase the confidence of users of financial accounting information in their work.

KEYWORDS:

Financial audit vulnerabilities, audit risk, current user needs

1. Introduction

Financial auditing is an essential component of the whole financial and economic system. The main purpose of the financial audit is to provide independent assurance on the accuracy and fairness of the financial information presented by an entity. However, in an ever-changing world characterized by rapid technological innovation and economic developments, financial audit faces many challenges and vulnerabilities. This article aims to explore these vulnerabilities and propose ways to adapt financial auditing to the current needs of the users.

Financial scandals have been and a central characteristic of the global economic landscape. These devastating events not only affect the entities involved, but have a widespread impact on the economy, investors and public confidence in the financial markets. However, in a world characterized by complexity and rapid change, an essential tool for preventing and detecting these scandals is financial auditing, which as a pillar of corporate governance and financial transparency designed to provide a line of defense against improper accounting practices, fraud, and financial manipulation

(Bunget, Dumitrescu & Deliu, 2014). The significant financial scandals that have rocked global economies in recent decades, such as the Enron and WorldCom scandals have raised critical questions about the effectiveness of financial auditing in preventing such devastating events. These incidents highlighted significant vulnerabilities in audit processes and brought to the forefront the need for continued efforts to develop and improve the financial audit profession (Horomnea, 2010).

In this scientific article, I will explore in depth the relationship between financial scandals and financial auditing. I will investigate how these scandals have occurred and how financial auditors can contribute to their prevention and identification in a complex and ever-changing financial world. I will also explore the role of regulations and accounting standards in managing financial risks and will highlight the methods by which auditing can evolve to meet current needs and better ensure transparency and integrity in the global financial landscape.

Moreover, I aim to bring to the limelight a topic of crucial importance for the economy and society, namely the way in which financial auditing can contribute to the prevention and reduction of risks associated with financial scandals, with a particular emphasis on adapting and improving audit practices in the current context.

2. Vulnerabilities of the financial audit

Explaining the major financial scandals despite the mandatory auditing of financial statements may involve a series of complex factors and circumstances. Although financial auditing is designed to provide assurances about the accuracy and correctness of financial information for a large number of users (Pratoomsuwan & Yolrabil, 2018), there are certain limits and vulnerabilities in the audit process that can contribute to financial scandals.

Furthermore, given the significant increase in the complexity of financial transactions recorded in recent decades, it is imperative that the function of financial auditing adapts to new challenges. I believe that in order to have an adequate response to these challenges, it is necessary to identify the limits and vulnerabilities of financial auditing and eliminate the causes that generate them.

Therefore, in our opinion, based on studying the specialized literature, the main vulnerabilities of the audit at the current stage are generated by:

1. Intentional distortion of financial information

Sometimes, entities may try to hide or manipulate financial information deliberately to gain advantages or to avoid sanctions (Black, 2008). Auditors largely rely on information provided by the management of the audited entities, and if this information is falsified or incomplete, auditors can be misled.

2. Pressure for increased financial performance

In competitive economic environments, there is pressure on entities to achieve positive financial performance, such as increased revenues and profitability. This pressure can cause entities to resort to aggressive accounting practices or to hide losses to maintain an appearance of financial stability.

3. Complexity of transactions

Financial transactions that are complex, such as financing structures and derivative financial instruments, can create difficulties in risk assessment and in the detection of errors or manipulations. Auditors may find it challenging to understand and correctly evaluate these transactions. Thus, the increased complexity of transactions can lead to the vulnerability of the financial audit function due to the following risks:

a. Risk of omission

As transactions become more complex, auditors face an increased risk of

omitting certain aspects of these transactions. This can lead to inaccurate or incomplete audit conclusions.

b. Difficulty in assessing risks properly

Complex transactions may conceal subtle risks, and auditors may find it difficult to appropriately evaluate them, which can lead to underestimating risks and incorrect audit conclusions.

4. Technological development and the large volume of data processed

Technology and big data have revolutionized the way in which financial transactions are conducted and how financial information is stored and managed. This change entails a number of vulnerabilities:

a. Difficulty in managing large volumes of data

Traditional auditing may struggle with managing and analyzing the large amounts of financial data generated by companies.

b. Cyber risks

Financial data stored electronically are vulnerable to cyber-attacks. Auditors must ensure that data remains secure and protected against unauthorized access.

5. The varied needs of users of accounting information and audit reports

Previous research discusses several concerns regarding the quality of the audit report and the gap between the information desired by users and what is actually presented in the audit report (Church et al., 2008). Users of financial information have become more diverse in terms of their needs, which brings a series of vulnerabilities for the audit:

a. Difficulty in satisfying all stakeholders

Auditors must be capable of responding to the varied needs of investors, creditors, regulators, and other stakeholders (Ardelean, 2013). This diversity of requirements can be difficult to meet.

b. Increased pressure to provide added value

Users now want more than assurances about the accuracy of financial information; they also require valuable insights and analyses. This puts additional pressure on auditors.

Auditors focus on providing reasonable assurance, not absolute certainty. Financial auditing is based on evidence and evaluations, and sometimes errors or manipulations may go unnoticed due to resource limitations or because they are not detected during the audit (Alleyne & Howard, 2005).

6. Limitations of self-regulation

Self-regulation can be defined as the system by which private organizations and members of a profession establish and apply a set of standards (Hupkes, 2009). In other words, within a self-regulatory regime, both regulation and control are at the discretion of the members of the profession. Advantages of self-regulation include flexibility of terms, expertise, low enforcement costs, and cross-border application.

7. Time pressure

Auditors may be under time pressure to complete the audit within a certain time frame. This can lead to auditors not having enough time to conduct detailed investigations or to identify more subtle issues.

8. Inefficient collaboration between auditors and management

If the management of the audited entity does not collaborate effectively with auditors or tries to limit auditors' access to relevant information, this can create difficulties in conducting a complete and accurate audit.

I consider that a thorough understanding of these vulnerabilities can help auditors and financial professionals develop more effective strategies to deal with the current challenges.

3. Adapting financial audit to the current needs of the users

In order to better respond to the

current needs and challenges of users, financial auditing must constantly evolve and adapt. To do this, I propose several key strategies and practices:

1. Use of audit technology

One of the most important adaptations of financial auditing is the integration of advanced technology. Auditors can use specialized data analysis software and artificial intelligence to quickly and efficiently examine large volumes of financial information. This not only increases the efficiency of the audit but also makes it easier to discover subtle risks and frauds (Cordoş & Fulop, 2015).

2. Continuous auditing

Financial auditing can no longer be seen as a one-time or annual activity. Instead, a more efficient approach is continuous or real-time auditing, which involves constant monitoring of financial data. This practice allows auditors to identify issues before they become significant, contributing to more effective risk management.

3. Specialization of auditors

As the economic environment becomes more complex, auditors need to acquire specialized skills and knowledge in areas such as information technology, complex financial risks, and sector regulations. This allows them to better understand the entities they audit and to provide more valuable services.

4. Collaboration between entities and auditors

Close communication and collaboration between audited entities and auditors are essential for adapting auditing to current needs. Auditors must become trusted partners of the management of the entities and work together to identify risks and opportunities.

5. Adaptation of regulations and standards

Accounting regulations and standards must remain relevant in the current context. Regulatory authorities and professional

organizations must work to update and adapt regulations to address the new realities of the financial environment (Neamţu, Roman & Ţurlea, 2012).

4. Conclusions

Financial auditing is a critical component of the entire financial and economic system, serving to provide independent assurances about the accuracy and correctness of the financial information presented by an entity. However, in a world characterized by rapid changes, financial auditing faces numerous challenges and vulnerabilities. In this article, I have explored these vulnerabilities and presented strategies for adapting to the current needs of the users.

In order to avoid financial scandals and to improve the integrity of the audit process, it is essential to have adequate oversight and regulation, as well as increased attention to ethics and financial transparency in organizations. Auditors must be vigilant in identifying and reporting potential irregularities and ensure that their audit processes are rigorous and in line with professional standards. Additionally, there should be a culture of ethics and responsibility within organizations, so that the intentional manipulation of financial information is prevented and appropriately sanctioned.

In conclusion, adapting financial auditing to the current needs of the users represents a continuous challenge, but also an opportunity to ensure transparency and trust in financial information. By adopting technology, continuous auditing, auditor specialization, and close collaboration between entities and auditors, this goal can be successfully achieved. With the support of updated regulations and relevant accounting standards, financial auditing can play a crucial role in maintaining the integrity of the financial system.

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