

## **THE ENTREPRENEUR'S ROLE IN THE PERFORMANCE GROWTH OF THE FINANCIAL AUDIT ACTIVITY IN ROMANIA**

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**Abstract**

For the study of entrepreneurship, a cornerstone of modern competitive economy, perhaps there is no liberal profession better suited to be analysed than the financial audit. The financial auditor is meant to be an entrepreneur, to take his destiny into his own hands, because, in order to be independent, a demand induced by the ethical code provides that he cannot work as an employee of his services' users. This paper proposes a research for identifying and presenting the entrepreneur's role in the performance growth in the financial audit. The main objective of the conducted research is to present an overview of the entrepreneurship environment, to identify opportunities and challenges faced by the entrepreneur involved in the financial auditing of the level of development reached by the auditing market in Romania, by analysing representative statistical indicators in the market development and financial management of the audit activity. The proposed research methodology focuses on the collection, processing and analysis of statistical data on entrepreneurship of financial audit activity, based on official data published by the Chamber of Financial Auditors of Romania (CAFR), and on the identification of the main factors leading to the development of supply and demand of financial auditing and of the shortcomings the financial audit contractor involved in his own surveys is facing. Being a fairly new regulated profession, I had the privilege to analyse the developments in the entrepreneurship activity of the financial audit market for the entire period of existence: 1999-2013, showing the dynamic structure of supply and demand of financial auditing, the development and characteristics of the business environment during the period under review, the specificity of the financial audit entrepreneurship and I could outline a sketch of the entrepreneur involved in the financial audit activity. The research results show that the number of financial auditors, individuals and legal entities, had experienced a continuous growth, reflecting on one hand the attraction for the new profession and, on the other hand the role of modelling highlighted of the new professions, especially, the effects of

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organizational or regulatory measures such as the introduction of the three years stage in 2002, or the ability to harness the social and economic entrepreneurial opportunities induced by the economic and financial crisis, which imposed the necessity of audit entities to be subject to restructuring, or else becoming insolvent. The major role of entrepreneurship in developing the financial audit activity in Romania is revealed by empowering entrepreneurs, auditors, able to contribute to the growth and diversification of demand, audits reaching from 197 in 2001 to 6,588 in 2013. The research analyses in the end the dynamics of performance in audit work by defining specific performance indicators which show, synthetically, the entrepreneur's role in the improvement of the financial audit activity, and the growth of its performance.

**Keywords:** financial audit, entrepreneur, entrepreneurial environment, entrepreneurial performance indicators, factors that influence entrepreneurial decisions in financial audit, portrait of the financial auditor entrepreneur

**JEL Classification:** C4, E00, F6, G00, M2, M4, O5

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### **Introduction**

The financial audit is defined as work performed by the auditors, allowing expression on documenting specific opinions on financial statements or of parts thereof, exercising as appropriate, including mission assurance and professional services in accordance with both International Standards on Auditing and other regulations adopted by the Chamber of Financial Auditors of Romania (CAFR). The financial audit includes the statutory audit, as required by specific legislation, respectively the Ordinance no. 75/1999, art. 2.

Financial audit, regulated in Romania in 1999, is conducted in the public interest by the auditor, whether a natural person or a legal person, as acquired under the terms of legislation. In accordance with the methodology of economic statistics, the activity is found in the services field, "*other services*" subsector. Despite the fact that it is a recent activity in Romania, has seen an upward trend of development, professionally supported by its representatives, which allowed it to accede to a position with a prominent role in the liberal professions.

The evolution and the improvement of auditing activity in Romania has highlighted the role of financial auditor which can be found in the double capacity: entrepreneur and freelance member of CAFR, well defined and perfectly entitled to assume new professional responsibilities involved, following unabated, the letter and spirit of the law, that is also the only one able to carry out the activity. Financial auditor, as an individual, shall operate only to the extent that is found in one of the following ways: employee, employee (subcontractor) or independent individual, which implies including its registration as such, the financial administration. Considering that the role of audit contractor can fully manifest especially in a corporate position, our study will focus mainly on the analysis of the business environment and emphasizing the role of the entrepreneur in the growth performance auditing activity within audit firms.

The studies and analyses are based on the documentary research of some issues concerning the evolution of small and medium business enterprises registered with CAFR in the period 2000 - 2013, regarded by the authors to be significant in this respect. In order to highlight

the business environment specific to auditing activities, we focused on the evolution and structure of small and medium commercial enterprises, on business opportunities and difficulties occurred in carrying out the activities of those companies, on the development of entrepreneurial culture, but also on strengthen the managerial skills, and the increase of auditing activities performance.

This paper consists of six parts. In the first part we made an incursion in the rich literature on entrepreneurship and business environment characteristics. With a history of over 250 years, the entrepreneurial issues has raised and continues to attract the interest of economists, with such a rich literature in this area, out of which we intend to select the most significant issues. Regarding the financial audit activity, we have tried to identify the most relevant researches conducted by specialists, especially those relating to financial audit of Romania. In the second part we have summarized the research methodology that focuses both on the collection and processing of statistical data and on carrying out our own sample surveys. In the third part we analyse the structure and evolution of the entrepreneurial sector consisting of legal entities registered with CAFR correlated with natural persons auditors. In the fourth part we have identified and explained the opportunities and difficulties that have had a significant influence on the activity of the entrepreneurs engaged in financial audit. The fifth part was dedicated to the development of entrepreneurial culture and strengthening of managerial abilities of the audit firms, trying also in this context to outline a sketch of the entrepreneur in auditing activity. The sixth part was devoted to the dynamics of the performance of auditing activities of legal entities registered with CAFR and to the presentation of the entrepreneurial environment characteristics.

### **1. Literature review**

In the economics literature, the first mention of the term "entrepreneur" is found in the Universal Dictionary of Trade, published in Paris in 1723, referring to "the person who binds to manage the construction of an object". In the economics literature, the first mention of the term "entrepreneur" is found in the Universal Dictionary of Trade (Savary des Bruslons, 1723), referring to "the person who binds to manage the construction of an object".

The Romanian term, with roots in French, according to the Romanian Explanatory Dictionary (DEX), "entrepreneur" refers to the primary function of the entrepreneur: "Entrepreneur -s, m.s. and f.s. Person who runs an enterprise - From fr. entrepreneur".

Without having a universally accepted meaning, the term "entrepreneur" was used punctually by the representative of mercantilism, Richard Cantillon in 1755 (Cantillon, 1755) with reference to the person willing to assume the risks inherent in the economic activity he conducts. Further analysis identifies also other particular characteristics of the entrepreneur.

If in the vision of Adam Smith (Smith, 1776) the entrepreneur is the person who only provides the "enterprise's" capital (we refer to the period in which agriculture predominates, the production which he describes being of the handicraft type, specific to his time) without assuming any other responsibilities, J.-B. Say (Say, 1803), who introduced the concept of "enterpriser" in the theory of political economy, defines the **entrepreneur** from an already much more complex viewpoint, namely as the person who is

coordinating, as organizer, both the production process and the factors of production, whose theory he has developed.

It is worth to mention the opinion of Francis A. Walker (Walker, 1884) that identifies in the **entrepreneur** the person who is planning, controlling, and organizing the activity of a company whose owner he is.

The Industrial Revolution, which initially started in England in the late eighteenth century, recorded a slower growth in France, gradually includes Germany, while only in the middle of the nineteenth century, to make its presence felt in the United States, favoured by the massive wave of immigrants after 1865, a milestone which causes a strong development of the American economy, that propelled the United States, around 1900, as the first industrial country in the world. Along with the first steps of the revolution in England are brought to the fore the **entrepreneurs** who now have a great chance to benefit from and capitalize the first scientific discoveries and inventions represented by modern techniques, that allow them the more easy transformation and exploitation of natural resources. This is the time that records the first influences on **macroeconomic** indicators, based on calculations that allow ample economic analysis, help to substantiate the decisions taken by governments, the international comparisons, etc. expressing the overall economic activity of **entrepreneurs**, who are now at a different level of aggregation. Thus, for the entrepreneurs, the macroeconomic results constitute, on the one hand the basis for making decisions about the future direction of drawing in and use of production factors, in determining the size of the development, the structure and quality of supply and, on the other hand, the demand of economic goods, both on domestic and foreign markets.

If in the opinion of Schumpeter (Schumpeter, 1949) the entrepreneur is no longer just a person willing to take risks in the activities carried out, but an **innovator** able to implement his "innovations", Marshall (Marshall, 1879) known as one of the founders of the economy, takes an important step, considering the entrepreneurship as an "engine of social development", the entrepreneur turning gradually into the person who exploits any new opportunity with a maximum profit (Drucker, 1999), who is always looking for change, with which he exploits at maximum as an opportunity, his activity not being science or work of art, but actual practice.

To summarize, according to specialists, the entrepreneur is represented by that active person, open to all that is new and might create opportunities, endowed with initiative, also willing to take risks inherent in any endeavour.

The entrepreneur must be very determined in his actions, must have the capability to draw up the strategy for his business according to its own interests, especially relying on his own forces, being fully aware that innovation is the main source of change, which is why always he is willing to appreciate and capitalize it as an opportunity for various businesses and services he conducts or offers, the ultimate goal being in the maximization of his profit.

All these are the strengths of entrepreneurs in any society, representing sufficient arguments to be recognized their merits, to be granted to them attention and support, especially as, by mechanisms driven by them, the entire society evolves, as evidenced in the particular by the influence they have on macroeconomic indicators.

The studies on entrepreneurship have a wide audience. For example, a simple search of the term "entrepreneur" on Google Romania highlights over 179 million hits and the number of

books on entrepreneurship exceeds 55 million. The latest study by Today's Top Entrepreneurs, dedicated to the most recommended top 15 business books, highlights the work of Eric Ries: "The Lean Start-up" who leads seconded by over 25 percentage points (Ries, 2011). After more than three centuries of entrepreneurship and the dawn of the second century of management, the five principles of *Lean Start-up* method provided a new image and integrated contractor everywhere, which manages and coordinates, builds, evaluates, learns, validate, being willing also including aspects tenaciously to perform seemingly boring, on the definition of, measuring and tracking performance. The general conceptual issues on SMEs, as a vector of economic growth and social development of the contemporary society is treated in a variety of works of economic, social and political literature, addressing either the whole complex of elements on the entrepreneurial sector or certain sides of that sector. In this regard, we can mention some specialized Romanian works: (Rusu, 1996; Sandu, 1997; Nicolescu, 2001; Dalotă, 2008; Dinu, 2008; Popescu et al., 2013; Nicolescu et. al., 2014).

The entrepreneur's and the auditor's activities interfered during the long period of economic and social development of humanity, auditing playing an important role in the recovery and increase of transparency of the business environment, especially since, obviously, from ancient times it was known that a better management of assets can be achieved only by respecting the procedures and rules of financial control, issues that are also today the basis of accounting as a science, being observed even after thousands of years. The term "audit" comes from the word "audit – auditare" in Latin, which signifies "listening", although audit talking about since the time of the Assyrians and the Egyptians.

The generalization of the use of the term "audit" is correlated with the development of companies in the nineteenth century, when begun the delimitation of the powers and responsibilities of managers, in their capacity as executive directors, from the one of the owners, in their capacity as shareholders and associates. The taking over the business management and property management of companies by managers leads the owners to take all steps to be aware of how managers and other leadership positions manage the businesses entrusted to them, by using specialized people, these being ultimately the auditors.

Dynamic and responsible, the **financial auditors** will ultimately take the role of **entrepreneurs**, as professionals, an essential requirement for any company considering the impact their opinion exerts on the fairness of financial reporting, opinion expressed in accordance with the reference legal framework, on which are based both the investors and the creditors, both the government and the public.

The important and privileged position they hold requires the provision of services which should rise to a high level of objectivity, in accordance with professional and ethical requirements, designed to ensure the auditors prestige and trust in the content of their reports.

Furthermore, the economic history defines several stages of the audit, differentiated by the social class **ordering** the audit, named audit authorizing officers, according to the auditors and the audit objectives. The most recent researches in the field of financial audit in Romania concern: the role of innovation and use of the new facilities in auditing, covering: Business Intelligence facilities induced by multivariate analysis in modern continuous audit (Homocianu and Airinei, 2014); integrated nature of the Semantic Web data collection and analysis used by auditors to substantiate opinion (Necula and Radu, 2014); use cloud

computing technology to reduce costs and optimize processes in auditing (Ionescu and Bendovschi, 2014); auditors' evaluations and reactions to businesses by: identifying changes needed to address the audit engagement in financial crisis conditions (Bunget et al., 2014); operational risk analysis, financial and bankruptcy related financial credit sale (Ganea and Iota, 2014); quantify efficiency and making the decision an investment in an auditee (Berinde et al, 2014); analysis of factors determining net assets (Stancu and Tinca, 2014); studies on competition and establishment of financial audit fees (Popa et al., 2014).

## 2. Methodology

The proposed research methodology focuses on both the collection and processing of statistical data and on the achievement of our own surveys.

The statistical data collected refer to entrepreneurial activity of corporate financial auditors, extracted especially from official data published by the CAFR, identification of profile companies operating in Romania and their analysis from the time of regulation of the financial audit in 1999 and up to on 31.12.2013, using indicators such as: numerical evolution of financial auditors, evolution of audit firms that are part of a network, the evolution of firms based on the number of associates and financial auditors, changes in demand (the number and structure of audit missions), the performance of financial audit work, etc.

In order to study how entrepreneurs operating in financial audit perceive the business environment in the our country, we chose as quantitative investigating method the market survey, with the aim to quantify data and generalize the results to the entire studied population (Cătoiu et al, 2009).

### ***The objectives pursued in the research are as follows:***

- Knowledge of respondents' views on the main challenges facing entrepreneurs involved in financial audit;
- Identification of the factors which foster and motivate entrepreneurs to establish an audit firm;
- Entrepreneurs' perception on the business environment opportunities and threats in Romania.

### ***The research hypotheses are as follows:***

- Financial audit is of increasing importance in the entrepreneurial activity in Romania;
- The business environment difficulties are due to a lack of funding and to the imperfections of the competitive environment;
- Previous experience as an employee constitutes an important motivation for the entrepreneurs involved in financial audit.

For this study we used the market survey based on a ***questionnaire***.

*The community studied* was made up of the 946 corporate financial auditors registered with the Electronic Register at 31.12.2013. *The observation unit* was the legal entity operating

the financial audit on the market in Romania, and *the survey unit* was the entrepreneur, the associate auditor in the audit firm. *The sample* was determined taking into account the statistical limitations. Thus, for the probability of guaranteeing the results of 95%, with an error of 5% of the population of 946 units, the representative sample size is 273 units (Balaure et al, 2002), market research and opinion polls conducted by INFOmass.

The survey was conducted on a total of 273 legal persons performing the audit. Sampling was a random one. The 273 audit firms were selected from the Electronic register of legal entities, using a constant step starting from a random position. The firms are published in the Register on counties in order of authorization number.

Data collection took place during the months of June to August 2014, using a questionnaire whose questions were presented to all subjects investigated in the same order, on the phone.

At the sample selection of the electronic Registry on 31.12.2013 based on the methodology described above, for each person were taken and were completed the preamble of the questionnaire of published data, information on the contact person name designated, the number of associates specifying: the number and the names of the partners who have the status of auditor, date of birth, sex and some address information and communication possibilities. Completing the questionnaire was done rigorously, the phone call reflecting professionalism and prior documentation. The first question, which had the role of control, was meant to confirm the company's name, address and the name of the associates' auditors. The second question, intended to be a reference to previous work associates, where they were employed and for how long, fits into the category of open questions. The following questions concerned the main difficulties faced in the activity, indicating its intensity on a scale of 1 to 5, etc. If the answer to a particular question was avoided a new phone call was made after a short time period. With kindness and perseverance, ensuring our respondents about our seriousness as well as the confidentiality of their responses, non-response rate was zero.

To outline the portrait of the audit firms and entrepreneurs from the age structure of audit firms in their quality as entrepreneurs, the preamble of the collected data was harnessed from the questionnaire. So, from 273 audit firms randomly selected from a number of 946 legal entities registered in the Register Electronic on 31.12.2013, there were identified 397 associated auditors.

Because financial audit is a complex activity that is carried out within the team, our study was dedicated with predilection to corporate financial auditors, where the entrepreneurship fully manifests. Legal requirements imposed on legal entities performing audits is to have as major shareholders auditors natural persons registered to CAFR, and calculation of performance indicators at the level of associated financial auditors or employed by audit firms, have led us to present also the evolution in time of the financial auditors natural persons registered with CAFR who constitute, in our opinion, the main source of entrepreneurs on the financial audit market.

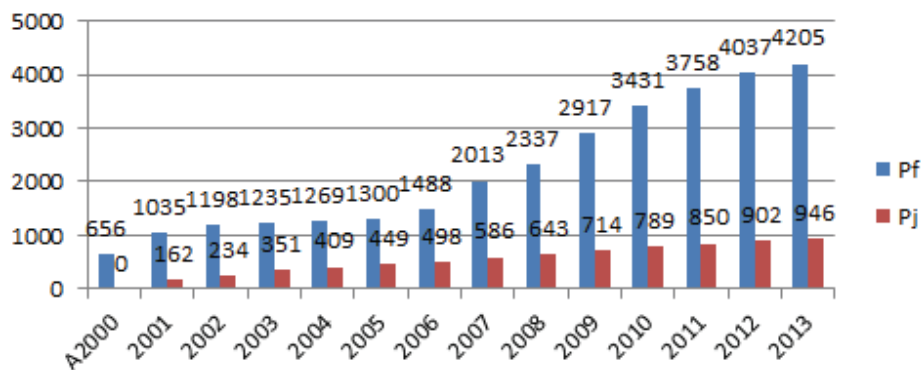
### **3. Structure and Evolution of financial auditors during the period 2000-2013**

The period under review is characterized by a series of outstanding new aspects concerning the emergence of regulations (ordinances, emergency ordinances, orders decisions, etc.) designed to establish legal relations regarding the financial audit and to boost the profession's development and to stimulate the related entrepreneurship activities. This led

to outline some phenomena specific to business environment and entrepreneurship, in creation, organization and evolution of financial audit services offer, of financial auditors' individuals and / or entities. Based on this premise we started analysing, identifying and presenting regulatory documents in the field and continued with studies on quantitative elements regarding the number and structure of financial auditors.

- With regard to regulatory documents relating to the birth, organization and development of financial audit entrepreneurship, those include: Emergency Ordinance no. 75 of 1 June 1999 on the financial audit; Order no. 795 of 21 July 1999 setting up a provisional Committee of the Chamber of Auditors of Romania; Order no. 1009 of 14 September 1999 approving the Statute of the Chamber of Auditors from Romania; Resolution no. 6 of 22 September 2000 approving the provisional register of members of the Chamber of Auditors from Romania; Resolution no. 591 of July 6, 2000 for approval of the organization and functioning of the Chamber of Auditors. Under these regulations are present key elements that allow the selection of professionals on unitary and non-discriminatory criteria, based on experience and evaluation, able to guarantee the quality of their activity, the organization auditing activity and setting up organizational structures to enable the management, coordination and improvement of audit activity and plenary manifestation of entrepreneurship.

- The evolution of an offer of audit services (figure no. 1) according to the legal framework mentioned, is reflected in the composition and the structure of the Register of Auditors of Romania, paper published in the Official Gazette, usually at the beginning of each year, in which auditors are on record at the end of the year. An example is given by the Resolution no. 1 of 28 February 2001 approving the respective register, with reference to 2000.



**Figure no. 1: Offer of audit services (Pf - natural persons, Pj - legal entities) during the 2000 - 2013 time period**

The data presented in Figure no. 1 show the following aspects: in 2000 there were no registered corporate auditors, as legal requirements require that at an audit firm, the individual financial auditors, entered in the Register of Financial Auditors Romania, must be associated or majority shareholders; the number of individual and corporate financial auditors has grown continuously; the growth of the number of individual financial auditors was higher in the first three years, benefiting from the emulation induced by a special training financed by the World Bank. In addition, for the selection of candidates was used the criterion of previous experience (typically a minimum of 15 years) and not the training stage of three years, introduced later, since 2002 (Decision no. 17 of 23 October 2002).



The increases registered in 2003-2005, reflecting the number of auditors whose professional qualifications in the respective field as well as in assimilated professions thereof, were acquired in another state, according to the regulations of the State. The growth of the number of auditors natural persons registered in 2007-2009, in midst of the economic crisis was caused by the completion of the internship of the first series of 4,000 trainees. On the other hand, the increasing of corporate financial auditors was not significantly influenced by the period of internship introduced for individuals, because a significant number of auditors individuals enrolled in the first three years opted subsequently to conduct their audit activity as associates within audit firms. The continuous rise of corporate financial auditors highlights a business environment that is attractive to entrepreneurs involved in this activity.

Regarding the evolution of the entrepreneurial sector (legal persons registered in CAFR), we note that the issue being complex, we have resorted to analytical studies using both quantitative elements on the whole the entrepreneurial sector, as well as a more nuanced analysis according to whether or not they are part an international network, or according the number of financial auditors, associated or employed. (Table no. 1, Table no. 2 and Table no. 3).

**Table no. 1: Evolution of the number of the corporate financial auditors during the period 2004-2013 according to whether or not they are part of a network**

| Corporate financial auditors | 2004       | 2005       | 2006       | 2007       | 2008       | 2009       | 2010       | 2011       | 2012       | 2013       |
|------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Part of a network            | 9          | 9          | 9          | 12         | 12         | 12         | 12         | 12         | 13         | 13         |
| Not part of a network        | 400        | 440        | 489        | 574        | 631        | 602        | 777        | 838        | 889        | 933        |
| <b>Total</b>                 | <b>409</b> | <b>449</b> | <b>498</b> | <b>586</b> | <b>643</b> | <b>714</b> | <b>789</b> | <b>850</b> | <b>902</b> | <b>946</b> |

The data presented reveals that only a few audit firms, namely a rate of 1.37%, are part of an international network in 2013.

**Table no. 2: Evolution of the number of corporate financial auditors during 2004 to 2013 according on the number of the financial auditors associates**

| Legal persons                           | 2004       | 2005       | 2006       | 2007       | 2008       | 2009       | 2010       | 2011       | 2012       | 2013       |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| With 1 associate financial auditor (AF) | 313        | 348        | 388        | 463        | 510        | 572        | 640        | 692        | 739        | 777        |
| With 2 associates AF                    | 72         | 76         | 84         | 93         | 99         | 107        | 113        | 120        | 125        | 129        |
| With 3 associates AF                    | 12         | 12         | 13         | 16         | 19         | 20         | 20         | 21         | 21         | 22         |
| With more than 3 associates AF          | 12         | 13         | 13         | 14         | 15         | 15         | 16         | 17         | 17         | 18         |
| <b>Total Legal persons</b>              | <b>409</b> | <b>449</b> | <b>498</b> | <b>586</b> | <b>643</b> | <b>714</b> | <b>789</b> | <b>850</b> | <b>902</b> | <b>946</b> |

The entrepreneurial specificity of the audit work offer shows that the great majority of audit firms have a partner who has the status of a financial auditor, respectively 82.14%, accounting for only 1.9% more than 3 auditors in 2013. Both the need for teamwork and the seasonal nature of this type of activity, determined at the establishment of audit firms to prefer the association between financial auditors with specialists in other fields: experts, managers, consultants, lawyers, etc.

**Table no. 3: Evolution of the number of corporate financial auditors during 2004 to 2013 according to the number of financial auditors employed**

| Legal persons       | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---------------------|------|------|------|------|------|------|------|------|------|------|
| With 0 AF employees | 367  | 403  | 445  | 525  | 581  | 648  | 719  | 774  | 822  | 864  |
| With 1 AF employees | 28   | 32   | 37   | 43   | 44   | 48   | 51   | 55   | 58   | 60   |
| With 2 AF employees | 5    | 5    | 6    | 7    | 7    | 7    | 8    | 9    | 9    | 9    |

| Legal persons                 | 2004       | 2005       | 2006       | 2007       | 2008       | 2009       | 2010       | 2011       | 2012       | 2013       |
|-------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| With 3 AF employees           | 3          | 3          | 4          | 4          | 4          | 4          | 4          | 4          | 4          | 4          |
| With more than 3 AF employees | 6          | 6          | 6          | 7          | 7          | 7          | 7          | 8          | 9          | 9          |
| <b>Total Legal persons</b>    | <b>409</b> | <b>449</b> | <b>498</b> | <b>586</b> | <b>643</b> | <b>714</b> | <b>789</b> | <b>850</b> | <b>902</b> | <b>946</b> |

The data presented highlights that in 2013 only a few audit firms, i.e. a rate of 8.67% had at least one employee, the vast majority (91.73%) having no employee auditor. In addition, the audit focus being unbalanced supply, only 0.95% of audit firms have more than three employees holding the status of financial auditors.

#### 4. Business opportunities and challenges in the activity of corporate financial auditors during the period 2000-2013

In order to identify the opportunities and challenges faced by the entrepreneur involved in the financial auditing, a brief overview of the specific activity is required. Auditing activity is a regulated activity, and it is expected that existing rules contribute to the creation and further development of demand in the domain. As a result of studies and analyses, we have identified the following issues:

- The **initial** regulations had a direct and measurable effect on the audit request, the demand being correlated with the offer. The Order no. 94 of 29 January 2001 for the approval of accounting regulations harmonized with the Fourth European Economic Community and the International Accounting Standards, established pursuant to art. 4 that companies covered by these regulations were required to audit the financial statements. Order defined also by descending, size criteria on turnover (from 9 to 5 million), total assets (from 4.5 to € 2.5 million) and average number of employees (from 250 50) which had to meet companies that were to be audited afterwards in the next 5 years. Furthermore, in Annex 1 of the Order was made public the list of businesses whose financial statements for the year 2001 had to be ultimately audited. According to this list, the first request for financial audit of entities included 197 entities with the structure shown in Figure no. 2 (a). Taking into account the data presented in Fig. 2, we find a correspondence with auditors, legal entities, registered in the registered with CAFR in 2001 - Figure no. 2 (b).

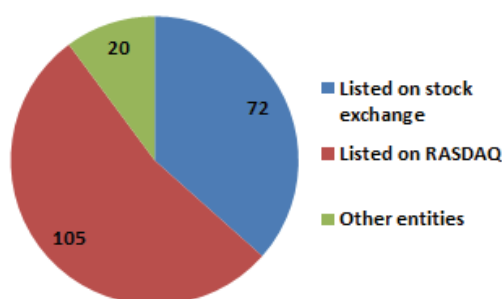


Figure no. 2 (a): The structure of the demand of financial audit for 2001



Figure no. 2 (b): The structure of demand of financial audit for 2001

According to Order no. 990 of 26 July 2002 for completion of Order no. 94/2001 for the approval of accounting regulations harmonized with Directive IV of the European

Economic Community and the International Accounting Standards, of the financial audit market demand for 2002 has seen a significant increase. Size and structure of demand in developing regions is reflected in Fig. 4 We note at this stage a relatively balanced demand across the country, except the city of Bucharest and the Ilfov Country, who concentrated 34.73% of financial audits of a total of 766.

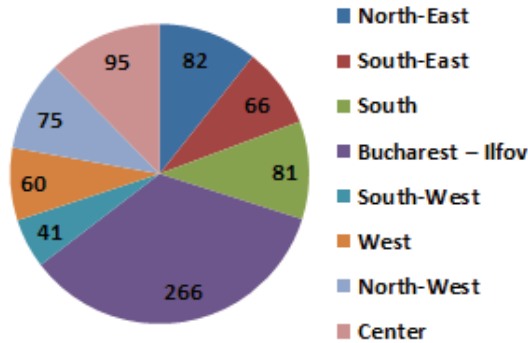


Figure no. 3: The request of financial audits for 2002 by development regions

Source: Created by authors based on the Order no. 990 of 26 July 2002

- At the development of demand audits contributed less subsequent regulations, but especially entrepreneurship correlated with other predisposing factors, extending the scope of the financial audit also on other public interest entities or other specific business development activities, such as reorganizations, consolidations, mergers, etc. Development of demand in the period 2001-2013 is presented in Table no. 4.

Table no. 4: Evolution of the demand (number of audit missions performed) during 2004-2013

| Demand             | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|--------------------|------|------|------|------|------|------|------|------|------|------|
| Number of missions | 1834 | 2159 | 2820 | 3410 | 4159 | 4352 | 5898 | 6595 | 6551 | 6588 |

- Among other significant factors favouring entrepreneurship and market development of the financial audit in Romania we have found:

- Assimilation of new auditing services. Thus: along with mandatory audits of annual financial statements, referred to after 2008 as **statutory audit** (Ordinance no. 90/2008), were further developed: **financial audits on request**; **internal audit**; **review** of financial statements; **special purpose audit**; **assignments** made on the basis of agreed procedures; **compilation services**; etc.

- Development of business partnerships at the level of CAFR on the basis of protocols with: the National Securities Commission; Managing Authority Sectorial Operational Program Human Resources Development (MA SOP HRD), from Ministry of Labour, Family and Social Protection; The Chamber of Commerce and Industry; The Insurance Supervisory Commission; The Romanian Football Federation; etc.

- Absorption of unredeemable funds and the requirement for audit of the interim and final reimbursement requests.

All these opportunities, valorised by the entrepreneurial spirit of the auditors, have contributed to developing the business environment and diversifying the demand for financial auditing. Thus, if in 2001 and 2002 audits of annual financial statements submitted to audit mandatory (statutory audit) and audited on request, had a share of 100% as shown in Figures 4 (a) in 2011 their share has dropped to 79.06%. A slight increase was registered in 2013 reaching to 79.99% (see Figures 4 (b)). In addition, we are witnessing the development of new types of missions, including "special purpose audit" and "agreed upon procedures", induced by protocol AMPOSDRU and the award of grants.

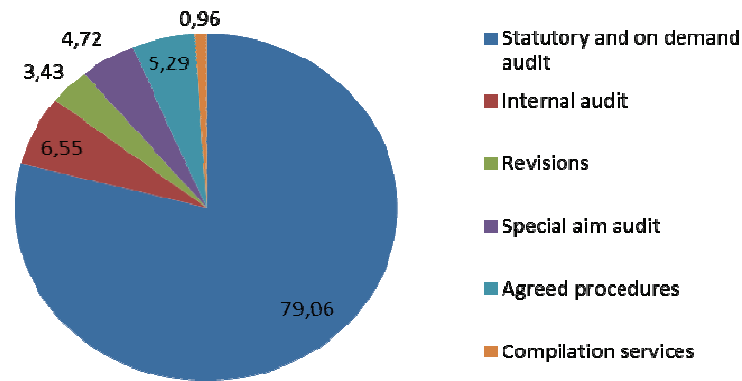


Figure no. 4a: Structure and share of financial audits for 2011

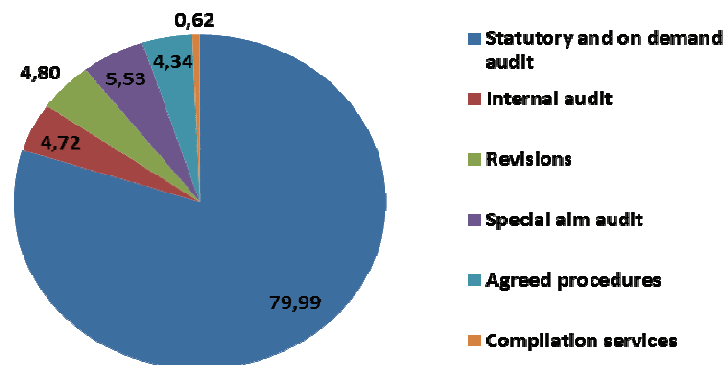


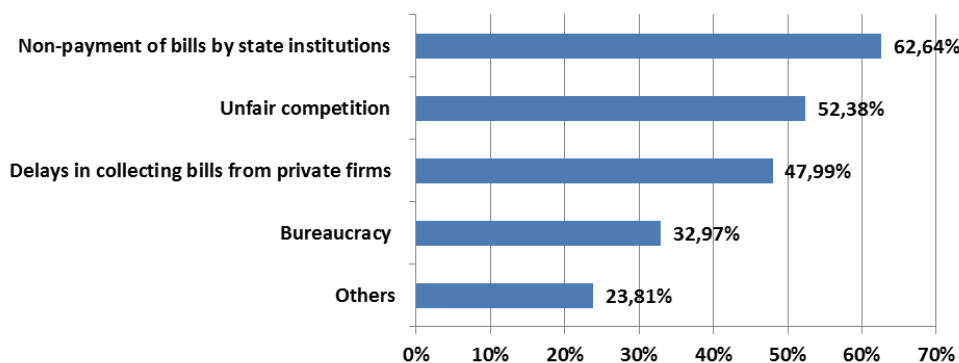
Figure no. 4b: Structure and share of financial audits for 2013

• Main contextual aspects with an unfavourable influence on entrepreneurs, related to the development and maintenance of financial audit requests, refer to:

- The aggressive policy of restructuring and privatization of large state-owned enterprises, in the absence of a unified strategy and coherent socio-economic development. Thus, most of the 766 entities proposed to audit in 2002 no longer exist, as been "demolished". Almost the same fate had also thousands of entities audited in 2003-2005, under the decreasing by size criteria stipulated by Order no. 94 of 29 January 2001;

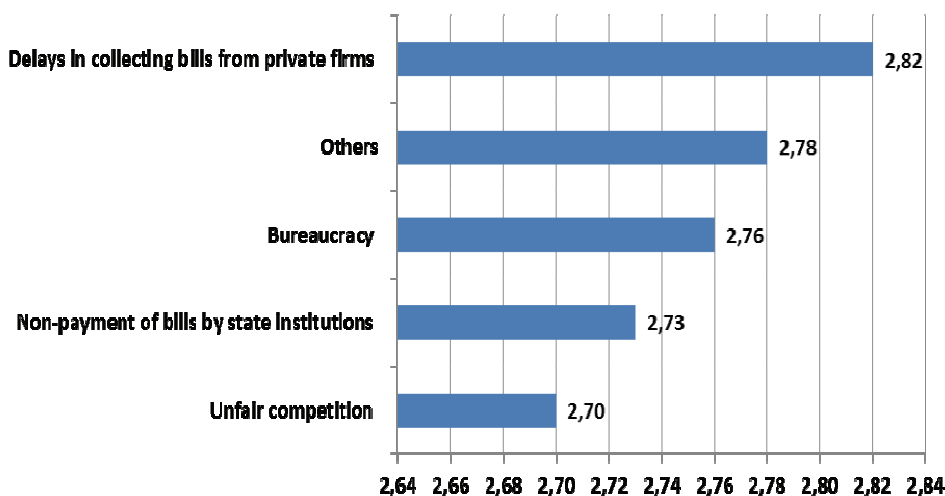
- The insufficient capacity of the Government, of the Parliament and of other bodies responsible in this regard, to counter the crisis.

• With regard to the difficulties faced by the entrepreneur involved in the financial audit our market research, conducted on a representative sample of 273 audit firms in a population of 946 firms revealed as the most frequent problems cited: late payment of bills by both state institutions and private firms, namely 62.64% and 47.99%, to which largely contributed unfair competition 52.38% (Figure no. 5a).



**Figure no. 5a: Frequency of the main difficulties faced by audit firms**

• As for the intensity with which these problems occur on a scale of 1 to 5, the first is overdue bill collection from private firms with an average of 2.82% and, on the last place, the unfair competition with an average of 2.70% (Figure no. 5b).



**Figure no. 5b: The intensity of the main manifestation difficulties faced by the audit firms**

• Analysing the results of the survey authors, taking into account both the frequency and intensity of responses the effects of the difficulties identified, we conclude that the lack of

funding manifested by late payment of bills and unfair competition are among the major challenges faced by the entrepreneurs' financial auditors.

### 5. Development of entrepreneurial culture and strengthening of managerial abilities of audit firms

Entrepreneurs are the main creators of the economic base and, at the same time, they should be among the promoters of change. In order to ensure a better defined image of the entrepreneurial sector consisting of legal entities registered in of CAFR, also some aspects related to motivation, profile, and the main problems faced by Romanian entrepreneur, from the management viewpoint, were analysed .

- Our market research, conducted on a representative sample of 273 audit firms in a population of 946 firms, revealed that **motivation** is determined by:

- to value the experience and the opportunities, by the entrepreneur or a family member, in public activities, especially in the field of financial administration (45.79%);
- to be his own master (25.27%);
- to capitalize the experience acquired as an employee for at least five years in a multinational (5.49%);
- other reasons (23.44%).

Based on the results of our research, we can conclude that the previous experience as an employee is an important motivation of entrepreneurs involved in financial audit.

- Regarding the entrepreneur's profile in audit firms, the statistical survey conducted by us on a sample of 273 audit firms in a population of 946 with 397 associates financial auditors showed the following characteristics:

- By age groups (Figure no. 6) the highest percentages are held by entrepreneurs between 45-60 years (56.17%) and by those aged 35-45 years (32.24%), at the opposite pole are found people who are under 25 years (0%), namely 25-35 years (3.27%).

- The average age of entrepreneurs is: 50.70 years, higher than the national average: 42.29 years (Nicolescu, O., et. alt. 2014, page 24), 49.88 years for males and 51.21 years respectively for women.

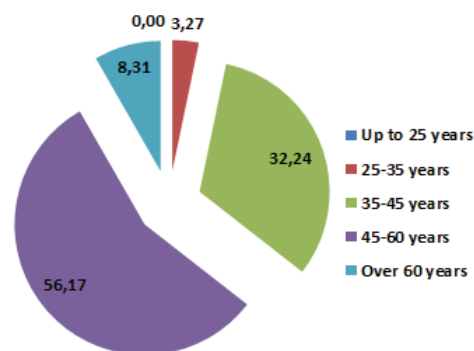


Figure no. 6: The structure of financial auditors entrepreneurs by age

- The grouping of entrepreneurs by gender (Figures no. 7 (a) and (b)) shows the preponderance of women 63.22%, above the national average for SMEs.

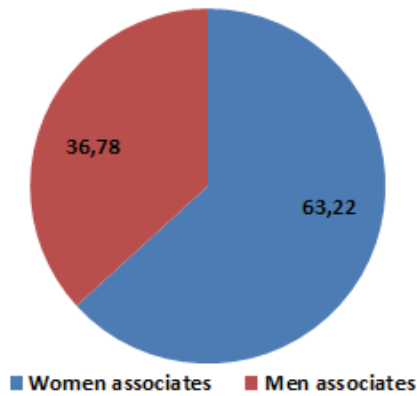


Figure no. 7 (a): Structure by gender of auditors' entrepreneurs

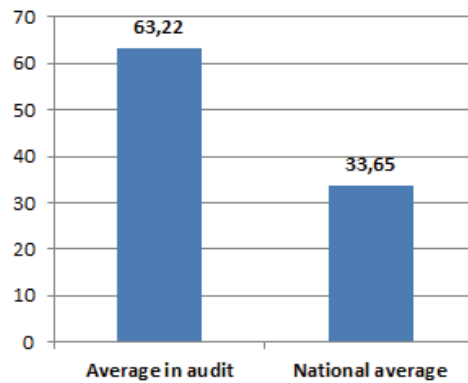


Figure no. 7 (b): Percentage of women entrepreneurs in audit and the national average for SMEs

- The study also shows that: in 70.33% of audit firms there are more associates, demonstrating the associative spirit specific to audit activities, contrary to the results of researches for other areas of activity; only 8.67% of audit firms have also other auditors as employees, reflecting the seasonal nature of audit activity; 35.53% of audit firms involve also family members in their activity, which demonstrates that the audit generally favours the sustainable development of small and medium enterprises; only 1.90% of audit firms have more than 3 associate financial auditors, reflecting a concentration and unbalanced development of the audit supply.

Based on the research conducted we can outline a sketch of the entrepreneur in auditing: a mature person with mandatory economic training, female, associated with other specialists (not necessarily auditors), with few financial auditors employees, who involve their family members in the firm's activity.

**6. Studies and analysis on the performance of financial audit activity of legal entities registered with CAFR**

From the previous analysis we found that both the demand and supply have increased continuously. We also established that financial auditors' entrepreneurs have an important role in developing and diversifying the types of missions outside the strictly regulated. Given that both request and offer increased as to reveal the role of the entrepreneur is required to define and calculate some indicators. To evaluate the entrepreneurial performance of financial audit we will use the following performance indicators:

*The average annual income per associated auditor (Vmaa), expressed in thousand euro and calculated as the ratio of revenues from auditing by legal members of CAFR during a calendar year and the number of associate auditors. We used this indicator because all the reports are signed by a partner of concerned firm;*

The average annual income per employee auditor (VMAs) expressed in thousands euro and calculated as the ratio of revenues from auditing by legal members of CAFR during a calendar year and the number of employees auditors, other than associates. The calculation of this indicator reflects the auditor's involvement in the control and surveillance audits;

The average annual income per auditor (Vmax) expressed in thousands euro and calculated as the ratio of revenues from auditing by member firms CAFR during a calendar year and the number of partners and employees financial auditors..

The dynamics of entrepreneurial performance, reflected by the three performance indicators is presented in Table no. 5 and Figure no. 8.

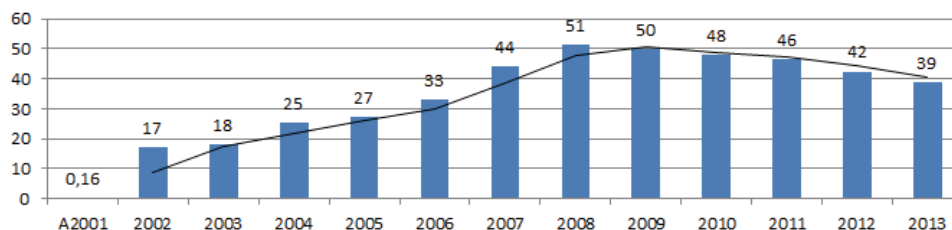
**Table no. 5: The dynamics of entrepreneurial performance Vmaa and Vmas in the financial audit activity in the period 2001-2013**

- Thousand euro -

|             | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|-------------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| <b>Vmaa</b> | 0,29 | 24   | 24   | 32   | 33   | 40   | 53   | 61   | 59   | 56   | 54   | 50   | 45   |
| <b>Vmas</b> | 0,36 | 57   | 77   | 115  | 147  | 182  | 252  | 314  | 322  | 321  | 314  | 290  | 272  |

To ensure data comparability, income from the financial audit activity has been converted into euro using the average annual exchange rate used by the NBR. The results show the following (see Figure no. 8): The performance in audit work steadily rising significantly until 2008, the crisis being felt in this area only from 2011, due to legislative provision that the size criteria that require auditing entity must be fulfilled for two consecutive years.

The performance in audit work steadily risen significantly until 2008, the crisis being felt in this area only from 2011, due to legislative provision that size criteria requiring auditing entity must be fulfilled for two successive years.



**Figure no. 8: Evolution of entrepreneurial performance during 2001-2013 in thousand euros**

## Conclusions

The analysis of statistics on audit activity which is the subject of this study, shows its continuous development, the number of auditors in the field registers increases every year, highlighting the ability of the entrepreneur something which highlights the contractor's ability to adapt to specific business requirements Romanian and the existence of an entrepreneurial environment attractive financial audit.



The financial audit activity is generally circumscribed to the dynamics of the entrepreneurial activity sector providing *other services* with some specific features: it is a regulated activity and therefore the entrepreneurial environment is highly influenced by political and economic decisions; the average age of the entrepreneur in the audit activity is higher than the average age of entrepreneurs in services; the share of women entrepreneurs, on the financial audit market, is almost double than the national average; the concentration and development of audit offer is unbalanced; the effects of the crisis began to be felt especially since 2011; the audit missions of annual financial statements, audited mandatory (statutory audit) and on demand, have a share of 79.99% of the audit missions in 2013, which is a maximum risk on the audit market developments, because the size criteria of entities subject to audit will increase; failure to pay bills on time by both state institutions and private firms, combined with unfair competition, constitute the main difficulties the entrepreneurs of audit activities faced and will continue to face. The dynamics of performance of the financial audit activity presented in thousand euros for the contribution made by: associations of financial auditors (**Vmaa**) from 0.29 to 59; employed financial auditors (**Vmas**) from 0.36 to 322 or associates and employed financial auditors (**Vma**) from 0.16 to 51 - clearly reflects the role of entrepreneurs in the growth of performance of the financial audit activity, but also the development of the business environment for the specific entrepreneurship activity. Due to continued growth both individuals and legal auditors (see Figure no. 1) and the number of missions (see Table no. 4) carried out under increased performance (see Table no. 4 and Figure no. 8), we conclude that the hypothesis that financial audit experience a rise in entrepreneurial activity in Romania, has been verified. Also on the basis of studies have established that other research hypothesis is verified (see Figure no. 5a and 5b), respectively, that:

- The lack of funding manifested by late payment of bills and unfair competition are among the major challenges facing entrepreneurs auditors.
- Previous experience as an employee is an important motivation of entrepreneurs involved in financial audit.

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