

DIAGNOSTICS OF THE AUDIT ACTIVITY IN THE REPUBLIC OF MOLDOVA

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Abstract

The audit activity is the independent examination of the annual financial statements, including the consolidated ones of the audited entity to express a professional opinion of the auditor on whether the financial statements are prepared in all material respects in accordance with the applicable general financial reporting framework. The purpose of the audit consists in verifying the financial statements having an internal utility (for the management of the audited entity) and another external one, for informing third parties (shareholders, investors, government institutions, customers, suppliers, creditors, etc.), exercised in order to ensure the credibility of this information. The development and modernization of the economy presupposes the alignment of the audit with the exigencies and standards in the matter existing both in the European space and internationally. The purpose of this research is to present the most relevant aspects with reference to the audit activity in the Republic of Moldova, but also to reveal the current context related to the theme, in order to formulate the conclusions related to the subject of the research. In order to examine the evolution of audit activity in the Republic of Moldova, we conducted a research on the entities in this field, researching five consecutive periods. For the evaluation of the scientific performance in the field of audit activity, the bibliographic and bibliometric databases in online format Web of Science and Scopus were analyzed.

Keywords: *audit activity; audit entities; audit risk insurance; Public Audit Supervisory Council; revenues from the audit of financial statements;*

JEL Classification: M41

I. INTRODUCTION

The investigation of the audit activity requires a methodological approach, based on the knowledge of the realities of causality and the evolution of economic phenomena, oriented towards studying their coherence in a constantly changing financial and investment environment. Such an approach allows not only a correct assessment of the current situation, but also the identification of vulnerabilities and development opportunities. In this context, the essential role in the investigation of the audit activity belongs to the financial diagnosis, which can establish the current state of the audit activity and future recovery measures in order to define development strategies.

In the last 20 years, the financial diagnosis has had a greater dynamism due to the changes in the economic-financial environment, the diversification and rapid renewal of the service offer, the globalization of the markets, the continuous increase in customer demands, the intensification of competition, the increase in risk with the accentuation of the economic turbulences financial and with the internationalization of exchanges of goods and capital, as well as pandemic restrictions (2019) and subsequently, the new military, political and economic conjuncture of the war in Ukraine (2022). Under these conditions, the quality of audit services has become a determining factor of the competitiveness of audit entities.

The scientific interest related to the audit activity is due to the existing economic and political conditions, because the audit is a constantly changing field, and the uncertain situations have determined the multiplication of the audit tasks, the highlighting of some aspects that require improvement and, at the same time, the use of professional reasoning in order to reduce the risks of audit and execution of audit missions. The global impact has led to the appearance of uncertainty, forcing auditors to focus on possible unforeseen aspects in the process of auditing financial statements.

In order to streamline audit activity, easily detect fraud and increase the quality of audit services, the entities in the given field have implemented information technologies and digitization elements to correspond to business globalization trends (Oncioiu et al., 2019). Moreover, the pandemic has accelerated digitization and, including, the need to secure the activity carried out in the virtual environment. Thus, in the socio-economic context, generated by the pandemic restrictions, the auditors had to revalue their audit activity, because the trust of the interested parties is a primary one, but at the same time to recognize that this crisis offered an opportunity to explore innovative solutions in audit (Deliu, 2020), (Farcane&Deliu, 2020). Taking into account the concerns of interested parties regarding the presentation of relevant and reliable financial statements, economic practice demonstrates that audit entities must comply with many rules imposed by rules issued by various authorities and

organisms. These concern not only the contractual links with clients, but also the relations with the regulatory and/or supervisory authorities of their activity, as well as with professional organizations, with the objective of ensuring a high quality level of audit services.

Taking into account the evolution of uncertain situations and frequent changes in legislation, we considered important an analysis from the perspective of knowing the current situation of audit activity in the Republic of Moldova, carrying out an applied research at the level of audit entities registered in the Republic of Moldova.

The purpose of this research is to present the most relevant aspects with reference to the audit activity in the Republic of Moldova, but also to reveal the current context related to the theme, in order to formulate the conclusions related to the subject of the research. In order to realize and value the purpose of the research, the following research objectives were established:

- Identification of scientific publications regarding audit activity;
- Bibliometric analysis of information sources identified by means of specialized software;
- Presentation of the most significant indicators that characterize the audit activity;
- Formulation of conclusions based on the results obtained.

II. RESEARCH METHODOLOGY

As part of the research methodology used to elucidate the problem addressed, the works of specialists from both the country and abroad, as well as norms and regulations in the audit field, were studied and analyzed. The work is part of the fundamental research, which aims to elucidate the trends in the development of audit activity in the Republic of Moldova, attested as a result of the research of statistical materials and public data from the annual reports of the Public Audit Supervisory Council, and, on the other hand, in applied research, helping the academic environment through pragmatic examples.

When presenting the material, preference was given to the descriptive method with the application of elements of comparison, analysis and deduction, as well as bibliometric and bibliographic analysis through the search engine in online databases Web of Science and Scopus. At the same time, in order to investigate the audit activity, methods and techniques specific to economic-financial analysis were used, such as: absolute and relative deviations, growth indices, graphs etc.

In order to examine the evolution of audit activity in the Republic of Moldova, we conducted a research on the entities in this field, researching five consecutive periods (2017-2021). The data in the tables and graphs represent our own processing (in Excel) based on the annual activity reports of the Public Audit Supervisory Council, taken from the Council's official website. At the same time, in order to investigate the audit activity, methods and techniques specific to economic-financial analysis were used, such as: absolute and relative deviations, growth indices, graphs, etc. As an indirect research technique, we used the analysis of the legislation provisions in the field of audit in order to carry out a qualitative review regarding the evolution of the audit activity in the Republic of Moldova.

III. LITERATURE REVIEW

The realization of any scientific research work implies, implicitly, the combined application of a number of research techniques and procedures, through which researchers try to obtain the maximum conclusions, starting from previous research, supplementing with their own experiences and results, thus formulating final conclusions on the researched topic. In order to carry out a study, as relevant as possible and meet the required qualitative requirements, the research methodology will be based on an adequate methodological and theoretical-scientific support, found in the specialized literature in the form of edited scientific works, published articles and studies, as well as research papers or PhD theses available.

The critical analysis of specialized literature allowed us to find that the most eloquent periodization of the evolution of the audit activity is the one made by Collins Lionel and Valin Gerard, from which we can derive the idea that the evolution of audit in society is a historical one, delimited in several stages, differentiated according to the social category that ordered the audit, called audit orderers, depending on the auditors and the objectives of the audit, its role being the protection of the patrimony of the audited entity and attesting its faithful image.

In order to identify international scientific research and assess scientific performance in the field of audit activity, the bibliographic and bibliometric databases in online format Web of Science and Scopus were analyzed. We note that the number of studies using bibliometric analysis as a method of research and evaluation of scientific performance is constantly increasing (Waltman&Noyons, 2018). The most frequently used bibliometric databases are Web of Science, Scopus and Google Scholar, which demonstrate that bibliometric analysis is considered an important and valuable method for evaluating scientific production (Ellegaard&Wallin,

2015). Bibliometric studies are becoming easier with the powerful development of computers and the spread of Internet access (Merigo, Gil-Lafuente&Yager, 2015).

In this context, the study of publications on these platforms was carried out by setting some search criteria, so as to obtain relevant results for the research. The first criterion, for obtaining and examining the data, was the establishment of the keyword "audit activity" (topic), the second criterion was the determination of the "period: 2013-2022" by generating the data recorded in the last 10 years.

Thus, based on the analysis of publications in the bibliometric databases, 68 scientific works on the Web of Science platform and 191 scientific works on the Scopus platform were selected, which correspond to the three indicated criteria. The centralization of the results in a first phase outlined the evolution of research and the interest of researchers regarding audit activity, table 1.

Table 1. Dynamics of publications regarding audit activity in the years 2013-2022

Year	Publications				Scopus/Web of Science
	Web of Science		Scopus		
	Number	Percentage	Number	Percentage	
2022	3	4,41	23	12,04	7,67
2021	6	8,82	22	11,52	3,67
2020	9	13,24	27	14,14	3,00
2019	11	16,19	32	16,75	2,91
2018	15	22,06	18	9,42	1,20
2017	7	10,29	20	10,47	2,86
2016	6	8,82	12	6,28	2,00
2015	6	8,82	18	9,42	3,00
2014	2	2,94	6	3,14	3,00
2013	3	4,41	13	6,81	4,33
Total	68	100,00	191	100,00	X

Source: developed by the author based on Web of Science and Scopus search results

From the data presented in the table, we deduce that the evolution from year to year is uneven, and the number of papers denotes the interest of researchers at an international level. From a quantitative point of view, the most publications were developed in 2019 - 32 publications, in 2022 - 23 publications and in 2021-22 publications (Scopus), followed by 2018 with 15 publications (Web of Science). In addition, the Scopus/Web of Science ratio was calculated, which demonstrates that the interest of researchers regarding audit activity was in the year 2022, then 2021, significantly different from other periods.

Depending on the category of works accepted by the bibliographic and bibliometric databases, the most representative are the articles, a fact presented in table 2.

Table 2. Type of publications regarding "audit activity" in the years 2013-2022

Document types	Publications					
	Web of Science			Scopus		
	Number	Percentage	Ranking	Number	Percentage	Ranking
Article	41	60,29	1	120	62,83	1
Conference paper	26	38,24	2	45	23,56	2
Book Chapter	0	0,00	X	22	11,52	3
Others	1	1,47	3	4	2,09	4
Total	68	100,00	X	191	100,00	X

Source: developed by the author based on Web of Science and Scopus search results

The data attests to the fact that in the total of research articles prevail with a weight of 60.29% (Web of Science) and 62.83% (Scopus), practically the same weight in the total of publications, with a difference of 2.54%. Thus, we conclude that most researchers try to publish their articles in high-level, high-impact, prestigious journals. At the same time, we deduce that the conference paper share is higher in the case of publications on the Web of Science platform (38.24%) with a difference of 14.68% compared to Scopus (23.56%). Book Chapter is only found on the Scopus platform and has a share of 11.52% of all publications. The other researches are insignificant.

In order to demonstrate the interest of researchers, at international level, and to analyze the scientific performance in the field of audit activity, the average number of citations per year of publications on Web of

Science was also identified, a fact that demonstrates an uneven increase from year to year. The highest number of citations per year was in 2021-56 citations, followed by 31 citations in 2020, figure 1.



Figure 1 - Average number dynamics of citations per year in the period 2013-2022

Source: taken by the author from Web of Science

According to the type of categories accepted by the researched platforms, we present in the following table the most significant categories that characterize the investigations regarding the audit activity.

Table 3. Type of categories supported by the researched platforms in the years 2013-2022

Categories type	Publications					
	Web of Science			Scopus		
	Number	Percentage	Ranking	Number	Percentage	Ranking
Business, Management and Accounting	30	44,12	2	78	40,83	1
Economics and finance	34	50,00	1	58	30,37	2
Social Science	2	2,94	3	42	21,99	3
Others	2	2,94	3	13	6,81	4
Total	68	100,00	X	191	100,00	X

Source: developed by the author based on Web of Science and Scopus search results

From those presented in the table, it follows that according to the categories accepted by Web of Science - 30 articles (44.12%) were reviewed in the "Business, Management and Accounting" category, 34 papers (50.00%) in the category "Economics and finance" and 2 papers on "Social Science" (2.94%). With reference to Scopus, the situation is as follows: - 78 articles (40.83%) were reviewed in the "Business, Management and Accounting" category, 58 papers (30.37%) in the "Economics and finance" category and 42 works on "Social Science" (21.99%). Comparing both platforms, we can mention that the most significant works as a share of their total on Web of Science are found in the "Economics and finance" category (50%), and in the case of Scopus, most works are in the "Business" category, Management and Accounting" (40.83%).

The analysis of the literature sources allowed us to find that the reform of the system of regulation and supervision of the audit activity is a basic condition for the accession of the countries to the European Community, and the introduction of international standards in the field of audit. Supervision of the audit activity and ensuring the quality of the audit services audit should be correlated with European and global audit practice standards (Iryna Kantsir&Marija Plekan, 2017).

There is no unanimously accepted definition of the notion of audit, but in the specialized literature (Năstase, 2007) the definition given by the American Accounting Association is often cited, which in the Declaration on the basic concepts of the audit, adopted in 1973, specifies that "he audit is a systematic process obtaining and objective evaluation of statements regarding actions and events of an economic nature, in order to assess the degree of compliance of these statements with the predetermined criteria, as well as communicating the results to interested users".

The research reveals that the particularities and difficulties in the evaluation of the audit activity start from the complexity and variety of the audit techniques and procedures used in order to detect non-conformities because, until now, in the specialized literature, there is no single comprehensive treatment of the performance of the audit activity.

IV. RESULTS AND DISCUSSION

The economic environment of the Republic of Moldova dictates the importance of the audit activity, requiring a climate of trust between entities that generate information economic and the rest of the parties interested in them. In this way, the audit activity has an assurance character, that is, through the audit, the compliance of the financial statements prepared by an entity with certain predetermined criteria is certified, at the same time attributing to them the status of relevant and reliable information in front of all parties interested in them.

The need for insurance is also imposed by business practice, so that, apparently, the audit is mandatory, more and more entities turn to this function. The experience of many countries has shown that inadequate regulation of the auditing profession creates vulnerability and can lead to long-term financial crises, and good regulation helps to ensure that financial statements reflect a true picture of financial position and performance and that they are not the result of fraud or error activities, with the aim of manipulating users' decisions and behavior or to hide significant aspects related to their activity, in order to achieve predetermined objectives.

In this context, auditors must comply with the auditing standards, basic requirements and principles recorded in the Code of Ethics for accounting professionals, in order to be as relevant as possible in expressing their opinion in the prepared independent auditor's report.

Thus, in order to obtain quality audit services, the Public Audit Supervision Council (<http://cspa.md/>) proposed the evaluation of the corrective actions necessary to eliminate non-conformities, attributing to them the notion of an essential tool. In order to ensure transparency, information necessary for the interested public is placed on the Council's web page: annual activity plans, activity reports, other information that reflects the activity carried out by the Council.

In the Republic of Moldova, the organization of the audit of financial statements by audit entities, the regulation of the exercise of the auditor profession, the supervision of the audit, as well as the specific requirements for the audit of entities of public interest comply with Law no. 271/2017 on the audit of financial statements. In this context, the autonomous public institution - the Public Audit Supervision Council is responsible for public audit supervision in order to ensure and maintain the high quality of audit services, with the aim of informing auditors, audit entities, professional associations in the field, as well as the general public about developments in this market.

According to art. 37 of law no. 271/2017, the functions of the Public Audit Supervision Council are:



Figure 2 - Functions of the Public Audit Supervision Council

Source: elaborated by the author according to Law no. 271/2017

According to art. 36 of Law 271/2017, all auditors and all audit entities are subject to public supervision. The public audit supervision council is financed from the payments and contributions made by the auditors and the audit entities, from subsidies from the state budget received through the Ministry of Finance and from other sources provided by the legislation.

In order to manage the audit quality assurance system, the Council performs external quality control. In order to manage the audit quality assurance system, the Council performs external quality control. The way of carrying out the external quality control and applying disciplinary measures is established in the Regulation on the external control of the quality of the audit, approved by the Council.

The Council prepares the annual activity report, where it includes general information on findings and disciplinary measures applied to auditors and audit entities.

Thus, based on the information placed on the Council's official page, we will analyze the evolution of the audit activity in the Republic of Moldova.

According to the data from the Public Register of Audit Entities, on 31.12.2021, 119 audit entities were registered. During the analyzed period, audit entities were registered and respectively ceased their activity. The evolution of the number of audit entities in the Republic of Moldova over the last five years is presented in figure 3.

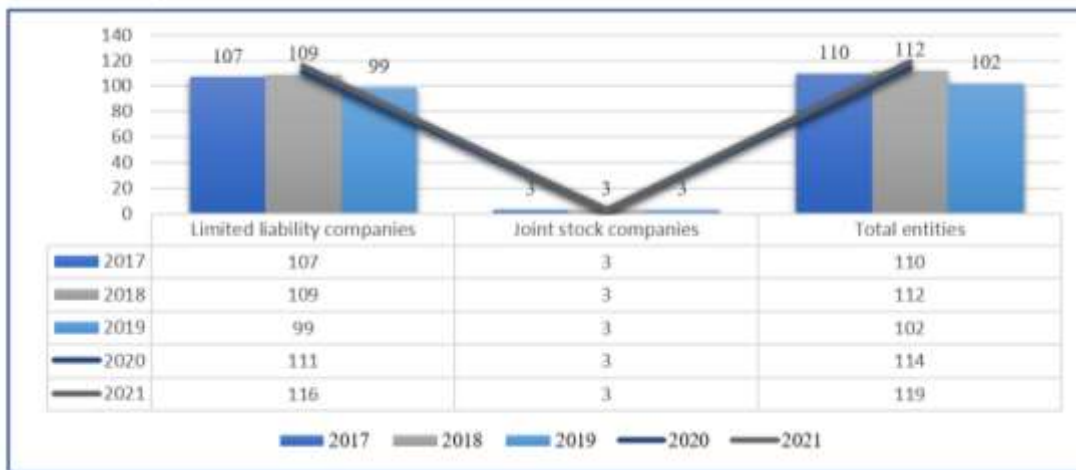


Figure 3 - The situation regarding the evolution of audit companies in the Republic of Moldova

Source: Information on the audit services market, www.cspa.md

From the information presented, there is a resistance of registered audit entities, in the sense that in 2021 we have a growth rate of 4.51% (+5 entities) compared to 2020, but not compared to 2017 (- 9 entities). A first observation that can be made is that about 97% of the registered audit entities are constituted in the form of a limited liability company. Comparing the evolution of the entities that carried out activity in the period 2017-2021 and obtaining sales revenue, we notice a higher rate of revenue growth, even if the number of entities was decreasing. With reference to the situation of 2021 compared to 2020, the growth rate of the entities is 4.50%, and the total income is 55.34%, including from the audit of the financial statements of 47.84%, a fact presented in the figure 2.

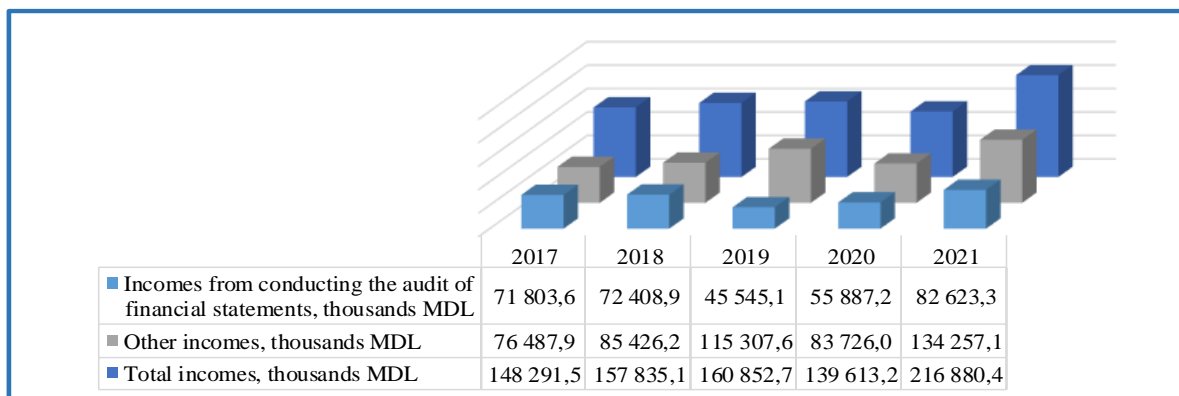


Figura 4 - The evolution of sales revenues related to the audit activity

Source: Information on the audit services market, www.cspa.md

Figure 4 shows a positive trend of revenue growth from audit activity. Thus, the revenues of audit entities obtained in 2021 are increasing by 52% (or 74,267 thousand lei) compared to 2020, including from the audit of financial statements by +40% (or 23,736 thousand lei) compared to the previous year.

The largest share of audit activity revenues for the year 2021, about 60% (or 134,257 thousand lei) comes from other revenues from the provision of related services, the issuance of reports other than for the audit of financial statements and services provided according to art. 21 par. 7) of Law no. 271/2017.

Dynamically, the share of these revenues varies unevenly every year, but the share of other revenues prevails, for example in 2019 it constituted 71.69% of the total of 160,852.7 thousand lei. Thus, we deduce that the audit activity is diversified and other revenues prevail during the analyzed period, than for the audit of financial statements.

The audit is carried out by auditors, a natural person, who holds an auditor's qualification certificate and who is registered in accordance with the provisions of the legislation (Law no. 271 on the audit of financial statements, 2018, art. 2).

Next, the situation regarding the auditors who hold qualification certificates for the general audit is presented, according to the data of the Public Audit Supervisory Council.

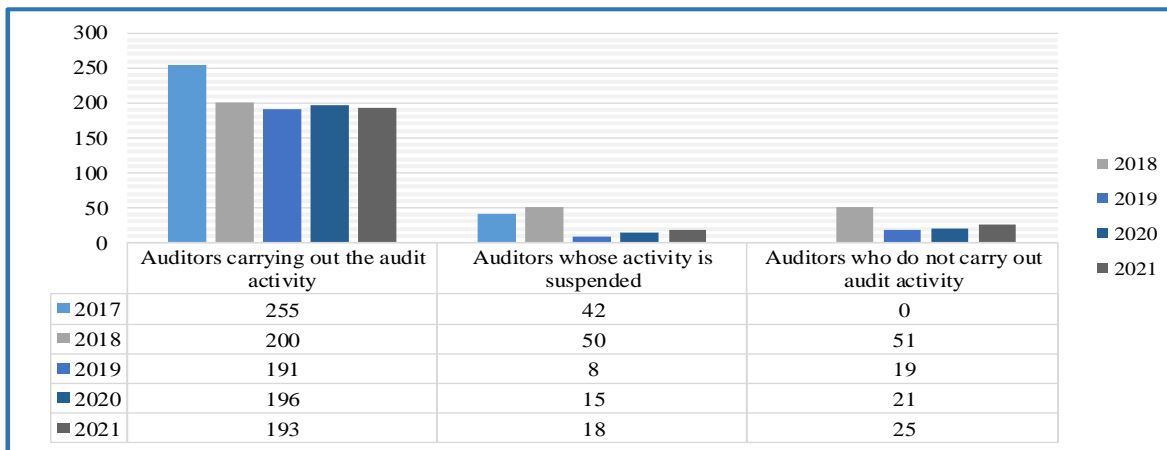


Figure 5 - Evolution of the number of auditors in the Republic of Moldova

Source: Information on the audit services market, www.cspa.md

According to the State Register of Auditors, in 2017, 297 auditors were registered, of which only 255 auditors were performing audit activity, and on December 31, 2021, their number decreased by 62 auditors, reaching 193 of the total registered - 236. In 2021, there is a negative trend of decreasing the number of auditors practicing audit activity by about 2%. A fluctuating trend is noticeable within the entities whose activity is suspended: from 42 auditors in 2017 to 18 in 2021. With reference to those who do not carry out audit activity, we note a significant increase of 51 auditors in 2018, and in 2021 it decreased to 25.

In accordance with art. 26 of Law no. 271/2017, the audit entity is obliged to ensure the audit risk. The purpose of audit risk insurance is to ensure the audit entity's liability for the damage caused to the audited entity, the audit applicant as a result of the expression of an inappropriate audit opinion, if the financial statements contain significant distortions. The audit entities can ensure the audit risk by concluding a civil liability contract with the insurer for the possible risks of professional activity or by setting up provisions in the amount of 15% of the sales income during the management period related to the audit.

The type of audit risk insurance chosen by the 76 audit entities that audited individual financial statements and/or consolidated financial statements during 2021 is presented in figure 6.

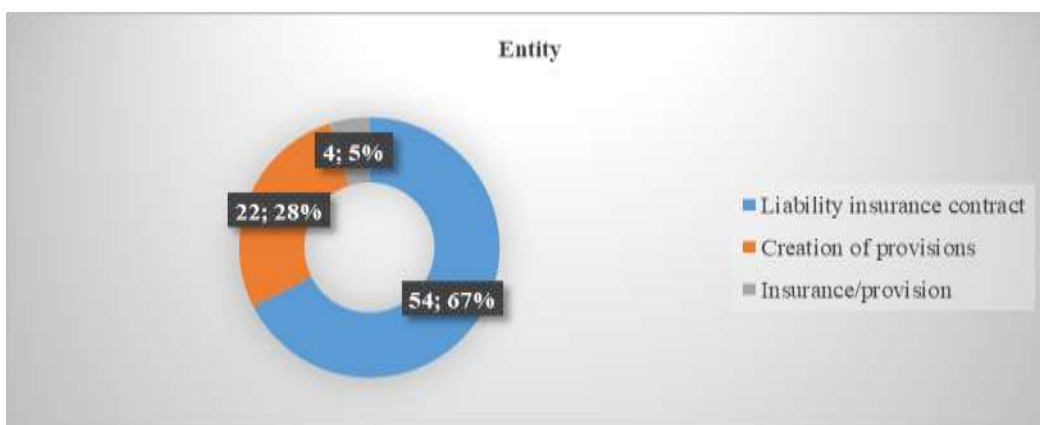


Figure 6 - The situation regarding the type of audit risk insurance

Source: Information on the audit services market, www.cspa.md

Analyzing figure 6, we can see that 54 entities (67%) concluded civil liability insurance contracts for the possible risks of professional activity, 22 entities (28%) opted for the establishment of provisions as a way to insure the audit risk, and 4 entities (5%) chose both the conclusion of civil liability insurance contracts for the possible risks of professional activity, as well as the creation of provisions as a way to insure the audit risk.

Given the major uncertainties, audit work is evolving to help entities understand and manage associated risks, achieve expected results and continue to innovate to deliver added value (Șoimu&Bădicu, 2021).

V. CONCLUSION

The evolution and improvement of the audit activity in the Republic of Moldova highlighted the role of the auditor, who can be found in a double capacity: entrepreneur and self-employed, member of professional organizations in the audit field, well determined and perfectly entitled to assume the responsibilities that the profession involves. In order to highlight the significance of audit activity, we focused on the evolution of the number of entities, auditors and revenues recorded during the last five years.

The analysis of the audit activity that was the subject of this study indicates its continuous development, the number of auditors in the respective field increasing every year, an aspect that highlights the ability of audit entities to adapt to the requirements of the specific business environment of the Republic of Moldova and the existence an attractive environment in the field of auditing financial statements.

From the research carried out, we found that the analyzed indicators experienced a continuous increase. Thus, we can evaluate a performance in the audit activity in the Republic of Moldova. The performance can also be expressed by the average annual income per auditor, expressed in thousands of MDL and calculated as a ratio between the income obtained from the audit activity, by the entities included in the Public Register of audit entities during a calendar year, and the number of auditor employees. The information presented shows a positive trend of increasing the average annual income per auditor, which in 2021 will amount to 1,123.73 thousand MDL, an increase of 93% compared to 2017 or 542.20 thousand MDL.

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