

Business risk audit: literature synthesis

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Abstract

Through this article, part of the thesis (ie, basic research stage), achieving a synthesis of the literature on financial audit based on risk assessment business. We decided not achieve the statistical records of the number of published research on the business risk audit or the number of citations as an analysis of how the subject has been addressed by various researchers, the influence of the new methodology on a mission to improve quality audit and social impact of the new audit methodology.

Key Words: audit; business risk methodology; accounting data

Introduction

Organizations decline has always been a concern of researchers, even if there was a generally valid definition of this concept, the importance of identifying cases that could affect the achievement of an economic entity has justified rich literature that analyzes this issue. No less interesting were found auditors of this phenomenon. The impact of the economic entity business risk audit risks, the measures taken by the auditor to reduce audit risk and economic risk of the auditor, client risk assessment to further exploit and 'recovery' ability to identify these risks the auditor stood the attention of researchers. Signal we believe that the relationship between business risk of a client and the conduct of a financial audit was the subject of multidisciplinary studies.

The process of revitalizing the traditional financial audit methodology has emerged as an objective necessity as a result of numerous legal implications, especially after 1990, when many audit offices have suffered losses due to not audit failures and, especially, inability client entities to achieve its objectives. It became increasingly obvious need to adapt the methodology somewhat

mechanistic, traditional, at specific activities of client organizations. The premise from which we started was to identify the primary causes that lead to significant distortions of financial statements: business risk and tend not to make public, through financial statements, difficulties entity [Djami, 2003] [1]. Many accounting irregularities are brought to light only during bankruptcy entities in financial difficulty.

Further, the paper is structured as follows: After a brief presentation of how the audit practice has evolved, we realize a description of the conjuncture in which crystallized audit methodology based on business risk assessment. Throughout the paper we make reference to rules governing conduct a financial audit Audit Standards. We will continue with the presentation of research studies into the topic of Business Risk Auditing and in closing we conclude on the advantages of applying audit methodologies based on business risk assessment, benefits weighed against the audit firms, customers and the engagement of users of financial statements.

An audit conducted in accordance with international auditing standards, provides users with reasonable assurance that the financial statements in their entirety, prepared in accordance with an identified financial reporting framework "provides a true" in that they do not contain significant distortions from fraud or error increasing thus their reliability, plus the credibility of financial statements is given by the professionalism and independence of the auditor. Risk Auditor to declare bankruptcy is a viable entity-order risk and the risk of declaring a viable entity in bankruptcy is called second order risk. Risk costs are much higher order and are costs borne by all stakeholders and even society as a whole, if we consider the allocation of resources to the detriment of the poor profitable activities. Damage to the auditor's professional reputation, which eventually may add an amount representing damages requested by the client "beneficiary" of a type I error is the cost.

Moments in the evolution of audit techniques, audit the completeness of documents, specifically the 1930s, to approach the evaluation of internal control system, then, the audit based on the general development of the audit risk model [Mikola and caste, 1999] [2], with its specific instruments such as the definition of materiality, the level of assurance provided by audit engagement, development of sampling techniques are time points that characterize the evolution of the economic environment in which entities operate and changes in organizational structure -as an audit client. Dynamic business environment, financial markets, increasing the cost of the audit, calls for greater efficiency and effectiveness of production insurance. In this context, the next "natural step in the evolution of audit approach" is characterized by increasing auditor's knowledge regarding the client's business, using professional auditors who possess the necessary competence to more complex risk assessment and diversion of resources audit in accordance with riseevaluated [Bell Doogar and Solomon, 2008] [3].

Getting the client's business knowledge is required by International Standard on Auditing ISA 315 Understanding the Entity and Its Environment and Assessing the risk of material misstatement [4]; procedures consist of investigations to obtain data on potential audit client. These data relate to: customer reputation, its relations with the business that operates with previous auditors, with tax, about the creditworthiness of the customer relationship. Usefulness of these investigations is to reduce the economic risk of the auditor that "no risky client does not pay enough for the audit firm can defend itself after the client has all sorts of problems" [Danescu, 2007] [5]. The knowledge thus acquired the underlying decision to refuse to customers, if the auditor detects generalized significant uncertainties regarding the ability to continue operating or resource allocation decision audit, audit of negotiating rates for customers accept [Johnstone and Bedard, 2003] [6].

For external users, although the auditor expresses an opinion on compliance of the complete set of financial statements with the applicable financial reporting is not a "guarantee the future viability of the entity" under ISA 570, Going Concern, the new methodology may increase the accuracy of opinions expressed. By restoring investor confidence in the information contained in financial statements issued by listed companies, the role of auditors in ensuring the stability of financial

markets is obvious. However, reluctance sized firms in the European Union to audit the financial statements of major listed companies is justified by the economic risk assumed in case of any bankruptcy clients. Conjunction with providing insufficient training, describing the facts found to constitute structural barriers that affect the European market for audit services [European Commission's recommendations on limiting the civil liability of statutory auditors, Brussels, 2008] [7] is perfectly justified. Recommendations C.E. that document the work of national regulators statutory audit liability cap considering financial auditors, proportionate liability, both measures are inapplicable where there is intentional nature of the auditor's expression of opinion inappropriate. Joint and several liability of audit firms and management is really unfair, if client unable to continue, undisclosed uncertainty in the financial statements: if the auditor "fault" is the risk of undetected (professional failure), concealing the difficulties the continuity of exploitation is considered misleading financial reporting fraud (under ISA 240 The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements).

Concern offices belonging to Big Four to reduce economic risk by ensuring a market share has resulted in undiminished proposing a new model professional: reputation and profits, both provided by the progressive integration of the current procedures of carrying out a global analysis of external financial audit of the entity and "they risk areas" [Ramirez, 2003] [8]. By the late 1990s Business Risk Auditing (BRA) was used for offices Arthur Andersen, Ernest & Young, KPMG, Pricewaterhouse Coopers [Bell and al, 1997] [9] (currently belong circle select Big Four offices Audit KPMG, Price Waterhouse Coopers, Ernst & Young and Deloitte Touche Tohmatsu).

If the traditional financial audit methodology was to answer the question "how financial statements are misleading?" Audit approach by Business Risk identification and assessment will answer the question "why are the financial statements misleading?".

Business Risk identification and evaluation based on financial and non-financial data, incorporating the general pattern of risk assessed audit risk and determine the acceptable audit risk - elements of the overall strategy and audit programs, represents a synthesis of what is called Business Risk Auditing. Dimensional aspect of audit quality, namely detecting material misstatements and disclosure, and add a new variable called Chemangui Manita [2004] [10] "adaptability audit work performed at customer's risk areas."

Theoretically analyzed in the context of external financial audit, namely agency theory [Jensen and Meckling, 1976] [11], the audit based on risk assessment of business can be seen as having implications not only reduce information asymmetry in terms of significant noncompliance financial statements with the applicable financial reporting, as much more important than financial value for shareholders, reducing residual losses caused by decisions that affect the continuity of the agency.

As regards the practical application of this methodology, there is a "unique form" of the practices applied by audit offices in an attempt to determine the acceptable audit risk as a function of business risk [Knechel, 2006] [12]. Traditional audit methodology requires knowledge of the entity and its environment auditor in assessing risks of material misstatement (as ISA 315), novelty of ARB is forecasting causes that could lead to failure of customer business, which is the reason causes the distortion of financial statements. It is obvious risks of material to facilitate location, even to the account level, and the new conditions, more precise targeting of subsequent tests. Anticipating the behavior of managers under accounting dangers surrounding the client's business require both intuition and reasoning so that the auditor's report issued to set up an early warning of all stakeholders (including management). In addition, the added value of external financial audit is given by the auditor's identification of residual risk business (risks that have not been identified by the client); indirect, positive effects of appropriate customer management residual risk rentabilizează and law audit by reducing time spent on a mission budget. In light of the external financial auditor business risk management by importing not the result of management

accounting practices by applying creative accounting and fraudulent financial reporting because both methods can help disguise the difficulties of the entity, thus the issue of false signals on its viability. It explains the difficulties that arise in relation to auditor-audited for the accounting policies adopted, although permitted by applicable accounting standards may lead to the preparation of financial statements that present a much more favorable than the real situation of the entity.

Summary of literature

"Important and valuable innovation audit firms," [Peecher and. 2007] [13], even the "climax" in the development of audit practices [Knechel, 2006] [12] analyzing the entity's strategic risks, risks embedded in the general model of audit risk may be a form of expectation gap reduction, the gap between user expectations of what he should "tell" an audit report and auditor's work quality.

Though explicit formulation of audit procedures need to adapt to the risks surrounding the business of each client comes from the Anglo-Saxon environment, adversely affect the quality of signals on a mission to "lack of coherence between risk and audit programs detected accounts" were issued and the professional body for quality control audit du Conseil France-Haut Commissariat aux Comptes-H3C, created in 2003 "in order to restore public confidence in the quality of external audit" through an "audit of audits." The results of studying the annual activity reports prepared by French professional body H3C in 2003-2009 are inconclusive: among the shortcomings identified, classified according to stages of audit are: "difficult to justify practices of auditing accounts programs by reference to findings in previous stages of risk assessment "," systematic use of standard audit programs under the internal procedures manuals, without efforts to adapt them to specific business and identified in previous phases of the mission "[Hazgui and al, 2009] [14]

As the cost of an audit based on risk assessment business, consider relevant the results of a study by Bell and [2008] [3] on a sample of 165 audits of an office belonging to the Big Four in 2002-2003, of which 79 are original mission. Meodologia research used is multiple regression. Considering the benchmark period before the application BRA, the need to involve partners in the mission is about 40% higher in conditions in which the average level of labor utilization is 10% lower, but not found a substantial reduction in budget allotment.

Risk that the entity can not meet the objectives, business risk, is considered a source of risk of material misstatement in the BRA. According to Bell and [2008] [3], business risk is "a measure of threats to business viability."

Auditor's reasoning in the decision to accept new customers or to continue the engagement to existing customers was analyzed for cost increases by increasing the budget for the mission needed, surprising results indicate the inadequacy of audit fees and the risks of subsequent procedures identified strategic customer [Kerr and al. 2007] [15], also the auditor tolerance to aggressive reporting practices for client acceptance risk assessed as "low" was established by experimental research [Brown, 2005] [16].

Identifying and assessing business risk is perhaps the most difficult part of the audit methodology requires ARB as qualitative information (non-quantifiable monetary) to a greater extent than traditional audit methodology. Also, the ongoing evolution of risk factors affecting business and, especially, need to identify, from many factors, relevant in the context of the socio-economic gave managers predict behavior based on the risks to business continuity require extensive application of judgment the Auditor-correlated with quantitative methods as a tool formalized decision.

Although the usefulness of research on professional reasoning in analyzing business risk is obvious, experimental results are just the description of stages of work done by an auditor. Thus, to complement these results with research on the collection of information deemed necessary by the auditor in assessing business risk, auditor's reasoning on the selection of relevant information is required. If the selection of relevant information can be considered experimental, it is more difficult to collect information (possibly?) To achieve a "research laboratory".

Evaluation methodology based on Business Risk Audit (MBR), is considered an "apparent harmony of interests between the auditor and corporate management" [Bell and 1997] [9], the effect of applying this methodology on the relationship auditor / audit is analyzed both audit performed in accordance with U.S. market regulation, SAS, [MHHadriche M. Sahnoun and Zara 2008] [17] and in jurisdictions that conduct audits are conducted in accordance with International Standards on Auditing (ISA).

Offices to apply the comparative advantage of MBR has been reviewed by Kopp and O'Donnell [2005] [18], Choy and King [2005] [19] and research results are anticipated: the majority of audit failures are caused by undetected material misstatements but result from aspects of the business context (business environment, the effects of globalization, technological progress, etc.). As a result of subsequent procedures, MBR requires extensive application control tests, using larger samples and changes in the form of working papers prepared by the auditor: narrative description of internal procedures is often used instead of flow-chart [Bierstaker JL, Wright., 2004] [20]

Business risk was considered long term / short term risk of bankruptcy [L. Bruynseels, M. Villekens, 2006] [21] highlighting the "conditions and events" (as SAS 5), including those that are not contained in financial statements that impact business continuity. Specific impact analysis of various indices of potential bankruptcy risk of the audit report has identified a positive direct correlation between entities that have sold significant assets or apply a strategic plan to reduce costs and number of entities that received modified audit report.

A paradoxical effect of the Business Risk assessment has been highlighted by research undertaken by Ed O'Donnell and J. Schultz [2005] [22] have called "halo effect" increase tolerance unusual fluctuations observed by the auditor for auditing the accounts and focus attention on the economic performance of the client.

Business Risk stressing that does not overlap with the inherent risk as defined in ISA 200, "Objective and General Principles Governing an Audit of Financial Statements" the auditor's perception of entities is analyzed from a psychological perspective, particularly the ability of auditors to detect fraud [BKH Wu, P. Roebuck, N. Fargher, 2002] [23].

Accuracy planned audit procedures based on the assessment of inherent risk, control and detection (in the classic audit) as a result of the analysis strategy (AS) and related audit of the rules and theories of strategic management has also made the object of audit research in [[Curtis E. T. Stuart 2005] [24].

Business risk, credit risk regarded as a multivariate regression was analyzed using, as explanatory variables earnings and cash flow of the sample of entities taken into consideration [and Boker, 2005] [25]. In this type of credit risk analysis is both an operational risk and especially the risk that the entity credited to enter default and can not repay loans and interest due. Analysis strategy (AS) or Business Risk identification (both forms of expression are present in the literature) performed an audit for financial planning is geared more to the explanation and prediction based on analysis of financial and non financial data, possible vulnerabilities that may arise in further work, and less on quantifying risk.

Documentation prepared for the Business Risk analysis is not appropriate audit evidence [Berberich, 2005] [26] in terms of ISA 500 Audit Evidence, but elements that contribute to knowledge of the entity and its environment by the auditor that allows more accurate assessment of risk of material misstatement.

Applying simple regression model, Behn [2001] [27] found a positive linear correlation between the opinion expressed in the audit report (exogenous variables) and the entity's ability to obtain financing.

A recent study [M. Hadriche Sahnoun, M. Ali Zara, 2008] [17] focused on analyzing the impact assessment by the auditor of Business Risk on the relationship between auditor / audited. We believe that the method used in the study mentioned in the national economic context, considering the degree of subjectivity in assessing relationships, has a limited validity.

Bettman and Johnson [1990] [28] demonstrated the superiority of cognitive efforts made by the auditor to identify and evaluate Business Risk from the risk assessment of material misstatement of the financial statements.

Using a sample of firms that went bankrupt in 1998-2001 and received a favorable opinion of business continuity (type II error) Bruynseels L., and M. W. Robert Knechel Vilekens [2006] [21] put in obvious negative impact of cash flow (obtained for example, loans) the accuracy of Business Risk assessment. Forecasting errors committed were much smaller number in the period after December 2001, public announcement date of the Enron bankruptcy [Geiger and al, 2005] [29].

In relation to the market share held in a particular sector, audit offices develop their own methodologies for identifying and Business Risk assessment based on financial and non financial data analysis [Neal and Riley, 2004] [30]. Studies confirm the superior efficiency of financial market securities issued by small entities compared with the shares issued by large companies [Klein, 1998] [31], and changes in course titles emerging stock markets: the equilibrium yield on securities in these markets is higher even if short term, the risks are higher [Erb, Harvey and Viskanta, 1996] [32]. There are reasons that justify the importance given to research aiming strategic approach to audit small and medium entities listed on an alternative market in Europe.

Given the consequences for subsequent procedures planned and, ultimately, the opinions expressed, reliable sources of evidence used in assessing business risk is a major concern for an auditor. Positive correlation between direct and auditor experience and credibility given to the reliability of sources of audit evidence, especially if the impact of such evidence is information associated with negative consequences for the business customer, is demonstrated by empirical studies [Johnson and Kaplan, 1991 [33] ; Knechel and Messier Jr. 1990] [34].

Auditor's professional judgment put in a position to assess the client's business risk is affected by the processing of information. Sequential processing of information generated "contrast effect" [Hogarth and Einhorn, 1992] [35], defined as more powerful impact of the latest information, especially if they contradict the auditor's previous convictions. Given that the formation of the auditor's opinion on the business risk is based largely on subsequent events (as ISA 560 Subsequent Events), the importance of recent evidence obtained on the opinion expressed is obvious. This is where the opinion formed and expressed coincide ... The fact that the aforementioned effect of contrast negatively affects professional skepticism, even for experienced auditors, it is shown by research carried out [Francis and al, 2005] [36].

Stressing that the risks affecting a business are interdependent, and causes of decline, even the failure of a business, does not occur in isolation [Novak and Sajter, 2007] [37], the need for simultaneous examination of these conditions the reliability of opinion formed. But the simultaneous examination of audit evidence whose content is appropriate information to identify and assess business risk depends on their availability, continuous discussions within the audit team on the evidence obtained during the mission can be a way of mitigating the effect of contrast.

Of risk management methods, according to Johnstone and Bedard [2003] [6] use the more risky audits the auditors with appropriate training audit to establish rates to contain a risk premium, using different techniques audit and implementation of specific policies for monitoring developments risky customers personalization strategy we will focus on general and audit programs tailored to customers included in the portfolio created a virtual office audit.

How negative opinion of the auditor, based on evidence of continuing operation of its "costs" the auditors concerned both researchers [Carey and al, 2008] [38] and cabinets audit managers, their conclusion is that, demonstrating competence and independence, lost a risky customer, acquiring at the same time, the ability to win (it is true, longer-term) customers interested or certificate of "big names" of the audit services market.

Market share reflects an audit office, according to Mayhew and Wilkins [2003] [39] "efforts of the offices to specialize according to branch of activity of the customer." This allows an alignment of services to needs customer, single customer, obtaining thus further gains from this specialization as possible by serving a wide economiilorde portfolio of customers "with the same basic features," the supreme audit fees, the result of bargaining power market segment.

An interesting challenge is for practitioners giving up and calling patterns in the reasoning are much more professional, also requires the auditor trained to become a financial analyst and expert in human psychology, a diagnostician applying audit procedures appropriate to the circumstances. Next period will demonstrate to what extent financial audit based on risk assessment will enable businesses to reduce the number of "financial autopsy" performed and increased insurance audit report seen by users. Typical audit methodology, the predictability of the procedures are less effective in detecting fraud, given that the client can anticipate areas of interest covered by the audit, hence resulting need to use different methods of risk assessment [Jeffrey and Zimbelman, 2002][40].

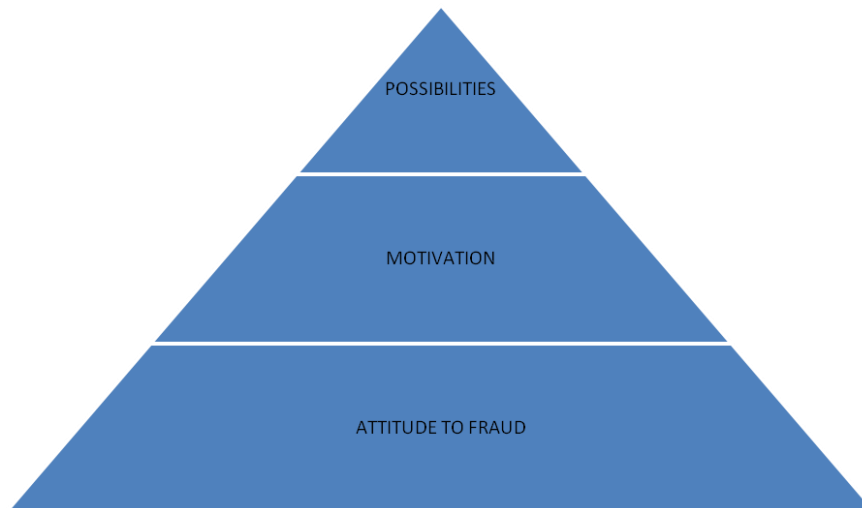
Preparation of fraudulent financial statements can be caused, according to ISA 240 The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements "the efforts of management to manage earnings in order to mislead users, influencing their perceptions of performance and profitability of the entity "(par.10). From identification to commit fraud case its effective, the auditor must obtain evidence of what the literature identifies as a "fraud triangle" [Jeffrey and Zimbelman, 2002] [40]:

Figure 1:: Fraudulent conduct



Source: Jeffrey and Zimbelman, "The effects of the decomposition of Fraud Risk Assessments Triangle on Auditors's Sensitivity to Incentive and Opportunity cues, 2002.

Figure 2: RISK OF FRAUD



We ranked as determining elements commit fraud in this case, fraudulent financial reporting for the following reasons: honesty management is the decisive factor in that there may be reasons (eg, pressure, self-interest), there may be opportunities (corporate governance ineffective inadequate internal controls or easily circumvented), ethical behavior prevails. Conversely, the risk of fraud is minimal when, although there are opportunities to commit fraud, reasons, there is definite attitude of anti-fraud management.

If you can obtain sufficient appropriate evidence (as ISA 500 Audit Evidence) the opportunities to commit fraud by applying the control test, evidence of reasons to commit fraud, the study of the minutes of the Board, analyzing the composition and competence of the audit of contracts that stipulate conditions for remuneration of management, evidence management on ethical behavior can be obtained by an auditor with a keen sense of observation and logical reasoning infallible.

The objective of an audit remains the same: reasonable assurance provided on the "true and fair view of the financial statements of all significant respects" (according to ISA 200 Objective and general principles governing an audit of financial statements). The scope of financial audit, that the nature, timing and extension procedures deemed necessary by the auditor to obtain audit evidence necessary and sufficient for expressing views are defined by identifying business risk and impact assessment of audit risk.

Switching from the audit documentation of the transactions carried out in an economic substance of transactions to audit paradigm shift is specific Business Risk Auditing. "Sometimes the most important information is probably not found in the entity's accounting records" [Arens Loebbecke, 2000 pag.204] [41].

Although details of the implementation of audit risk based on business assessment (called in the paper BRA) differ between large audit practices [Bell Doogar and Solomon, 2008] [3], structuring procedure involves the following steps:

- Business risk assessment,
- Audit risk assessment as a function of business risk,
- audit planning. Setting overall strategy and audit programs.

Traditional audit methodology requires knowledge of the entity and its environment auditor in assessing risks of material misstatement (as ISA 315), novelty of ARB is forecasting causes that could lead to failure of customer business, which is the reason causes the distortion of financial

statements . It is obvious risks of material to facilitate location, even to the account level, and the new conditions, more precise targeting of subsequent tests. Anticipating the behavior of managers under accounting dangers surrounding the client's business require both intuition and reasoning so that the auditor's report issued to set up an early warning of all stakeholders (including management).

Based on the classification of forms of audit, as Joras [1996] [42] can be appreciated as a mix BRA statement audit, operational audit and audit of anticipation because this methodology requires financial statements and accounting audit, evaluation organizational capital and anticipated effects on the behavior of managers diagnosed weaknesses in terms of communication performance obtained.

Conclusions

For external users, although the auditor expresses an opinion on compliance of the complete set of financial statements with the applicable financial reporting is not a "guarantee the future viability of the entity" (ISA 570 Going Concern), the new methodology may increase the accuracy of opinion cast. In fact, the interests of Shareholders on continuity of income and the costs of monitoring, then, and auditing, and interests of auditors to minimize losses due to financial failure and / or guest operating are converging.

Advantages of the new metodologii for audit offices can be quantified in terms of reducing economic risk (the risk that the auditor will suffer financial consequences even if the mission was carried out according to regulations), the consulting work performed in compliance with standards of ethical conduct requirements, especially on independence (in spirit and appearance). For example, after termination of service audit, auditor experience, gained through the application of audit methodology based on business risk assessment, can be a competitive advantage in the negotiation of that office consulting services that can provide the customer.

While additional investments will be needed for staff training [Tozer, 2003 [43]; Wyatt, 2003 [44]], investment in education are always profitable. In the above, add prestige obtained by audit offices concerned and the interests of their clients, the reputation of being a not insignificant capital on a market as competitive as the financial audit market.

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