„BABEŞ-BOLYAI” UNIVERSITY OF CLUJ-NAPOCA
Faculty of Economics and Business Administration

DOCTORAL THESIS

- Summary -

THE PROCESS OF AUDITING PORTFOLIO INVESTMENTS MANAGED BY FINANCIAL INVESTMENT COMPANIES

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2010

SYNTHESIS OF THE MAIN PARTS OF THE DOCTORAL THESIS

Introduction

Mutations produced in the architecture of international financial markets clearly confirms the existence of a trend exacerbated by the globalization of national economies, especially the trend within the financial capital mobility. In this context, the Romanian capital market can not ignore the need to strengthen its identity, especially as the subject of increasingly intense challenges in terms of "retrieving the international landscape, in order to assure accession to appropriate principles of communication with users of financial statements, to make content in the process of convergence for financial reporting.

Assessing the privileged position of the investors, as being providers of capital, within the users of financial statements and their information needs in terms of fairness and transparency, the effort can be justified by the regulatory and supervisory factors Romanian capital market, towards the adoption and implementation of IFRS for issuers of financial instruments traded.

Also, the need of investors to obtain a reasonable level of assurance that financial statements prepared and published by issuers of securities are not significantly biased by distortions able to affect the formulation of rational decisions, requires companies listed on a regulated market to seek professional services provided by financial auditors to certify compliance with predetermined criteria applicable financial reporting framework. In this approach, financial auditing profession is perceived as a "guarantor" of the credibility of financial reporting process in relation to equity bidders, despite some serious " image bad perception " which occurred on the horizon of 2001 or late 2008.

In the category of companies listed on a regulated market and under the requirements for financial statement audit, it can be found the Financial Investment Companies in their capacity as industry-specific entities trusts funds that operate on the Romanian capital market. The arguments that led to the orientation of research approaches towards asset management industry are linked to the interest shown in understanding specific behavior for local institutional investors, among which the Financial Investment Companies have, since inception, a privileged position. In this respect, particular importance has issues such as knowledge and understanding of both the organization and functioning of the regulatory framework, the investment strategies and policies defined in the Financial Investment Companies, the structure and evolution of managed portfolios, in terms of quality of selected financial assets or measuring portfolio performance, for the purpose of investment objectives reconfiguration.

Starting from the specific activities of the Financial Investment Companies, the issue of portfolio management approach is a priority in scientific research. With reference to portfolio theory and financial asset valuation models, we consider valuable the following publications:

- foreign literature: Investment Appraisal and Financial Decisions (S. Lumby, 1994); Corporate Finance and Portfolio Management (CFA Institute, 2008); Managerial Finance. The Canadian Model (P. Halpern, Weston JF, Brigham EF, 1994); Investment. Concepts. Analysis. Strategy (RC Radcliffe, 1997); Financial Statement Analysis and Security Valuation (S. Penman, 2007); Selecting Stocks (M. Kaye, 2006), Financial Reporting, Financial Statement Analysis, and Valuation (Stickney CP, PR Brown, JM Wahlen , 2005).
- national literature: Finance. Financial markets and portfolio management. Real investments and their financing. Financial analysis and corporate finance (I. Stancu, 2007); Investments (Todea A., 2008); Securities and portfolio management (Dragotă V., et al., 2003); Evaluation of shares issued by traded companies (Dragotă V., 2006); Portfolio management of primary securities (Badea L., 2005).

Deepening the concern of IFRS adoption in Romania, by channeling the research activities in the domain of financial instruments, are remarkable the efforts of young Romanian researchers, whose publications are spearheads in the vast and complex area of recognition and measurement of financial instruments: Financial instruments: accounting treatments and options (Huian MC, 2008); Theoretical and practical accounting of financial instruments (CG Bonacic, 2009). The issue of financial instruments has been treated to some measures by other publications of Romanian researchers, among which we find relevant: Business Combinations. Mergers and acquisitions (Tiron TA, 2005); Fair value. Accounting Concept (Deaconu A., 2009).

The specific values and structures of corporate governance for listed companies are decisive, especially for entities in the asset management industry, as their quality of public interest entities. The concept of corporate governance has recently entered the everyday language of business in Romania, but nevertheless, there are serious concerns in the field. As a result, we may announce several relevant publications, both in Romanian and foreign literature: Corporate Governance and Internal Audit (Ghita M., Briciu S., et al., 2009); Internal Audit and Corporate Governance (Morariu et al., 2008); Corporate Governance (Ghita M., 2008); Internal Audit (Dobroțeanu CL, Dobroțeanu L., 2007); Auditing, Trust and Governance. Developing Regulation in Europe (R. Quick, S. Turley, M. Willekens, 2008); Essentials of Corporate Governance (S. Anand, 2008); Corporate Governance. A Practical Guide to the Legal Frameworks and International Codes of Practice (A. Calder, 2008); Corporate Governance (R. Monks, Minow N., 2004); Handbook on International Corporate Governance (CA Mallin, 2006); Corporate Governance and Accountability (J. Solomon, A. Solomon, 2004); Corporate Governance in a Globalising World: Convergence or Divergence? A European Perspective (Lutgart Van den Berghe, 2002).

The projection and implementation of appropriate audit tests and procedures applicable to investment capital is the bottleneck of this work. In reaching the proposed research objectives, the author was inspired mainly from foreign literature, far more generous in terms of auditing the financial investment, compared with native literature. Representative in this regard are the following publications: Auditing & Assurance Services (Louwers TJ, Ramsay RJ; Sinason DH, JR Strawser, 2007); Auditing (Ricchiute DN, 2006); Auditing. Concepts for a Changing Environment (LE Rittenberg, Schwieger BJ, 2005); Auditing Standards. Including the Standards of the PCAOB (Dauber N., Qureshi AA, Levine MH, JG Siegel, 2006); Principles of Auditing and Other Assurance Services (OR Whittington, K. Pany, 2008); Auditing & Assurance Services. A Systematic Approach (WF Messier, Glover SM, Prawitt DF, 2007); Auditing. An International Approach (B. Soltani, 2007); Modern Auditing.Assurance Services and the Integrity of Financial Reporting (CW Boynton, RN Johnson, 2006); Auditing & Assurance Services.An Integrated Approach (Arens AA, RJ Elder, Beasley MS, 2006); Investment Companies (AICPA Audit & Accounting Guide, 2009). The Romania literature is represented by several publications relevant to the subject matter, namely: Audit and financial control procedures (Oprean I. Popa IE, Lenghel DR, 2007); Auditing procedures and techniques (Dănescu T. 2007), Financial Auditing (Bătrâncea M., 2006); Audit. Concepts and practices. National and international approach (CL Dobroțeanu, Dobroțeanu L., 2002).

In defining the scope of research approaches, we qualify the topics in the area of accounting research related to capital markets. Starting from this premise of the study, we admit the interdisciplinary nature of research undertaken during the work field, since efforts were directed to the projection and performance of relevant techniques and procedures in an auditing mission conducted for the Financial Investment Companies. Thus, the research concerns were channeled both to capital markets, as the center of interest for doing business in the asset management industry and on issues related to financial reporting process, the functioning of specific corporate governance structures (internal control, internal audit and Audit Committee) or an attestation of conformity of the information presented in the financial statements with applicable financial reporting framework.

The paper involved efforts in designing a scientific investigative approach by combining quantitative research type (dynamic analysis of the structure portfolios managed by the Financial Investment Companies, the determination of IFRS compliance adjustments or the application of analytical procedures for assessing the portfolio performance) with qualitative research (testing compliance with corporate governance principles applicable to the Financial Investment Companies, the use of questionnaires for assessing internal control mechanisms or to investigate the status of adoption of IFRS and the application of audit tests and procedures for financial investments). Conducting a quantitative type of research required to use a different methodology, specific to each case study. Qualitative research was based on the use of methods such as external observation, investigation by comparison, data processing and analysis, documentation of market reports, the synthesis of the conclusions drawn.

The research methodology used in developing specific procedures for auditing the capital investments, requires documentation resources relevant for specialized foreign literature, based on inventory and comparative analysis of experiences, procedures and practices in common. In the stage of obtaining relevant information, the author considers relevant the following activities: reviewing accounting books, statements and reports issued by the specific Investment Committee, obtaining external confirmations and other documents pertaining to the achievement of financial investments, in order to elaborate appropriate substantive tests for management assertions regarding financial instruments. The results are based on information activities, documentation and processing of information gathered through observation technique, interview or questionnaire.

Documentary sources used for the research approaches consist of articles published in professional journals or in various volumes of scientific conferences, relevant books for the research domain, from national but mostly foreign literature, documents and reports issued by various public authorities invested with powers in regulating and supervising the capital market or the accountant / auditor profession, news articles, financial statements issued by the Financial Investment Companies, accompanied by reports of the Board of Directors and auditors, as well as the database created for the empirical studies .

Chapter 1 Financial Investment Companies – *a defining type of closed-end funds on the Romanian capital market*

Key words: *institutional investor, investment strategy, prudential surveillance, investment objectives and policies, portfolio analysis*

Research approach that gives content to the first chapter is governed by the requirements of ISA 315 *Identifying and assessing risks of material misstatement in understanding the entity and its environment*, which provides that the auditor must reach to obtain a proper understanding of the entity and the environment in which it operates, sufficient to identify and assess risks of material misstatement of the financial statements. In the spirit of this approach, research issues relate to the legislative framework governing the conduct of specific asset management activities by the Financial Investment Companies; knowledge objectives, investment policies and strategies defined in accordance with the requirements of effective supervision and prudential management. Case study is based on the dynamic evolution analysis of the structure of portfolios managed by the Financial Investment Companies in relation to the relevant criteria. The findings can be successfully used as audit procedures applicable to risk assessment and planning stage of the audit mission.

Analysis of portfolios managed by Financial Investment Companies during 2005-2009, allows the issue of some general and relevant conclusions:

1) there is an accelerating ***trend of restructuring and diversification of portfolios***, particularly by reducing the total number of companies managed, to optimize the structure of financial assets; increasing the liquidity ratios; reducing the risk level and increase efficiency of portfolio management. In close correlation with the objective of restructuring the portfolio, reducing the number of companies in the portfolio targeted those entities that lack financial prospective or a healthy dividend distribution capacity, management efforts being not justified by the investment rate of return.
2) there is an interest in ***preserving or increasing holdings in companies with high potential for the remuneration of capital***, either by carrying out transactions completed by the transfer of ownership of shares (transfer contracts) or direct purchase (primary investments) on the capital market , or by participating in social capital, either through takeovers from PPAA (Public Propriety Administration Authority).
3) there is ***a high exposure to market risk***, which may significantly affect the value of managed portfolios. Low degree of liquidity of issuers in the portfolio, the lack of eligible counterparties to absorb the offer for sale of shares, emerging market status with a low degree of informational efficiency, the absence of real arbitrage opportunities in

foreign markets or hedge portfolio are factors which increase the loss marked the Financial Investment Companies from their trading activity.

4) there is a ***low concern for defining appropriate strategies for risk management***, provided by the diversification effect of financial asset categories held in the portfolio. A possible explanation may relate to the reduced opportunities for recovery of investments in equity, for the purpose of purchasing financial assets with a medium or low risk, under market conditions defined by modest liquidity and excessive volatility. A viable alternative to protect against market risk could be implemented by performing portfolio hedging transactions, although there is no use of derivatives for this purpose. Investments in interest bearing financial instruments (corporate or municipal bonds, government bonds or bank deposits) are relatively modest in relation to total financial assets under management, as shown in the table below:

Table no. 1.1. **Average weight of relevant categories of financial assets managed by Financial Investment Companies over 2006-2009**

Category of financial assets	SIF1	SIF2	SIF3	SIF4	SIF5
Traded shares	69,88	68,83	67,88	64,73	76,49
Non-traded shares	25,01	25,14	27,46	27,93	19,75
T-bills	0,09	0,04	0,00	1,00	0,10
Deposit certificate	0,00	0,00	0,00	0,00	0,00
Bank deposits	4,47	5,36	4,51	2,51	3,52
Governmental bonds	0,01	0,08	0,00	0,09	0,00
Corporate bonds	0,50	0,04	0,15	2,52	0,00
New issued securities	0,00	0,00	0,00	0,37	0,00
Investment fund units (UCITS)	0,04	0,50	0,00	0,86	0,15
Derivatives	0,00	0,01	0,00	0,00	0,00
TOTAL	**100,00**	**100,00**	**100,00**	**100,00**	**100,00**

(*Source:* Annex no. 1.6.)

5) analysis of relevant categories of financial assets reveals that ***listed equity holds the majority of share in total assets managed*** by the Financial Investment Companies, which are mainly classified as short-term financial investments valued at market value. ***Unlisted equity represents the second class of financial assets in order of importance***, fully recognized as non-current financial assets (financial assets available for sale) and being valued at historical cost adjusted for impairment loss.

6) from the perspective of the audit process of investments managed by Financial Investment Companies, the conclusions reached in this chapter can become ***extremely useful audit evidence obtained by applying analytical procedures for risk assessment*** that auditors can project and perform in the planning phase of the engagement. This approach can be performed to respond in a appropriate manner to the objectives of knowledge particularities related to asset management activities and the industry Financial Investment Companies operate in. Finally, this approach allows the identification and assessment of significant risk areas, key activities for the auditor to determine the nature, timing and scope of the substantive procedures designed.

Chapter 2 Portfolio investments – *expression of financial consolidation potential*

***Key words**: portfolio investments; valuation approach; market value; recognition and valuation of financial instruments; security analysis*

Taking into account the specific asset management activities, financial instruments recognition and measurement issues are extensively debated in the second chapter of the paper. The author defined the relevant principles used in the decision making process related to financial investments, using of IVS provisions for assessment of financial assets, in contrast to the practices prescribed by the NSC regulations applicable to Financial Investment Companies. IASB referential based approach complements the scope of financial instruments, the study case approach being oriented to issues related to performing external capital investments, such as: recognition and valuation of financial instruments, the disclosure of information related to the possession or trading activities with financial instruments, in terms of impact upon financial position and performance. The case study considers fundamental analysis, using specific instruments to test attractiveness level to investors, in shares issued by the Financial Investment Companies, in relation with the evolution of financial position and performance. From the perspective of the financial auditor, the use of key financial indicators are suitable to be in the form of analytical procedures performed during the initial review of financial statements in the planning phase of the engagement.

For a fair assessment of the value of equity instruments issued by the Financial Investment Companies, ***fundamental analysis methods and techniques aimed at collecting and processing of financial information***, thereby generating either buying signals to potential investors on the capital market or selling signals for shareholders. While fundamental analysis makes its certainly a valuable contribution in determining the market value of shares, it is important for a potential investor to take into account the history of share price developments, thereby improving the quality of investment decision in the capital market instruments. Thus, whether it is undertaken in an independent manner, whether it comes to reinforce the relevance and accuracy of information obtained through the specific tools of fundamental analysis, graphic research approach is proving to be extremely useful in forecasting the future stock quotes.

Specific fundamental analysis tools are essentially key indicators in assessing financial position and financial performance of the Financial Investment Companies. Research carried out actions aimed to test the equity issued by the Financial Investment Companies through a set of relevant indicators used in fundamental analysis. Research approach was oriented for assessing the quality of the shares issued by these entities, looked upon as investment vehicles on which the individual or institutional investors are turning their attention to the process of selecting a portfolio of stocks traded on the Romanian capital.

Chapter 3 Dimensions and coordinates regarding portfolio management from the perspectives of Financial Investment Companies

Key words: *asset management; valuation models for financial assets; risk management; portfolio selection; measurement of portfolio performance.*

The third chapter is focused on issues related to portfolio management, an approach from the perspective of Financial Investment Companies as entities defining domestic asset management industry. The structure of the chapter includes: the basic concepts of portfolio theory, objectives and strategies for portfolio management, aspects of portfolio diversification and selection; valuation models of financial assets or traditional methods of measuring portfolio performance. The case study aims to conduct a research at the crossroads of portfolio management theory and practice of financial audit, using indicators of portfolio performance measurement as analytical procedures applicable either for risk assessment, or as substantive procedures.

The projection of analytical procedures to measure the portfolio performance represents a key step in designing the audit program of investments managed by Financial Investment Companies and requires opening new horizons in the area of knowledge. Under this reasoning, the author has developed a research aimed at applying analytical procedures by testing specific indicators for assessing portfolio performance.

To achieve this goal, along with a comprehensive documentary about the regulations relating to portfolio management activities, it has been collected various information on the specific activity of portfolio management; annual financial statements published by Financial Investment Companies have been examined for the period 2006-2009; reports issued under the NSC regulations were reviewed for the portfolio structure of financial assets; it has been conducted documentation upon the reports published by AFM (Association of Fund Managers) regarding net assets and comparisons of various trading reports issued by the market operator BSE. The indicators that are suitable to be used for the design of analytical procedures specific for financial audits conducted in the Financial Investment Companies, refer to: return on investment transactions; percentage of listed companies in the portfolio managed; liquidity portfolio index; financial asset portfolio turnover; ratio of return; rates for measuring portfolio performance; net profit-net asset ratio; dividend yield; annual rate of change in net assets; correlation between the structure of capital investments and developments of NAV.

From the perspective of the financial auditor, analytical procedures based on the indicators for measuring portfolio performance for the Financial Investment Companies can be effectively applied ***as risk assessment procedures*** in the phase of knowledge and understanding the entity and its environment in order to assess risks of material misstatement of the financial statements. Moreover, an extensive degree of utility can be associated with designing and implementing these analytical procedures as substantive procedures in order to deliver value judgments on the quality of specific portfolio management activities, namely to make general conclusions about the extent to which financial statements are consistent with the auditor's understanding of the entity.

The research and its role in auditing capital investments managed by the Financial Investment Companies have been rendered for each type of analytical procedure proposed to be used in audit work. Since financial assets hold the majority weight in total assets owned by the Financial Investment Companies, ***the design and performance of appropriate and effective analytical procedures*** for measuring portfolio performance ***allows the auditor to draw some relevant conclusions regarding the accounting policies*** adopted by management in the recognition, evaluation and presentation of financial instruments, this constituting a prerequisite for the successful completion of financial audits.

Chapter 4 The process of financial communication with capital providers

Key words*: financial reporting; accounting convergence; accounting policies and options; compliance adjustments; recognition and valuation of financial statements' structures*

In the course of the fourth chapter, we try to grasp the essential issues related to the adoption and implementation of IFRS by issuers of financial instruments traded on the Romanian capital market. Research approach is focused mainly on identifying solid arguments to support the need for adopting and implementing IFRS by the Financial Investment Companies. The area of interest is defined by features related to financial statements issued by Financial Investment Companies, through a comparative approach between the applicable financial reporting framework and IASB referential in order to test the degree of correlation between disclosure requirements specific to these two accounting frameworks, particularly with reference to issues of financial instruments. The case study aims to identify adjustments resulting from the transition to reporting under IFRS, in particular on assessing the fair value of marketable financial assets held in the portfolio.

Critically analyzing the deficiencies of the financial asset valuation model defined by NSC requirements applicable for Financial Investment Companies, auditors issued qualified opinions or introduced emphasis paragraphs regarding the valuation of capital investment, whereas the values in the financial statements could differ significantly from IAS 39 fair value sense. For example, valuation of financial instruments reflected in the portfolios of Financial Investment Companies and traded on the regulated market of BSE, or on an Alternative Trading System could be circumscribed to a model that may capture the annual average trading price (if it reflects a higher degree of accuracy in fair value measurement), the following adjustments arising under:

Table no. 4.3./ 4.4. **A model for fair value measurement related to available for sale financial assets and financial assets designated at fair value through profit or loss**

Indicator	***SIF Banat Crişana***	***SIF Moldova***	***SIF Transilvania***	***SIF Muntenia***	***SIF Oltenia***
Disclosure value for AFS (lei) -	1.086.915.356	933.868.797	1.160.304.027	1.033.298.780	1.485.960.528
Fair value adjustments (lei)	(156.316.630)	(181.435.136)	(165.592.863)	(174.194.038)	(251.083.733)
Fair value (lei)	**930.598.726**	**752.433.661**	**994.711.164**	**859.104.742**	**1.234.876.795**
Disclosure value for DFV (lei)	11.657.074	5.624.145	49.485	9.937.021	2.493.219
Fair value adjustments (lei)	(1.694.658)	(1.099.298)	(7.063)	(1.691.454)	(421.989)
Fair value (lei)	**9.962.416**	**4.524.847**	**42.422**	**8.245.567**	**2.071.230**

(*Source*: Annex no. 4.2.- 4.6.)

Research approach has been extended to annual reporting periods of 2006-2009, the central objective aimed at determining the market value adjustments to financial assets portfolio held by each of the five Financial Investment Companies, in relation to the annual average trading price. The results are summarized in the following table:

Table no. 4.5. **Fair value adjustments for financial assets over the period 2006-2009**

Indicator (lei)	**SIF BANAT CRIŞANA**			
	2006	**2007**	**2008**	**2009**
Carrying value	1.115.051.469	1.543.291.287	648.666.282	1.033.515.053
Fair value	1.097.908.170	1.542.065.003	1.171.841.674	847.849.624
Fair value adjustments	*-17.143.299*	*-1.226.284*	*523.175.392*	*-185.665.429*
Indicator (lei)	**SIF MOLDOVA**			
	2006	**2007**	**2008**	**2009**
Carrying value	1.092.800.786	1.529.650.397	522.139.718	698.449.066
Fair value	1.039.086.741	2.374.379.670	1.083.408.845	532.361.750
Fair value adjustments	*-53.714.045*	*844.729.273*	*561.269.127*	*-166.087.316*
Indicator (lei)	**SIF TRANSILVANIA**			
	2006	**2007**	**2008**	**2009**
Carrying value	1.082.852.880	2.174.142.470	805.259.640	953.271.300
Fair value	1.031.764.144	2.031.312.785	1.825.474.577	819.981.193
Fair value adjustments	*-51.088.736*	*-142.829.685*	*1.020.214.937*	*-133.290.107*
Indicator (lei)	**SIF MUNTENIA**			
	2006	**2007**	**2008**	**2009**
Carrying value	955.171.027	1.718.322.491	768.985.517	829.755.238
Fair value	906.439.848	1.964.292.113	1.229.061.122	662.389.548
Fair value adjustments	*-48.731.179*	*245.969.622*	*460.075.605*	*-167.365.690*
Indicator (lei)	**SIF OLTENIA**			
	2006	**2007**	**2008**	**2009**
Carrying value	1.680.650.270	2.420.892.775	812.602.776	1.062.169.948
Fair value	1.605.949.938	2.400.783.097	1.438.832.160	821.009.712
Fair value adjustments	*-74.700.332*	*-20.109.678*	*626.229.384*	*-241.160.236*

(*Source*: Annex no. 4.12- 4.31.)

For Financial Investment Companies, ***the adoption of IFRS equals to an improvement in investor sentiment on the credibility of financial reporting process***, facilitating accurate investment decisions based on financial statements. However, the process of adopting IFRS faces some barriers, the lack of requirement of portfolio companies to prepare financial statements in accordance with IFRS being relevant. This, to some extent, justifies in some cases, the absence of consolidated financial statements by reporting to the cost-benefit principle. Restructuring quality of portfolios managed, in conjunction with the establishment by law of this requirement, constitute goals in the near future, in the process of IFRS adoption by the Financial Investment Companies.

Chapter 5 Coordinates of auditing process related to portfolio ***investments***

Key words*: audit process; postulates and theories; audit profession; objectives and application of an audit; client understanding; audit documentation; reporting the opinion; financial reporting integrity; risk management and control; internal controls testing and monitoring; trinomial internal audit – financial audit – Audit Committee; models and principles of corporate governance; audit procedures; management representations; audit objectives; test of control mechanisms; substantive procedures; audit program.*

Coordinates of financial audit process are described in the fifth chapter relevant aspects being focused on conceptual approaches regarding financial audit missions; arguments the need to audit the financial statements of public entities and standardization of financial audit work. It addresses relevant dimensions of the financial audit process, from the phase of defining the objectives, principles and terms governing a financial audit mission and continuing with the audit client's knowledge and risk assessment necessary for planning the audit. The conduct of the audit mission involves a rigorous and appropriate documentation, even after an adequate opinion is reached and the audit report is issued. These coordinates are approached by reference to the relevant applicable ISA.

Regarded as a condition of the process of strengthening the Romanian capital market, implementation of appropriate principles and models of corporate governance, give a real content to efforts needed to ensure and promote financial stability. Without exception, the Financial Investment Companies should adhere to these corporate values, by enrolling in the coordinates of a sound financial reporting process and transparent relationship with investors. The author reinforces the concept of reliable financial reporting based on an adequate risk management process, by appealing to relevant structures of corporate governance: internal control and internal audit. In detail, there are addressed key issues relating to internal control mechanisms regarded as the object of assessment made by internal audit, with focus in the Financial Investment Companies. It also appeals to the coordinates that define the internal audit process, from the planning phase of the internal audit mission to the phase of completing the mission and reporting the findings. The case study tries to adapt the internal audit activity in the Financial Investment Companies, and was completed by testing the applicability of the principles of corporate governance.

In the fifth chapter structure, we also find an overview of relevant audit techniques and procedures for capital investment companies managed by Financial Investment Companies. The chapter describes various audit procedures related to relevant phases of the audit process, the approach is continued by customizing them as substantive tests and procedures applicable for transactions with financial instruments. Based on the diversity of portfolios managed by the Financial Investment Companies, due attention is paid to audit activities related to different categories of financial assets. The case study arguments the possibility to use auditing tests and procedures applicable to capital investments managed by the Financial Investment Companies.

Analysis of the methodological framework for planning and conducting a financial audit allows the formulation of relevant conclusions:

1) ***Audit approach in terms of information needs of preferential users*** (investors and financial creditors) ***covers*** essentially ***the accuracy and reliability of the information that companies make available to them***. From this perspective, the auditor's role is precisely to ***provide reasonable assurance, through a distorted and independent opinion***, of the degree to which the financial statements describe a true and fair view. It can be concluded so that the ***auditors are the guardians of the integrity of*** published ***financial statements*** of entities.
2) Given the dynamic nature and complexity of capital market transactions in Romania, ***the audit process meets the information needs of investors***, giving them an adequate degree of assurance that financial information submitted by the issuing entities, the financial position and financial performance achieved by them are in accordance with applicable financial reporting framework.
3) From the perspective of capital providers, the purpose of an audit conducted in the spirit of the ISA, adds value through out the auditors opinion, which stems from a ***reasonable assurance that the information contained in the financial statements are not tainted by distortions significant and can be used in support of their investment decisions***.
4) Compliance with the ISA for carrying out audit missions within the Financial Investment Companies can be argued and justified in terms of major international financial scandals that have seriously shaken investor confidence in the auditor profession. Moreover, the visibility failures that marked the financial markets since 2008, require a strengthening of the role that financial auditing profession has in serving the public interest.

Financial Investment Companies must implement and maintain a separate internal audit function, independent of other functions of executions, which require the following responsibilities:

§ designing, implementing and maintaining internal audit plan to assess and examine the effectiveness and adequacy of internal control mechanisms and procedures;

§ develop recommendations on planned activities to achieve results in line with the internal audit program;

§ monitoring and verifying the implementation of recommendations;

§ reporting on specific aspects of internal audit with respect to internal control system and process evaluation and risk management.

Based on the risk assessment process that is manifested for Financial Investment Companies, the Audit Committee within the Board of Directors must determine where to focus internal audit efforts. Typically, a draft audit for the Financial Investment Companies includes the following phases:

- § establish and communicate internal audit objectives with the management, that is responsible for governance;
- § acquiring an adequate understanding of the business sector being audited;
- § plan, implement and maintain an internal audit program to assess and review the effectiveness and adequacy of internal control system;
- § identification, assessment and examination, according to the internal audit program, of mechanisms, policies, rules and control procedures to ensure that each key transaction type is approved, properly controlled and monitored;
- § develop a test approach and making a risk-based sampling to determine if the relevant controls operate in the manner in which they were designed;
- § reporting and establish action plans with management upon the findings and other identified problems Usually, the internal auditor report, with a monthly frequency, the most sensitive issues and findings to the Audit Committee, together with management's progress in resolving them;
- § issuing regular briefings and recommendations based on the outcome of activities;
- § verify compliance with the recommendations made, especially in situations that involve deficiencies associated with the operation of internal control system or regarding the systematic and rigorous application of policies, rules and specific procedures;
- § reporting on internal audit matters and monitoring progress of implementation remedial measures required to be taken in cases where deficiencies.

Transposition and implementation of corporate governance principles for the Financial Investment Companies is ensured by specific regulations, inspired both the national legal system (Company Law, Accounting Regulations, Capital Markets Law, NSC Regulations) and international law (European Directives, Codes of Corporate Governance, OECD Principles). A practical assessment and documentation regarding the degree of corporate governance principles' implementation within the Financial Investment Companies has been made on the basis of a questionnaire. Responses obtained confirm the significant importance that management allocates for the compliance with relevant principles of corporate governance.

Case study on the use of specific audit tests and procedures for capital investment managed by Financial Investment Companies are based on the disclosures regarding recognition and measurement of equity investments, as they were made in the financial statements developed over the period 2006-2009. Audit reports prepared for the financial statements reported during this period were also analyzed, being particularly concerned with the expression of qualified opinions, paragraphs of notice and explanatory paragraphs.

The results of the research can be stated as follows:

1) ***the management chose not to present consolidated financial statements in accordance with IFRS***, although there is this obligation. In particular, the requirements of IAS 27 and IAS 28 are not applied regarding accounting for investments in subsidiaries or associates, although the percentage of ownership in some companies in the portfolio would require this approach. However, financial assets are classified in accordance with the requirements of IAS 39.
2) ***the cost of financial investment acquired is properly determined*** and the financial effects of holding or disposal of financial assets are recognized on a appropriate basis to the applicable financial reporting framework.
3) ***external confirmation*** of financial investments held at balance sheet date ***is essential*** to test the audit objectives related to account balances or transactions, given the specific asset management activities.
4) there are ***distortions or inconsistencies in the application of accounting policies on recognition of financial assets acquired free of charge*** from the incorporation of reserves into share capital of the issuers in the portfolio, or on the valuation of financial assets in accordance with the model prescribed by the NSC Regulation no. 15/2004, having impact on the determination of adjustments for loss of value.
5) ***excessive volatility of capital markets and the tightening of access to financial resources is a relevant state of uncertainty*** involving reasonable possibility that financial assets held by the Financial Investment Companies can not be recovered at book value during the normal course of business. The approach of quantifying the possible impact on the profitability of the asset management activities may be a wildcat in the light of unpredictable capital markets.
6) ***risks associated with financial investments comprise a significant character in addressing the audit*** of financial statements and distortions caused by incorrect recognition or measurement of these assets can often lead to expression of opinion, different from the unqualified from the auditors.

6.1. Personal contributions and research results' dissemination

The paper presents results of research conducted by the author in areas relevant to the work of the Financial Investment Companies, such as:

§ analysis of the dynamics of managed portfolios in terms of appropriate criteria such as economic sectors, the share of ownership and the degree of liquidity;
§ analysis of the impact on financial reporting trading price of shares;
§ applying analytical procedures based on testing position and financial performance through a system of key financial indicators;
§ applying analytical procedures based on specific indicators for measuring portfolio performance;
§ determine the fair value adjustments of investment capital managed by direct observations on the annual average trading price and applying its own specific judgments;
§ developing assessment questionnaires to obtain and document appropriate responses: mechanisms of internal control, implementation of corporate governance principles or IFRS adoption;
§ develop a program of internal audit to assess the specific risks of the asset management activities;
§ testing suitability of using going concern principle, by applying analytical procedures based on the rating valuation models;
§ identify relevant audit objectives related to capital investments and capital investment application specific tests in the audit program developed detailing the audit strategy.

Results of research conducted by the author concerning the issue of auditing capital investment, were releases by publishing 18 related papers in professional journals, volumes of international scientific conferences, indexed databases or ISI journals. In perspective, the author intends to continue research approaches on the issue of auditing capital investments, expanding area of research to other types of closed-end investment companies listed on regulated capital markets, mutual funds or investment funds such private equity. To this end, efforts will be made for access funding programs for post-doctoral research.

6.2. General conclusions

Collective administration of capital investments is a feature of the Financial Investment Companies. Collective investment vehicles offer investors access to diversified portfolios that provides a substantial reduction in risk, among other significant advantages:

- § collected financial resources are invested and managed on a professional basis by investment companies, who assumes the responsibility of the placement and implementation of appropriate strategies for portfolio management.
- § investment company provide investors with investment decision, maintaining their right to decide on the timing of entry or exit from collective management system. Thus, under contractual terms, investors contribute with capital made available for this purpose and investment firms with professionalism, ability and experience in managing the capital entrusted by investors, assuming the same responsibility with which they invest their own resources;
- § costs associated with portfolio investment is significantly reduced as compared with individual investments are distributed over a larger number of investors;
- § smaller amounts can be placed in conditions that are comparable or even higher yields;
- § risks are mitigated through a portfolio more balanced and more diversified than that which might be an individual investor;
- § the degree of liquidity associated with investments managed collectively is often higher individual investments;
- § collective investment represents an opportunity for gaining experience and skills for the uninitiated investor.

Improving the quality of portfolios managed by Financial Investment Companies should be an ongoing concern for those responsible for management and governance. Portfolio diversification by investing in foreign markets, active involvement in financial policies of the issuers in portfolio managed, defining appropriate strategies to mitigate exposure to risk through hedging and arbitrage strategies, adoption modern methods of portfolio management are key factors in ensuring the success of asset management operations. All these courses of action to materialize the objectives of performance that involves a continuum of research approaches.

Collective management strategies are defined by objectives which enable a more efficient recovery of capital investment, in particular through investment skills and abilities, through the policy of risk dispersion by investments carried out in various economic sectors simultaneously or by reducing transaction and administration costs. Investment objectives which reflected the investment strategy defined and implemented by the Financial Investment Companies are targeted for the purposes of improving the market value of the portfolio of financial assets and substantially increase the income generated by them, in connection with the legal provisions regarding the administration and supervision on a prudential basis.

In essence, the attainment of these objectives is ensured through operational decisions regarding financial asset classes that will compose the portfolio over the prescribed investment horizon and specifying for each class of financial assets the allocation limits in order to help highlight opportunities for a greater profitability. Investment horizon will necessarily be correlated with the type of investment strategy, dividend policy and maturing obligations.

Financial statements prepared and presented by the Financial Investment Companies, particularly in terms of entities listed on a regulated capital market and involved in the investment administration business, are an essential component of financial communication process with external users. From this perspective, the financial statements must be seen rather as information tools to facilitate financial analysis and assist economic decisions than the final product of accounting, serving only the procedural aspects of surveillance and monitoring needs of the financial creditors or control by the tax authorities.

Unfortunately, in present days, a degree of uncertainty surrounding the evolution trend of financial reports submitted by companies listed on the Romanian capital market, these fluctuating between IFRS and European directives, subject to the requirement imposed on the consolidated accounts. Financial investment firms is unusual because, although they hold a percentage of ownership that would require the preparation of consolidated financial statements, and therefore reporting under IFRS, these entities' refusal to hide behind the curtain", justifying the high costs of obtaining information, compared with the benefits from these efforts. We manifest optimism that this barrier will be removed when, by law, companies that fall within the area of consolidation will be required to prepare a second set of IFRS financial statements in order to consolidate operations. We believe that this legislative approach will require Financial Investment Companies to accelerate the restructuring of portfolios, in the sense that they give up equity holdings in companies that will not comply with new requirements. This raises a great interest in future research design.

Undoubtedly, the lack of consistency in the implementation a solid reform program of the Romanian accounting system has considerable influence on the quality of its financial audit missions. In this context, a question is emerging and it may be pertinent: whether IFRS have successfully demonstrated its values through the experience of countries that implement them, why the accounting standardization body in Romania do not "give them a chance" concerning entities listed on the stock market? It should be noted, however, a deeper similitude between new national accounting rules and the IFRS spirit. The future will certainly bring a response on the application of IFRS in Romanian capital market segment ... this requires us to know and understand them in an appropriate manner.

The issue of recognition and measurement of financial instruments as means of achieving the capital investment is a particularly complex and timely, given the specific volatility in international financial markets. Adoption of IFRS by the Financial Investment Companies involve both the alignment to specific financial instruments' standards, which require complex professional judgments, reliable valuation models and appropriate accounting policies. These actions bring the ordeal of financial experience and professionalism of auditors engaged in audits within the Financial Investment Companies.

To achieve agreed objectives, financial statements prepared and presented by the Financial Investment Companies must submit to "filter value judgments" issued by the auditors in their capacity as guarantors of quality and reliability of financial reporting. By increasing the credibility of financial information, audits reduce informational risk to a significant extent for the financial statement users. Investors seek that the rate of return should cover the remuneration of capital including risk that it is assumed, this reward being subject to increase in direct relation with the risks undertaken for each business separately. Information risk reduction will also cause a decline in the risk premium which investors can claim. Thus, the financial audit helps to reduce financing costs, promoting a better allocation of resources throughout the national economy. These statements may be subject to future research.

An effective system of corporate governance in the Financial Investment Companies assures investors on the efficiency and quality of management of capital investment. Good corporate governance should be a system of binomial between risk management and internal control systems, while their functionality should be provided both by the internal and financial auditor's work. Consequently, corporate governance process can be considered as a key element in ensuring the degree of efficiency improvement that is given in strengthening business and investor confidence. Continuing to monitor how the Financial Investment Companies adhere to the set of values prescribed by the code of corporate governance is an area of significant interest, under the assumption that these entities will enter foreign markets to seek new investment opportunities. Equally, there is the possibility of cross-border listings, fueled by the prospect of the Romanian capital market to international exchange alliances.

Trading financial instruments performed by the Financial Investment Companies generate balance sheet structures associated to financial investments recognized as non-current assets (investments) and short-term financial investments, with distinct implications and approaches for recognition, measurement and disclosure in financial statements. For this reason, the audit of financial instruments held by the Financial Investment Companies is a complex process by virtue of the fact that this category of operators in the financial markets made a considerable volume of transactions and the magnitude and frequency are critical factors for occurrence of material misstatements in financial statements. Designing, developing and implementing programs for specific audit of capital investment is also a research field insufficiently well explored, so that the author has made several relevant perspectives for future research efforts.

We appreciate that an appropriate level of quality audit process of capital investment companies managed by Financial Investment Companies, who find themselves in a position of entities involved in the financial services industry, is an imperative condition for the credibility of information for external users and preventing occurrence of shocks in international financial markets landscape.