



FINANCIAL REPORTING WITHIN THE CONTEXT OF A GOOD CORPORATE GOVERNANCE

Victor MUNTEANU¹, Laura Maria SCARLAT (LAZĂR)², Mihaela Cornelia BERECHET (DRAGNEA)³

¹Professor PH.D., Christian University “Dimitrie Cantemir” Bucharest, E-mail a2c_vm@yahoo.com

²PhD.student., „Valahia” University Târgoviste, E-mail laura.lazar76@yahoo.com;

³PhD.student., „Valahia” University Târgoviste, E-mail berechetmihaela@yahoo.com.

Abstract Corporate governance is increasing the value of an economic entity on solid, well-grounded base, making use of the professionalism of the management team and all employees; it creates a close link between the added value of the economic entity and the tools available to management and used in order to achieve effective control on the results reflected in the entity financial reports.

Applying the principles of corporate governance is an asset to economic entities which can thus more easily manage specific activities, knowing and controlling the risks that may affect those and reaching the established objectives. Therefore, corporate governance applies to both private and public sector. According to the author, the public should be more interested in the application of corporate governance principles by the fact that economic entities operating in this sector provide services for the society, its members contributing by paying taxes to the consolidation of national budgets; this is doubled by the fact that members of the society have high expectations that all money is spent safely and in terms of efficiency.

Key words:

financial reporting,
corporate governance,
financial accounting information,
decision – making system..

JEL Codes:

M41

1. INTRODUCTION

Financial reports of an economic entity centralizes annually, information and data relating to factors such as: the results of the management team in relation to targets set in advance by it, how they used the resources available to the heads of the organization, all these materialized in reflecting the achievements in management and administration core activities, specific to the strengthening of the financial position of that entity.

2. FINANCIAL REPORTING IN THE CONTEXT OF UPDATED NATIONAL LAW

National legislation was updated in 2015 with provisions relating to the application, by some economic entities, of the accounting regulations compliant with the International Financial Reporting Standards, according to which these entities compile a set of individual annual financial statements under accounting regulations in

accordance with Order no. 1286/2012¹.

The set of financial statements shall reflect, for each item of the balance sheet and profit and loss account, differences in:

- ✚ the accounting treatment according to the Order no. 1802/2014² and
- ✚ treatment provided in accordance with accounting regulations Order no. 1286/2012³;

Individual annual financial reports related to fiscal year 2016 are drawn by reprocessing the accounting information organized under accounting regulations on the annual individual and consolidated financial statements.

To clarify the manner of the operations

¹ Order no. 1286/2012 approving the Accounting Regulations compliant with International Financial Reporting Standards applicable to companies whose securities are admitted to trading on a regulated market, as amended and supplemented - Official Gazette, Part I no. 687 of October 4, 2012;

² Order no. 1802 of December 29, 2014 - approval of accounting regulations on the annual individual and consolidated financial statements - OJ. 963 of December 30, 2014;

³ Ditto 1

generated by drafting the financial reports, we mention that “*restatement accounting information*” involves making and recording accounting transactions with the transition from accounting regulations on the annual individual and consolidated financial statements to accounting regulations in accordance with International Financial Reporting standards applicable to companies whose securities are admitted to trading on a regulated market. The results of „restatement” will be accounted for using the chart of accounts prescribed by Order no. 1286/2012⁴.

Data and information included in financial reports prepared in accordance with International Financial Reporting Standards must cumulatively meet several conditions:

- ✚ allow centralization. Financial reports are prepared by filling pre-established models of documents that are applicable to all economic entities without differences, facilitating centralization. This condition also implies the possibility of aggregation of similar data to enable the extraction of results and their interpretation;
- ✚ allow communication of the results. All documentation related to financial reporting is prepared, stored and transmitted in computerised form and on hard copy. The way in which information is recorded allow appropriate communication of results.
- ✚ represent the basis for management review. Financial reports of economic entities are sources of relevant information for management in the process of decision making. In fact this is the fundamental role of financial reporting; depending on the evolution of the economic entity during the financial year, its management may:
 - ✓ establish an effective system of measures to mitigate deviations from projected targets, if they were not reached;
 - ✓ continue running the specific activities, following the same rules previously applied, if performances are satisfactory or
 - ✓ design a new model of organization

⁴ Order no. 1286/2012 approving the Accounting Regulations compliant with International Financial Reporting Standards applicable to companies whose securities are admitted to trading on a regulated market, as amended and supplemented - Official Gazette, Part I no. 687 of October 4, 2012

and management of activities so that the public entity may move to a higher level of performance.

From the financial reporting point of view, the financial accounting information system enables calculation of a set of reliable performance indicators that reflect efficient use of resources available to the economic entity.

Individual annual financial reports are „the mirror” of the degree of achievement of general and specific objectives of the economic entity established by duly authorized organizational documents. In other words, the capitalization, in terms of continuous improvement of the quality of carried activities, of the available resources in conjunction with the opportunities to attract additional resources in order to achieve the targets set for the above-mentioned objectives are relevant issues obtained through successful financial reporting.

3. CORPORATE GOVERNANCE. CONCEPTUAL ELEMENTS

Corporate governance is the development of the economic entity based on solid, grounded base, designed and monitored with professionalism and involvement. The growth of value of an economic entity is determined largely by the degree of harmonization of conflicts of interest that may arise between ownership structure and its executive leaders. The process by which this is done is called corporate governance.

The emergence and development of corporate governance has caused increasing use of centralized management, whose concept is based on the following rules:

- ✚ *The Board of Directors has a passive role* within the economic entity, being responsible for supervising/monitoring permanently the way the measures established for each area are carried out, based on the conducted analysis;
- ✚ *The Executive management has an active role*, being directly involved in organizing and running activities, putting into practice all the measures submitted to the Board of Directors.

When referring to the performance of an economic entity, we relate directly to the degree of satisfaction got by the following categories of people who interrelate with the entity: shareholders, its employees, creditors, suppliers, customers, state institutions, etc. A good corporate

governance requires knowing and respecting the interests of social groups mentioned above, their hierarchy and harmonization of achieving those interests.

Compliance with corporate governance principles requires on the one hand the function of the economic entity within the interests of shareholders, and on the other hand its operation in the interests of managers, employees, the financing banks, state, community, third parties (customers, suppliers).

4. FINANCIAL REPORTS AND THEIR INFLUENCES ON GOOD CORPORATE GOVERNANCE

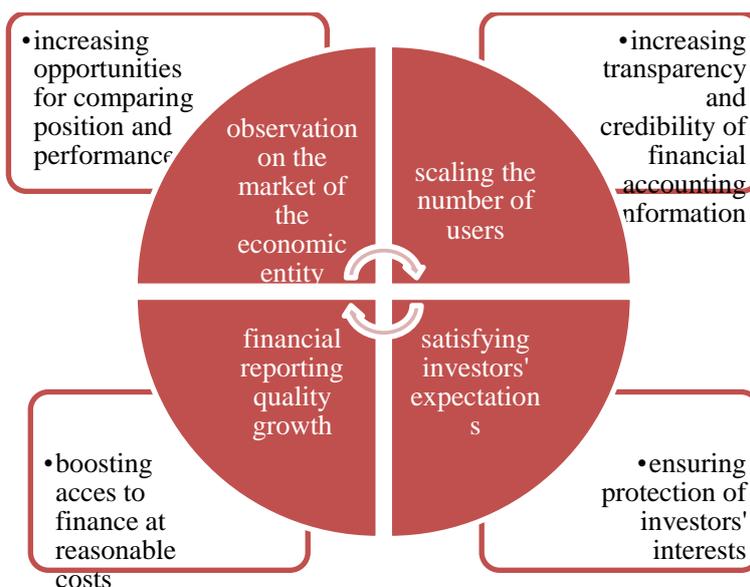
The information and data provided by financial reports that are prerequisites of a fair and efficient management. The added value and performing an economic entity are attainable goals through a well-functioning management and control systems; improving these systems is within the scope of the Board Members. The members of this body are remunerated on the basis of performances during the managerial act and their attention is focused on creating a credible picture of the economic entity whose activities they conduct.

Financial reports prepared in accordance with International Financial Reporting Standards are designed to meet the requirements of good corporate governance. Among the most important characteristics of financial reporting we specify the following:

- ✎ Easy to comprehend;
- ✎ Filtered, controlled, so credible;
- ✎ Support the decision making process;
- ✎ Reflect the image of the past and present actions;
- ✎ Promoters of change, highlighting deviations from preset targets;
- ✎ Optimizes specific activities;
- ✎ Offers the opportunity to be open through transparency;

Facts of present social life, instability of the capital markets, difficulties of adapting to market economy, breaches of financial markets and the weakness of quality management are elements that make data and information provided by financial reporting opportunities to be exploited in time and under appropriate conditions, causing management to identify the right solutions for the right balance between objectives and resources, respectively solutions to control the risks that may affect the activities at any time.

Figure no.1
 The financial reporting impact of good corporate governance



Source: Own design

The previous scheme reflects the quality of financial reporting to provide accounting and financial information that facilitates comparison of

economic entities in the same field or representing different areas and to positively influence the allocation of resources. Thus, the impact of financial reporting is visible in the advantages it creates for the investors who own capital and are looking for opportunities to invest it and in developing economic entities that need capital injection; the quality of financial accounting information reduces the costs of the adaptation of the economic entity to the demands of corporate governance increasing the investors' confidence in its possibilities to grow and meet their interests. At the same time, the financial reports are a valuable source of information for the management that acts cautiously when it comes to resources and their limited character.

The strength and credibility of an economic entity is maintained in the long term when it constantly gets profit. An important feature of financial reporting is the capacity to give potential investors an acceptable level of probability that, if they invest in the economic entity, they would receive the dividends expected. The profit for such an economic entity takes two forms:

- ✚ Development promoter by attracting new strong investors;
- ✚ The result of a good administration⁵

In accordance with the legal provisions applicable to public sector economic entities it is compulsory to draft a manual of accounting policies and procedures adapted to the specific of the entity, to the organizational culture established within it, to the type of management and not least to the interests of shareholders. The personalized nature of the policies and procedures contained in this manual can cause the following activities borderline of legality, damaging both the reality of financial reporting and corporate governance principles, the concern for the economic entity's performance:

- ✘ Profit growth or cutting;
- ✘ Less underlaing forecast of the revenue and expenditure budget;
- ✘ Applying alternative accounting treatments;

⁵ Crecană, C., *Rentabilitatea întreprinderilor mici și mijlocii*, Editura Economică, București, 2000, p.28-29;

- ✘ Using alternative accountancy treatments;

Qualitative valences of financial accounting information contained in financial reports, lie in how they act on the management internal control system and especially on the most important section of it, the risk management. Identifying risks that could affect financial accounting activities in an economic entity is a difficult and challenging process, that has to be understood and implemented by all staff; managing risks is a costly process, meaning that implementation of the measures to mitigate the impact and probability of some event risk involves relatively high costs. However, within the economic entity a fundamental analysis of applying control measures must be made, in terms of financial efforts, logistical or human involved, in relation to failure of these measures, situation that may arise significant problems, serious to prejudice the financial and accounting activities primarily and other areas of activity of the economic entity secondary.

The indisputable link between the quality of financial accounting information contained in the annual financial reports and the system of decision making at the level of an economic entity translates into the possibilities offered by the respective information to the management, to identify optimal solutions for improving the activities that presented deviations against forecasted targets⁶. Extending the approach to corporate governance context we can state that it is also in a relationship of interdependence with the quality financial accounting information.

The information contained in financial reports prove their usefulness in promoting an innovative and current management model that is supporter of a broad investment policy. The performance of the economic entity obtained due to investments made for the development of specific activities is also closely correlated with the quality of financial accounting information⁷. The explanation of this statement can be expressed as: existing and future investors analyze financial and

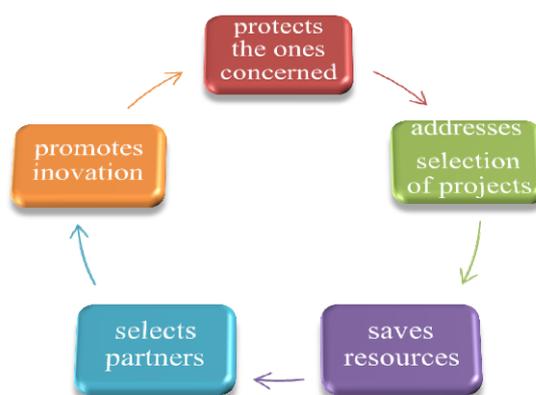
⁶ Ișfănescu, A.; Stănescu, C.; Băicuși, A., *"Analiza economico-financiară"*; Editura Economică; București, 1999, p.17

⁷ Tiessen, P., Waterhouse, J.H., *"Towards a descriptive theory of management accounting. Accounting. Organizations and Society"*, 1983, p. 251-267

accounting information on the results of these analysis, take the right decisions to ensure their expected benefits; financial accounting information becomes a reliable partner in the investment environment. Awareness of the principles of good

corporate governance is based on understanding a set of advantages that they may have in the existence and evolution of economic entities:

Figure no.2
Advantages of corporate governance



Source: Own design
consistently applies the principles of corporate governance:

Nowadays, promoting the image of an economic entity has become a mandatory element that is increasingly used, looking for the most appropriate tools and techniques for its achievement. In this area also, corporate governance plays a crucial role, helping to create „corporate identity”. This new concept aims to get answers for questions such as „Who are we?”⁸ and „To what are we heading?”. But this process is not an easy one, being under the influence of external and internal factors of the economic entity. Financial accounting information is used to establish a transparent climate, credible to potential partners, investors and employees, and ultimately meant to ensure the entity’s succes.

Here's a list of information that can be promoted outside an economic entity which

⁸ <http://basic.la-cheie.ro/?p=696martie2015>

Figure no.3:
Types of information that reflects the viability of an economic entity

viability

the economic entity operate based on a strategy, enforces the emerging opportunities and responds adequately to all internal and external challenges

credibility

for the management team the long term evolution of the economic entity is vital, at the expense of immediate gain; respect for the employees, partners and community is a permanent goal

interest

the financial reporting system ensures the provision of a set of carefully controlled information, useful and capable to transparently promote the image of the economic entity

Source: Own design

5. CONCLUSIONS

Financial and accounting data and information presented in the annual financial reports highlight the achievements of the economic entity in a financial year, reflecting the performances that are a fulcrum and targeting point of investors' options. The rate of performances of an economic entity is given by the way it meets the needs of its partners: increases the profits for shareholders, creates suitable working conditions for permanent employees encouraging them to act in order to achieve organizational goals and ensures the social interests of the community.

Good corporate governance does not encourage actions that get a big profit on the short term, being the promoter of added value settled in time, respectively obtaining long-term profit and constant evolution of the economic entity. True success for an economic entity can be achieved by investing significant efforts and by taking decisions which, in situations of lack of competition, it would be difficult to take or even impossible. Courage, openness and entrepreneurship are elements that define success.

Corporate governance is a process that can have positive influences on efficiency, effectiveness and economy of an economic entity

due to its capacity to:

- ✚ Correctly and realistic position the economic entity on the market, through the individual annual financial reports;
- ✚ Regulate financial accounting system so as to constitute a solid base of information for the management;
- ✚ Influence the real economy.

Even if the economic entity is strongly influenced by internal and external environment, corporate governance can ensure obtaining the expected performance through the following elements:

- ✚ Increasing confidence of the employees in management decisions;
- ✚ Implementing a viable risk management system, whose application must allow management to act cautiously or open in certain fields;
- ✚ Creating an organizational culture adapted to the specific of the economic entity.

6. REFERENCES

- ✚ **Arrens L.**, *Audit - o abordare integrată*, 8th Edition, ARC printing, translation of **Auditing, an integrated approach**;

- ✚ **Avram, V.**, *Managementul procesului de creare a valorii în contextul guvernării întreprinderii/Managing the process of value creation in the context of corporate governance*, Economic printing, Bucharest, 2003;
- ✚ **Brown L.**, and **Caylor M.**, *Corporate governance and firm valuation. Journal of Accounting and Public Policy* 25, 2006, 904-434;
- ✚ **Bundget O.**, *Auditul financiar-contabil/Financial – accounting auditing*, Mirton printing, Timișoara, 2010;
- ✚ **Craiu N.**, *Auditul performanței manageriale – evaluarea/Performance audit management – assessment*, Finances Magazine, credit, contabilitate, nr. 4/2003;
- ✚ **Crecană, C.**, *Rentabilitatea întreprinderilor mici și mijlocii/Capitalization of small and medium enterprises*, Economic printing, Bucharest, 2000;
- ✚ **Cucui I., Man M.**, *Costurile și contabilitatea de gestiune/Cost and management accounting*, Economic printing, Bucharest, 2004;
- ✚ **Dragomir, V.**, *Guvernanță corporativă, suport de curs/Corporate governance, course study*, Academia de Studii Economice, Bucharest, 2012;
- ✚ **Jianu I.**, *Evaluarea, prezentarea și analiza performanței întreprinderii/Evaluation, presentation and enterprise performance analysis – O abordare din prisma Standardelor Internaționale de Raportare Financiară/An approach in terms of International Financial Reporting Standards*, CECCAR printing, Bucharest, 2007;
- ✚ **Morariu A., Suciuc Gh., Stoian Flavia**, *Audit intern și guvernanță corporativă/Internal audit and corporate governance*, University printing, Bucharest, 2008;
- ✚ **Munteanu V.**, *coordinator, Auditul intern la întreprinderi și instituții publice - teorie și practică/Internal audit at enterprises and public institutions - theory and practice*, Pro Universitaria printing, Bucharest, 2009;
- ✚ **Renard J.**, *Theorie et pratique de l'audit interne*, Editions d'Organisation, Paris, 2002, translated in Romania by Phare, under coordination of Public Finances Ministry, Bucharest, 2003;
- ✚ **Renard J.**, *Teoria și practica auditului intern/Theory and practice of internal audit, IVth*, under coordination of Public Finances Ministry, Bucharest, 2002;
- ✚ **Ristea M., Dumitru C.G.**, *Bazele contabilității/The basis of accountancy*, University printing, București, 2005;
- ✚ **Zecheru V., Năstase M.**, *Managementul, "obiect" de audit intern. Sinteze teoretico-metodologice, proceduri utilizabile și aplicații/Management, „object” of internal audit. Theoretical and methodological summaries, procedures and applications usable*, Bucharest, Economic printing, 2005;
- ✚ **IFRS 2015**, *Standardele Internaționale de Raportare Financiară, Partea A, "Cadru General conceptual și dispoziții"/International standards of financial reporting, General conceptual framework and provisions*, Bucharest, CECCAR printing, 2011;
- ✚ **IFRS 2015**, *Standardele Internaționale de Raportare Financiară, Partea B, "Documente care însoțesc standardele"/International standards of financial reporting, General conceptual framework and provisions*, CECCAR printing, Bucharest, 2011;
- ✚ **RENTROP & STRATON**, *Consilier de Management Financiar/Financial Management Counsellor*;
- ✚ **Corpul Experților Contabili și Contabililor Autorizați**, *Guvernanța Corporativă și Profesia Contabilă*, Simpozion "Ciuce Pavel", 2012.