Abstract  
The general objective of financial statements is to provide information about the financial position, performance and cash flows of an enterprise that is useful for a wide range of users in making economic of business decisions. The financial statements also present the results of resources management by the company’s management. For this reason, financial statements prepared and published by organizations are of interest for a wide range of users: investors, managers, employees, customers, creditors, bankers, government and its institutions, citizens. Experience has shown explicitly that there is a conflict of interest between those who collect, process and aggregate accounting information and the information users. Often, users show a lack of confidence in accounting information, because the users who produce this information usually are not independent from the operations and the situations presented. Possible major economic consequences that may result have determined as necessary interposing financial auditors with the main objective of increasing credibility of the financial statements published by companies.

Keywords: financial statements, true and fair view, creative accounting, reasonable assurance, random sampling and statistical techniques, computer-assisted techniques.

JEL Classification: M400; M420; M480.

Introduction  
The need of international investors to understand and analyze financial statements prepared under different rules has created a strong pressure from their part, in their willingness to compare the equity placement opportunities by applying equivalent criteria and to have a confirmation regarding the safety of operations. This pressure as well as the presence of global markets enforced performing several actions towards creating an international and unitary framework regarding to financial statements should be prepared and presented.

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The European Union decided for the idea of *harmonization*, considered to be a more flexible process, while the *International Accounting Standards Board* (IASB) selected normalization as the mean aligning international standards. The visible trend now is that European directives on accounting and financial activity are modeled according to International Accounting Standards (IAS). Accounting is standardized: it relies on rules concerning the production, presentation and use of accounting information. Normalization is imposed by the need for harmonization and uniformity in accounting, in terms of objectives, concepts, methods, rules and procedures for production and use of accounting information, representing a reference system for the production of accounting information and social validation of the financial statement.

IAS 1 standard covers both the presentation of general purpose financial statements as well as the elements which provide the possibility of ensuring comparability – both with the company’s previous years’ financial statements as well as with others organisations’ financial statements. This Standard shall be applied in presenting the general financial statements prepared and submitted in accordance with International Financial Reporting Standards (IFRS), except the condensed interim financial statements which are presented in accordance with IAS 34 "*Interim Financial Reporting*". This standard applies equally to an individual enterprise's financial statements and to the consolidated financial statements for a group of companies.

1. Content and presentation of financial statements

The objective of financial statements is to provide information about the company’s financial position, results (performance) and changes in the company’s financial position. All these satisfy the common needs of most users. Pieces of information regarding the financial position are provided mainly by the balance sheet, the result (performance), by the profit and loss account and the changes in financial position by other distinct statements, the most relevant being the cash flow statement.

Financial accounting provides information that presents interest to all economic and social environment components in which the organisation operates. Information provided by financial accounting are abstracted and synthesized through the annual accounts, subject to publication. The concern for better information regarding the financial status of a company has led to a requirement of true reflection of the reality.

*True and fair* became an European concept in 1978, when it was introduced for all EU member countries, at an UK initiative, by the Fourth Directive,
which states: “The year end financial statements should give a true and fair view of the business environment, financial status and results of the company”.

IASB Framework does not address directly the concept of true and fair view but expressed ideas such include such an approach: "The financial statements must provide a true and correct view and shall present fairly the financial position, results and changes in financial position of an enterprise". It also assimilates the concept of true and fair view with the concept of the fair presentation of the financial status. The Romanian legislation assimilated the concept of true and fair view through the Accounting Law no. 82/1991. The introduction of the true and fair view concept has been done primarily for normalization reasons of, representing a binder for accounting practices of different countries and imposed itself as a dynamizing and unifying factor for accounting normalization.

Fidelity refers to the intrinsic characteristic of the accounting information, compliance or noncompliance with reality, compliance or noncompliance with accounting rules, regulations and methodologies. The data reflecting the reality, which represents the raw material, is converted by processing it into information, which is enabled to provide a true and fair view of the economic environment, through financial statements.

Reference financial statements which provide a true and fair view are:

a) The balance sheet – reflecting the financial status;

b) Profit and loss account – reflecting the obtained result or the performance;

b) Statement of changes in equity;

d) Cash flow statement – reflecting changes in the financial status;

e) Explanatory notes or Balance Sheet appendix.

The accounting rules are presented, on one side, as principles, rules and procedures set as reference system information production, and on the other side, as a certification system of the financial statements used by accredited and certified accounting professionals. The object of accounting normalization can be the annual financial statements (in Anglo-Saxon countries) or the general account plan (in continental European countries).

The IASB accounting framework includes theoretical concepts and principles which together constitute the reference system for preparing and presenting financial statements for external users. It also provides support in helping auditors to express opinions regarding the conformity of IAS financial, and in supporting the auditors to interpret the information presented in financial statements prepared in accordance with IAS. For accounting information to meet the requirement of true and fair view of the economic situation, financial condition and results of a business or a group of companies,
it must meet certain quality criteria. A piece of information that does not meet the quality criteria is not sufficient to ensure meeting the fundamental objective of accounting and annual accounts. As stated in the IASB Framework, for the preparation and presentation of financial statements, the main qualitative characteristics that financial statements must meet are: **comprehensibility, relevance, credibility and comparability**.

**Comprehensibility** is a quality characteristic specific to users and requires information to be easily understood by decision makers. Comprehensibility requires ease of understanding of information by users by providing a reasonable balance between the knowledge on business accounting and economic activities of a user who has sufficient knowledge, and the expression of content in an accessible way of understanding this content.

**Relevance** provides assurance that the information contained in the financial statements is in line with the requirements for assessing the dynamics of economic and decision-making processes throughout their life cycle. Focusing on the economic processes life cycle enables a systemic approach to business, and thus ensures corrective actions in case of disfunctionalities. According to the IASB Framework, the relevance of information is influenced by its nature and materiality. In Romanian accounting regulations materiality is presented as an accounting principle: „*Any item that has a significant value is retrieved and presented separately in the financial statements. Items with insignificant amounts which have the same kind or similar nature will be summed, without the need of separate presentation.*” The accounting information are relevant to the extent they influence the economic decisions of users, having a **confirming role** (historical financial statements) or a **predictive role** (forecasting financial statements). The relevance of accounting information enforces the development and presentation of **interim financial statements** are during the financial year, quarterly or bi-annually.

A particular category of financial statements frequently required by users (investors, banks, suppliers, customers, public, etc.) to rely on them in taking business decisions, is the forecast financial statements. These are estimated or expected situations, prepared for a future period (profit and loss statement) or to a future date (balance sheet). Users are looking for reliable forecasting information in order to reduce information risk. There are two types of forecast financial statements: predictions and projections.

**Predictions** are forecast financial statements showing an expected level of the financial position, operations’ results and entity’s cash flows, within the limits of knowledge and conviction of the parties responsible for issuing them. Predictions are usually required by banks as part of loan applications.
Predictions are forecast financial statements showing the financial position, operations’ resul and entity’s cash flows, within the limits of knowledge and conviction of the parties responsible for issuing them, considering one or more hypothetical assumptions. An example is the preparation of forecasting statements, assuming that its main product price increases without reducing the quantity of products sold.

Both types of forecast financial statements are prepared by the company’s management. To ensure methodological support, IACPA / AICPA has developed the publication Guide to elaborating forecast financial statements. The recommendations contained in this document form a set of predetermined criteria that constitute a reference for certificating forecast financial statements. Predictions can be made both for general and limited usage, but the projections have only a limited usage. Because users may encounter difficulties in understanding the significance of financial information without obtaining additional information, standards prohibit the use of such large-scale projections. An exception to this rule is the cases when publication of projections is allowed as an appendix to a projection of general use.

The credibility of the information contained in financial statements characterizes the degree of confidence provided: they don’t contain significant errors, they are impartial, and users can be confident that they present fairly the aimed information, or what is reasonably expected to represent. To be credible, the information must be free of error, distortion or bias, and users can be confident that the real situation is represented fairly, reasonablly and rationally. Also, they should provide a true image of the company’s results and financial position, to reflect economically and legally the events and transactions. A reliable information is neutral, prudent and complete in all relevant aspects. Credibility is based on the premise that the information drawn accurately reflects reality. In this regard, the usefulness of information is directly proportional to its credibility. Credibility is conditioned by the fidelity of the representation and prelevance of economic over legal.

Comparability of information contained in financial statements is a characteristic that allows comparisons of financial statements over time and space. Comparability over time implies consistent methods, while comparability over space requires uniform methods.

In this case, the current hyperinflationary environment raises difficult issues in updating the accounting methods and ensuring relevant criteria which allow comparability. In order to overcome this obstacle, the usage of a proper methodologic and procedural framework becomes necessary, ensure
compatibility and conversion of information, under the conditions of drastic economic and regulatory changes.

Opportunity refers to providing timely information when needed and not after its obsolescence, in order to be useful during the decision making process. The obsolescence of information alters also its relevance.

The cost–benefit balance implies satisfying the restriction that benefits derived from information are greater than the cost of obtaining it. Analysis may refer to both information provider and information beneficiary. Benefits and costs evaluation is performed through professional judgement, because in most cases, costs are not incurred directly to information beneficiaries, and many categories of users may draw benefits out of information.

The balance between qualitative characteristics also represents an issue of professional judgement, for which analysis may refer to both information provider and information beneficiary.

2. Misrepresentation of information contained in financial statements

The results presented in the financial statements must be interpreted with caution by users, considering that enterprises have the possibility of using multiple means of information distortion. Detection of erroneous presentations impose a different treatment, whether they have been committed unintentionally or intentionally, i.e., whether error or fraud.

A calculus mistake when registering the value resulted by multiplying the quantity with the unit price, is an error. Failure to record transactions in the Sales Register at the receipt of cash when a sale is performed is a misappropriation of assets (fraud). The deliberate overstatement of sales in the balance sheet (turnover) shortly before closing the financial year is another type of fraud, aiming to present greater profits (fraudulent reporting). All type of fraud is a deliberate overstatement of sales (turnover) just before the closing date balance sheet in order to increase reported profits (reporting fraudulent). In addition, a set of accounting policies is used for smoothing the results during result manipulation. The aggregation of such policies may lead to an alteration of the information towards a desired direction from the real situation. The literature characterizes the financial statements information handling policies as creative accounting practices. Creative accounting is mainly characterized by subjectivity. As a result, the reality expressed by accounting and its annual accounts is characterized to a certain degree by the subjectivity of the human factor.

Creative accounting is a term which should not be used only with a negative meaning. The evolution registered in accounting would not have been
possible without the intervention of creative and inventive spirit of professional accountants. Development of creative accounting has occurred in parallel with the notion of true and fair view. However, creative accounting may target manipulating the size of the financial result for the financial statements to present to the users the most favorable image of the performance and financial situation recorded by the enterprise. To raise the value of the result one can use practices which ensure an artificial growth of it (especially, the mechanism of evaluations), or one can perform profit generating options before closing the financial year. If the objective is to reduce the result, one can use the same evaluation mechanism or one can perform loss generating operations.

Disregarding the objective, manipulating the result has negative effects on accounting information quality. While using these manipulation policies, several actions may be performed, such as: adjusting the values of balance sheet elements, the inventory outputs, the provision, tax incentives, the artificial manipulation of expenses and income, transfer pricing provisioning mechanism, tax incentives, artificial manipulation of income and expenses, adjustment of transfer prices between organizational subdivisions of the same company or between companies of the same group, manipulation of accounts for stock market quotation etc.

3. Creative accounting techniques

Sometimes, the rules and regulations allow choosing between different accounting methods (alternative processing), which may lead to different results, different images of the financial statements. A number of items require estimates or forecasts. For example, the life of a fixed asset is estimated by the company in order to calculate depreciation. This estimate allows a pessimistic or optimistic approach, which may lead to different representations of the financial statements. Artificial transactions may be performed to manipulate the values in the balance sheet or to smooth the result. For example, engaging in the sale of a machine and, simultaneously, its renting it for the remaining life. The selling price may be higher or lower than the actual value of the machine, because the difference can be compensated by rents lower or higher than market price.

The moment of trading is carefully chosen in order to provide a certain image of the accounts. For example, the company owns a real estate property purchased at a price whose market value has quadrupled. The company’s management will decide to sell property during the year when it intends to increase the result. Specifically, creative accounting techniques are used for their effects:
a) **Artificial manipulation** of expenses and income. Usually, such manipulations are applied at year end in order to achieve the desired result. The main ways of adjusting the income and expenses are:

- issuing invoices for the following year’s goods deliveries, or delivering goods with invoices issued the following year;
- recording of invoices for works and services to be performed in the following period or not recording works and services from the current period, for which invoices have been received;
- over-or undervaluation of work in progress and of unfinished assets production at the end of execution;
- overvaluation of assets, based on inventory results, higher than economic depreciation;
- late registration of interests to pay or to receive, coming from financial activity or from purchases or sales with installment payments;
- failure to record expenses or revenues from concessions, venue management or rentals.

Accounting rules leave some margin for maneuver in quantifying the expenses pertaining to a fiscal year. For example, for certain assets only the maximum number of years to be amortized is indicated. A longer or shorter depreciation period affects the size of the result. In some cases, revenue recognition can be speeded up or slowed down by applying the prudent principle or the principle of linking expenses to revenues.

b) **Deviations** from the real value in assessing some balance sheet items. Such deviations are easier for elements obtained from own production, for which the assessment is performed at production cost determined by the enterprise, but may occur also for purchased goods. In the first case, the evaluation accuracy depends on the correctness of the cost determination in management accounting and on the degree of incorporation of expenses in costs (partial or complete cost). The financial position and the result can be modeled through adjustments in management accounting, which can under or overestimate costs, especially in durable goods for internal use. Since the elements that make up the cost of these goods are distributed in all classes of accounts, the adjustment possibilities are numerous and harder to detect.

Also, under or overestimation of work in progress at year end, especially in units where this amount is significant, can be used as solutions for transferring the results from one period to another. For the purchased goods, the manipulation possibilities are offered by the elements of the supplier’s purchase price (from the structure of the purchase cost) that can be included in the value of purchased goods or directly in operating costs.
c) Applying different methods of inventory evaluation. Choosing one of the stock evaluation methods - FIFO (evaluation of inventory at the value of the most recent entry), LIFO (evaluation of inventory at the value of the oldest entry), WAC (weighted average cost method) - associated with the characteristics of the Romanian economy during inflation periods, determines under or overestimation of inventory outputs withdrawals, leading to expenses minimization and income increase for FIFO, and overevaluation of expenses and underevaluation of income for LIFO. The WAC method allows smoothing the cost variations, providing a compromise between the two methods described above.

Another aspect that can be modeled is the method chosen for including as expenses the value of assets in use: fully when putting into use, or staggered over several periods of management.

d) The provisioning mechanism. The appearance of provisions in accounting is in line with the requirements imposed by the principle of prudence in evaluation. Modeling the financial result through provisions is an easy and indisputable method, at hand of every business. Reflected in their accounting mechanism (by increasing spending during the formation or supplementation, respectively increase revenue in future periods when consumed, cancel or decrease) can be used as an effective means of transferring the results from one year to another. Also, provisions can generate tax benefits.

The practice shows that a firm with the more prosperous it will be more tempted to cut down to a greater extent the result and hence the tax burden, being higher provisions. These are actually disguised own resources. A thriving business will be less tempted to be as small reserves, not lower their profits or limit loss size. In both cases, the true image has suffered, provisions, by their inaccurate coverage, helping to reduce the quality of financial information.

Their mechanism of reflecting in accounting (by increasing expenses during the constitution or supplementation, respectively increase of revenues in future periods when consumed, cancelled or decreased) can be used as an effective mean of transferring the results from one financial year to another. Also, provisions can generate tax benefits.

The practice shows that a firm the more prosperity, the more tempted will be to cut down the result to a greater, hence the tax burden, by constituting higher provisions. These are actually disguised own resources. A less thriving company will be tempted to be to constitute smaller provisions, not to lower their profits or to limit the size of the loss. In both cases, the true and fair view has suffered, provisions, by their inaccurate reflection, contributing to reduce the quality of financial information.
e) The policy of adjusted prices between organizational subdivisions or between constituent units of a group. Adjusting prices for intermediate consumption between organizational subdivisions seeks to delay or to accelerate the deduction of expenses from the result of the financial year. Adjusting prices for intermediate consumption between the constituent units of a group has tax incentives.

f) Arranging the accounts with the purpose of listing on the stock exchange consists in overstating the assets and results and understating the liabilities, in order to present the financial position and the performance in a positive outlook for investors.

g) Handling of information presented in the annex. The lack of relevant information may affect the decisions of the external users.

The criteria used in presenting the accounting information may represent a loophole for the manifestation of creativity. The analysis of the evidence submitted reveals that companies often take advantage of existing gaps in rules and their flexibility in order to distort the published information. Although there is a clear difference between creative accounting and deliberate violation of the law, both phenomena occur in financial difficulty and are based on enterprises' intention to cheat. Consequently, even if the use of creative accounting is not illegal, it indicates that managers under financial pressure seek solutions without questioning if they respect the ethical standards.

4. The role of audit in ensuring the quality of information presented in financial statements

The most common method by which users can obtain reliable information is providing audited financial statements. The audit of financial statements is performed for determining if the financial statements as a whole are presented according to certain criteria. Normally, the criteria are the generally accepted accounting principles or any other accounting method adapted to the specific of the organization. Most of the times the financial statements included in the audit are: the balance sheet (statement of financial position), income statement, statement of changes in equity, cash flow statement, as well as the accompanying notes and annexes.

In addition, to meet the complexity of information requested by users, the auditor must not ensure only an improved credibility of the financial statements but, also provide services that add value, such as reporting irregularities, identifying business risks and providing advice in relation to weak points of internal control system. In modern auditing, the assessment of
financial statements is often supplemented by findings resulted from the audit of financial flows, which provides a supplement of reliable financial information.

The overall objective of a financial audit is to provide **assurance that the examined financial statements are complete and accurate, and economical operations were performed in accordance with relevant laws and regulations in force.** Achieving this objective in terms of absolute certainty, even if feasible, requires an expensive activity. To reduce these costs, there is the possibility of using the audits based on tests. In this context, auditors, through their reports, sees to provide **reasonable assurance** - not absolute assurance - that the financial statements are complete and in accordance with relevant laws and regulations in force. According to the principle of good practice, the audit institution design the audit process in order to obtain a certain level of **confidence that the audited financial statements do not contain material errors or irregularities.**

During the planning phase, the materiality is determined, a preliminary estimation of the errors within financial statements is performed and the size of the statistical samples to be selected for testing is calculated. Typically, the auditor determines a level of materiality for each group of financial statements according to the type of audited entity. The following may be considered the basis of calculation: **the total gross expenditure** (for entities engaged primarily in expenses), **the income level** (for entities that collect revenue), **the total gross and net assets, profits, turnover, accounts surpluses** (for entities form the banking system).

To calculate the sample size, the auditor estimates the errors within financial statements, based on the errors detected during the previous year’s audit (if they were detected), or estimates them (if there are no previous information available). Also, the auditor separates the financial statements in categories of economic transactions (wages, salaries, purchases, grants, subsidies and income) and for each assesses the inherent risk and the control risk.

For financial statements included in the balance sheet, the transactions categories concern tangible fixed assets, inventories, debtors, creditors and other monetary obligations, various liabilities, prepayments etc. The financial auditor identifies and evaluates the risk for each category of economic transactions. At the same time, the auditor has to consider whether there is a risk that the entity's audited financial statements contain errors, as well as if they were made intentionally or unintentionally.

Auditors must report if he finds: internal control weaknesses, inconsistencies in preparing the financial statements, errors, unusual transactions or results, which indicate the existence of fraud, lack of probity or
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corruption. Financial auditors provide assurance services, particularly on information contained within historical financial statements, but lately have expanded the range and scope to include also financial forecasts. Also, the increasing amount of information available on the Internet and development of electronic commerce, currently generate specific requests from the public, involving changing the approach towards assurance services.
Online trading determine a shift from the need of assurance over existing historical financial information, such as financial statements, to the need of assurance regarding of reliability of the processes generating information. For example, many functions within an enterprise, such as issuing orders and payments, are performed through the Internet, communication being performed directly between two computers, through programs of electronic data interchange (EDI) without human intervention over the information contained therein. Online, real-time transfer of information requires specific assurances regarding the protection and assurance of information security, including information technologies of managing web sites that host such systems. In order to meet the growing needs assurance over performing Internet transactions, the International Association of Certified Public Accountants (IACPA) has created services with an assurance component such as CPA WebTrust which apply an electronic seal of applying on the certificated website, to ensure users that the owner of the site meets the criteria for working practices.

Conclusions
The primary objective of audit has evolved from detecting fraud and errors in certifying financial statements to verifying their compliance with certain predetermined criteria. The change of audit objective required the development of audit techniques. In the globalized economy and internationalization of financial markets, traditional methods of verification, which involved an exhaustive scrutiny of transactions proved too costly and time consuming. For this reason they were replaced by random sampling and statistical techniques, computer-assisted techniques, the auditor emphasising at the same time on efficiency and effectiveness of internal control.

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