THE MANIPULATION AND TRUNCATION OF ACCOUNTING INFORMATION AND THE IMPACT ON THE DECISIONAL PROCESS OF THE STAKEHOLDERS

OVIDIU-CONSTANTIN BUNGET, ALIN-CONSTANTIN DUMITRESCU, DELIA DELIU
WEST UNIVERSITY OF TIMIŞOARA, FACULTY OF ECONOMICS AND BUSINESS ADMINISTRATION
ovidiu.bunget@feaa.uvt.ro, alin.dumitrescu@feaa.uvt.ro, delia.deliu@feaa.uvt.ro

Abstract:
Our paper aims to research the way the managers of a company may interfere in applying the accounting policies and methods so that they would gain advantages, besides the other different interests of the accounting information's users. There are plenty situations when these stakeholders may be influenced in a direction or other by being presented a distorted accounting image, so that their behavior would be distorted too. Presenting an artificial view does nothing but emphasizes the informational asymmetry and influence the way financial markets function.
We have exemplified the methods used to signal the informational asymmetry on the financial market from the perspective of the conflict of interests that exists between different users, as well as the methods of manipulation their behavior. We have tried to show that manipulating their behavior through providing the image intended by the managers does not necessarily mean bending the accounting standards and regulations, but it can easily be done within the boundaries of law, by using creative accounting.
A special part was dedicated during our research to creative accounting – the analysis of this concept, giving examples of techniques, as well as expressing certain personal opinions in regards to the necessity to split this concept in two new concepts: innovatory accounting and creative fraudulent accounting.
In regards of the truncation of the accounting information, we consider that the state is privileged, being closely followed by the management and – only in the third place – by the shareholders. Our perception is that, in Romania, we can observe a trend whereas the investors remain in a "Cinderella posture", not being on the same level with the above-mentioned, their needs, maybe, not being seen with the same interest from the auditor's point of view, him being in the position to express an independent opinion upon the truth and fairness of the financial statements.
The main question being righteously born is related to the equidistance of the auditor and to the way he is responsible (and liable!) by the way he is aligning his audit engagement in order to satisfy the informational need of the stakeholders. We can consider, in this case, even a psychological dimension of an audit engagement.

Keywords: *accounting information, informational asymmetry, manipulation, creative accounting, audit*

JEL Classification: *M41, M42*

1. MANIPULATION OF ACCOUNTING INFORMATION AND USER BEHAVIOURS

Generation and dissemination of accounting information by a company is simply the result of human will and conscience, and it actually represents a social phenomenon. The interests of accounting information users are different, which makes managers to intervene in the application of accounting policies and methods so that they are in advantage. Then, the position of some users makes them to have a privileged statute in terms of information.

1.1 Information asymmetry – conflict of interests between the users of accounting information

The literature in this field speaks of the agency theory, which studies the conflicts of interests between shareholders and managers, shareholders and creditors, etc, and justifies operations that sometimes are "complex", by providing explanations on the various financial mechanisms. Informational asymmetry is a consequence of this theory. "An agency relationship arises when one party, called the principal, entrusts partly or fully the management of its own interests to another party, called agent, while considering that the agent has skills and knowledge inaccessible to the principal".

Thus, like patients (principals) entrust their health to physicians (agents), the shareholders (principals) entrust managers (agents) with the companies' management. Each party wants to obtain some benefits or advantages, so that inevitably conflicts of interests arise between principals and agents. Then, the principal wants to check on the agent, but the latter has additional information, thus outrunning the principal, and there will always be inequitable situations or information asymmetry between the parties.

In one of his works, Professor Ionaşcu presents some of the conflicts of interests that may arise between the actors on the accounting information market according to their interests, namely:

- conflict of interests between shareholders and creditors: indebted companies will favour accounting methods that result in increased results;
- conflict of interests between shareholders and managers: managers of companies with increased capital dilution will adopt accounting methods that increase the results;
- relationship with the political environment: the behaviour of companies is as neutral as possible in relation to the political class, and they tend to use accounting methods that reduce the results.

Lately, the concept of corporate governance is used more and more. More specifically, "corporate governance" was enforced at the beginning of the 90's, although it was used much earlier. In general, this refers to the management of the economic entity, and the aim is to establish the rules of interaction between managers and shareholders in order to ensure a framework for the protection of shareholders' rights. The concept is interpreted somehow different in the two "accounting worlds". In the Anglo-Saxon world, corporate governance considers the shareholders' primacy in terms of company management, and it is based on the idea that the company belongs to the shareholders and the purpose of its governance is to better serve their interests.

Other stakeholders, for example creditors and employees, have their rights guaranteed under certain contracts (commercial contracts, employment contracts, etc.). The Continental-European world is more generous in this respect, as corporate governance considers the interest of all parties involved in the company's functioning, not just the interest of the shareholders. According to the above, the two types of corporate governance of a company fall into two models: the shareholder model and the economic entity model seen as a joint of contracts.

Despite of these tendencies, conflicts are inevitable, as an economic entity is simply a coalition of interests. We will present below some comments on information asymmetry and the generation of conflicts between shareholders or between shareholders and other stakeholders, such as managers and creditors.

Conflicts that may arise between shareholders are not generated by accounting, meaning that it provides the same information to all shareholders. It matters in this case if they are old or potential shareholders, their knowledge, information processing, etc. No doubt, shareholders (potential sellers) have additional information in comparison to prospective shareholders. Consequently, the price of similar shares may be different, while shares that are different in terms of risks and quality may be sold on the market for the same price.

Information asymmetry occurs also between shareholders and creditors. Shareholders seek to maintain or increase revenues, so that their decisions aim a financial structure that favours them. There are situations where companies do not present to the creditors all investment projects, but only invest in profitable projects. Negotiations lead to a certain credit cost, and its superior profitability will generate a transfer of wealth from creditors to shareholders.

The most common agency relationship is the one between managers and shareholders. Managers are tempted to increase profits unjustified when their remuneration depends on obtained profits. The conflict of interests between managers and shareholders could be reduced if the remuneration of managers would depend on the shares' stock exchange value. Information asymmetry between managers and shareholders is obvious, meaning that although shareholders are the principals who authorised the managers (agents) to work for them, additional information is available to managers. The conflict of interests is the reason why managers seek to maximise benefits on the expense of shareholders by means of behaviours that are unknown to the shareholders (e.g. loans to companies where mangers hold shares or other personal interests).

Considering the relationship between managers, shareholders and creditors, it should be noted that managers are more likely to finance the company with debts rather than with an equity increase, because their remuneration depends on profits and any increase offers them advantages, and their aim is to maximise profits at the expense of maximising the company's value. Thus, the relationships between different parties and the quality of the information provided can be also explained by the company's financing structure. In this asymmetry relationship, the capital holding on one hand and the type or nature of ownership on the other hand, have a certain impact on the quality of the accounting information. If capital is owned by a few shareholders, usually the company's management consists of persons from among them and there is unlimited access to information. Moreover, there is no interest to disclose low quality information.

If these shareholders are not managers as well, they are still able to control the managers easily, they have privileged access to information and they are often involved in decision making and, again, the quality of information should not be affected. Another situation related to capital holding occurs when capital is distributed between several shareholders. As owners of a small percentage of the company's capital, these shareholders do not have decision making powers or control. In this case, managers are more likely to create a company image that favours them. The two categories of shareholders described above can be replaced by the following categories: major shareholders and minority shareholders .

On the other hand, the nature of ownership also affects the quality of accounting information. Literature in this field classifies stakeholders from this point of view into three categories: institutional investors, the state and international investors.

The above cases of improvement of the quality of accounting information provided to users implicitly lead to the decrease of asymmetry between managers and shareholders. The interests of managers and shareholders can be aligned also by introducing management stock options, which is actually a bonus directly related to the manager's decisions in favour of shareholders. If this does not happen, managers are tempted to make decisions rather for their own interest than for maximising the shareholders' wealth.

The financial communication can have both favourable and unfavourable effects. Thus, the publication of a positive situation of the company can generate an increased share value, but at the same time it may disclose to competitors strategic information. Conversely, an unfavourable situation reduces the interest of competitors for market penetration, but also implies a decrease of the shares' value.

1.2. The manipulation of stakeholders' behaviour through accounting information. Creative accounting: innovative accounting vs fraudulent creative accounting

The manipulation of stakeholders' behaviour by providing the image intended by the managers does not necessarily mean bending the accounting standards and regulations, but it can easily be done within the boundaries of law, using ***creative accounting***. Creative accounting can be caused by gaps in accounting legislation, or – sometimes – accounting professionals can be oriented towards certain subjective professional judgements even by the stipulations in the accounting standards and regulations.

As we have already briefly outlined, the accounting information is deeply significant, since most of the leading decisions are based on it.

Still, we have shown that available accounting information available on the market is fragmented and asymmetric. The theory of informational asymmetry is debated in Akerlof's article (1970) [13], „***The Lemon Market”***, which analyzes the behaviour of occasional goods buyers and sellers, abandoning the idea of perfect information, presuming – in contrary – the uncertainty of the consumer concerning the quality of the acquired goods.

Therefore, creative accounting can pursue different objectives, according to the management's interests, its practice diminishing the credibility of accounting information. The proliferation of creative accounting phenomena can lead to a distorted representation of a company's reality.

As a conclusion, the manipulation of stakeholders' behaviour by providing the image intended by the managers does not necessarily mean bending the accounting standards and regulations, but it can easily be done within the boundaries of law.

Accounting science is like a living organism – it is evolving. All accounting standards and various concepts of this science have acquired new meanings due to increasing complexity of economic and financial transactions. C.G. Demetrescu stated[14] that "studying the historical evolution of any science is instructive and interesting only

---

[13] Akerlof, G.A., *The Market for "Lemons": Quality Uncertainty and the Market Mechanism*, 10.02.2012: http://www.crysys.hu/~mfelegyhazi/courses/BMEVIHIAV15/readings/02_Akerlof1970MarketforLemons.pdf

[14] C.G. Demetrescu, *"Istoria contabilității"*, "Științifică" Publishing House, Bucharest, 1972

to the extent that valid and permanent conclusions can be drawn from the undertaken research".

Along standards and certainties, there are also exceptions and the unexpected. Accounting tries to make as much as possible to delineate and clear the field of operations. In areas of shadow or turbulence crossing any organisation, where uncertainty prevails, it cannot raise problems as if they were solved *a priori*. Events surprise when they happen. Phenomena are not understood well. This is where the universe of risks, attempts, errors, discipleship, *creativity*, freedom begins. We dive into the kingdom of "underground" accounting, where most organisations show their human face, mixing in complex combinations the virtues and perversion of creative intelligence, where professionals like to express themselves.

Usually, the concept of creative accounting is used to describe the process whereby accountants use their own knowledge for handling figures included in the annual accounts. Trotman defines creative accounting as a communication technique intended to improve information provided to investors on the same line.[15] Colasse believes that the term "creative accounting" means "accounting information practices, often at the limit of legality, used by some companies that seek to glamorise the image of their financial position and economic and financial performance, by taking advantage of the limits imposed by the standards.[16] The most substantial definition belongs to Naser. According to him, creative accounting means the following:

a) given the existence of gaps in the rules, it is the process whereby one manipulates accounting figures and chooses the measurement and information practices that allow conversion of synthesis documents from what they should be into what managers want them to be, by taking advantage of flexibility.
b) the process by which transactions are structured in such a way as to allow production of desired accounting results.[17]

The literature in this field lists the following reasons for which managers want to use creative accounting: artificial increase of the price of the company's shares, effect on borrowing costs; often, listed companies remunerate their managers according to the achieved financial results.

Several approaches to the phenomenon are available for those persons wishing to limit the opportunities for creative accounting. The question is how to realise when a company was "creative" with its accounts and when should one pull the alarm in a company that uses creative accounting. There should be a motivation to pull this signal. Most times the motivation exists, but in other cases it doesn't exist at all:

a) shareholders are not motivated because dividend per share is increasing;
b) auditors may lose the audit contract.

It is hard to draw a conclusion in respect of a permanent feature, but it is worth to try and we believe that each "worker" in accounting has the right to an own opinion.

We must take into account two main aspects:

- There are many accounting rules that allow usage of alternative treatments, obviously subject to compliance with the principle of consistent methods or with a clear remark in the notes in respect of the effect of the respective alternative policy on the financial statements (as an immediate example we can think on interest capitalisation for assets with a long realisation cycle – which is allowed

[15] M. Trotman *"Comptabilité britannique, mod d'emploi"*, "Economica" Publishing House, Paris, 1993 - cited by N. Feleagă and L. Malciu in *"Politici şi opţiuni contabile"*, "Economică" Publishing House, 2002

[16] Cited by B. Raybaud-Turrillo and R. Teller in *"Comptabilité créative, Encyclopédie de gestion*", "Economica" Publishing House, Paris, 1996 and cited by N. Feleagă and L. Malciu in *"Politici şi opţiuni contabile"*, "Economică" Publishing House, 2002

[17] K. Naser, *"Creative financial accounting: its nature and use",* Practice Hall Publishing House, 1993, pg. 59 - cited by N. Feleagă and L. Malciu in *"Politici şi opţiuni contabile"*, "Economică" Publishing House, 2002

both by the International Financial Reporting Standards and the 4th Directive, approved also by the Romanian legislator in its entirety);

- Economic and social relationships are more and more complicated – human beings themselves are very complicated if we refer to the thought and character mechanisms; we are witnessing a change in legal conditions existing in commercial contracts, which ultimately are designed to protect the interests of the traders; thus, new contractual relationships arise that have not been addressed in terms of accounting.

Based on the assumptions above, we can conclude by defining a part of the creative accounting concept hereinafter called *innovative accounting*.

By means of this concept we must understand the key underlying development of accounting as a science – it is the basis for the transition from technical accounting to accounting as a science. In this concept of innovative accounting we also find the concept of *alternative accounting*, which refers to alternative accounting treatments allowed by an accounting referential. Why would this not represent a new concept and we wanted to include it in our scientific approach in the field of innovative accounting? The answer is that when using an alternative treatment that treatment represents something new for the accounting policies of companies that until then were presumed to have used the basic accounting treatment.

The second part of the concept remains, the one including *accounting fraud*, and techniques that intentionally mislead accounting information users. Although some authors do not classify creative accounting as fraud, we cannot say that when you intend to publish incorrect information we do not speak about fraudulent information, even when producers of accounting information argue that their purpose is to protect the entity from collapse – decisions taken by some users are deemed to be disproportionate compared to the actual situation, but we get again to a relative concept – each of us perceive reality in his/her own way as he/she has an own reference system. Nevertheless, history has proved that it is not good to "hide trash under the carpet" – all hidden problems "explode" at a certain moment (we can see what happens in times of economic crisis).

Thus, based on incorrect information addressed to the users of accounting information, we can define the second side of creative accounting as a fraudulent creative accounting (use of accounting techniques in order to deceive users). Also, to strengthen the previous argument, we highlight that the only crime (of forgery) foreseen by the Romanian accounting law is "to intentionally perform false accounting entries, as well as to intentionally omit accounting entries, resulting in distortion of revenues, expenses, financial results and assets and liabilities disclosed in the balance sheet"; this acceptance must be correlated with the existing implications and materiality threshold.

As a conclusion, we consider it appropriate to define the two sides of creative accounting introduced in the content of this paper: *innovative accounting* and *fraudulent creative accounting*.

1.2 Dissemination of accounting information and the public interest, and its relevance in economic crisis situations

Any decision is based on information and knowledge. Accounting can be considered a database that serves as a support for decision making. *The quality of accounting information* is "one of the key-elements that define effective decision-making"[18].

[18] Nicolescu, O., Verboncu, I., *Management*, Economică Publishing House, third edition, revised, Bucharest, 2000, p. 294 (after Horomnea, E., *Tratat de contabilitate*, Descom Libris Publishing House, Iaşi, 2001, p. 47)

On the accounting information market, the *offer* must be part of a continuous process of adaptation to *the demand*, which is so diverse. Information needs of different user groups are well-known, and therefore we do not consider it necessary to present and analyse them in this article.

The paradox of the current crisis consists in the fact that liquidities are abundant, but not in the best place. The crisis has surprised all participants with its amplitude and rapid penetration into national economies, which was largely due to the transformation level set by the security methods and especially to the effects of globalization on some extremely sensitive markets in terms of public confidence. Globalisation also has an effect on the evolution of accountant and auditor professions. Globalisation of the world economy based on a global economic crisis creates new situations and questions related to the economy of each country.

In this context, the role of the auditor increases, and “its value must acquire new meanings by providing additional elements related to transparency of operations, the need for greater vigilance to complex financial products and the need to better understand both individual and systemic risks”[19]. The accountant must make the necessary adjustments in terms of reporting financial indicators, for an accurate understanding of the situations by users.

In our opinion, the current crisis was caused by the loss of public confidence in a series of factors, especially at the level of those holding the world’s finances. This loss of trust has occurred due to some unpleasant events that took place in the companies’ management system. The essence of a company’s activity is reflected (or translated) in accounting. The compliance or non-compliance between the accounting figures and the referential should be analysed by means of “management approach”, based on the three specific pillars: internal control, internal audit at the level of corporate governance and risk management. If a manager misses these elements, even if they are not quantified in an accounting entry, they have a very important influence on the figures in the balance sheet.

The financial crisis leads to important changes in the behaviour of the parties that are directly concerned by the activity of a company. Reactions differ according to the role of the participants to the life of the economic entity. To avoid bankruptcy and conflicts of interests, managers must adopt a flexible attitude, to adapt themselves to the requirements of the involved stakeholders and not least, to ensure a permanent communication between the company and the stakeholders.

Thus, there is the *problem of the importance of communication during the economic crisis*. Most economic crises lead to rumours, distortion of perceptions of the economic environment, stress, lack of control, panic, disorientation, uncertainty, insecurity and even major imbalances at the level of the entire society. Companies, their owners and managers, as well as other stakeholders directly involved in the life of a company are the first to be affected by the impact mentioned above. They can have reactions of denial, avoidance of responsibility, not assuming guilt, justification. Finally, reactions become positive, such as acceptance, remediation, corrective actions, optimism and confidence.

Communication between the company and its stakeholders and between the company and the economic environment as a whole is one of the factors that make the transition from the negative attitude towards the crisis situation to behaviours oriented towards survival or even optimism. Individuals react differently to a given situation. Their personality, the temperament, the development and operating environment, the

[19] Prof. Univ. Dr. Ion Mihăilescu, President of C.A.F.R. – interview / The Second Congress of Financial Auditors of Romania: “National and international in financial audit. Auditors and the global economic crisis”, 2009

psychological, social, economic, political and other factors have led to different, complex and sometimes even opposite reactions. The social environment involves interaction between individuals, which can be achieved primarily through communication. The role of communication is important, because it can create long lasting productive relationships between individuals or on the other hand, it can create reactions of rejection, conflict, and indifference. Human relationships influence the appearance, existence and development of economic entities and environment. Companies cannot exist without individuals, thus creating a strong relationship: individuals are dependent of the existence and good functioning of companies, while the latter cannot exist without individuals.

The strong relationship between the different categories of individuals is based on communication and interaction. Communication grows during a financial crisis, because individuals need accurate information on the facts (it eliminates rumours and distortions of the economic environment). On the other hand, communication and psychology helps individuals to return to their equilibrium (to eliminate stress, lack of control, panic, disorientation). Last but not least, uncertainty, insecurity and major imbalances can be controlled and removed only when panic and disorientation are removed at the society's level. Thus, individuals can take correct and rational decisions related to the crisis situation, to identify and remove causes, and to restore the economic and social equilibrium[20].

For these reasons, the correction of negative effects triggered by the economic crisis is the first step to end the crisis. But the individuals are responsible for these actions (stakeholders) that are based on communication.

We still feel the effects of the financial crisis that began in the summer of 2007 at international level. Uncertainties, more numerous bankruptcies, investors' risk aversion, low liquidity, tighter credit conditions, price volatility are just some of the effects of the crisis phenomenon.

In conclusion, we would like to highlight that all participants to the economic life are directly or indirectly more or less affected by the current crisis. Consequently, changes are required, in both attitude and practice, and communication is essential as a tool for surviving and even exit from the crisis.

Managers, as primarily responsible for the smooth functioning of the companies, will have to develop survival strategies and powerful risk management tools. Moreover, prudence and conservatism will be the main attitudes of investors, who until the outbreak of the crisis were eager to take risks. Creditors, who have proved relatively tolerant during the period of credit expansion, will become stricter in analysing the eligibility of their potential clients.

The importance of auditors will increase, as both creditors and investors, and the public in general, rely on their independent expert opinion. Employees will be directly interested in the success or failure of the company in which they work, due to the dependency relationship involved by the employment activity. Communication will be the link for all these changes in attitude.

Thus, we, as auditors, should consider identifying solutions for *restoring investors' confidence*, by identifying liquidities because they exist, but not in the right places. Auditors "see a company's financial reporting and activity from two standpoints: information fidelity and on-going activity. The auditor should collect such a large volume of sufficient and appropriate evidence in a short period of time in order to be able to provide a relevant opinion resulting from the audit report. The report as a whole,

---

[20] Bobe, C-M., Mocanu, M., *Salvarea companiilor afectate de criza economică – la îndemâna stakeholderilor şi profesioniştilor contabili*, Jurnalul Cercetării Doctorale în Ştiinţe Economice, Vol. I, Nr. 2/2009, Editura ASE, Bucureşti, 2009

and particularly the paragraph on the on-going concern, are elements that support the business environment and the corporate management structures"[21].

The question is, *what do we do as auditors, how do we cross the crisis and what do we learn out of it?*

In our opinion, the answer is based on how the auditor, as an accountant, perceives the term of **fair value** and performs the audit of the balance sheet accordingly, how he identifies and reports **fraud**, respectively the audit of the **on-going concern**.

2. TRUNCATION OF ACCOUNTING INFORMATION AND ITS QUALITY CONTROL

2.1. Quality control of accounting information

In recent decades, accounting became more a social game, a game of supply and demand of accounting information, mediated by accounting laws. Consequently, both the users of the information and the producers play their roles on stage. Information quality control is provided by auditors, representatives of the accounting profession or of the securities commission.

Accounting information is intended for the needs of a very diverse category of users: from small and medium entrepreneurs to large listed companies, from the Tax Office to the citizens.

The role of accounting has increased greatly, and the accounting information influences the users' behaviour in terms of decision making for investments, which generates wealth and risk sharing between individuals or social groups.

Each user wants to obtain real accounting information that reflects reality, even if it is a reality based on accounting conventions. Under these circumstances, in order to have credible accounting information, these must be checked, and the controllers of the quality of accounting information become guarantors for the implementation and enforcement of accounting principles. The Romanian system grants a specific role for the control of accounting information for two categories of accountants: censors and auditors.

The differences between the two categories are based on the concept of audit, which is a critical examination of the operations of an economic entity, according to standards and techniques established and recommended by a professional body.

The audit directly related to accounting is the financial audit, which means "an examination made by a censor, chartered accountant or auditor, in a professional, competent and independent manner, in order to issue an opinion on the validity and correct application of internal procedures established by the company's management (internal audit), as well as on the true, accurate and complete image of the company's assets, financial position and results (statutory or contractual audit)".

According to CECCAR, the statutory audit is conducted by *censors*, and the contractual audit by *auditors* (chartered accountants, auditors or auditing firms). A statutory audit is required by law, and conducted by censors under the mandate granted by the General Assembly of Shareholders. By law, *censors* are required to monitor the company's management, to verify the correct preparation of the balance sheet and income statement, to verify the accounting books and to verify the evaluation of assets. They are jointly responsible for the reality of the payments made by the shareholders, the existence of paid dividends, the existence of registers and their correct preparation, the fulfilment of the decisions of the General Assembly of Shareholders. In case of

[21] prof. univ. dr. Ion Mihăilescu, Preşedintele C.A.F.R. – interviu / "Atât auditorul, cât şi clientul acestuia trebuie să se subordoneze unor valori etice", cotidianul Economistul, 2009

persons subject to authorisation, supervision or control of the National Securities Commissions, the annual financial statements are subject to verification and certification by independent external censors. Their work involves the following principles of professional ethics: morality, independence and objectivity, diligence, responsibility, confidentiality, impartiality, respectable professional behaviour.

Besides the statutory audit, conducted by censors and required by law, companies and agencies that are not subject to statutory audit can conclude contracts for the review and certification of balance sheets with other auditors performing contractual audits.

A statutory or contractual audit engagement ends with the preparation of a financial audit report and the certification of the balance sheet for the General Assembly of Shareholders or the Board of Directors. The auditor has three ways for expressing his opinion on the accounting and fair image of assets, financial position and results provided by the annual accounts of the audited company: *unqualified opinion* – when all legal requirements are met; *qualified opinion* – when the reasons for the disagreements are not significant enough to lead to an unfavourable opinion or the impossibility to express an opinion, and an unqualified opinion cannot be issued; *denial of certification of annual accounts* – when there are serious errors and anomalies, as a penalty and a signal for the user of the accounting information.

The audit of annual accounts is not a search for the accounting truth, but rather a validation of the information provided by the accounting system, which is based on the belief in the legality and appropriateness of accounting standards and principles, which ensures the legitimacy of information contained in the annual accounts of the audited company.

In order to issue an opinion, the auditor should take the following steps: general knowledge of the company, evaluation of internal control, and account control respectively. Out of these, it is essential to evaluate the internal control, because a qualitative internal control leads to reliable information provided by the accounting system. If the analysis leads to a favourable assessment of the internal control, the auditor may reduce direct checks; on the other hand, if the internal control is considered to be insufficient, the auditor must deepen the investigations.

2.2. The necessity and role of financial audit in particular, in relation to credibility requirements – in general

It is obvious that the users of financial information (stakeholders) are influenced by various economic, social, political and juridical environments, and thus they have *different interests and perception capacities in relation to information needs*.

Thus, we can say that ***audit*** emerged as a consequence of the deepening *conflict of interests* between those who prepare the accounting information (managers) and users (shareholders, investors, creditors, state, employees, etc.), which can distort financial and accounting information, as well as increase the demand for specialised expertise on the preparation and verification of information provided by the set of financial statements.

The need for an audit results from the fact that both managers and shareholders want the highest possible credibility for the company's financial statements.

If the motivation of shareholders is obvious (as explained in the previous chapter), in the case of managers we must bear in mind that they act as employees of the shareholders (***agency theory***, presented above). Managers want for the shareholders not only be satisfied with the results and how they manage the business, but also to trust in how they lead the company, because otherwise their income would decrease. There are cases where managers are perceived by shareholders based on the fact that they only seek to maximise revenues and present situations for their advantage. Under these circumstances, the auditor is required not only by the shareholders, but also by the company's management, because a professional independent opinion stating that the financial statements do not show significant misstatements will improve also the company's management image in front of the shareholders.

Therefore, it is necessary for the **auditor** to interpose between the *producers and beneficiaries of accounting information*, as an independent professional, with a superior theoretical education, with flawless ethical and moral qualities, with a long practical experience, well-known in the field as being very competent and an authority in this field.

The auditor's role is extremely important because he must reconcile the interests of the *users* (who always want many information and in accordance with their interests and concerns) with those of the *accounts preparers* (who tend to produce a favourable image of the managed company). In other words, the auditor must adopt a *neutral* attitude in order to ensure that they offer to the users – no matter who they are – a realistic view of the audited company's financial position and its financial performances.

Besides *enhancing credibility* of the financial statements, the audit also adds *value* to the information contained therein, due to some *motivational considerations*. Knowing that the financial statements will be audited will result in the fact that those who prepare them will provide from the beginning a high quality service, which will result in compliance with the information requirements and needs of the users and on the other hand, it will discourage the "pimp up" of information or the preparation of distorted financial statements.

Thus, an audit brings an intrinsic value to the financial information because it provides an independent review of the accounting information in accordance with preset criteria that reflect best the desires and needs of the users, respectively it motivates the preparer of the information to conduct the subordinated accounting process in a manner that is in accordance with the users' criteria, knowing that his efforts will be subject to an independent expert review.

The approach of the audit through the users' information needs firstly aims the correctness and credibility of the information made available by the company. From this point of view, the role of the audit is to provide reasonable assurance through an independent undistorted opinion on the degree to which the financial statements present a fair image. Based on the auditor's opinion, stakeholders take important decisions that require an assessment of the company's ability to generate cash-flow for paying its employees, suppliers, interest, to repay loans, pay dividends, etc.

From the above, it is very clear that users' needs differ significantly either in terms of information content or the level of details or the involved technical complexity. The financial statements should provide each category the required information. This can range from simple acknowledgement of the company's activity to the assessment of the achievement of very precise objectives by the same company.

The external auditor ensures that the financial statements meet the expectations of the users, as these must meet certain features so that the information is useful to the users. These features, as stated in the previous chapter and according to the new Framework, refer to information *intelligibility* (clarity and simplicity), *relevance* (help users to satisfy their needs), *reliability* (they present fairly elements from the audited company's activity, and are not significantly contradicted by post-audit developments), *relative significance or importance* (influence the activity of the users), *opportunity* (the reports on the financial statements must appear quickly after the events referred to therein, so that users can make rapid and optimal decisions based on them), *consistency* (allows users of financial statements to easily and confidently switch from one report to another, respectively from a global disclosure to a detailed disclosure) and *comparability* (users of financial information can distinguish similarities and differences for the same period for two different entities or for two different activity periods of the same entity).

In conclusion, we can say that the ***necessity for an audit*** results from the ***need for credibility on the financial statements***, which is wanted by both managers and shareholders. The opinion of an independent professional in favour of the fact that the financial statements *do not present significant deviations* improves both the image of managers in front of the shareholders and the image of the company in front of all the other partners.

CONCLUSIONS

In conclusion, we would like to highlight that in order to be useful to its recipients, the accounting information must meet a number of features, as follows: **credibility**, **intelligibility**, **relevance** and **comparability**.

Credibility means that information do not contain material errors and are not one-sided, so that users can trust them (*verifiable* = normalisation; *neutral* = sincere, objective; *reliable* = present fairly the reality; *complete* = no omissions; *prudent* = risk estimation).

Thus, the *fair image* is a reflection of reality and not a reconstruction of reality, although this would not be a problem (creative accounting). Based on a coherent set of principles, standards and rules, through its "fair image" accounting is providing **performance**. Thus, the fail image is based on ethical and moral concepts, such as: truth, honesty, fairness, neutrality. These elements interact one with another and they emphasise the interdependence between the profession and the professionals, respectively between obtaining the truth and its seeker, thus contributing to the legitimacy of the company's morality.

The issue that deserves attention is that of reality or rather acceptance of a single or multiple realities reflected through the eyes of each of us.

The approach of the audit in terms of users' information needs primarily concerns the ***accuracy and reliability*** of information made available by the company. From this point of view, the role of the audit is to provide a reasonable assurance through an undistorted independent opinion on the degree to which the financial statements present a fair image. Based on the opinion issued by the auditor, stakeholders take important decisions that require an assessment of the company's ability to generate cash-flows to pay its employees, suppliers, interest, to repay loans, pay dividends, etc.

The audit necessity results from the ***need of the financial statements to be credible***, which credibility is required both by managers and shareholders. The opinion of an independent professional in favour of the fact that the financial statements *do not present material misstatements* improves both the image of managers in front of the shareholders and the image of the company in front of the other partners.

Our debate highlights the changing nature of environmental realities, which is characteristic to economics, a field pertaining to accounting. Variables that appear and which can hardly be measured, as well as the need to permanently reshape the economic reality, raise the interest of regulating bodies in this field, they ask for continuous education and training of professional accountants and ask for flexibility from the training institutions.

The ethical and moral values are those that offer stability and farsightedness and ensure professional judgement in a world where the motto "the scope justifies the means" seems more relevant than ever.

REFERENCES

1. Akerlof, G.A., "*The Market for 'Lemons': Quality Uncertainty and the Market Mechanism"*, 10.02.2012:
2. http://www.crysys.hu/~mfelegyhazi/courses/BMEVIHIAV 15/readings/02_Akerlof1970MarketforLemons.pdf
3. Albu, C. N., Albu, N., Alexander, D., *"The True and Fair View Concept in Romania: A Case Study of Cocnept Transferability"*, 30th Congress of the Association Francophone de Comptabilité, 27-29 May 2009, Strasbourg, France
4. Berheci, M., *Valorificarea raportărilor financiare. Sinteze contabile: teorie, analize, studii de caz*, Editura CECCAR, Bucureşţi, 2010
5. Bobe, C-M., Mocanu, M., *„Salvarea companiilor afectate de criza economică – la îndemâna stakeholderilor şi profesioniştilor contabili"*, Jurnalul Cercetării Doctorale în Ştiinţe Economice, Vol. I, Nr. 2/2009, Editura ASE, Bucureşti, 2009
6. Bunget, O.C., *Audit financiar-contabil*, Editura Mirton, Timişoara, 2010
7. Bunget, O.C., *Evoluţii ale contabilităţii româneşti în context internaţional*, Editura Mirton, Timişoara, 2005
8. Bunget, O.C., Popa, I-E., Dumitrescu, A-C., Deliu, D., *"Contribuţii la definirea conceptului de contabilitate creativă"*, Accounting & Audit Convergence Conference, Cluj, 2011
9. Bunget, O.C., Dumitrescu, A-C., Deliu, D., *"Auditul financiar şi raportarea fraudelor (I+II)"*, Contabilitatea, expertiza şi auditul afacerilor, Editura CECCAR, Nr. 12/2011, Nr. 1/2011
10. Bunget, O.C., Dumitrescu, A-C., Deliu, D., *"Auditul financiar şi raportarea fraudelor"*, simpozion "Ciuce Pavel": Expertul contabil, între principiile contabile şi reglementările fiscal, Ediţia a IX-a, Moneasa, 20 septembrie-2 octombrie 2011, Editura Mirton, Timişoara, 2011
11. Demetrescu, C. G., *„Contabilitatea este sau nu ştiinţă?"*, Bucureşti, 1947
12. Diaconu, P., *Cum fac bani contabilii? Evaziune fiscală, paradisuri fiscale, contabilitate creativă,* Editura Economică, 2004
13. Dumitrescu, A-C., *„Detectarea fraudelor şi erorilor în auditul financiar. Miză, oportunitate şi responsabilitate",* Editura Mirton, Timişoara, 2010
14. Farcane, N., Deliu, D., *"Auditarea valorilor juste într-un context socio-economic sensibil"* (în curs de publicare)
15. Feleagă, N., *Controverse contabile*, Editura Economică, Bucureşti, 1996
16. Gensse, P., Topscalian, P., *Ingénierie financière*, Economica, Paris, 2004
17. Ionaşcu, I., *Dinamica doctrinelor contabilităţii contemporane. Studii privind paradigmele şi practicile contabilităţii*, Editura Economică, Bucureşti, 2003
18. Malciu, L., *Cerera şi oferta de informaţii contabile*, Editura Economică, Bucureşti, 1998
19. Marion, A., *Analyse financierè. Concepts et methodes*, 2e edition, Dunod, Pars, 2001
20. Morariu, A., Crecană, C. D., Stoian, F., *"Relativ şi subiectiv în metodele de evaluare"*, Romanian Statistical Review, nr. 5/2009
21. Naser, K., *„Creative financial accounting: its nature and use",* Practice Hall, 1993
22. Pigé, B., Paper, X., *Reporting financier et gouvernance des enterprises: le sens des norms IFRS*, Editions EMS, Paris, 2005
23. Raimbourg, Ph., *Asymétrie d'information, théorie de l'agence et getsion de l'entreprise*, Encyclopédie de gestion, Economica, 1996
24. Raybaud-Turrillo, B. şi Teller, R., *„Comptabilité créative,* Encyclopédie de gestion", Economica, Paris, 1996