

# ACCURACY AND REALITY OF THE DATA REFLECTED IN FINANCIAL STATEMENTS

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## **Abstract**

*The official documents presenting the economic and financial activity are the annual financial statements, drawn up in accordance with the applicable accounting regulations and which must give a true and fair view of the financial position, financial performance, and other information, in accordance with the law, regarding the activity carried out.*

*For public institutions, the official document presenting the situation of the patrimony under the administration of the State and of the territorial administrative units, and, also, of the implementation of the revenue and expenditure budget is the quarterly and annual financial statement.*

**Key words:** documents, financial statements, fixed assets, public institutions

**JEL classification:** [http://www.aeaweb.org/journal/jel\\_class\\_system.html](http://www.aeaweb.org/journal/jel_class_system.html)

## INTRODUCTION

Organizing and keeping up to date records of the assets, in accordance with legal provisions in a public institution. Tangible fixed assets are considered as being tangible fixed assets, the object or complex of objects to be used as such and which meet all the following conditions: they have an input value greater than the limit established by a Government Decision and a normal useful life of more than one year.

Tangible fixed assets are recorded at the time of transfer of ownership for those purchased for consideration or at the time of completion of documents for those built or produced by the institution, respectively received free of charge.

Fixed<sup>1</sup> assets must be valued at: acquisition cost, for those purchased for consideration; production cost, for those built or produced by the institution and at fair value for those acquired free of charge. (e.g., donations, sponsorships).

The fair value is determined based on the report drawn up by specialists and with the approval of the authorizing officer or based on assessments normally carried out by authorized valuers.

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<sup>1</sup> HG nr. 395 din 2 iunie 2016 pentru aprobarea Normelor metodologice de aplicare a prevederilor referitoare la atribuirea contractului de achiziție publică/acordului-cadru din Legea nr. 98/2016 privind achizițiile publice

The acquisition of goods of the nature of stocks is taken into consideration by the institutions from the moment they become the owners of the goods or when the supply of these goods is finished.

The costs of goods<sup>2</sup> of the nature of stocks are recognized at the time of their consumption. Exceptions are materials of the nature of inventory items, the cost of which is recognized at the time of removal from use. The possession, by any means, of material property and the carrying out of economic operations, without being recorded in the accounts, are prohibited.

Please note that the goods supplied or sold with property right clauses are registered at the entrances and, respectively at the exits, both in administration and in accounting, according to the concluded contracts.

Materials of the nature of inventory items represent goods with a value less than the limit provided by law to be considered as tangible fixed assets, regardless of their duration of use, or with a duration of less than one year, irrespective of their value, and goods assimilated to them (protective equipment, work equipment, special clothing, mechanisms, tools, devices, verifiers, measuring and checking devices, etc.) (account 303). Inventories are registered in the accounts at acquisition cost, production cost or at their fair value, as appropriate.

As a result of the audit carried out, it was found that at the level of the public entity, some assets, or assets such as office equipment and communication equipment (mobile phones) received free of charge, were registered in the accounts and technical-operational records, without being evaluated.

Thus, according to invoice CSE series, no. 910000/14.12.2020, registered as entity under no. 12/02.01.2019, and the invoice RRRFF series, no. 2442381/20.03.2019, registered as entity under no. 17/2.01.2020, the public entity received free of charge (respectively promo with 100% commercial discount) from SC Telekom SA, as seller, a number of 121 pcs mobile phones brand Samsung Galaxy J52017 Dual Black, (the total price of goods with VAT being 18.523,47 lei according to invoice no. 911098/14.14.2018, and the invoice value zero lei) and a laptop package Lenovo V310 i5 (the price of the goods with VAT being 3.201,51 lei according to invoice no. 2481/25.01.2019, and the value of the invoice zero lei), these goods are not even inventoried in 2021.

The causes and circumstances that led to the non-valuation and non-recording of such assets in the entity's accounting and technical-operational records are the lack of knowledge of the accounting regulations on how to highlight the fixed assets received free of charge and the malfunctioning of internal control.

During the present audit mission, the office equipment and mobile phones received free of charge were evaluated through the Evaluation Report no. 12/ 09.08.2021 and recorded in the accounts with the accounting note no. 15/ 09.08.2021.

The value of the deviation found is 21.725 lei representing the value of the tangible fixed assets not recorded in the accounting records, but valued, and recorded during the audit.

This was not the case for making recommendations, as the deficiency has been remedied during the audit mission.

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<sup>2</sup> Legea nr. 98 din 19 mai 2016 privind achizițiile publice, cu modificările și completările ulterioare

*a) case study on the registration in the accounting records of the results of the revaluation of the patrimonial elements*

From the audit of the category of "Non-current assets" operations, testing the assertion of completeness and value, respectively if the assets are recorded in the accounting records at fair value, it was found that in 2021, although the revaluation action of the public entity's assets materialized by providing the entity with a Revaluation report (2 reports from August 2021 for different assets), drawn up on the situation as at 31.12.20120, by which it is presented that differences in total amount of 84.707.220 lei are to be recorded from the fair values proposed by the appraiser for the revalued public and private domain goods, however the amount in question was not recorded in the entity's accounting, in the corresponding accounts, as shown by the accounting entries reflected in the trial balance drawn up on 31.12.2021.

From the analysis of the revaluation report submitted with the handover-receipt report no. 34/ 4.07.2021, there are situations of increase in the inventory value, of the revalued fixed assets in the public and private domain.

The causes and circumstances that led to the non-recording in the accounting records of the differences resulting from the revaluation, were determined by the misunderstanding of the accounting rules regarding the records of the results from the revaluation operation and by the fact that the entity has not issued written internal procedures for recording revaluation results in the accounting, for the purpose of determining the fair value of tangible fixed assets.

We specify the fact that as from 1 January 2008, tangible fixed assets of the nature of constructions and lands owned by public institutions will be revalued at least once every 3 years, under the conditions provided in article 2<sup>^</sup>1, by a commission appointed by the head of the public institution or by evaluators authorized in accordance with the legal regulations in force, the results of the revaluation being recorded in the accounts until the end of the year in which the revaluation was performed.

General rules on the revaluation of tangible fixed assets in the patrimony of public institutions.

Through the revaluation action of the existing tangible fixed assets in the patrimony of public institutions, the value of these patrimonial elements is updated in the annual financial statements of the year in which the revaluation was performed.

The revaluation of tangible fixed assets is performed to determine their fair value at the balance sheet date, considering inflation, the usefulness of the asset, its condition, and the market price, when the book value differs significantly from fair value.

The tangible fixed assets of public institutions are revalued as follows: a) tangible fixed assets in the patrimony: lands and landscaping, constructions, technical installations, means of transport, animals and plantations, furniture, office equipment, equipment for the protection of human and material values, and other fixed tangible assets.

Fixed assets may be subject to revaluation, which is carried out according to legal regulations, in which case they are presented in the balance sheet at the revalued value and not at their historical cost. They are reassessed, with the exceptions provided by the legal regulations, at fair value. The fair value is determined based on evaluations carried out by authorized evaluators or by technical commissions set up under the law.

The value of the operations that constitute the presented deviations and that influence the financial statements is 84.707.220 lei, representing the difference in value of the assets, not recorded in the accounting following the revaluation.

The consequence of this deficiency is the failure to achieve the purpose of the revaluation, namely, to determine the fair value of the assets at the balance sheet date,

considering inflation, the utility of the good, its condition and market price, where the book value differs significantly from fair value, thus, the annual financial statements do not reflect the real value of the entity's equity at 31.12.2021, and implicitly its financial position.

During the audit, no action was taken by the entity to remedy the deviation.

b) *Case study on the registration and reflection in accounting records and financial statements of the public institution of receivables due to the local budget*

From the audit on the reality and accuracy of the data reflected in the financial statements, it was found that the entity did not comply in all cases with the principles of accounting for rights and obligations (commitment) in the registration of economic and financial operations, respectively the registration of receivables.

Regarding the reflection in accounting records and financial statements of commercial receivables due to the local budget following the lease agreements concluded by a public institution

From the audit of the category, "Revenues from concessions and rents" - account 21A 30.05.30, it was found that at the level of the entity, in 2021, although on the basis of the establishment of these revenues there are lease agreements concluded with individuals and legal entities, no invoices were drawn up in 2021 for the rent due under the contractual terms, the entity limiting itself only to the registration of the revenues collected (by monthly accounting notes 521=750, as it is collected by cashier and by transfer to the treasury account from individuals and legal entities), receipts which according to the *Local budget execution account - revenues on 31.12.2021* and the statement of account 21A 30.05.30 - *Revenues from concessions and leases* are 70.736 lei and 2.682 lei, according to the statement of account 21A 30.50 - *Other property revenue*.

The initial and final balance of the account 411 *Customers* at 31.12.2021 is 108.833 lei according to the trial balance, of which lei 108.654 represents receivables from rents and timber sales, corresponding to revenues realized in 2020 and registered accounting records in from 2019 and 179 lei represents the initial balance of the account in 2018.

Despite all these deviations from the principle of accrual accounting, receivable in the amount of 25.211 lei related to revenues achieved and uncollected on 31.12.2021 from the renting of some goods — land and buildings (commercial and residential premises) from the patrimony of the public institution, according to the tax record, are also reflected in the balance of the account 464.00.00.02A30.05.30 *Local budget receivables – Other revenues from concessions and leases*, due to a registration in December 2021 in the debit of the receivable account 464 *Local budget receivables* (and the credit of the revenue account 750.00.02A30.05.30 *Revenues from concessions and leases*) of the amount of 3.885 lei, that is also reflected in the final balance of the 464 account on 31.12. 2021.

This amount of 3.885 lei was registered without a supporting document, being made to ensure consistency between the fiscal evidence and the accounting records on 31.12.2021 and, according to the registration, erroneously represents the value of claims to be received in 2021, because the value to be collected from receivables from rents is 9.083 lei according to the fiscal records, respectively of the *Centralizer of remains from individuals and legal entities*.

Therefore, by not registering receivables in accordance with the accrual accounting principle, although there is a concordance between the value of the rental receivables from the accounting records and the ones from the fiscal records at the end of

2021, the reflection of receivables from rents through account 464 *Local budget receivables* is erroneous and the accounting records for the year 2021 do not reflect the reality of the economic and financial operations, nor for claims to be collected during the audited year..

We specify the fact that any economic and financial operation carried out is recorded at the time of its performance in a document which is the basis of the accounting records, thus acquiring the status of supporting document.

The supporting documents underlying the accounting registrations are the responsibility of the persons who drafted, endorsed, and approved them, as well as of those who recorded them in the accounting, as appropriate.

The accounting of customers and suppliers, of other receivables and obligations is kept by category, as well as by each individual or legal entity.

The accounting of public institutions ensures the registration of established rights, revenues, budget commitments, legal commitments, cash payments and actual expenses, by subdivisions of the budget classification, according to the approved budget and methodological norms developed by the Ministry of Public Finance.

According to accrual accounting principles, the effects of transactions and other events are recognized when transactions and events occur and not as cash or equivalent is collected or paid.

The accounting registration of receivables and liabilities is carried out when rights and obligations are established.

This deficiency was caused by the improper functioning of internal managerial control, including the failure to provide a job description of some duties assigned to a person within the entity, to issue invoices for the rent due by third parties, as well as by a lack of thorough knowledge of the relevant accounting regulations.

The consequence of this deviation lies in the distortion of the information provided by the accounting accounts showing transactions in respect of commercial receivables and the accounting records and financial statements do not reflect accurately the amount of trade receivables and receivables, at a certain time during the year 2021 and on 31.12.2021.

## CONCLUSION

In view of the deviations found and presented above, it is recommended the disposition of measures by the management of the entity regarding the correct registration in the financial-accounting records of the revaluation results (depending on the variation of the book value) for each revalued fixed asset, separately for the public and private tangible assets of the public institution.

It is also recommended that the necessary measures be taken to ensure the correct recording and reflection in the accounts in accordance with legal provisions of operations relating to the entity's receivables arising from the economic operations carried out, so that the accounts and financial statements give a true and accurate picture of financial position, financial performance, and other information, in accordance with the law.

## REFERENCES

### *Electronic publications on the Internet*

1. \*\*\*Legea nr. 98 din 19 mai 2016 privind achizițiile publice, cu modificările și completările ulterioare (Law no. 98 of 19 May 2016 on public procurement, as subsequently amended and supplemented).
2. \*\*\*HG nr. 395 din 2 iunie 2016 pentru aprobarea Normelor metodologice de aplicare a prevederilor referitoare la atribuirea contractului de achiziție publică/acordului-cadru din Legea nr. 98/2016 privind achizițiile publice (Government Decision no. 395 of June 2, 2016, for the approval of the Methodological Norms for the application of the provisions regarding the award of the public procurement contract/ framework agreement of Law no. 98/2016 on public procurement).
3. \*\*\*Legea nr. 100 din 19 mai 2016 privind concesiunile de lucrări și concesiunile de servicii (Law no. 100 of 19 May 2016 on works concessions and service concessions).