

APPROACHES REGARDING THE UTILITY OF THE ACCOUNTING INFORMATION

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ABSTRACT: *In the context of the internalization and globalization of the economies, in order to efficiently respond to the different risks that could affect the credibility and the transparency of the accounting information, the carried research has proven that, there are imposed the knowledge and the implementation in practice of the financial reporting process of the leadership prerogatives afferent to a good corporate governance, of those specific to an adequate internal control and to a prospective and innovative management of these events. Starting from the multiple benefits generated by the existence of good corporate governance, under its diverse aspects and dimensions, in the carried research we have focused on the identification and instrumentation of new valences of the relationship among corporate governance, risk controlling system or process and the utility of the information from the financial statements.*

Keywords: *corporate governance, internal control, utility of the information, financial statements, net accounting result*

JEL Codes: *M41, M42, M48 G28, G38*

Introduction

One of the main instruments of monitoring and manipulating of behavior of the entity's management is the presentation of information through the financial statements which regard the financial and operational results achieved, the performances obtained reported to the targeted objectives and the strategies that were implemented in this regard, the main shareholders and the vote rights, the policy of remuneration of the administration council, the corporate governance structures, the applied policies, the factors of risk, etc.

Considering the vast area and the complexity of the analyzed activities and processes, as well as the implications of some inadequate behaviors over the users of accounting information, the identification of some pertinent solutions in this sense was tried, through the carried research, by answering to the following question: What is the relationship among corporate governance, accounting, financial results and internal control?

1. Literature Review – corporate governance and accounting information

In the literature review from the accounting and audit fields, the concept of corporate governance is treated from the perspective of many valences and dimensions. In a generic way it is used in order to define the activities and operations necessary for leading, managing or administering an entity in its wholesome. Also, the concept views the actions carried for owning or

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controlling the activity of an entity with the goal of accomplishing the targeted objectives. In this context, the concept is frequently accompanied by the term “corporate”, situation in which the approach takes in consideration problems generated by the leading, administering or managing of an entity and of those that bring into attention the function, process or internal control system (Dănescu T, Prozan M and Prozan R, 2014).

In its evolution and development, as any other extremely promoted concept, corporate governance had different connotations specific to each phase, for which the environment, the economic context, the level of development or the culture specific to each country, organization or entity had their influence.

Among the most relevant definitions of the corporate governance that are found in the literature review the following could be retained:

- The system through which the entities are managed and controlled (Cadbury Report, 1992);
- The way through which the investors insure that they will receive the expected benefits from the undertaken investment (Shleifer, Vishny, 1997); ;
- An assembly of rules through which the entities are managed and supervised with the goal of protecting the interests of all the involved parties; considering this goal, the rights and responsibilities afferent to the different categories of persons involved in the entity (the administering council, directors, shareholders etc.) are established and the rules that govern the decision making process are defined (OECD, 1999);
- Leading an entity through implicating all the internal components which function together and are integrated in the management and the implementation of the risk management, of the financial management system and the internal control (Ghita, M., 2008);
- The mechanisms through which the shareholders exercise their control over the people from the interior of the entity (employees, managers) and the ones from the exterior (strategic investors, intermediaries) in order for their interest to be protected (Ileana, L., 2008);
- Important problems and aspects regarding the ethics of the business practices and of the responsibilities (Bunget, O. et al, 2009);
- The system through which an entity puts into application the decisions taken with the view of attaining the targeted objectives (Crowthe and Seifi 2011);
- A system of laws and approaches through which the corporations are managed and controlled, that highlights the internal and external structures with the goal of monitoring the actions of the management and of the directors, and in consequence on diminishing the risks that could lead to inadequate behaviors (Sifuna Anazett, 2012);
- Both the system of leading and controlling the activities carried by an entity in its assembly with the goal of protecting the interests of all the interested parties, as well as the “assembly of rules” and “methods” that should be applied in order to achieve the targeted objectives (Dănescu et al, 2014).
- Mitigation of the conflicts of interests between stakeholders. Ways of mitigating or preventing these conflicts of interests, consist of the processes, laws, customs, policies, and institutions which have an impact on the way a company is controlled (Goergen, 2012).

From the presented valences of the corporate governance, usually, the concept is defined as being the system through which the entities are led and controlled (Cadbury Report, 1992) or as the instrument through which the investors are insured that they will receive the expected benefits for their investment (Shleifer and Vishny, 1997).

In other approaches, this is defined as an ensemble of rules through which the entities are led in order to protect the interests of all the interested parties (OCDE, 1999), aspects regarding the ethics of the business practice and the implicated responsibilities (Bunget, et al, 2009), an assembly of “game rules” through which it is insured the internal managing of the entities in order to protect

the interests of all the participating parts (Feleagă, et al, 2011), or the “system” of leadership and control, an “assembly of rules” and “the methods” through which the entities are led and controlled in their ensemble both for accomplishing the targeted objectives as well as for protecting the interests of all the interested parties (Dănescu, et al, 2014), etc.

Apparently through the used terminology, this system could be considered usable only for the entities or corporations of large dimensions. However, in essence the principles that govern the concept and the objectives targeted through this system could be extrapolated also in the practice of the economic entities of smaller dimensions as well as in the public entities.

Taking into consideration the benefits that could be brought to the value of an entity through the application of the principles and rules imposed by the system of corporate governance, in the context of the shown aspects, in the last period more opinions have been highlighted in the literature review (Morariu et al, 2008; Dănescu, Prozan, Dănescu, 2012; Albu, N. et al, 2013 etc.) as well as in the frame of the international authorities or organisms, that regard the necessity of extending the application of this system also to the economic entities of small dimensions and to the public entities.

Similar to the corporate governance, in the literature review large spaces are allocated to the instrumentation of the qualitative characteristics of the accounting information, to the ways through which these could be insured, as well as to the approaches of the risks that could affect them.

Among the axes of putting in practice the conceptual frame of the corporate governance, presenting the information and transparency could be counted, that seen from another perspective, in essence represent actually one of the objectives of the internal control. Hence, besides the adequate approach of the risk management that could affect the utility of the accounting information it is also imposed the corresponding instrumentation of the processes of accounting reporting in the context of the implemented system of corporate governance, as well of the one of internal control.

In the sense of the shown aspects, the most relevant three paths through which the feasible financial-accounting information could contribute to the improvement of the economic performance (Bushman and Smith, 2003), respectively to the facilitation of the capital flow and supporting the investment opportunities, the efficient monitoring of the opportunistic managerial behavior by the shareholders with the goal of improving the agency effect and reducing the phenomena of adverse selection, as well as the liquidity risk that could affect the potential investors.

Even though, each of the these topics is frequently approached in the literature review as well as in the research undertaken, viable solutions are still searched through which these could contribute also to the achieving of the objectives of a credible accounting reporting.

2. Research methodology

In the frame of the undertaken research we have focused on the extremely complex concept of corporate governance, more exactly, on the instrumentation of its role and the importance of its effects over the utility of the accounting information.

In the context of its multiple dimensions, we have made a comparative analysis of the connections among the implemented corporate governance system, the internal control and the utility of the information from the financial statements through the perspective of the results obtained by the Romanian economic entities.

Starting from the targeted objectives, an ample documentation has been made over the literature review, of the accounting norms and provisions, of databases, of the ones specific to the corporate governance, audit, internal control and risk management. Also, studying the drafted relationships in the analyzed processes has been achieved through the application of a constructivist method, which is based on the model grounded on the criteria “truth – coherence”, respectively the research of the approached topic has been achieved through the coherent combination of the intellectual – cognitive dimension with the ethical one in order to show as loyally as possible the

relationship among corporate governance, accounting, financial results and the internal control process or system,

On the basis of the obtained results in the frame of the previous theoretical and empirical researches (Dănescu, et al 2012, 2013, 2014), we have continued the research with new approaches to knowledge in what regards the relationship between the corporate governance of the entities from Romania and controlling the risks from the financial statements area. In this respect, there have been analyzed in comparison the information presented in the accounting and fiscal reports of the entities taxpayer from Mures county of 9991 economic entities for the financial year 2010 and 8250 economic entities for the financial year 2011.

3. The role and the dimensions of the corporate governance in achieving the utility of the accounting information

3.1 The dimensions of the corporate governance in insuring the transparency of the accounting information

In the paper “Principles of Corporate Governance” of OCDE (1999) it is shown that the goal of corporate governance is to insure the strategic leadership of an entity, the control of management by the administration council, in which the transparency and protecting the interests of the smaller shareholders have a main role. In order to achieve these goals, the objectives of the corporate governance target both the insurance of a transparent and efficient management, as well as the orientation of the management towards the maximizing of the entity’s value for the shareholders.

With the goal of improving the divergent interests that exist at the level of the entities, according to the agency theory, it is imposed that these to implement adequate mechanisms of governance and control through which the administration council to motivate the management in achieving the proposed objectives in performing conditions through the establishing of adequate remunerations, with positive effects over the capital owners and over the other interested parties. Even more, these mechanisms contribute to the insurance of the transparency requests and to the creation of the necessary frame for protecting the interests of the minority shareholders, which usually are exposed to some abuses from the part of the major shareholders.

In the given context, along the drafted valences from the presented definitions, principles, goal and objectives, through the undertaken researches it was shown the necessity of approaching the corporate governance and also through the view of the value added to the entire society in its wholesome. Thus, it is imposed to add a new dimension, in which the ethics has a fundamental role in insuring the transparency of the information, to the analyzed system.

The graphic illustration of the perspectives through which the concept of corporate governance could be defined or approached is illustrated in figure 1.

SUPPLIERS	• to the suppliers of financial suppliers that target the benefits generated by the undertaken investments;
THIRD PARTIES	• the relationship of the entity with the thid parties that views the interests of the diverse interested parties;
PERSONAL	• the rights and responsibilities from the frame of the entity focused on the promotion of rightfulness, transparency and responsibilities;
JURIDICAL	• the right source defined through a set of rules developed by each legislative system;
SCIENCE	• manifestation as a science - area of the economy through which the way of making entities more efficient is studied;
ETHICS	• insuring the value added over the entire society - public interest.

Figure 1. Perspectives or dimensions of the corporate governance

Source: Approach towards the literature review (Tabără, Horomnea, Mircea, 2009) and the undertaken research

Therefore, the analyzed concept could cover adequately a varied area, and in this way it could be supplied at an international, community or national level, a reasonable degree in regard to the market economy. Thus, the entities should prove responsibility and transparency both towards the shareholders, employees and other interested parties, as well as towards the society.

Also, in order to achieve these objectives an essential role is held by the authorities, the professional organisms and to each entity in part which has accomplished a series of actions. Even though, in this sense, there have been adopted and perfected the legislative frames, applied the measures for improving the business environment, created efficient organizational structures, trained the personnel, as well as elaborated and implemented an adequate system of accounting reporting, the functional deficiencies of the analyzed systems impose the identification of some pragmatic solutions in order for them to be diminished.

3.2 Empirical study – the role of the corporate governance in controlling the risks that could affect the accounting information

Through the perspective of the potential benefits, regardless of the size, area or field of activity of an entity, some of the objectives and principles of corporate governance need to be implemented also at the level of entities of smaller dimensions.

Even though at the level of the analyzed Romanian economic entities it could not be taken into consideration the effective application of all the rules and practices that are specific to the principle of corporate governance, we consider that, at least the ones referring to presenting accounting information and their transparency could be extrapolated at the level of Romanian entities.

Starting from these objectives and from the necessity of insuring the utility of the accounting information, in the frame of the internal and external decision making processes, the carried research has focused on instrumenting the ways of obtaining, probing and validating them as well as of the impact produced over the objectives targeted by the entity.

The effects of information asymmetries over the quality of the corporate governance or over the dimension of the results obtained by an entity are constructed and highlighted through the use of some financial and non-financial indicators, determined in different postures and circumstances. The way of putting in practice the principles and rules that govern the corporate governance will put its stamp on the insuring of the conformity or non-conformity of the information from the financial statements reported to the represented reality. Thus, for the quantifying of this relationship it is necessary to identify some variables that could prove the existing relationships of causality or dependency.

In the context of the shown aspects, through the extrapolation of the principles of corporate governance over the practice of the analyzed economic Romanian entities, more exactly of the ones referring to presenting the information and insuring the transparency, we have analyzed the existing relationships among the system of corporate governance, the process of risk controlling and the utility of the information from the financial statements. Hence, we allocated a significant importance to the mechanisms through which the business risks of fraud, non-conformity or those of significant denaturation could affect the utility of the information from the analyzed reports and the ways through which the studied systems or processes could contribute at the avoiding, diminishing, treating or in some cases even in their eliminating.

In order to individualize the relationships between these systems and processes, and to quantify the produced effects, relevant are the results obtained in the frame of the empirical research carried on the issue of applying the principles of corporate governance and the adequate controlling of the risks from the analyzed entities.

From the comparative analysis of the information and the existing correlations between these in what regards the net accounting result and the fiscal duty, presented in the financial statements and in the fiscal declarations, a series of inconsistencies, non-conformities and non-correlations were implied.

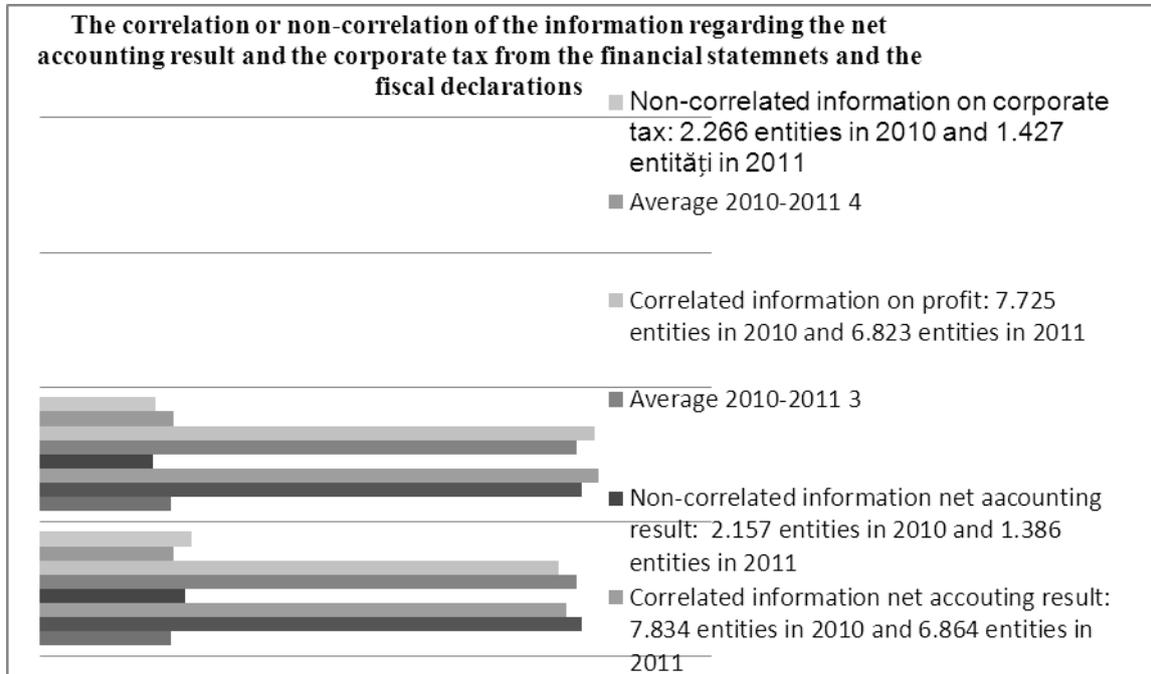


Figure 2: The distribution of the analyzed entities reported to the correlation or non-correlation of the information
 Source: authors' calculation and forecasting (Dănescu et al, 2013, 2014)

The prints of non-conformity of the information from the analyzed reports with the represented reality highlight some deficiencies of the implemented corporate governance system, a series of dysfunctions of the internal control from the perimeter of the analyzed financial statements, but also a lack of responsibility of the management for insuring the accuracy and the comparability of this information. Reported to the size of the obtained financial results, these deficiencies are localized mainly in the frame of entities of smaller dimensions, in which in many of the analyzed cases, the management does not differ from the shareholders or administrators of the entities considered.

From the carried researches, these inadvertencies also show the lack or inadequacy of the accounting policies or procedures of not knowing, not understanding or their non-correspondingly applying or of the accounting and fiscal provisions that are applicable to the analyzed entities.

In this sense it is relevant the proportion of the reports with non-correlated information, which in the case of the net accounting result in average on the two analyzed years is 19.20% (21.59% in 2010 and 16.8% in 2011).

Therefore, the results of the carried research have proven once again that the "accounting images" obtained through the application of the professional reasoning are actually the reality that the accounting professional presents to the information users.

Together with the deficiencies of the analyzed systems, determined by a series of factors which are more or less objective, the materialization of the risks of non-conformity or of those of denaturation in the process of producing and communicating of the accounting information and implicitly in the accounting reports through which these are supplied to the targeted users is facilitated also by the existence of some divergent interests.

Actually, insuring or not-insuring the utility of the information from the financial reports is the result of a mixture of factors and circumstances specific to each entity in part, in which the way of implementing and functioning of the corporate governance systems, of the one of internal control and of risk management have an essential role.

In the given context, the general and the specific objectives of an entity, the insuring of a reasonable degree of credibility of the information from the accounting reports could contribute in turn to the improvement of the systems and processes that exist in their frame. In the same time, the quality of the information especially of the one referring to the achieved results and performance will have as an effect the protection of both the shareholders as well as the stakeholders and in this way it is highlighted the dependency connection among the analyzed elements.

The materialization of the risks of non-conformity show that, through affecting the utility of the accounting information, the decision making processes at which they contribute are affected negatively, both in their initial form as well as through the use of some financial indicators determined on their basis. In this sense, there are relevant the results obtained from the instrumenting of the relationship between the quality of the accounting information and the size of the achieved performance by an entity through the application of the simple regression function (Prozan, 2014,).

Hence, depending on the given circumstances, the users should take into consideration that, regardless of the used mechanisms, the represented reality could have different images or dimensions, aspect that gives to accounting its “relative universality” (Colasse, 2011, pp.79- 80), and in consequence the information supplied through the accounting reports have a relative importance (Dănescu et al., 2012).

The corresponding application of the principles and of the rules of corporate governance offer the entities a reasonable insurance level that, through the way in which they are led and controlled, the objectives targeted by them will be achieved by considering the interest of the shareholders and of the stakeholders.

On the basis of the identified issues in the literature review, the relationships among the utility of the accounting information, the corporate governance and the performance of an entity could be illustrated as in figure 2.1

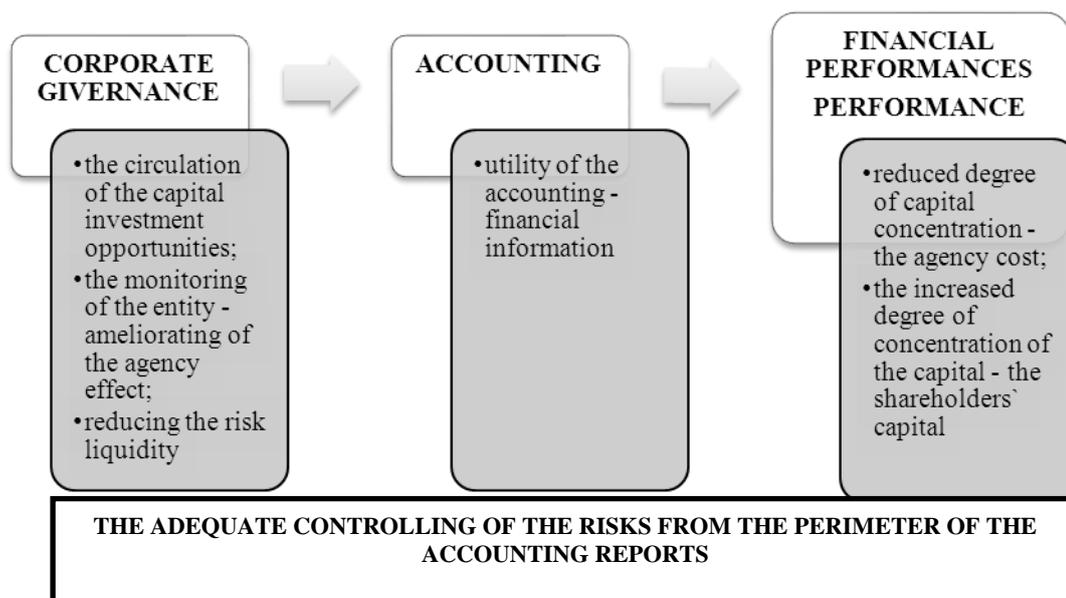


Figure 2. The illustration of the relationship among the corporate governance, accounting, financial results and the internal control

Source: approach based on the literature review and the carried research

Besides insuring the utility of the information supplied by the accounting reports, the corporate governance supposes also transparency, context in which an essential role is held by the internal control. Thus, the materialization of the information risk could affect both the utility of the information as well as the transparency, which in turn could constitute risk factors in the frame of other decision making processes at which they take part, and as a consequence the reports that supply this type of information of those that are elaborated on their basis that could be in non-conformity with the represented reality.

Usually, the practices of corporate governance of a high quality supply an increased level of transparency, which in turn is the guarantee of the credibility of the supplied accounting information. In this way reasonable assurances could be given that the information presentation regarding the financial and operational results, the performances of the analyzed entities etc., through the means of the financial statements are in conformity with the represented economic reality.

In the sense of the shown aspects, good corporate governance implies the implementation of an adequate system of producing, guaranteeing, probing and validating the quality of the accounting information and of the functioning of a proactive and prospective risk management (Dănescu, et al 2012).

Conclusions

Besides an adequate internal control, the implementation of pylons specific to the corporate governance – the utility and the transparency of the information – could contribute to the achievement of the objective of the financial statements of insuring the “loyal image” of the represented reality. As a consequence, the system through which the entities are led and controlled must supply reasonable insurances to all the interested parties in what regards the credibility, the relevance, the intelligibility and the comparability of the information that refer to the financial position, the performances of the entities and their modifying in time.

The insurance of the utility of the accounting information and an increased degree of transparency are associated with corporate governance practices of high quality. These are also the guarantees of an adequate internal control. Therefore, by having the quality of governing the internal and external decision making processes, the accounting information facilitates the putting in practice of the principles and rules of corporate governance and of risk management that could affect their utility.

All in all, it could be said that the aspects drafted though the results of the undertaken researches emphasize that, between the quality of the corporate governance system, the utility of the accounting information and the size of the results obtained by an entity there is a causality and interdependence relationship in which the degree of adequacy of the internal control could have a decisive role.

Taking into consideration the complexity and the importance of the approached topic, on the basis of the obtained results we propose to continue the research with new approaches and aspects in regard to the adequate controlling of the risks from the financial statements in the context of applying the principles and rules of corporate governance and of those of an adequate internal control.

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