FAITHFUL IMAGE AND ACCOUNTING REGULARITY IN CONDITIONS OF APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS. CHALLENGES FOR ACCOUNTING PRACTITIONERS AND AUTHORITIES

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Abstract: *The objective of the annual financial statements is to provide a true and fair view of the financial position, financial performance and other information relating to the business of the entities or groups of entities, in accordance with applicable accounting regulations. The transition to the application of IFRS as an accounting basis by entities whose securities are traded on a regulated market has been a major challenge both for the professionals involved in the preparation and audit of the annual financial statements and for the authorities. The application of IFRS by some companies that carry out monopoly activities, which manage assets belonging to state authorities, requires professional judgment and appropriate measures to identify any risks that may arise from non-correlation of the provisions of legislation and IFRS. Given the existence of excessive and sometimes outdated legislation, the presentation of a true image in relation to IFRS and compliance with the applicable legal framework is a challenge for practitioners in companies, for statutory auditors but also for authorities that need to assess how to manage state capital and tax reported profits. The transition to the application of IFRS as an accounting basis in Romania by entities whose securities are traded on a regulated market was made without a prior analysis of the comparability between the provisions contained in legislation (including tax) and the provisions of International Financial Reporting Standards. There are a variety of economic and financial operations that are carried out by entities and various forms of their legal organization, so that they cannot be fully identified and legally regulated. The analysis of the information in the annual financial statements published by the companies can contribute to the understanding of the information by various users, including the representatives of the state authorities.*

Keywords*: accurate picture, international financial reporting standards, accounting standards, annual financial statements.*
JEL classification: M 41.

1. The objective of general purpose financial statements

Accounting law nr. 82/1991 republished, with subsequent amendments and additions, entities are required to conduct accounting according to rules issued for this purpose and to publish annual financial situations, which are considered general purpose statements.

With the transition to a market economy has begun a process of reform in the area of accounting that had as its objective the improvement of the information system intended for other users than State institutions.

The admission of Romania as a member country of the EU and of carrying out a process of aligning national accounting rules to the Community provisions relating to the format of the annual financial statements, the valuation methods used, and the presentation and publication of the annual financial statements prepared by entities.

The information presented in the annual financial statements have become increasingly more complex, he switched from numeric presentation of information to the joint submission, encompassing both the numeric and narrative explanations.

The transition to accounting "in accordance" with the requirements of the accounting directives (Fourth Directive of the European Economic Communities Directive 78/660/EEC of 25 July 1978) involved taking over the accounting rules of the national accounting community creating a legal framework for the production of comparable information in annual financial statements. One of the main requirements relating to information contained in the annual financial statements relates to the comparability of the information submitted by an entity in all periods presented in the annual financial statements, as well as to the comparability of information presented by different entities.

The information presented in the annual financial statements are intended for individual users that you analyse and take decisions on the basis of their interests. Among the recipients of information shall be stated:

-existing or potential investors who are interested in the value of the net assets shown in the annual accounts, the rate of return on investment, or the potential for increasing the market value of the equity instruments;

-lenders that may be financial and banking institutions and other donors that analyzes information from the perspective of potential to recover loans and interest due;

-employees who are interested in the financial position of the entity, pursuing what are rights protected and the prospects for development or restructuring of its activity;

-reporting entity's leadership is interested in the information presented in the annual financial statements, but it has available and current information, not available to the general public for making decisions.

-State authorities represented by regulatory bodies (for certain fields as energy, services);

-other institutions of the State, such as the Ministry of public finance and the National Bank of Romania.

As notes, there are several beneficiaries of the information in the annual accounts, their needs being focused on information from certain components of annual financial statements.

To meet these needs, entities must approve the accounting policies and procedures enabling the recording of events and transactions during the financial year and presenting work in synthetic annual financial statements.

2. True image in accounting

True image in accounting has legal meanings, being laid down in the accounting Law nr. 82/1991 republished, with subsequent amendments and additions.

In the context of accounting law, the faithful must be confirmed, assumed by the Admins, instructing or other persons who are subject to the management of the entity in question.

Thus in art. 30 of accounting law States that: "the annual financial statements shall be accompanied by a written statement of the persons referred to in article 10 alin. (1) assumes responsibility for drawing up the annual financial statements and confirmed that:

(a) accounting policies) used in the preparation of the annual financial statements in accordance with accounting regulations applicable;

b) annual financial statements gives a true and fair view of the financial position, financial performance and other information on the work carried out;

c) legal person performs in terms of continuity. ”

Both European directives in the field of International Accounting and financial reporting Standards include criteria for the recognition, evaluation, derecognition of the balance sheet (assets, liabilities and equity) and the items in the profit and loss account, respectively, revenue and expenditure.

Requirements for accurate image in annual financial statements included in both the accounting standards in accordance with European directives and international financial reporting Standards, as follows:

- Accounting regulations approved by order of the Minister of public finance nr. 1802/2014, as amended and supplemented to provide for section 24 that: "annual accounts must give a true and fair view of the assets, debts, financial position and profit or loss of the entity.

- IAS 1 "Presentation of financial statements" referred to in paragraph 15 that:" the financial statements must present the financial position of the loyal, financial performance and cash flows of an entity. Fair presentation provides accurate representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in Conceptual framework for financial reporting. It is assumed that the application of IFRS, with supplementary information presented when required, results in financial statements that achieve a fair presentation. ”

3. True image and compliance with accounting rules

And in case of application of IFRS corresponds to the image should be confirmed, is not implied or assumed. In this regard, in paragraph 16 of IAS 1 provides that: "an entity whose financial statements comply with IFRSS must submit a statement in explicit and unreserved for this compliance. "Compliance with IFRS annual financial statements is carried out if they are satisfied the requirements of all applicable IFRS sites.

If in the case of accounting regulations compliant with European directives (order of the Minister of public finance nr.1802/2014) there is only true image requirement without having laid down the conditions under which it is performed, IAS 1 "Presentation of financial statements" specifies that a fair review requires that an entity meets the following conditions:

-to respect and implement the provisions of IFRS applicable sites, and in the absence of an IFRS that applies to a specific item (in rare cases) to proceed to the selection of accounting policies according to the hierarchy provided for in IAS 8 "Accounting policies, changes in accounting estimates and errors";

-submit the notes to the annual financial statements information narrative showing the accounting policies used in the preparation of the annual financial statements and other relevant information. The information presented must be reliable, understandable and comparable;

-to submit additional information to enable users of information understand certain transactions when certain IFRS is not sufficient.

So accounting rules in accordance with European directives and in accordance with the IFRS (order of the Minister of public finance nr. 2844/2016) provide for the way forward where an entity concludes that the application of a provision of the accounting rule results in misleading information or produce exactly the events and transactions. Such situations can be extremely rare and must be presented explicitly in the notes to the annual financial statements.

IAS 1 provides at paragraph 19 that where "the leadership comes to the conclusion that the entity's compliance with a provision from an IFRS would induce so much in a way that would be inconsistent with the objective of financial statements set out in the general framework, the entity should deviate from that available in the manner described in paragraph 20, if the relevant regulatory framework provides for such an offense or not otherwise prohibited. ”

Accounting regulations approved by order of the Minister of public finance nr. 1802/2014, as amended and supplemented "referred to in paragraph 25 that if the application of the rules is not sufficient to give a true and fair view of the assets, liabilities, financial position and profit or loss of the entity, in the notes to the financial statements are provided the additional information needed to comply with the requirement in question.

At the same time to point 26 of the same accounting rules is made that: "If, in exceptional cases, the application of a provision of these regulations is incompatible with the obligations provided for in sections 24 and 25 (relating to the faithful), the disposition shall not apply, in order to give a true and fair view of the assets, liabilities, financial position and profit or loss of the entity. Non-application of such provisions is presented in the notes on the accounts together with an explanation of the reasons and of its effects on the assets, debts, financial position and profit or loss of the entity. ”

As seen true and fair presentation of annual financial statements general purpose is a mandatory requirement under the accounting rules, confirming accurate image being assumed leadership entities explicit declarations accompanying the annual financial statements.

4. Regular and accurate in accounting

Among the responsibilities laid down in the "General framework conceptually of IFRS” is the management entities and the one relating to" ensure that the entity complies with the laws, regulations and contractual provisions applicable to " (par. OB 4).

In the case of entities apply accounting regulations approved by order of the Minister of public finance nr. 1802/2014, as amended and supplemented, the conformity of the provisions of the accounting rules with provisions of national legislation shall be ensured from the issuance of these rules. Given that accounting rules may not go beyond the legal framework, applying them appropriately in practice ensure adequate conditions for the presentation of information in the annual accounts.

Accounting regulations, as those applicable to their earlier, were supplemented periodically in order to ensure a uniform legal framework of accounting in relation to the requirements set out in European directives and national legislation.

Entities shall apply the Accounting Rules in accordance with international financial reporting Standards, approved by order of the Minister of public finance nr. 2844/2016 must apply these standards in conjunction with national legislation (art. 2).

The applicable accounting regulations by order of the Minister of public finance nr. 2844/2016 are contained some provisions aimed at harmonizing, to make a link between the requirements of IFRS and legislation, so as to leave the possibility of proper application of IFRS in the context of national legal framework.

Both accounting regulations compliant with European directives and in accordance with the IFRS comprise provisions of a general nature, so that the entity needs to develop policies tailored to the specific requirements of the business accounting.

Accounting policies approved by the managers of the entities do not have to be limited to compliance with accounting rules but also to legislation such as the laws governing the Organization and operation, environmental law, tax law, contractual relations with employees.

The need for compliance with the legal framework has led to the completion of the audit report with a requirement in these sense. Thus, according to the audit report under Directive 56/2014/EU of the European Parliament and of the Council of 16 April 1986 amending Directive 2006/43/EC on statutory audits on the financial statements and the annual consolidated financial statements "of the financial auditor expresses an opinion audit is unqualified, with reservations or contrary to clearly and presenting the views of the statutory auditor on the following:

(i) if the annual accounts offers a true and fair view, in accordance with the relevant financial reporting framework, and

(ii) where appropriate, whether the annual financial statements comply with the applicable legal requirements.”

The format of this audit report was taken up in both the accounting regulations concerning annual financial statements and consolidated annual financial statements, approved by order of the Minister of public finance nr. 1802/2014, as amended and supplemented and accounting regulations in accordance with international financial reporting Standards, approved by order of the Minister of public finance nr. 2844/2016.

5. True image under the conditions of the application of IFRS as the basis of accounting

The transition to the application of IFRS as a basis of accounting by entities whose securities are traded on a regulated market from the financial year 2012 has posed a major challenge both for the professionals involved in the drawing up and auditing the annual financial statements and the authorities.

The application of IFRS accounting basis as was imposed on these entities in conditions in which there is a legislative environment that must be respected and, in some cases, includes provisions that come in contracdicție with the international financial reporting Standards.

On the application of IFRS (order of the Minister of public finance nr. 1286/2012) accounting rules have identified some inconsistencies between the provisions in certain regulations and IFRS, so the rules have been established to meet both legal requirements and IFRS.

Of those mentioned:

a) the law of companies nr. 31/1990, republished, with subsequent amendments and additions, provides a legal share capital registered with the national Office of the trade register, to be published by the company on documents issued by it.

The conditions under which, in Romania it has manifested strong hyperinflation until 2003, companies set up before this year did the inflation update of registered capital, according to IAS 29 "Financial reporting in hyperinflationary economies".

In order not to affect the legal capital was provided by the accounting rule a capital adjustment account (account 1028 "Adjustments to share capital").

Under these conditions, the capital of financial position situation comprises two elements, namely social capital according to the companies Law nr. 31/1990 and the inflation adjustment thereof according to IAS 29 "Financial reporting in hyperinflationary economies".

b) switching to IFRS has assumed most of the times, and the demonstration of a deferred tax. According to IAS 12 "Income taxes" profits tax delayed fade on account of the item that it has generated, whether the profit and loss account, the result brought froward or reserve accounts.

While there are provisions in tax laws that relate to the maintenance of reserve accounts unaffected by this tax, accounting rule "has created" a capital account (1034 Account "Current tax and deferred tax recognised on account of capital and reserves") outlining this tax-deferred. In this case the reserves remain unaffected by the deferred corporate income tax, the value of which is shown in the flow-1034 account "Current tax and deferred tax recognised on account of capital".

c) Some IFRS (IAS 38 "Intangible assets", IAS 16 „Tangible fixed assets ", IAS 2 "Stocks", IAS 19 "Employees Benefits) provide for demonstration in the accounts of some costs of tangible assets, intangible assets (depreciation) as well as stocks and workmanship in the profit and loss account only if they are not shown in the value of another asset (stock or assets under construction of production). Due to the fact that information relating to the entity's expenses are useful both for managers and institutions of the State, through the accounting rule was laid down a requirement that entities should clearly show the expenses after their nature. In order to comply with IFRS, have been brought in time clarifications in that the presentation of information in the profit and loss account shall comply with IFRS, i.e., does not appear in the profit and loss account item of expenditure has been allocated to other assets.

Entities applying IFRS as the basis of accounts shall carry out activities in various fields, some of them having a monopoly, the respective entities find only that such activity. The activities that take place in these conditions are strictly regulated through normative acts, which requires great care on the part of their leadership in preparing the annual financial statements.

6. Case study on the application of IFRS by some entities

Case study of targeted accounts drawn up by the 3 companies with majority state capital carrying out an activity of a monopoly in the field of oil, gas and electricity, namely Conpet, Transgaz and Transelectrica.

The Organization and activity of these companies has some common features, such as:

- are companies whose securities are traded on a stock exchange in Bucharest;

- their shareholders are so-Romanian State represented by the coordinating ministries, which has a majority holding and private shareholders with a significant proportion;

-the work carried out by these companies is "controlled" by the Romanian State by adopting guidelines, including the criteria according to which tariffs are established for services rendered;

- companies have concluded concession contracts (for a period of about 40 years) concluded with the Romanian State shall make available to their national transport infrastructure of petroleum (Conpet), gas (Transgaz) and electricity (Transelectrica);

-national transport infrastructure belongs to the public domain of the State entering within the scope of the Law 213/1998 on public ownership and the legal status of this and other acts of incidents. According to them, the ownership of the public patrimony belongs to the State represented by the central or local authorities who can rent or lease public property assets;

-infrastructure belonging to the public patrimony, royalty companies whose value is determined as a percentage relative to the amount of revenue;

-in the notes to the annual financial statements of the three companies is contained the statement of compliance with IFRS:

- the annual financial statements of the three companies have been audited by the herriard, audit report confirming that the annual financial statements gives a true and fair view;
- the annual financial statements were subject to approval by the governing bodies of the company law.

The three companies have identified IFRS applicable sites for both demonstration of public treasures that assets subject to concession contracts as well as improvements made by companies in own sources of financing to these assets.

Law no. 213/1998 stipulates that goods belonging to the public highlighting the heritage in accounting for administrative units.

While there are 12 IFRIC "Concession of services commitments", companies have looked at whether the provisions of this standard are applicable, taking into account the situation of fact and legal provisions.

From the analysis of financial position and situation of the explanatory notes to the annual accounts published by these companies for the period 2012-2015 shows that the submission of inventories is different, although the conditions of work and legal framework are similar, as follows:

- Company Transelectrica has concluded that, given that the majority of the shares in the company are owned by the State, it is a public company and does not fall within the scope of IFRIC 12, since the company pays an annual fee in the form of fee for use of the assets specified in the concession contract, significantly less than the company's depreciation would be recorded for those assets if the concession contract had not been signed.

The basis of the rationales used to company management made, approved accounting policies under which goods belonging to public heritage is highlighting in extrabilanțiere accounts, being treated similar assets that are the subject of operational leasing contracts.

Subsequent expenditures which meet the criteria for recognition as fixed assets financed from own sources of financing of the company conducted in relation to the assets belonging to the accounting treatment of public patrimony have prescribed by legislation, i.e. highlight accounts to fixed assets, pays off and surrender to centralized rule after full depreciation.

The company's management has handled goods Conpet treasures similarly public company Transelectrica.

Company Transgaz which operate under the same conditions as stipulated by the legislation and company Transelectrica and Conpet foresaw in accounting policies that are applicable to the provisions of IFRIC 12 ”Concession of services commitments ".

The company has reclassified the public patrimony tangible belonging asset headings in intangible assets valued at the value of fixed assets amounted to UN-depreciated and recognized in the statement of financial position an asset (intangible assets) and an equity element, i.e. a book.

In accordance with accounting policies issued by the company, related intangible assets public patrimony is not amortized over the remaining period of the concession contract.

Companies Transgaz and Transelectrica have drawn up the first IFRS statements for the financial year 2012 and presented information restated for the financial year 2011.

The company has compiled the first situation Conpet IFRS for financial year 2013.

The information contained in the statement of financial position under section intangibles and equity from the transition to IFRS by the three companies is presented as follows:

Table no. 1. Situation of the intangible, IFRS compared to OMFP nr. 3. 055/2009, with subsequent amendments and additions

Society	31 December 2012			31 December 2011			01 January 2011		
	Intangible fixed assets			Intangible fixed assets			Intangible fixed assets		
	IFRS restated	**RAS**	**DIFFERENCES IFRS/RAS 2011**	**IFRS restated**	**RAS**	**DIFFERENCES IFRS/RAS 2011**	**IFRS restated**	**RAS**	**DIFFERENCES IFRS/RAS 2011**
Transelectrica	-	-	-	51.213.061	77.194.092	66,34%	42.174.298	34.143.352	123,52%
Transgaz	-	-	-	2.458.210.769	11.296.624	21760,58%	2.465.109.102	497.791.432	495,21%
Conpet	6.682.186	6.682.186	100%	9.524.082	9.524.082	100%	-	-	-

Source: Extract from the annual financial statements published on the website of the three companies

Figure no. 1. Intangible fixed assets

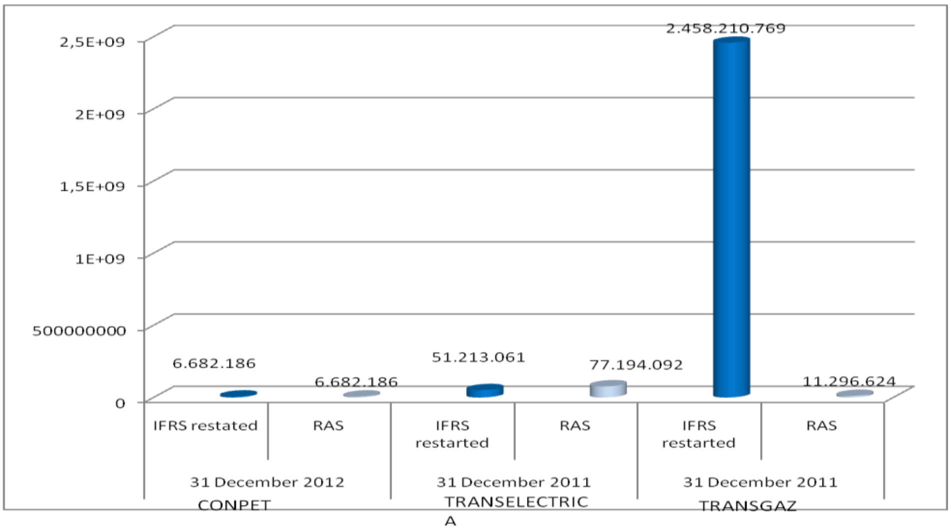
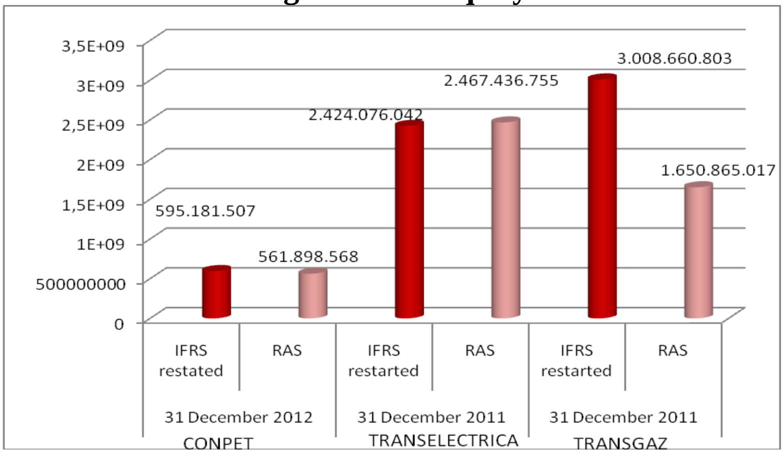


Table nr. 2. Equity situation IFRS compared to OMFP nr. 3. 055/2009, with subsequent amendments and additions

Society	31 December 2012			31 December 2011			1 January 2011		
	IFRS restated	**RAS**	**DIFFERENCES IFRS/RAS 2011**	**IFRS restated**	**RAS**	**DIFFERENCES IFRS/RAS 2011**	**IFRS restated**	**RAS**	**DIFFERENCES IFRS/RAS 2011**
Transelectrica			-	2.424.076.042	2.467.436.755	98,24%	2.295.506.703	2.355.441.697	97,46%
Transgaz			-	3.008.660.803	1.650.865.017	182%	2.960.191.282	1.579.143.738	187,46%
Conpet	595.181.507	561.898.568	112,22%	574.145.284	540.817.576	111,44%	-	-	-

Source: Extract from the annual financial statements published on the website of the three companies

Figure no. 2. Equity



7. Conclusions

In the case of companies with majority state capital activities regulated by normative acts is essential in drawing up the annual financial statements in compliance with the legal framework.

The leadership of each of the companies analyzed took the Declaration relating to the image of the elements presented in the statement of financial position and the result of the global situation, including compliance with international financial reporting Standards.

Statutory auditors issued unqualified audit opinion for the annual financial statements prepared according to IFRS if the three companies.

The work done by the three companies is carried out through the use of fixed assets belonging to the patrimony of the State, the companies having no ownership interest or a provision thereof.

IFRIC 12 treats public-private partnership, namely the situation where a public authority must make available to a private entity for infrastructure use. There are treated in IFRS when an authority situation puts at the disposal of another public authority infrastructure.

According to the legislation, the investments made in tangible assets public treasures are highlights in the accounts of companies, although they have regarded regime (public heritage).

Apart from companies whose securities are traded on a regulated market shall apply IFRS starting with financial year 2016 (extra), companies and companies with capital or a majority of the State listed in the annex to the accounting regulations in accordance with international financial reporting Standards by some State entities, approved by order of the Minister of public finance 666/2015.

The application of IFRS by some companies engaged in monopoly, managing the assets belonging to the State authorities, involves professional reasoning and appropriate measures for the identification of possible risks which may arise from not harmonizing the provisions of the law and IFRS.

In conditions of excessive legislation and sometimes outdated, presenting an image closely in relation to IFRS and compliance with legal framework represents a challenge for practitioners from companies for auditors recognised and the authorities must assess the management of State capital and to tax profits reported.

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