

# FINANCIAL INFORMATION TRANSPARENCY AND PUBLICITY

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## Introduction

Nothing is unplanned. Everything is going on according to a well thought and applied plan.

Mankind has evolved, is evolving and will evolve only through knowledge.

Knowledge is a high rang vector. Depends on how accessible and transparent it is as well as on what extent it is known.

Knowledge is based on information.

Information is the raw material for many decision making processes, for important individual and collective evolution decisions. The decisions, as intellectual product of the input information's processing, has the quality given by the quality of the input information and by the quality of the information processing procedures used to get the output values.

### 1. Information, input value of the processing system

The information is a good that is made, sold and bought for multiple purposes.

The most used information is the financial information of all kind, including fiscal information, as specialized information.

Financial information has lots of places where they are felt. It can be a private good, with a closed circuit or a public good, of general interest, available to all interested persons (namely of public interest).

As input value of the processing system, but also as output value of this

system, information must have certain qualities. Qualitative characteristics are a sort of attributes that give the usefulness of the information offered by the supplier for the user.

In the vast world of finance, useful information must be *relevant, credible, fit for comparison and intelligible*.

Also, a piece of information given to the users can be real, fit, exact or not.

Any system, that allows the operational or registry activities to be altered as well as the inputs (information that is processed with a certain purpose) to be disguised, unreal, incomplete, inexact, must create its own protection subsystem that can manage the possible risks that alter the quality of the outputs of the system, namely of the output information.

No matter how modern the information processing system is, the quality of the outputs depends on the quality of the inputs as well as on the quality of the persons involved in the process.

### 2. The quality filters

The protection of the information users becomes more and more a major objective of the informational flow: producer → processing → user.

The quality control of the inputs at company level can be offered by the company's control system made up of the internal control and internal audit that through specific instruments play the role of the feed-back regarding the quality of information.

If the internal control department is subordinated to the management (that can be interested in certain cases by the information asymmetry), the internal audit is a department that is subordinated to the Owners' Board and the internal auditors are independent persons that must respect in their activity the Ethic Code of their profession. But as the information doesn't remain within the company, and is offered to the external users, certain times, its quality is sometimes double checked by external auditors that validate or not the quality value of the financial information.

In certain cases, the quality filters become the issuers of information, especially in fiscal fraud cases, money laundering cases or in the financing of terrorist acts. In such cases, the confidentiality offered by the auditors or consultants does not apply anymore and the publishing of incriminated information becomes obligatory.

### **3. The confidentiality and protection of the information**

- Those that have access or work with information of different persons or companies are obliged to keep the secret of the processed information.

- Giving away information outside the subject's confidentiality perimeter is done according to the stipulations of specific regulations and laws.

- The competent fiscal organisms, the auditors, the experts have their professional and behaviour codes that limit their acts, as competent and responsible professionals.

- Respecting the professional codes, both by those that process information as well as by those that give information is a warranty regarding ethics, the insurance regarding the quality of information as public goods that are spread out of the company. No matter if we talk about fiscal information, budget information, banking information, financial state information, this

information must have the insurance that it has high quality and therefore cannot alter in a profound way the decisions took on their basis.

- Many events in the world of finance were generated by protected information or better said by disguised ones.

- The information's protection and the confidentiality offered by those that have access to information are incompatible to the information leaking. Those that cause information leaking are punished not only by the Codes and Regulations of their professions but also by specific laws in the field.

- But the confidentiality is not opposable to the disclosing of information. But the disclosing of information is done by the owner of the information.

### **4. Transparency and responsibility of information**

- The corporate governance cannot exist without the information transparency and the responsibility of the quality of published information.

- The accounting laws demand that the financial statements, manager's report and the audit report or the censor's report are published.

- The purpose of the publishing is to allow the interested parties to get to know the financial situation, the financial performances, the changes in the capital structure, the cash flows, the accounting policies and the explanatory notes. This means that there are more than one information carriers for those interested.

- The responsibility took, regarding the quality of the information is mainly of the management of the company as the declaration that goes along with the annual financial statements confirms that:

- a) The accounting policies used in drawing up the financial statements are according to the accounting regulations that apply;

b) The annual financial statements offer an exact image over the financial situation, the financial performance and over the other information regarding the company's activity;

c) The company will continue its activity (we have cited the 29 paragraph of the Accounting Law, republished in 2005).

- Another level of taking responsibility regarding the financial information credibility is that of the censors or internal auditors that, by issuing an opinion offer the users a complete but not absolute certainty that the annual financial statements offer a faithful image that is not altered by significant mistakes.

- When the censor, during his mission, is confronted with situations that will affect his opinion, his opinion will be a reserved one or a contrary opinion when there is a discord with the management of the company. The references to the notes and comments made will help the information users to take decisions (The report norm, The censor's report in No 23 Professional Standard. The censor's activity in the companies, CECCAR Publishing House, Bucharest, 2006, pg 115 and the following).

- Another level of responsibility is that of the financial auditors.

- Some companies are included in the group of companies that must have their statements audited.

- The financial auditors finish their mission through an audit report where they express their opinion regarding the fact that the financial statements do not include major errors and offer a faithful image according to a reference (reporting frame).

- The financial auditor, even if he is an outsider must keep in touch with the management during his mission.

- The standards and audit regulations are meant to filter the quality of financial information of public interest.

- After the big scandals regarding altered information of big companies, the auditors' responsibilities have increased. Auditors must be sceptical and prudent in their auditing missions and must consequently apply the international audit standards (especially 240 Fraud and error; 250. Reasons regarding the laws and stipulations that apply in the financial statements' auditing, 315. Knowing the entity and its environment and evaluating significant risks, 570. The principle of continuous activity).

We were showing before that the confidentiality principle is not opposable to all the information disclosure (transparency). The Auditors' Chamber of Romania, through no.91 Decision of 26<sup>th</sup> of June 2007, regarding the specific laws concerning the control and prevention of money laundry and/or financing terrorism acts by the financial auditors, sets professional rules that allow them to find and prove suspicious states regarding the money laundry and/or financing terrorism acts (as defined through no 656/2002 Law for the prevention of money laundry and/or financing terrorism acts and for setting measurements for the control and prevention of money laundry and/or financing terrorism acts).

- But the stipulations of the Chamber's Council respect the Audit adopted standards regarding the limitations of the audit activity and the respecting of the Ethics Code that apply to the financial auditors.

- Article 4, from the No. 91 Decision of 26<sup>th</sup> of June 2007 (No 525 Official Bulletin from the 2<sup>nd</sup> of August 2007) stipulates:

„If, through the audit procedures that are meant to fulfil the audit commitment, the auditor collects enough and adequate proof that there is a possibility that the company (that he is auditing) launders money and/or finances terrorist acts, he will bring this to the knowledge of the authorised organisms, according to the no. 656/2002 Law with all further changes. This will not be

considered a braking of the Ethics Code that apply to the financial auditors, namely of the confidentiality. Also, the auditor is going to inform the Romanian Financial Auditors' Chamber, in maximum 5 working days, the fact that he has identified and brought to the knowledge of the authorised organisms such a case, mentioning also the date of the notification made to the authorised organisms”.

It is a measure of protecting the public interest and of raising the trust in the information published by the audited entities.

### **Conclusions**

- Without information and informing, there cannot be an evaluating process and decisions cannot be taken with different purposes.

- Information regarded as a good, can be or not adequate as quality, and can be or not exact and real.

- Protecting the information users from deciding on the basis of unreal, inexact, altered information became more and more important.

- The competition context, de sources and factors of competence in the world, the world restructuring are factors that influence the transparency degree and the way public useful information are handled.

- The public supervising organisms, the filters that ensure the quality of the published information are a necessity that ensures the users about the quality of the published information and about the faithful image of the processes and results that they reflect, without any privileges and favours regarding the accessibility, quantity, quality or availability of the information.