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## Raising the Awareness on the Benefits of Good Financial Reporting

The Enhancing Quality of Financial Reporting Project (EQ-FINREP) - Albania

*User's survey*



# Overview



The World Bank Group has initiated strengthening of financial reporting in South East Europe, through the “The Road to Europe Program of Accounting Reform and Institutional Strengthening (REPARIS)” initiative.

This initiative is supported by the generous contribution of State Secretariat for Economic Affairs (SECO), Swiss Confederation.

This program aims to create a transparent policy environment and an effective institutional framework for corporate reporting within eight countries located in South-Central and South-East Europe.

Albania is an active participant in this program as it contributes to foreign direct investment, fosters private and financial sector developments, improves the business environment and facilitates integration into (or harmonization with) the European Union.

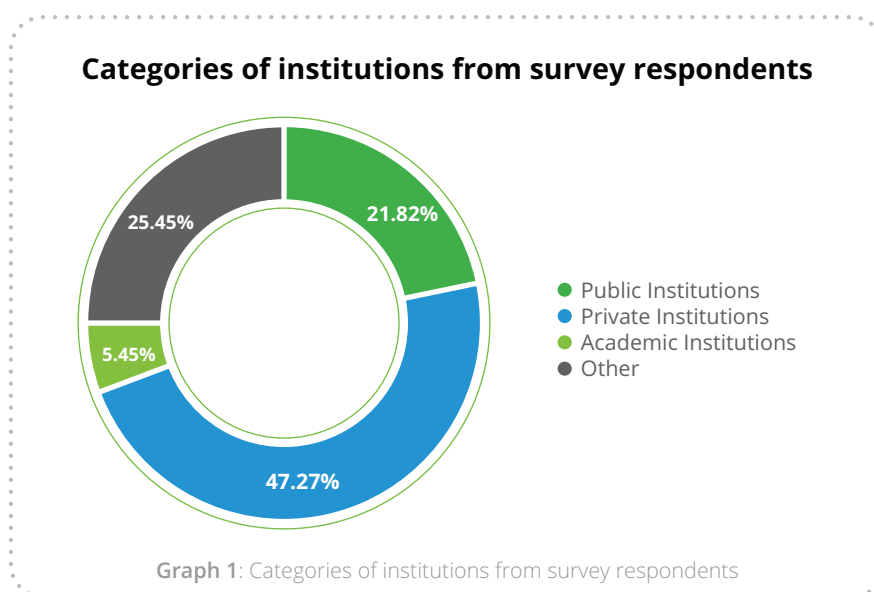
Deloitte conducted the first survey to target the users of financial reporting such as banks, commercial enterprises, public institutions, etc. aiming to understand their perception about quality and accuracy of financial statements and audit reports, use of financial reporting and to generate recommendations for improvements.



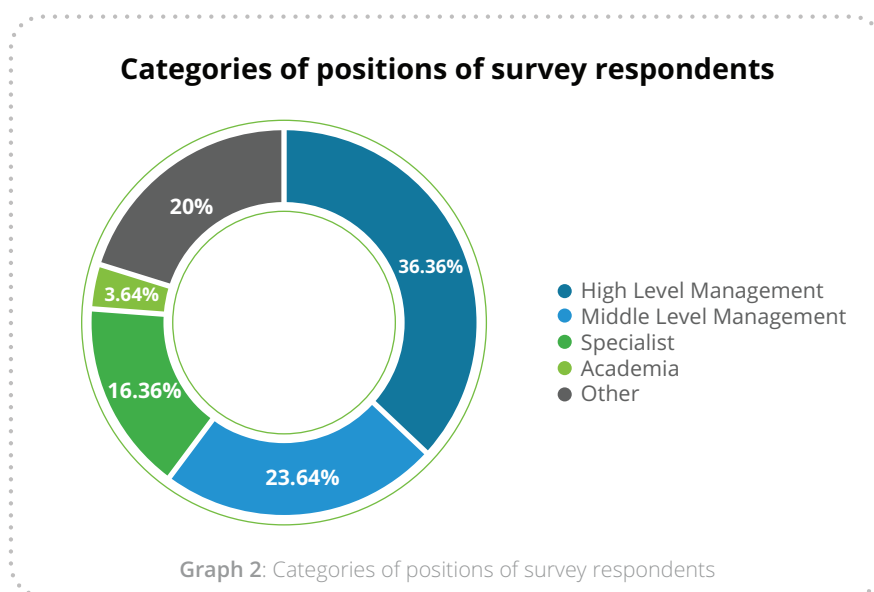
# Sample characteristics



In this survey, private institutions consist in **47.27%** of the respondents, **21.82%** represent public institutions and **5.45%** represent academic institutions and the remaining **25.45%** of the respondents did not specify the institution.



Respondents from high-level management are the majority in this survey with **36.36%**, followed by middle-level management **23.64%**, specialists **16.36%** and professionals in academia **3.64%**. The remaining **20%** of the respondents did not specify the position they hold in.



Among survey respondents, **(35%)** of them indicate that the objective with regard to financial reporting refer to data gathering and analysis of enterprises operating in various industries. Additional objectives include supervision, regulatory compliance, and decisions related to increased lending or investments in the country.

**35%**

Data gathering and analysis

**26%**

Supervision of regulatory compliance

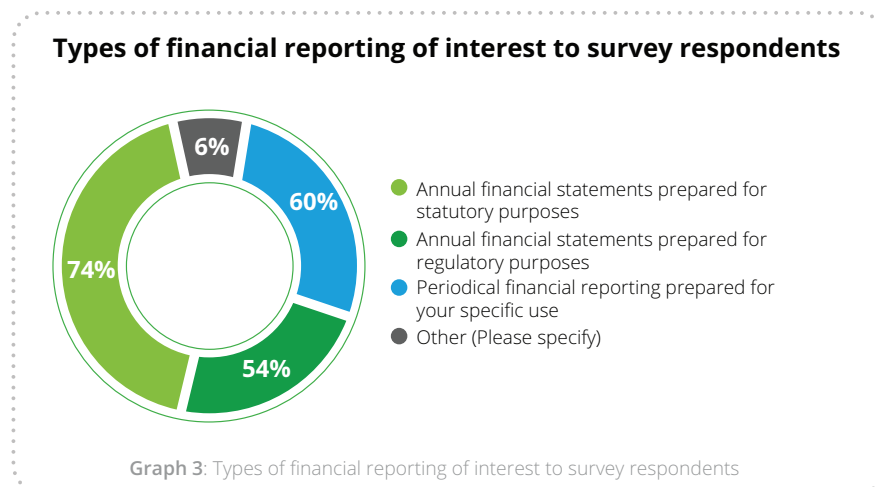
**17%**

Decisions related to lending or investments

The majority of users of financial statements are those involved in financial sector (**59.26%**) as it is directly related to the nature of the business of enterprises operating in this sector. What follows are real estate (**38.89%**), insurance (**37.04%**), transportation (**36%**) and retail (**35%**) enterprises.

The survey indicates that **74%** of the respondents use annual financial statements for statutory purposes, which is prepared to meet the reporting needs of stakeholders including owners, lenders and fiscal administration. The lowest use of financial reporting **54%** refers to the use of financial statements for regulatory purposes.

Responses indicate that the most used way to receive financial reporting is by e-mail. The web interface is used by **36%** of survey respondents while **33%** of them use the National Business Center website, as a source to find periodic financial statements.



Most of survey respondents hold an interest in Public Interest Entities<sup>1</sup> (PIE) (**43%**), followed by large entities, not PIE<sup>2</sup> (**33%**). The lowest percentage recorded is on small and medium-sized entities (**24%**).

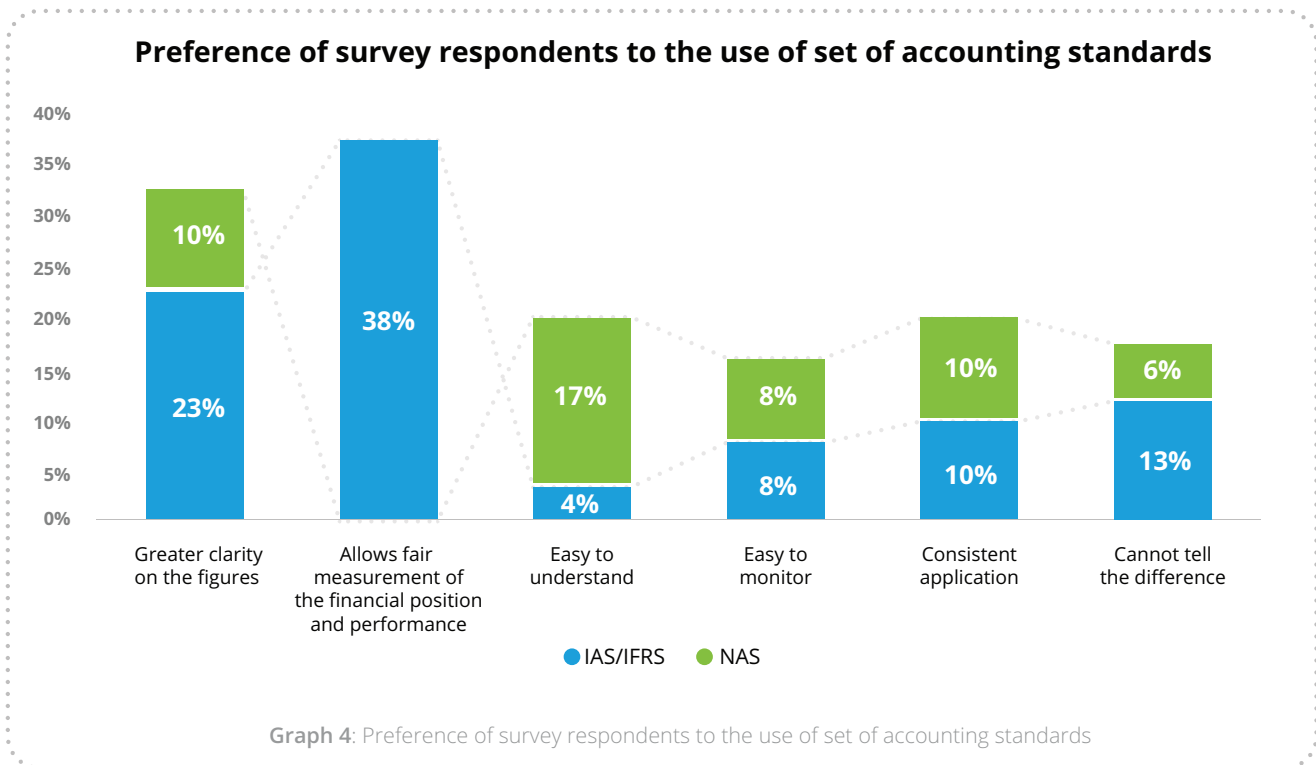
<sup>1</sup>The entities are categorized into three groups: public interest entities (PIE), large entities not PIE and small and medium-sized entities. Public Interest Entities (PIE) include all the following entities: all economic entities listed in the stock exchange, banks and other financial institution licensed in Albania, insurance, and reinsurance companies, companies administering investment funds and pension funds, and other private and public entities which due to their size and impact are considered as PIE through Decision of the Council of Ministers (DCM).

<sup>2</sup>Large entities, not PIE includes non-PIE entities meeting at least 2 of the following 3 criteria: employing over 250 staff, assets worth above Lek 750 million, annual revenue above Lek 1,500 million.

# Findings on the application of standards of financial reporting

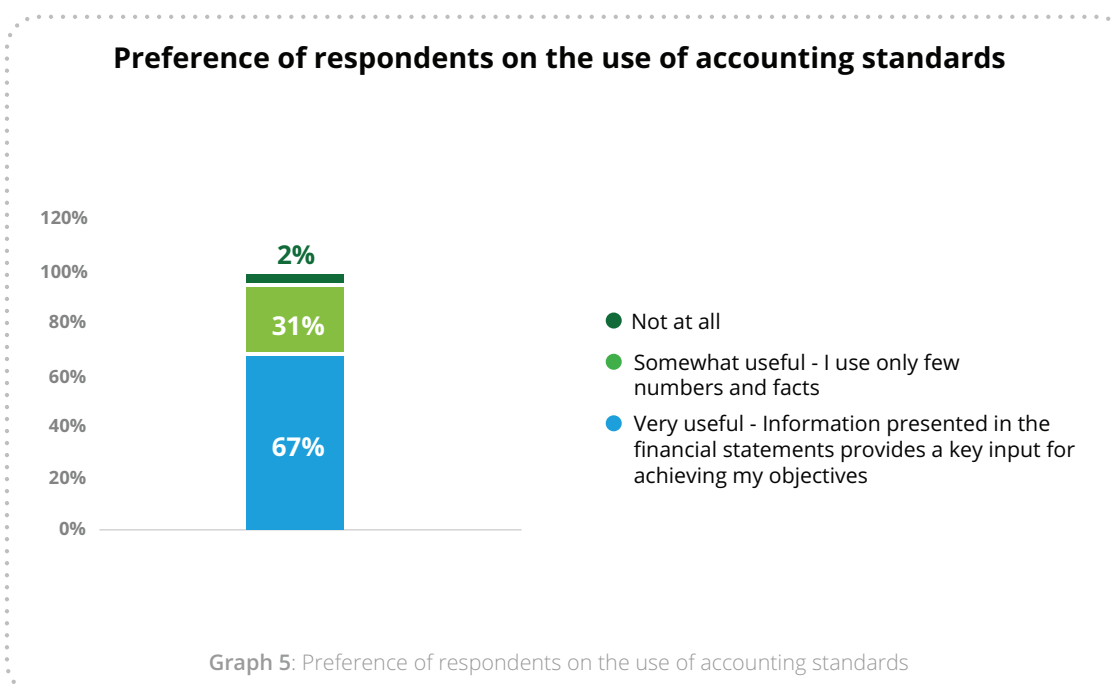






Despite the latest legal requirements for the use of International Financial Reporting Standards (IFRS), most of survey respondents think that National Accounting Standards are easier to understand than IFRS. NAS is easily accessible in the Albanian language, while IFRS is mostly found in English, causing this way confusion in understanding.

The level of understanding is higher for financial statements prepared according to NAS, while the level of clarity is higher for financial statements prepared using IFRS, as they allow for a fairer measurement of the financial position and performance. In addition, survey respondents believe that with a consistent application of IFRS and NAS, it is easier to monitor financial reporting in Albania.

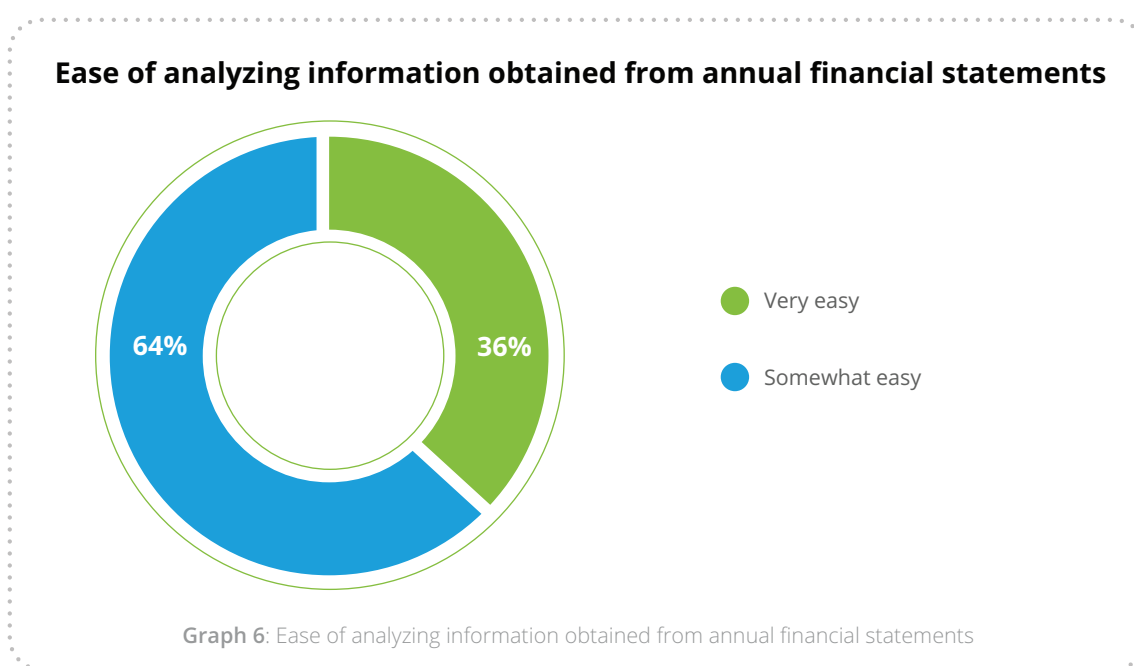


Out of survey respondents, **67%** of them consider the information included in the annual financial statements a key indicator in identifying effective ways to reduce costs and to eliminate potential losses in order to maintain profitability.

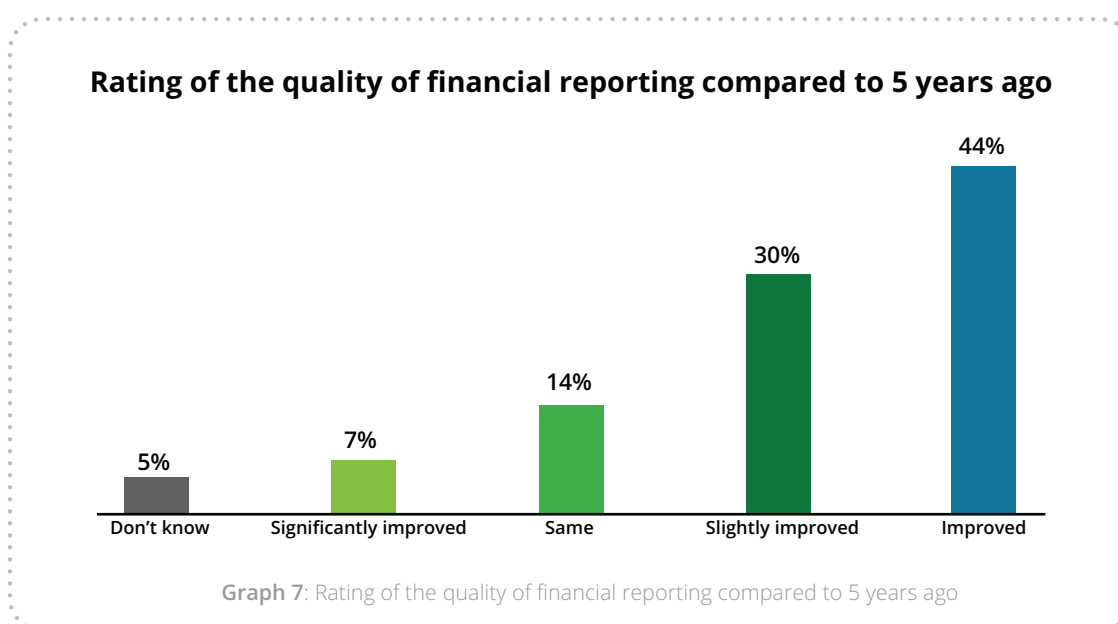
The majority of respondents have identified the insufficient level of details as the main issue in the preparation of annual financial statements paying particular attention to accompanying table notes and disclosure including related parties, risks, valuations, etc. This occurs as some prepares still use old templates, which, unlike the new templates based on IFRS or NAS, contain less explanation and focus primarily on the main items of financial statements. With regard to accounting policies and assumptions, **44%** of the respondents indicate that the lack of clarity is the main issue for the annual financial statements prepared for the statutory purpose.

When questioned on identifying three areas on how to address the previously identified issues, the respondents required more detailed information on financial notes in order to reflect changes occurring in the accounts of financial statements. Uniformity and the correct application of standards across similar industries is another requirement to ensure an easier comparison and to avoid confusion. The third identified area refers to a higher level of clarity on risk management policies and their classification that serves as key information in making strategic financial decisions.

In order to make a correct assessment of the financial performance, users need to find the information derived from annual financial statements useful and easy to understand. The survey indicates that the majority of respondents (**64%**) find somewhat easy to analyze the information obtained from financial statements.



The majority of respondents (**44%**) admit that compared to five years ago there is an evident improvement in the quality of financial reporting in Albania. However, **30%** of survey respondents admit that there is a slight improvement in the quality of financial reporting in Albania. This category of respondents has expectations for substantial changes and more focus on the quality of financial reporting.



Overall, **(67%)** of respondents in this survey consider very necessary improvements in the provision of:

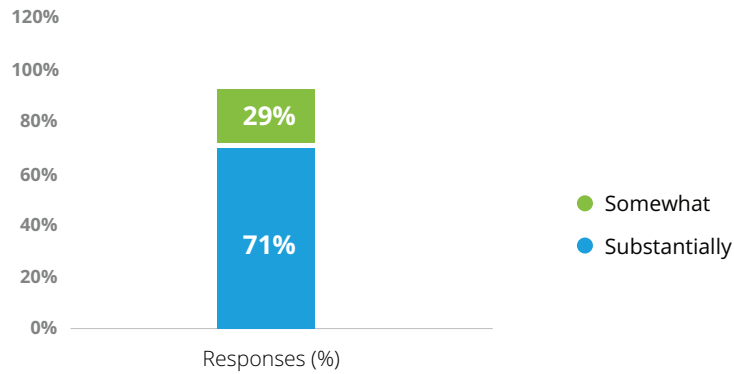
- (i) higher level of details,
- (ii) more explanatory information on the numbers,
- (iii) more clarity around relevant party relationships,
- (iv) more details on exposure towards risks and risk management activities,
- (v) more details on the valuation techniques and inputs used for the estimates presented in financial statements.

According to survey respondents, what hinders further improvements in financial reporting is the limited access of the information produced outside the finance and accounting department. The absence of cooperation between the finance and accounting department with other departments inside an enterprise limits the available data to perform estimations, resulting in poor and unfair calculations of the financial performance of the financial performance.

The small number of employees in the finance and accounting department and the lack of skills and expertise together with the high costs incurred in the preparation of financial reporting are additional factors that impede improvements in the quality of financial reporting.

The purpose of a qualitative and reliable audit financial statement is to add credibility to the reported financial position and performance of the enterprise. Our respondents **(71%)** indicate that increased quality and reliability in the auditing of financial statements will lead to improvements in financial reporting.

**The perception of respondents on qualitative and reliable audit of financial statements in improvement of financial statements**

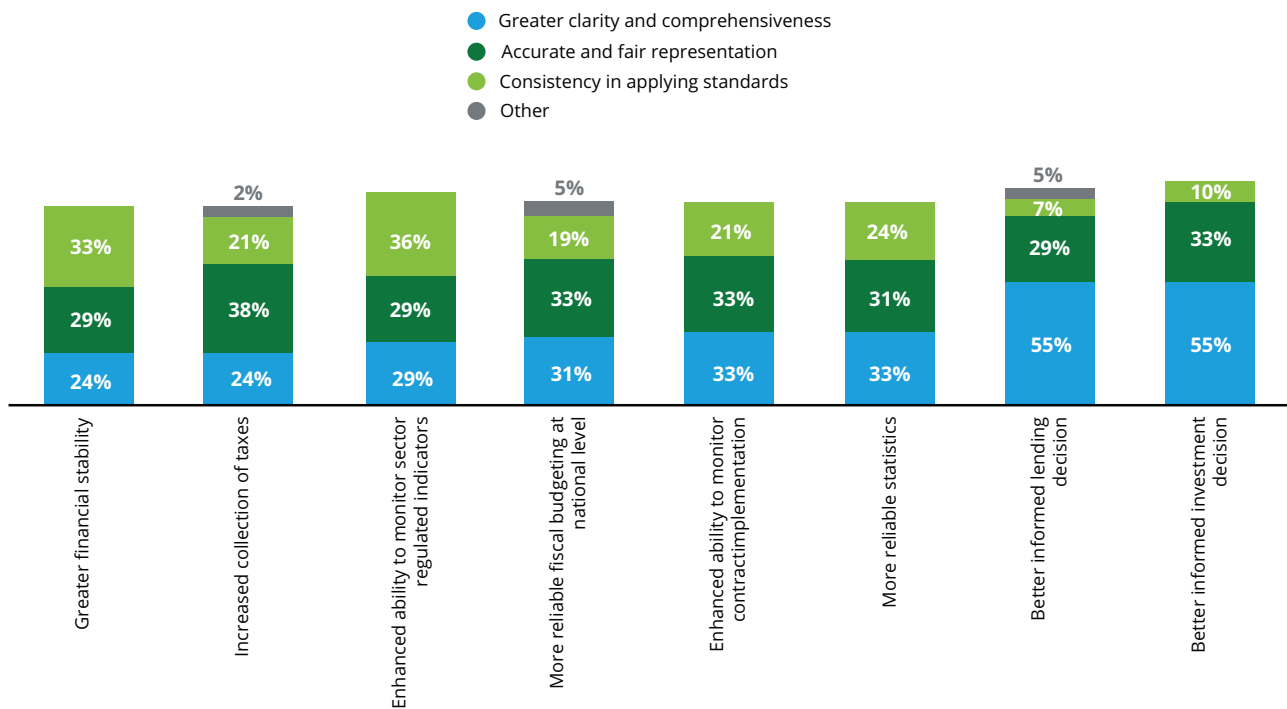


Graph 8: The perception of respondents on qualitative and reliable audit of financial statements in improvement of financial statements

Most of survey respondents (**55%**) think that greater clarity and comprehensiveness in financial reporting will bring about improvements in getting financing from lending institutions, as the information included in the financial statements will be more reliable.

Improvements in financial reporting directly benefit the General Directorate of Tax, as it receives from these statements an accurate and fair view of the financial situation of enterprises operating in the country. Therefore, tax authorities can collect the right amount from these statements.

**The main benefits of improved financial reporting**



Graph 9: The main benefits of improved financial reporting





# Conclusions

The survey obtained information from a diverse group of academic, government institutions, private and public financial institutions, non-financial institutions, etc. The survey data provide evidence about how respondents perceive the situation of financial reporting in Albania and how to improve it.

The results indicate that the objectives of users are mainly oriented on data gathering and analysis, which justifies the use of periodic financial statements. As indicated from the questions, users cannot easily analyze the information obtained from annual financial statements. Taking into account that respondents find it more feasible to analyze and gather data, the degree of ease in analyzing the information obtained from annual financial statements should be greater.

Another notable highlight was that the users of financial reporting prefer IFRS than NAS because they provide figures with a higher clarity and a better measurement of the financial position and performance of an enterprise. In addition, respondents of the survey indicate that there is a need for improvement in financial reporting by including a higher level of details, more explanatory information on the numbers, more clarity around related party relationships, and further details on exposure towards risks as well as risk management activities.

Overall, the survey findings suggest that there is a considerable improvement in the quality of financial reporting, however there still much to be done in the context of the overall reform.

Most importantly, this survey demonstrates that users of financial reporting are aware of the changes this reform will bring and the benefits it has for financial reporting in Albania.

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