CONSIDERATIONS ON AUDIT OF GROUP FINANCIAL STATEMENTS

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ABSTRACT: The objective of this paper is to present a comparative analysis of the consolidated financial statements according to the International Financial Reporting Standards or the European Directives and see how such accounting alternative affect the explanatory notes to the consolidated financial statements, especially regarding to the revaluation basis of the assets. The study seeks to determine if the accounting diversity influences the work of the financial auditor. The results indicate that the two frameworks in elaborating the consolidated financial statements have a significant ascendancy on the audit of the group financial statements.

Keywords: Consolidated Financial Statements, The 7th European Directive, Financial Audit

JEL codes: M42, M41

Introduction

The study seeks to identify and analyze the procedural differences between the norms of drafting consolidated annual financial statements for the companies that use the EU Directives, compared to the ones that use the International Financial Reporting Standards. The theoretical mark of the studied theme is presented, based on studying the literature regarding this field and the specific national and international legislation. The paper describes the identified differences at the level of the explanatory notes of the consolidated annual financial statements from the perspective of the evaluation bases for assets and liabilities, especially the tax related associated to a tax group. The phenomenon of assessing assets in separate financial statements of the companies is studied for the year 2008 al the level of Alba County, for companies that draw-up complex financial statements. The impact of the two accounting references on the audit of annual accounts for the company groups is highlighted.

Theoretical background

For Romania, the study of the legal aspects regarding financial reporting specific for groups in Romania, between 1990 and 2010, allowed us the synoptic delimitation of the following main methods of financial reporting specific for groups:

1) The period 1990-2000, characterized by the absence of national legal regulations regarding the financial reporting of groups. The European stipulations regarding the consolidation of annual accounts (Seventh Directive) were not transposed into the national legislation.

2) The year 2000, when the Ministry of Finance issued a Standard of technical nature, regarding the consolidation of the groups' accounts [1].

3) The period 2000-2010, characterized by the adoption of legal regulations in the field of account consolidation for groups, in an attempt to align with European Directives (the Seventh Directive of the European Economic Community regarding consolidated accounts), the International Accounting Standards and the International Financial Reporting Standards. In the same period, starting with 2003, tax groups were regulated.

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The analysis of the mentioned legal regulations reveals the association of the European Directives with the International Financial Reporting Standards as goals in matching the national legislation in the field of consolidated accounts. We can't identify a single act that may be given a permanent character in the mentioned period. The mentioned normative act, issued in 2000, met the conditions to be considered as base for consolidating groups' accounts. The regulation mentioned the requirements for elaborating consolidated accounts, the shape and content of the consolidated annual statements, the consolidation methods and procedures, as well as the rules for drawing-up, approving, auditing and publishing the consolidated annual financial statements. In the context of the compatibility of the national legislation with the European regulations, the stipulations of the mentioned normative act were repealed in 2005, by absorbing it in the Order of the Ministry of Finance no. 1752/2005 approving the accounting regulations consistent with the EU Directives [2]. This settlement was replaced in 2009 with the Order of the Ministry of Finance no. 3055/2009 [3]. The new legal document included specific regulations consistent with the Seventh Directive of the European Economic Community regarding consolidated accounts, in force since January 1st, 2010.

After 1990, the national literature recorded the need to elaborate and implement a methodology to establish and present consolidated accounts for the patrimonial units that had the functional features of group societies [4]. The need to configure consolidated accounts, the goal and objectives of consolidating accounts, as well as examples of consolidated annual accounts are issues approached by the representatives of the academic world [5], [6], [7], [8], [9], [10]. Recent studies analyze aspects of the international regulations convergence regarding account consolidation. Under pressure from investors, FASB and IASB initiated the convergence between IFRS and USGAAP, through the Standards published at the end of 2007 (FAS 141 revised) and the beginning of 2008 (IFRS 3 and IAS 27 revised) [11].

From the analysis of the mentioned papers, which are representative for the national literature in this field, we can see the concern of the academic world with studying the consolidation processes of the company groups' accounts. But we haven't identified actual references about the elaboration methods of the explanatory notes to the consolidated annual financial statements. The studies analyze only the first two components of the consolidated annual financial statements set – consolidated balance sheet and the consolidated profit and loss account. The informational importance of the explanatory notes must not be denied. The conditions of manifestation of the current financial crisis amplify the need for information of the users of annual financial statements of the company group. The explanatory notes are likely to provide desirable information for the interested users about the current situation and the perspectives of the company group.

Consolidation is required in Romania, when an entity has the majority of voting rights in another entity or substantially controls another entity. If any entity in the group is a listed company, then consolidated financial statements must be prepared. There are certain considerations as to whether consolidated financial statements are required; the first consideration is if the parent group is a listed company or if the preparation is required by a state institution or for employees' information. If the above is not the case, then the next consideration is if the company group meets "size criteria". The requirement for the preparation of consolidated financial statements, in this case, is to meet two of the following three criteria based on the latest annual financial statements: Turnover over 35,04 EUR million, Total assets over 17,52 EUR million, Average number of employees for the period 250. Even if a company group meets the requirements of the "size criteria", as indicated above (and it is not listed), it is not required to prepare consolidated financial statements if the Romanian parent entity of the group is also a subsidiary entity and its own parent entity is governed by Romanian law or EU member state law and:

- Where the parent entity holds all the shares in the exempted entity, or
- Where the parent entity holds 90% or more of the shares in the exempted entity and the remaining shareholders in or member of the entity have approved the exemption.

A subsidiary does not need to be included in the group consolidation if:

- It is not material to provide a true and fair view of the assets, liabilities, financial position, and results for the period for the consolidated group as a whole;
- The individual entity has severe long-term restrictions to hinder operations or information necessary for the preparation of consolidated accounts cannot be obtained without disproportionate expense or undue delay or the shares of that entity are held exclusively with a view to a subsequent resale.

The consolidated annual financial statements include the consolidated balance sheet, the profit and loss account and the explanatory notes of the consolidated annual financial statements. These documents constitute a whole. The consolidated annual financial statements of the entities are subject to audit. At the same time, the auditor expresses a point of view regarding the conformity level of the consolidated report of the managers with the consolidated annual financial statements for the same financial period. The consolidated financial statements have to be approved by a General Assembly of Shareholders and then they have to be published in accordance with legislation in force.

Technical aspects of the audit of the consolidated financial statements

It is effective a new International Standard on Auditing for audits of group financial statements for periods beginning on or after December 15, 2009. The ***International Standard on Auditing*** **ISA 600**, *Special Considerations – Audit of Group Financial Statements* (Including the Work of Component Auditors) applies to group audits. We consider that a key element of this settlement is audit risk.

The audit risk (paragraph 6, ISA 600) is considered a risk function of significant distortions belonging to the financial statements and the risk that the auditor will not detect such distortions. In a group audit, it includes the risk that the auditor of a group component may not detect a distortion in the financial information of the component, which can cause a significant corruption of the group's financial statements, and the risk the mission team at the level of the group will not detect this distortion.

ISA 600 details and analyzes stipulations regarding the desirable behaviour of the audit team in establishing the nature, timing and scope of the risk assessment procedures and of the additional audit procedures undertaken by the components' auditors. Nevertheless, we will emphasize the possibility of occurrence of *concrete situations, insufficiently detailed by ISA 600, regarding the risks generated by the regulation of the way consolidated financial statements are drawn-up*. This type of case comes from the consolidation practice specific to active companies in Romania, which can draw-up consolidated annual financial statements according to the Accounting regulations consistent with the Seventh Directive of the European Economic Community, or according to the International Financial Reporting Standards (According to art. 14 of the Order of the Ministry of Finance no. 3055/2009 approving the Accounting regulations consistent with the EU Directives) [2]. This provision is applicable to all the legal persons who have the obligation to draw-up consolidated annual financial statements, as well as to certain entities that are part of the category of legal persons of public interest, with the exception of the firms whose securities are allowed to be traded on a regulated market, of the credit institutions and of non-banking institutions, defined according to legal regulations, registered in the General register, of the insurance, insurance-reinsurance and reinsurance companies, of the company pensions, of the companies providing financial investment services, of the investment management companies and of the collective investment organisms (According to art. 34 align. (2) of the Accountancy law no. 82/1991, republished) [12]. Thus, in the area of the provision mentioned above are also included the national companies and firms, as well as legal persons that belong to a company group and are included in the consolidation area by a parent company that applies the International Financial Reporting Standards.

Drawing-up consolidated annual financial statements according to the two references of regulations – the European Directives and the International Financial Reporting Standards – involves a substantially different scope and detailing level. This type of situation generates *important differences in elaborating an important component of the consolidated annual financial statements – explanatory notes*. We intend to compare the two elaboration methods of the set of explanatory notes to the consolidated annual financial statements, *in terms of the assessment base for assets and liabilities.*

In chapter III, paragraph 24 of the Seventh Directive of EEC [13] is mentioned the *objective of the consolidated financial statements*, as being the one to provide "an accurate picture of assets, liabilities, financial position and profit or loss of the entities included in these financial statements, seen as a whole". At the same time, paragraph 25 states that "if the application of the provisions of these regulations is not sufficient to provide a true and fair view within the meaning of section 24, the explanatory notes to the consolidated annual financial statements must include *additional information*". Paragraph 26 states that "if, in exceptional cases, applying one of the provisions of the Seventh Directive doesn't satisfy the requirement to provide an accurate picture in accordance with the provisions in paragraph 24, there will be deviations from these stipulations in order to provide an accurate image, ..., *with the adequate disclosure in the notes*" [13].

Therefore, we can find that the "technical solution" regarding any deviation from the requirements of providing an accurate image is represented by an adequate disclosure in the notes. The detailed analysis of the requirements regarding drawing-up explanatory notes, included within the two mentioned accounting references, regarding especially the assessment bases for assets and liabilities – an extremely important issue of the accounting policies – provides the following:

A. According to the Seventh Directive, paragraph 70 – chapter IV *The content of the explanatory notes to the consolidated annual financial statements*, in addition to the information required in accordance to other sections of the Seventh Directive, the notes to the consolidated annual financial statements must provide information regarding the issues stipulated in that chapter.

A.1. This information (required by chapter IV of the Seventh Directive) refers to:

- assessment methods applied to different elements from the consolidated annual financial statements, as well as the methods used to calculate value adjustments;
- for each group of tangible assets:
  a) the assessment bases used to determine the gross carrying amount;
  b) the used depreciation methods.

A.2. The other sections of the Seventh Directive also include the following requirements regarding the information presented in the notes: the assessment method for assets and liabilities that are going to be included in the consolidated annual financial statements, if they were assessed by entities included in consolidation through different methods than those used for consolidation.

B. ***According to the International Financial Reporting Standards***:

According to *IAS 1 Presentation of Financial Statements* [14], the section "Presentation of Accounting Policies", paragraph 108, an entity shall present in the summery of the significant accounting policies:

- the assessment base used to draw-up financial statements;
- the other accounting policies that are relevant for understanding financial statements.

In the section "Key Sources of Estimation Uncertainty", according to IAS 1, paragraphs 116-124, a series of detailed explanations are provided regarding the uncertainty related to the presented information about assets and liabilities, as well as related to the assessment base for them. Thus, according to paragraph 116, an entity must present, in notes, information about the main hypotheses regarding the future, as well as other sources of estimation uncertainty at the end of the reporting period, which have an increased risk to cause a significant adjustment of the carrying amount of the assets and liabilities in the subsequent financial period. Regarding those assets and liabilities, the notes must provide information about:

- their nature;
- their carrying amount at the moment of the balance sheet.

Regarding these presentations associated to paragraph 116, paragraph 117 mentions that determining the carrying amounts of assets and liabilities required the estimation of the effects of uncertain future events on those assets and liabilities at the moment of the balance sheet. By way of example, it is shown that in the absence of recent observations of market prices used to evaluate assets and liabilities, it's necessary to make future estimations to assess the retrievable amount of the classes of tangible assets, the impact of technological obsolescence on inventory, provisions that are subject of future results of on-going litigations and long-term debts regarding the benefits of employees, such as pension obligations.

In addition, paragraph 118 mentions that while the number of variables and assumptions that impact the possible resolution of uncertainties increases, those judgements of the management are becoming more and more subjective and complex, and the potential of a significant adjustment of the carrying value of the assets and liabilities as their result, usually increases proportionately.

As an exception, paragraph 119 mentions that the presentations in paragraph 116 are not required for assets and liabilities that have an increased risk that their carrying amount may change dramatically in the next financial period if, at the moment of the balance sheet, they are assessed at fair value, based on recently observed market prices (their fair values can change significantly during the next financial period, but these changes will not occur due to assumptions or from other uncertainty estimation sources at the moment of the balance sheet).

Nevertheless, although paragraph 119 doesn't require it, *we believe that in this profound financial crisis, the provisions of paragraph 112 should be applied*, according to which when it is impossible to present the size of the possible effects of an assumption – key or of a different main source of estimation uncertainty at the time of the balance sheet, the entity must disclose that based on the existent knowledge it's possible the results of the next financial period, which are separate from assumptions, will require a significant adjustment in carrying amount of the affected asset or liability. In all these cases, the entity has the obligation to present the nature and carrying value of the specific asset or liability (or class of assets or liabilities) impacted by the assumption. These entities will particularly have to present details about the used assessment base, especially in case of non-current assets consisting of lands and buildings (but not only), with the presentation of a comparative table between the used carrying amounts and the fair values of the market, practised in that sector/field/geographical area.

From the comparison of the explanatory notes to the consolidated annual financial statements, drawn-up according to the two accounting references– the European Directives and the International Financial Reporting Standards – resulted the following conclusions regarding the assessment base for assets and liabilities: IFRS and IAS 1, paragraphs 103-124, include more comprehensive and detailed regulations than the Seventh Directive, paragraph 79, chapter IV The content of the explanatory notes to the consolidated annual financial statements. The European directive stipulates only general requirements regarding the used evaluation base, as well as a generic recommendation related to the presentation of other significant information that may help the users regarding the presentation of data concerning assets and liabilities.

In the new fiscal context (starting with 2003), it's important to reveal the most significant aspects of the consolidated financial statements for the entities that are also founded as a tax group.

According to article 127 of Law 571/2007 regarding the Fiscal Code, concerning taxable persons and the economic activity, Government Decision 44/2004 regarding the approval of the Methodological norms for application of Law 571/2003 regarding the Fiscal code stipulates the following addenda: in terms of article 127, paragraph (8) of the Fiscal Code, the group of taxable persons established in Romania, legally independent and in close relations in terms of finance, economy and organization, may choose to be treated as a tax group if the following conditions are met:

a) a taxable person may be part of only one tax group;
b) the option must refer to at least a period of two years;
c) all taxable persons in the group must apply the same tax period.

From the text of the legal norm, we see that even though until January 1st, 2012 the tax group may be formed only by taxable persons who are considered major tax payers, still, the incidence of this regulation is very important for the audit of consolidated financial statements.

It should also be noted that the fiscal regulation regarding the tax group is not identical to the regulation of the consolidated financial statements. Therefore, the taxable persons who are considered in close relations in terms of finance, economy and organization are the ones whose capital is owed directly or indirectly by the same shareholders at a rate of more than 50%.

The audit of the consolidated financial statements belonging to entities that are also a tax group (having the same fiscal representative – third party) faces particular and complex problems, such as:

- the auditor doesn't benefit from the provisions of article 124^31, letter d) of Law no. 571/2003 – Spontaneous exchange of information – according to which the competent authority of a member state may initiate this exchange of information based on the assumption that a tax reduction may result from the artificial transfers of profits within the groups of enterprises;
- auditing tax returns related to VAT for each member of the group, as well as for the fiscal representative, and for the group as a whole, by considering any delivery of goods, services, imports or intra-community acquisitions of goods or any other operations conducted by each member of the group during the tax period;

Starting from these aspects, in achieving the audit mission, the auditor will face additional difficulties related to establishing the general audit strategy for the audit mission (ISA 300 "Planning an audit of financial statements").

The time table of the tests in each stage for the audit of the consolidated financial statements with the closing date of December 31, 2010 for the balance sheet will be as follows:

Table no. 1

The schedule of the consolidated financial statements audit for the entities that are organized as a tax group

Stage I	- establishing the audit strategy for all consolidated companies - planning and defining a auditing method for each entity - updating the understanding regarding accounting and fiscal policies, as well as the understanding regarding internal control for each entity - conducting preliminary analytical procedures for each entity (including the fiscal representative)	30/08/2010
Stage II	- conducting tests on the control mechanisms and on the substantial tests of the operations for the first 9 months of the year for each entity (including the fiscal representative)	30/09/2010
Stage III	- confirming claims for each entity (including the fiscal representative) - the physical observation of the stocks for each entity	31/10/2010
	- inventory of the monetary means for each entity(including the fiscal representative)	31/12/2010-11-03 Balance sheet date

	- conducting analytical procedures for each entity - completing tests on the control mechanisms and on the substantial tests of the operations and completing tests on the balance accounts for each entity	07/01/2011 End of the fiscal year
Stage IV	- summarizing the results for the overall of the consolidated companies (including fiscal representative), checking conditioned debts, checking subsequent events, collecting final data (including analytical procedures) and completing the audit for the overall consolidated companies - issuing the audit report for the consolidated financial statements	08/03/2011 Last day of field work 15/03/2011

In the situations when it's mandatory to prepare consolidated financial statements, even more when there is an organized tax group, it is essential for the auditor to have accounting policies for each entity, embedded in the accounting policies for the overall group. Otherwise, the inherent risk is very significant.

In the context of an express legal requirement regarding the handbook of accounting procedures and policies, there must be an adequate set of accounting on consolidation and tax policies.

Law no 31/1990 on trading companies stipulates at article 142 (2) that the board of directors has the following basic tasks, which can't be delegated to the directors:

a) to establish the main activity and development directions of the company;
b) to establish the accounting policies and the financial control system, as well as to approve financial planning;
c) to appoint and revoke directors and establish their remuneration;
d) to supervise the activity of the directors;
e) to prepare the annual report, to organize the general meeting of shareholders and to implement its decisions;
f) to open the insolvency proceedings, according to Law no. 85/2006 regarding the insolvency procedure.

According to article 30 of the Accounting Law no. 82/1990, the annual financial statements will be accompanied by a written statement of the persons stipulated at article 10, paragraph (1), through which they take responsibility for the preparation of the annual financial statements and confirm that the accounting policies used for the statements are in accordance with the legal accounting regulations.

Accounting policies must be written in a manner that will ensure the supply of information through annual financial statements, information that must be:

a) relevant for the needs of the user when making decisions
b) reliable in terms of:
- accurately depicting the company's assets, debts, financial position, profit and losses
- being neutral
- being cautious
- being complete in all significant aspects

The notes to the consolidated financial statements will include: deviations from the accounting principles and policies, assessment methods and other provisions from accounting regulations, mentioning: nature; reasons; assessment of the effect on the company's assets, debts, financial position, profit and losses.

A quantitative analysis of the individual financial statements of the major companies from alba county

At the level of a territorial-administrative unit – Alba County – we analyzed the evolution of the main elements of the patrimony, belonging to the entities that draw-up separate financial statements in full size – balance sheet, profit and loss account, the statement of changes in equity capital, the statement of cash flows, explanatory notes to the annual financial statements. These entities exceed the limits of two of the three criteria regarding size [2]: total assets 3.650.000 EUR; net turnover 7.300.000 EUR; the average number of employees during the financial period 50. Because of these quantitative criteria, *the analyzed companies are likely to be a part of a consolidating perimeter.* The source of the analyzed data is represented by the data base available at the Trade Register Office, Alba County. This study aims to identify aspects of the quantitative development for the 45 patrimonial entities that elaborate separate financial statements in full size – land and buildings. Identifying the assessment methods of the company's assets at the level of the explanatory notes was not possible. The primary processed information is extracted from the balance sheets of the companies that draw-up annual financial statements. We are noting the absence of centralized data for the explanatory notes to the separate annual financial statements of the companies – the only aggregated components in the data base being the balance sheet and the profit and loss account. In such a context, assessments regarding the actual method to draw-up explanatory notes can only be based on individual studies, conducted at the level of the entities likely to be the subject to consolidation.

The analysis of the mentioned assets revealed the following:

a) Per total economy:

- The share of lands and buildings within the total fixed assets is 35.7% at 01.01.2008 and 35.8% at 31.12.2008, while the revaluation from account 105 revaluation reserves is 215.226.761 lei (at 01.01.2008) and 225.144.573 lei (at 31.12.2008), which synthetically means that out of 114.553.579 lei increase of property (lands and buildings), the amount of 9.917.712 lei (at 31.12.2008), meaning 8.66%, comes almost exclusively from revaluation (at the other categories of fixed assets, the revaluations were insignificant), given that at 31.12.2008 the financial crisis, including real estate crisis, was obvious, so that these value increases are likely to not be consistent with the fair values of the market;

- The shares owned at the affiliated entities at 31.12.2008, in the amount of 1.683.330 lei at 01.01.2008 and 1.688.640 lei at 31.12.2008, as well as the total value of the long-term investments in associates of 180.551 lei at 01.01.2008 and 360.544 lei at 31.12.2008, show the level of Alba County; these type of financial investments, which may create conditions for consolidation, are insignificant. Nevertheless, the studied entities may be part of a perimeter of consolidation as subsidiaries. But, this conclusion can only be drawn on the basis of the analyzed data;

- The position of "Other provisions", in amount of 6.099.879 lei at 01.01.2008 and 46.720.415 lei at 31.12.2008, proves that the elements of the financial crisis, mainly manifested in additional total risks, estimated at 31.12.2008 in comparison to 01.01.2008, in amount of 40.620.536 lei, are included consistently in financial statements, indirectly invalidating the increases of the revaluation of fixed assets (lands and buildings);

Table no.2

Excerpt of centralized annual financial statements, Alba County, financial year 2008

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Indicator	Total economy		Public capital		Mixed capital (public and private)		Private capital	
Date	**Balance at 01.01.2008**	**Balance at 31.12.2008**	**Balance at 01.01.2008**	**Balance at 31.12.2008**	**Balance at 01.01.2008**	**Balance at 31.12.2008**	**Balance at 01.01.2008**	**Balance at 31.12.2008**
Land and buildings	614.965.030	729.518.609	94.972.339	91.976.491	163.234.124	207.873.299	356.758.567	429.668.819
Fixed assets, total	1.723.661.851	2.037.092.905	269.262.148	192.005.529	706.035.576	887.318.762	748.364.127	957.768.614
Share of land and buildings	35,7%	35,8%	35,3%	47,9%	23,1%	23,4%	47,7%	44,9%
Shares owned at affiliated entities	1.683.330	1.688.640	1.370	10	3.505	3.505	1.678.455	1.685.125
Long-term investments in associates	180.551	360.544	0	0	0	0	180.551	360.544
Investments held as fixed assets	15.176.668	15.238.879	14.082.255	14.082.255	0	0	1.094.413	1.156.624
Other provisions	6.099.879	46.720.415	113.372	635.191	1.270.331	42.765.884	4.716.176	3.319.340
Revaluation reserves	215.226.761	225.144.573	6.552.650	6.526.116	2.466.839	2.525.817	206.207.272	216.092.640
Reserves representing the surplus achieved from revaluation reserves	32.605.042	39.715.301	30.489.236	30.448.810	0	0	2.115.806	9.266.491
Equity capitals - total	351.988.002	46.101.321	-117.887.202	-196.197.341	-31.981.208	-254.198.941	501.856.412	496.497.603
Public property	87.717.097	16.531.357	87.717.097	16.531.357	0	0	0	0
Capitals - total	439.705.099	62.632.678	-30.170.105	-179.665.984	-31.981.208	-254.198.941	501.856.412	496.497.603

- The position “Revaluation reserves” has a balance of 215.226.761 lei at 01.01.2008 and 225.144.573 lei at 31.12.2008, which means a share of 40% at 01.01.2008 and 30.86% from the fixed assets’ value, consisting of lands and buildings, in comparison to the surplus achieved directly from revaluation, as a result of the transactions conducted with these fixed assets, which is only 32.605.042 lei at 01.01.2008 and 39.715.301 lei at 31.12.2008; noticing that the revaluation reserves have 61.1% of the equity capitals total at 01.01.2008 and 488% at 31.12.2008; given these conditions, we believe that both the position “Lands and buildings” (7th line in the balance sheet) and the position “Equity capitals - total” (83rd line in the balance sheet) are significantly overcapitalized at 31.12.2008, and this overcapitalization substantially continues in 2009, year when the real estate market dropped more than in 2008 (by over 70-80% according to the assessment of the contacted real-estate brokers), without substantially returning to the operated revaluations, made only at the most to maintain the fiscal values, for reasons related to the building tax.

- This evolution recorded at the level of the county was maintained for all the economy, with specific differences related to the real-estate market in different areas and sectors, so that we ca conclude the consolidated financial statements for the 2008-2010 period, but also in the following period, are significantly distorted regarding the values presented at positions “Lands and buildings” (7th line in the balance sheet), “Revaluation reserves” (69th line in the balance sheet) and Equity capitals - total” (83rd line in the balance sheet).

b) The structure of the property:

- The share of lands and buildings in total fixed assets at companies with private capital is 47.7% at 01.01.2008 and 44.9% at 31.12.2008, meaning over 8% compared to public property;

- The shares owned at affiliated entities and the long-term investments in associates are found in major proportion in the private sector;

- The investments held as fixed assets are found in major proportion in the public sector;

- Over 96% of the revaluation reserves are found in the private sector;

- The reserves representing the surplus achieved from revaluation are found in the public sector in a percentage of 76.6%.

Conclusions

Our study identifies the specific rules in companies’ accounting, relating to consolidation processes of the company groups’ accounts. The active companies in Romania can draw-up consolidated annual financial statements according to the Accounting regulations consistent with the Seventh Directive of the European Economic Community, or according to the International Financial Reporting Standards. We believe that the alternative is inefficient.

We consider that this alternative induces to the users of the consolidated annual financial statements confusions and major incertitude regarding the evaluation base and the presentation of assets and liabilities with high ratio in the structure of the patrimony – especially for entities that draw-up consolidated annual financial statements in accordance with the Accounting regulations consistent with the Seventh Directive. Under these conditions, these consolidated financial statements must be exclusively prepared according to the International Financial Reporting Standards, with the indication that the requirement regarding the content of paragraph 199 of IAS 1should be applied in this case also. This provision should be applied even for the uncertainties associated to the evaluation base, especially of the tangible assets consisting of lands and buildings, otherwise, there is a major risk the auditor of a component will not detect a deviation in the financial information, which can cause a significant distortion of the group’s financial statements. In addition, it should be noted this risk exists in situations of crisis even when the evaluation of these assets and liabilities is presented at fair values, after carefully observing the market. Such a phenomenon occurs because these values considered fair don’t actually have justification, due to the lack of an adequate market, as well as due to used evaluation instruments.

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