STRATEGIES OF DECREASING ACCOUNTING RISKS

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Abstract:
The accuracy of an entity's accounting operations is achieved only through a clear record of all the accounting information and proper management of the threats to which they are subject. Conceiving some strategies that aim to limit the accounting risks is the main approach in enhancing the entity's performance and presenting a loyal image.

Keywords: *accounting activities, accounting risks, strategies, loyal image, performance.*

JEL Classification: G32, M41

1. Introduction

Risk is an event, an action, a situation with impact on the ability of an entity to carry out its set objectives.

Within an entity there is a variety of risks with different types of materialisation, generating highly various effects in terms of manifestation and amplitude.

In these circumstances, the risk analysis is necessary in order to have a clear record of both the risks and the risk-generating activities.

Risk analysis is an important process that consists of achieving the following activities:

- identifying the risks generating activities and the generated risks;
- risk assessment;
- risk classification;
- proposing measures (strategies) for limiting the risks.

Depending on the specific character of the entity there can be a number of risks, such as: general risks (organising risks; strategic risks; operational risks; project/process risks, etc.) and specific risks (risks from the legal activity; risks in human resource management; financial and accounting activity related risks, etc.).

Reducing the threats that an entity has to face helps to streamline the specific activities, to increase performance and to successfully achieve the set objectives.

2. Accounting risks

The purpose of bookkeeping within an entity consists in the preparation and presentation of the financial statements. The objective of the financial statements is to provide the internal and external users with an accurate image. This requires a proper recording of the financial-accounting transactions and events. But, there is a number of risks arising as a consequence of the activities carried out within the financial-accounting department, risks that affect the smooth running of the entity, when the appropriate steps are not taken regarding their minimisation.

The accounting risk analysis must start with identifying the accounting activities specific to the activities of an entity and the risks generated as a result of their implementation.

The following tables illustrate a series of accounting activities and specific risks.

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Table no. 1: Accounting risks generated by the application of accounting principles

Accounting principles	Generated risks
a) Activity continuity principle	a1) the risk of the financial position assessment, of the financial performance may influence the economic decision of the financial a2) the risk of undervaluation of the assets and expenses; a3) the risk of overvaluation of equity elements, debts and income; a4) the risk of erroneous identification of the aforementioned elements in a period of time in which they should not have been recognized; a5) the risk of assessing and presenting the entity's results that may not reflect a loyal image; a6) the inflationary risk with impact on the purchasing power, which is reflected in the purchase of goods and services of the entity.
b) The principle of accounting methods permanence and of assessment in accounting	b1) the risk generated by this principle is the assessment risk, namely the situation in which the users of the financial statements are affected because of the failure to fulfil the comparability criterion which has as result an assessment that affects their decisions.
c) The principle of prudence	c1) the risk of transfer of the uncertainties in future years will be avoided.
d) Accrual principle	d1) the risk related to affecting the income of the year in which they were engaged, respectively at the time of their acquisition, as well as the recording of the costs as they are engaged; d2) the risk of not applying this principle is the risk of bankruptcy, manifested by the inability of the entity to achieve its payments.
e) The principle of separate assessment of assets and liabilities	e1) it generates the risk of erroneous assessment of the components of the financial statements' structure, which affects the financial position and the financial performance of the entity.
f) Intangibility principle	f1) the risk of failure to fulfil this principle causes the loss of all qualitative characteristics of the information resulting from the financial statements. It also automatically leads to the failure to fulfil the other accounting principles.
g) The netting principle	g1) the risk generates a misleading image of the financial position and performance of the entity. In this case, the calculation of any performance indicators is questioned in terms of results relevance.
h) The principle of dominance of the economic over the legal elements	h1) the risk of erroneous interpretation of this principle leads to an inaccurate presentation of the economic rights and obligations of an entity within the financial statements.
i) The materiality principle	i1) the risk of failure to fulfil this principle may generate unnecessary expenses, which also affects the entity's financial performance

Source: Personal contribution

Table no. 2: Accounting risks arising from the recording of the economic and financial transactions in the accounting records

Accounting activity	Generated risks
Recording the financial and economic transactions in the Journal-ledger; Inventory-ledger; General-ledger	a) lack of written procedures on how to draw up the Journal-ledger; the Inventory-ledger and the General-ledger; b) failure to update on time the above-mentioned documents; c) absence of a person responsible for preparing the accounting records; d) incorrect filling in of these documents.

Source: Personal contribution

Table no. 3: Accounting risks generated by the financial-accounting documents' archiving

Accounting activity	Generated risks
Archiving the financial-accounting documents	a) lack of procedures for archiving financial-accounting documents; b) not appointing responsible people regarding the documents' archiving; c) not training people on how to archive documents; d) failure to provide adequate space for archiving; e) inadequate preparation of the financial-accounting documents for archiving;

Source: Personal contribution

Table no. 4: Accounting risks arising from the use of IT programmes

Accounting activity	Generated risks
Using the IT programmes in the processing of the accounting information	a) lack of written procedures on the operation of the existing information system within the entity; b) not assigning responsibilities to the people who are entitled to operate and consult the IT system; c) failure to protect against access by unauthorised persons through a system of passwords; d) separating the tasks to the users with controlling role from those with executive role; e) systematic failure to train the staff responsible for using the information system; f) unauthorized access to financial-accounting information from the database.

Source: Personal contribution

Table no. 5: Accounting risks arising from the use and registration of the assets in accounting

Accounting activity	Generated risks
Use and registration of the assets in accounting	a) lack of written procedures for the bookkeeping of the balance sheet items; b) the procedures concerning their accounting are not known by the personnel assigned to this task; c) not appointing people responsible for drawing up bookkeeping; d) the existence of persons responsible for bookkeeping of the assets, but who do not have the necessary studies to achieve this task; e) erroneous evidence of the payments/expenses incurred with the acquisition or construction of the tangible assets; f) erroneous highlighting of the acquisition and production costs and of the output value, in violation of the permanence principle of the assessment methods; g) failure to update the receivables from claims documents; h) incorrect registration in the costs, other than those related to the nature of these operations; i) lack of written procedures on the organising activity and operation of the cash desk; j) lack of written procedures for bookkeeping of the cash desk and bank operations; k) misstatement in other accounts of the amounts carried out by banks or cash desk; l) lack of people responsible for the systematic control of cash desk activity; m) failure to ensure space security for the cash desk; n) lack of written procedures regarding the bookkeeping of the costs with the entity's staff; o) not informing the staff currently; a) placing the staff in activities not specific to their professional training.

Source: Personal contribution

Table no. 6: Accounting risks arising from the use and registration of the entity's capital in accounting

Accounting activity	Generated risks
Use and registration of the entity's capital in accounting	a) failure to identify all the related parties; b) incorrect establishment of the value of the balance sheet items (sum of subscribed social and paid-up capital; the amount of the legal reserves, as well as of other reserves; the size of the profit or of the loss) at the year-end; c) failure to check the balances of the capital items upon opening and closing of the financial year; d) not identify the persons responsible for the management of the capital operations (authorised persons legally entitled to sign; of the person empowered to keep the Share register; of the persons responsible for the distribution of the dividends, as well as of the persons authorised to seek the contributions of capital to the new shares issuing); e) the changes in the structure and volume of equity (increase or decrease of capital; issuance of shares; the distribution of profits) were not made known to the shareholders. f) the entity reserves have not been properly recorded in the balance sheet; g) failure to present correctly in the financial statements, according to the accounting regulations in force of the reserves; h) accounting regulations in force concerning the entity's reserves are not consistently applied; i) the accounting procedures on bookkeeping of the bebts are not known by the assigned staff; j) failure to repay the loans in due time; k) failure to correctly estimate the provisions and contingent liabilities;

Source: Personal contribution

3. Strategies of diminishing the accounting risks

The strategy is "the long-term establishment of the goals and objectives of an enterprise, the adoption of courses of action and allocation of the resources necessary to achieve the objectives" (A. Chandler, 1962, pp. 136) or "a pattern or plan that integrates into an entirety coherent for the organisation's major goals, policies and programs" (J. B. Quinn, H. Mintzberg, R. James, 1988, pp. 312).

Formulating a strategy consists of:

- the analysis of the entity's current situation. It is necessary for presenting an accurate situation to identify information about: the activity of the entity, as well as knowledge of its past and present strategies.

- the analysis of the perspectives and development directions of the entity. This step aims to identify the medium and long term objectives that the entity sets for itself as well as the strategic diagnosis, namely the internal and external environment analysis.

In order to successfully implement the strategy one must achieve a proper matching of the entity's internal potential with the new strategic guidelines for identifying the actions to be performed, as well as the means to be implemented to ensure the convergence. It is also necessary to coordinate the annual targets in order to avoid the failures and the conflicts between the different compartments of the entity.

Due to the current economic conditions, it was necessary to create some strategic typologies for the entity to be able to successfully achieve its set objectives. In this regard, several criteria of classifying the strategies have been developed, but according to the risks they prevent, the strategies can be:

- of diminishing the operational risk, which is based on the cost-volume-profit correlation and seeks to identify ways to maintain the elasticity of earnings to the changes in sales;

- of diminishing the risks arising from the legal activity, which are based on identifying the specific legislation of the entity's activity and its appropriate;

- of diminishing the risks arising from the inappropriate management of the human resources, which focus on the human capital as main resource of any entity;

- of diminishing the financial risk, which starts from identifying the generating activities and presenting some ways to eliminate the hazards with impact on the financial performance;

- of diminishing the accounting risk, which starts from identifying the generating activities and the development of some measures to maintain a loyal image of the entity.

Risk management strategies identify four options for action, namely:

a) Avoiding risk situations. The aim is to identify those situations that could lead to a number of risks, under the scope of occurrence, in order to avoid them;

b) Preventing risks. When risks cannot be eliminated, the economic operator must try to reduce the likelihood of occurrence of such situations by implementing certain decisions or by carrying out certain actions;

c) The transfer of risks to another entity – insurance;

d) Taking on risks when the other methods cannot be applied. It is necessary for the entrepreneur to build up a risk fund to cover the potential losses or in the event of relatively small losses.

Therefore, due to the accounting risks identified, the following strategies of diminishing these threats are presented:

a) Strategies of reducing the risks generated by the misapplication of the accounting principles:

- developing a periodic training plan of the staff from the financial-accounting department on the accounting principles stipulated by law and any changes that could occur;

- checking the accurate observance of the general accounting principles as set out and detailed in the legislation in force;

- appointing a person from the control department to monitor the compliance with the accounting principles in the financial-accounting activity and to intervene when there are deviations from them.

b) Strategies of reducing the risks generated by the misuse of the accounting records:

- regular training of the staff from the financial-accounting department on the accounting records required by the legislation in force, as well as the manner of filling in and filing them;

- all the accounting records shall be made on the basis of primary documents completed and drawn up in accordance with the legal provisions in force, only after the prior approval of the transactions by authorised persons;

- checking and correcting, where necessary, the accuracy of the registrations from the accounting records by the chief accountant of the financial-accounting department.

c) Strategies of reducing the risks generated by the improper filing of the financial-accounting documents:

- the establishment and training of the persons responsible for filing in accordance with the law;

- identifying and using an appropriate space for archiving the documents;

d) Strategies of reducing the risks generated by the misuse of the financial-accounting data processing software:

- regular training of the staff from the financial-accounting department in using the specific software;

- providing expert assistance in IT by a specialist.

e) Strategies of reducing the risks generated by the erroneous recognition and assessment of the elements of the financial statements structures:

- regular training of the staff from the financial-accounting department on the assessment methods and recognition of the component elements of the financial statements structures;

- development of an accounting policies guidebook that should contain clear procedures on the assessment of the balance sheet items and the profit and loss account, their application method, as well as the dissemination of the material to the personnel responsible for the implementation of these policies;

- continuous checking of the compliance with the accounting policies set by the entity's management by the head of the financial-accounting department and by a person assigned with control attributes;

- obtaining the agreement of the Board of Directors for any deviations or changes in the accounting policies and grounding the need of these changes based on some documents which contain the internal audit's visa as well.

Conclusions:

The reduction of accounting risks has an impact on the drawing up and presentation method of the financial statements, statements that show the overall image of the entity.

Limiting these threats is reflected primarily in the credibility of the financial statements and then in achieving the entity's specific objectives. We consider the development of some strategies regarding the management of accounting risks to be the goal of having a loyal image.

Implementing the accounting risk management strategies will be made by the chief of the financial-accounting department, who must supervise their implementation and their enforcement lies with both the entity's management and the internal audit department.

Once developed the accounting risk management strategies, the internal auditors must appropriate them and supervise both their implementation and their compliance.

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