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TRANSPARENCY OF FINANCIAL REPORTS OF COMPANIES IN THE REPUBLIC OF KOSOVO

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Abstract

The financial reporting of any business entity wherever it operates is essential for the efficient management of that entity. Financial reporting in accordance with IFRS, international best practices and EU directives helps to create a more transparent business environment and enhances the credibility of other stakeholders. The financial reporting of companies in the Republic of Kosovo is important for a well-functioning market economy and provides some of the basic elements for a proper and sound financial system in Kosovo.

The purpose of this research is to analyze whether the financial statements of companies in Kosovo are transparent, and each interested party can find their financial statements and other necessary information, as well as how they are prepared in accordance with IFRS/IAS requirements.

Providing quality financial reporting helps users of that information to make important economic decisions. Financial information published and available to stakeholders in most cases to companies in Kosovo is considered not very reliable and not very transparent, as well as incomplete.

The results of this research reflect the lack of transparency of financial information from companies in Kosovo, which is easily verified through the qualifications of the opinion of the auditor's report, clicks on the website, etc.

1. Introduction

In the context of today's economic reality, information is very necessary in making the right decisions for the future. To be useful and timely, financial information must also be reliable, comparable, fully compliant with acceptable standards, and clearly transparent. In order to achieve transparency in financial reporting, high quality financial information must be prepared in full compliance with generally accepted accounting principles.

In the managerial environment of companies, their management is always faced with situations where sometimes necessary decisions must be made, for its sound future. But to make such decisions, which are nevertheless in the best interest of the company they lead, it is necessary to make fair and accurate assessments of all the information that they send with complete certainty. In order for that information to be accurate, fair and in the best interest of the company, the information must be provided in a timely manner, it should be complete and based on either national or international accounting standards. Also, it must be in accordance with certain rules and norms drafted by state regulatory bodies or by the company itself.

The pace of internationalization of trade and investment has accelerated in recent years, so all this has been accompanied by calls for financial reports to be internationally comparable (Elliott & Elliott, 2007). So, the financial information extracted from the financial reports of a particular economic entity of a certain country can be compared freely and seamlessly with similar information of another economic entity in another part of the world. Nowadays, this has led to working more and more in regards to harmonizing the same standards in all countries and by all companies.

Accounting standards came to light as an attempt to act against subjectivity and to achieve comparability between the financial statements of different entities. These standards have been developed both nationally (in most countries) and internationally, such as IAS and IFRS.

2. Objectives of Financial Report

Financial reporting offers data that is practical in doing business and economic decisions. As a result, the overall aims of external financial reporting come from the necessity of external users that need to trust the data that managers communicate.

FASB in its conceptual framework identifies the main objectives of financial reporting. These objectives can be summarized as follows (Charles, 1993):

- A financial report should offer information that is handy to investors, creditors, and other current potential stakeholders in making rational investments, lending, or similar decision.
- Financial reporting should provide information to assist investors, creditors, and other current and potential interest groups in estimating the amounts, timing, and uncertainty of cash receipts from dividends or interest as well as returns from the sale, maturity of securities or loans.
- Financial reporting should provide information on the enterprise's economic resources, requirements for those resources (the company's obligations to transfer resources to other entities and owners' equity), and the effects of transactions, events, and circumstances that alter these resources.

The major focus of financial reporting should be providing information on earnings and their components. Earnings analysis provides knowledge on:

- management performance,
- long-term profit capabilities,
- future earnings
- the risk that are related to borrowing or investing.

So, the main objectives of financial reporting should be in terms providing information that is useful to investors, who will be able to decide whether to invest or not, creditors in order for them to make the right decisions regarding lending, and analysts, who will make a fair analysis of the probable situation in which a company is actually located. Also, this can be beneficial for other users regarding the assets owned by an entity, the sources of the flow of that asset, claims on those sources, etc.

A complete financial report, harmonized with the required local and international standards and published as such, with the greatest possible transparency, will meet not only its objectives regarding the providing of information on the financial condition and situation for a given business entity, whether it is a current situation or a state of perspective, but it will also meet the needs of different users, both those within the entity and those outside it.

Today, financial reporting in companies is no longer limited to financial statements but also includes a wide range of data and information that need to be reported, for reporting to be as complete and transparent as possible.

So, furthermore, other data should be published and made transparent, such as: disclosures of financial statements, auditors' reports, a five-year summary of key financial data, net sales or operating income, income or loss from operating operations, income or losses from ongoing operations for ordinary shares, total assets, long-term liabilities, and preferred shares as well as cash dividend per ordinary share, market data, higher and lower sales prices of ordinary shares for each quarter during the last two years, etc. (Xhafa, 2005).

3. Preparation of Financial Statements for Reporting

The financial statements show the final stage of accounting data processing and are presented as the bearer of accounting information.

The preparation of financial statements requires management to make estimates, judgments and assumptions that affect the implementation of accounting policies and the information reported regarding the assets, liabilities, income and expenses of the entity.

Financial statements that are in discrepancy with the standards may result in disagreement and inconsistencies in the basic principles and as a result, may lead to ambiguity, and all this may have an impact on true and fair financial reporting.

The IASC states that the purpose of financial statements is to provide information about the financial position, performance, etc. that is useful to different users in making economic decisions (IASC, 1989).

So, when preparing financial statements, care should be taken to disclose information such as the current financial condition or situation of a business entity, information on good or bad performance for a given period, so that this information which use by different users, both inside and outside the entity, to influence their decisions based on this information provided by the construction of the financial statements.

The conceptual framework of the IASB presents the main qualitative characteristics that the financial statements should contain after their preparation. These features represent that information presented in the financial statements are practical and usable to many users. Four main qualitative features are:

- comprehension;
- importance;
- reliability;
- resemblance.

Also, when preparing financial statements, some basic assumptions should be considered, which are also defined by accounting standards. Thus, IAS 1 identifies some of the basic assumptions or principles such as:

- The principle of fair presentation of financial statements
- The principle of going concerned
- The principle of causality of revenues and expenditures
- The principle of a treatability (consistency)
- Ethical responsibility of financial reporting

While making preparation for the financial statements, other documents of the financial statements regarding the obligations that certain business entities have for financial reporting, in addition to having to comply with the laws, norms, rules and standards set by the country, meanwhile ethical aspects must be looked after, because the reputation of an enterprise or corporation also depends on its good image

As known, in most entities that managers have a task, that of achieving the greatest possible profits. But at the same time, the standards of modern ethics impose another task, to contribute to maintaining and increasing the values of the entity for the benefit of all those directly or indirectly involved with the entity, including the public. Large organizations are more responsible for this, always keeping in mind the impact that a large organization can have compared to small ones.

4. Financial Reporting Period

A subject is required to prepare its financial statements at least once a year. This is also set out in IAS 1 which requires entities to prepare annual financial statements.

Yearly financial statements are usually published once in three months after the end of the firm's fiscal year. (Stice et.al., 2001). In Kosovo by law, the financial statements of companies that are audited no later than April 30 of the following year, and the consolidated financial statements that are audited in accordance with ISA no later than June 30 of the following year.

A complete package of financial statements contains:

- a statement of financial position;
- a profit/loss statement;
- a statement of changes in equity;
- a statement of cash flows;
- notes (IFRS 1, paragraph 8).

In preparing the financial statements, the company's management decides on the application of certain accounting policies and evaluates their implementation.

The applied accounting policies should be disclosed:

- The measurement basis (or bases) used in the preparation of the financial statements,
- Other accounting policies are used, as required for a proper understanding and proper presentation of the financial statements.

The International Accounting Standards Committee (IASC) recognizes that not all users' information needs can be by the financial statement, still, it considers that some necessities are common to all users: in particular, they have some interests in the financial situation, performance, and suitability of the enterprise as a whole (I.A.S.C., 1989). Users of financial statements and accounting information are investors, managers, shareholders, employees, creditors, tax authorities, financial analysts and advisers, and the public.

5. Transparency of Financial Reports

Transparency refers to the principle of creating an environment where information published by the company on the current situation, such as assets, liabilities, capital, revenues, and expenditures are understandable to all users of information.

Transparency is a prerequisite for accountability, especially for lenders and borrowers, for investors, national authorities, and international financial institutions. More transparency makes the economic decisions easier to make alongside other agents in the economy. Additionally, transparency encourages greater accountability, internal discipline, better governance, higher decision-making quality, etc. (Greuning, et.al. 2011).

Providing information that is both transparent and beneficial to market players is an important prerequisite for a regular and efficient market. Greater transparency in financial markets makes them more stable and less volatile over time. Disclosure of financial information is in any case in line with the requirements of accounting standards.

Disclosure of information that will be available to other competitors, is one of the preconditions that is often reluctant to make public complete information during a financial reporting by various entities.

In the context of the disclosure, financial statements should be easy to interpret. The information available enables monitoring of the entity's financial performance. This helps to foster transparency and market discipline as two crucial aspects of good company governance. In addition to the goal being, in empowering stakeholders, transparency can be a tool to achieve more progressive governance. Adoption of internationally recognized financial reporting standards is a vital step toward greater transparency and correct financial statement interpretation.

Today, there are numerous instances that complete and transparent financial reporting can damage the financial fraud or financial evasion that occurs in many corporations whether small or large. Financial evasion are actions that intentionally misinterpret the performance of a financial statement. They range from the easiest, such as changes in accounting forecasts to the most severe, the recognition of fraudulent recognition of false income (Xhafa, 2005).

The primary responsibility in the preparation of a company's financial statement lies with the management of that company. Therefore, the preparation and presentation of these financial statements in line with IFRS is the responsibility of management.

6. Transparency of Financial Reports of Companies in Kosovo

The purpose of this research is to analyze whether the company's financial statements in Kosovo are transparent, and each interested party can find their financial statements and other necessary information, as well as how they are prepared in accordance with IFRS/IAS requirements.

To see how transparent, the financial statements of companies are, we have used the external auditor's reports for a significant number of companies as well as their websites.

As it is known, the law determines which companies, in addition to the annual financial reports, those reports should also be audited by an independent external auditor. Therefore, given that we are dealing with an objective audit of what these companies have reported, this increases the value and reliability of the information reflected in those reports, and from the final report of the independent auditor can be judged then how many companies has complied with the requirements, rules, local and international standards for financial reporting. In other words, based on the response to the report of the independent auditor, the level of transparency of those financial reports can be assessed to some extent, depending on what the external auditor thinks about the report.

According to the law in Kosovo, the annual financial statements contain:

- statement of financial position at the end of the period;
- statement of comprehensive income for the period;
- cash flow statement for the period;
- statement of changes in equity; and
- notes.

The external report of the author should be prepared in compliance with the ISA and give his opinion regarding the financial statement of the companies that have been audited for that period. The most common opinions that may arise from the analysis of some of the auditor's reports are:

a) Unqualified opinion.
b) Unqualified opinion with emphasis of matter paragraph.
c) Qualified opinion
d) Qualified opinion with emphasis of matter paragraph.
e) Opposite opinion.
f) Opposition opinion with emphasis of matter paragraph.
g) Withdrawal from giving an opinion.

From the analysis conducted on a considerable number of companies in the Republic of Kosovo, this situation is presented in the external audit report:

Table 1. Audit opinions issued

Type of auditor's opinion	2017	2018	2019
	Number of reports	**Number of reports**	**Number of reports**
Unqualified	65	69	79
Unqualified - emphasis of matter	14	10	19
Qualified	36	34	41
Qualified - emphasis of matter	1	4	8
Opposite	0	0	0
Opposite - emphasis of matter	0	0	0
Disclaimer of opinion	4	3	3
The sample researched in this paper	**120**	**120**	**150**
Total reports submitted to the authority	**361**	**361**	**394**

Source: Data from KCFR, analyzes performed by the author

Based on table 1, it can be concluded that a considerable number of reports or about 54 percent in 2017 have an unqualified opinion of the auditor, while 46 percent are reports that have an unqualified opinion with emphasis of matter, then qualified to the point of denial of opinion.

In 2018, about 57 percent have an unqualified opinion of the auditor, while 43 percent are reports that have an unqualified opinion with emphasis on the issue, then qualified and up to the disclaimer of the opinion.

And in 2018 about 52 percent have an unqualified opinion of the auditor, while 48 percent are reports that have unqualified opinion with emphasis of matter, then qualified and up to the disclaimer of the opinion.

Therefore, from all that was pointed out in the paragraphs above, it is a situation where only a little over 50 percent of the financial reports are with an unqualified opinion by the independent audit, or that in all key areas of the company's financial status, the financial statements provide the information fairly., as well as financial performance and cash flow for year when the audit was performed and are in accordance with IFRS. Whereas almost half of the reports have an opinion with emphasis of matters, up to the disclaimer of the opinion by the external auditor.

Also, based on the information gathered from these companies' websites that are included in this study, financial data and annual reports can be found together with the audit report of only about 10 percent of them. So, mainly or over 90 percent of the financial reports with the opinion of the auditor we have found only in the supervisory authority such as KCFR, as an independent professional body and competent authority in the Republic of Kosovo which is responsible for publishing reports submitted by companies for the relevant period.

Then, if we take a look on the financial reports submitted by companies in this period 2017-2019, there is no information about the future which would help to predict the future, there is no non-financial information, there is little or no information at all on corporate governance, lack of applied accounting principles and policies, etc.

7. Conclusions

This study concludes that the transparency of financial reporting is the degree to which external users and especially investors have access to as much information as possible financially and non-financially about a company.

The main objective to be achieved during the financial reporting of companies, is to provide various stakeholders, especially investors, with at least the minimum necessary information, on which they will rely when making investment decisions in the various company.

Through audits of the financial statements, through an assessment from a “neutral” perspective, it is assumed that the problem of agency (agency theory) between equity owners or shareholders and managers is reduced.

Also, the process of auditing financial statements reduces the costs of using financial statements by various stakeholders, making it possible, in the first place for shareholders but also other users of financial information, not to additional costs are incurred in investigating the accuracy of the information published by the company.

Finally, companies during the financial reporting process must adhere to the rules, requirements, laws, and standards for financial reporting, so that their financial reports are reliable, understandable, and especially easily comparable.

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