

Exploratory Analysis of Assets Nonconformities in Financial Statements

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Abstract

Financial irregularities can occur in the management of assets and may be caused by faulty accounting procedures, erroneous estimates, inadequate depreciation or unexpected losses. Such irregularities and errors can affect both the financial statements and the overall performance of the firm. Financial errors can have similar effects. They could arise either from incorrect accounting for asset acquisition or depreciation, negligence or misinterpretation of accounting rules. Such mistakes can disrupt financial statements and the understanding of a company's financial performance and stability. Based on the indicators reported by firms in 2021, this study identifies both at the level of each county and by taxpayer category, situations where fixed assets are lower than tangible assets, and the risk of non-compliance in financial reporting appears to be significant.

Key words: assets nonconformities, exploratory analysis, financial error, fixed assets, noncurrent assets, tangible assets

J.E.L. classification: H00, H32, K00

1. Introduction

In the context of finance, asset management is an essential component of a successful company. Non-compliant assets, deviations from regulations and financial errors can significantly affect the performance and viability of an organization (Amiram et al, 2013, p.732). Therefore, exploratory analysis of these issues becomes a critical step in identifying and solving problems and improving fixed asset management.

In order to fully understand the concept of non-compliant assets and financial errors, it is important to define the asset and understand its classification. Assets are resources controlled by an entity as a result of past events and from which future economic benefits are expected (Rus, 2013, p. 942). They can be divided into several categories, such as fixed assets (tangible and intangible) and current assets. Tangible fixed assets are assets used in the long-term process of production, provision of goods and services; they include buildings, machinery, equipment and means of transport. Intangible fixed assets are also assets used on a long-term basis but which are not physical in nature, such as patents, trademarks and copyrights.

Deviations from the rules and financial errors can occur in the management of assets, regardless of the category to which they belong. They may be the result of faulty accounting processes, inaccurate valuations, improper depreciation or accidental losses. Such misstatements and errors can affect both financial reporting and overall company performance (Birkin, 2000, p. 289; Munteanu, 2020, p. 978).

An example of a deviation from the rules could be the incorrect valuation of a building recorded as a fixed asset. If the value of the building is overstated, this can lead to a distortion of the company's financial position and affect appropriate management decisions. At the same time, an undervaluation may lead to under-reporting of assets and underestimation of the true value of the company.

Financial errors can have similar consequences. They can result either from incorrect accounting for asset acquisitions or depreciation, or from negligence or inaccurate interpretations of accounting policies. Such errors can affect financial reporting as well as the interpretation of a company's performance and financial health (Rus, 2019, p. 144; Munteanu, 2020, p. 980).

Exploratory analysis of asset management deviations plays a crucial role in identifying and remedying problems. It involves closely examining financial reports, evaluating valuation and depreciation methods, checking accounting recording processes and accounting policies adopted by the company (Chen et al, 2011, p.1255). Through exploratory analysis, discrepancies between book values and actual asset values can be identified, recording errors identified, and the efficiency and effectiveness of existing policies and procedures assessed. Exploratory analysis can also highlight opportunities to improve workflows and optimise asset management processes.

Exploratory analysis of asset non-conformities in financial statements is a key topic of discussion in the field of finance and accounting. It involves a detailed assessment of how assets are presented and managed in companies' financial statements. The main purpose of this analysis is to identify and correct any discrepancies that could have a negative impact on the financial condition of an entity. In this context, activities to prevent and combat tax fraud become essential (Aivaz, Munteanu and Chiriac, 2022, p.337). They argue that "the 2014-2020 period has brought a significant dynamic in the activity of the Directorate General Anti-Fraud in Romania" (Aivaz et al., 2022, p. 341). This suggests that improving fraud detection mechanisms can help prevent noncompliance in financial statements. Stan (2013, p.111) also highlights the importance of legal regulation at European and international level in assessing environmental impacts, which is also reflected in asset management. He states that "international and European legal regulations on environmental impact assessment in the coastal zone of Romania are an essential governance tool for the protection of the environment and natural resources" (Stan, 2013, p.113). Therefore, proper asset management can be influenced by compliance with these regulations. Also Stan, in another study (2014), discusses the importance of public-private partnerships for sustainable urban development. The author mentions that "public-private partnership can be a solution for sustainable urban development of cities" (Stan, 2014, p. 142). This is relevant to our topic, as the involvement of the private sector can help improve asset management in financial statements. According to Petrișor, Susa and Petrișor (2020), creating an environment where sustainability is key can have risks. They argue that "counting for sustainability: the risks of creating a market environment for the environment" (Petrișor et al., 2020, p. 170). Thus, we need to ensure that asset non-conformities are not the result of an attempt to put a price on the environment.

In conclusion, exploratory analysis of asset non-conformities in financial statements is essential to ensure transparency and accuracy of financial information. A multi-disciplinary approach is needed that takes into account both legal regulations and private sector involvement, as well as environmental and sustainability factors. In this respect, preventing and combating tax fraud as well as effective asset management can have a major impact on the quality of financial information.

2. Theoretical background

In any organisation or business, asset management is a crucial aspect of achieving goals and long-term success. Assets are any valuable resource of an organisation, such as physical assets, money, intellectual property and human resources. To ensure effective asset management, deviations from the rules need to be monitored and controlled. Exploratory analysis of these deviations is an essential process to identify and understand the causes and consequences of these deviations, thus facilitating informal decision making and improving organizational processes (Stanciu, Condrea and Costandache, 2017, p. 320)

Deviations from norms are situations in which activities, results or organisational behaviour do not comply with established norms, policies or standards. These deviations can occur in different aspects of asset management, such as unauthorized expenditures, inefficient use of resources or violation of security policies. Exploratory analysis focuses on identifying and assessing these deviations in order to understand their root causes and impact on the organisation.

Exploratory analysis allows the identification and assessment of risks and vulnerabilities associated with deviations in asset management. By examining these deviations in detail, weaknesses in the asset management system can be identified and appropriate risk mitigation and management strategies can be developed. This process facilitates the prevention of financial losses and other organizational damage (Condrea, Munteanu and Mirea, 2019, p. 793)

Deviations from the rules can reveal inefficient processes or inadequate policies that prevent the achievement of organisational objectives. By understanding the causes of these deviations, organizations can develop and implement strategies and corrective measures to optimize their operations and improve their long-term performance.

Exploratory deviation analysis helps to identify and eliminate waste and other operational inefficiencies. By investigating assets and processes that generate deviations, inefficiencies that lead to additional costs and misuse of resources can be identified and eliminated. This leads to increased organizational efficiency and profitability by optimizing asset utilization and reducing unnecessary expenses.

Also, by identifying deviations and assessing their causes, organizations can take corrective and preventive actions to comply with legal requirements and relevant industry standards. This reduces the risk of legal and reputational penalties and protects the organisation's image and integrity.

Exploratory analysis of regulatory deviations can help improve organisational culture and work ethics. By examining and managing deviations, organisations can promote accountability and respect for rules and regulations. This process facilitates the creation of a strong organizational culture based on ethical values and mutual trust among team members (Chiriac, Munteanu and Aivaz, 2022, p. 298).

After identifying deviations from the rules and financial errors, it is necessary to implement an action plan to manage fixed assets in an efficient way and in compliance with financial regulations and standards.

This includes reviewing and updating accounting policies, establishing clear procedures for valuation and accounting recording, adequate training and education of staff responsible for asset management, and establishing a system for regular monitoring and review of these processes.

It is also important to focus on communication and collaboration between financial, accounting and asset management departments to ensure the correct and accurate flow of information and to avoid errors and deviations.

The first step in managing fixed assets is to identify and record them. The organisation should develop a system or register containing detailed information about each asset, such as description, value, date of acquisition, location and other relevant characteristics. This register should be updated regularly as new acquisitions or changes are made to existing assets.

To manage fixed assets effectively, it is important to regularly assess their value and calculate depreciation based on wear and tear and the passage of time. This can be done through methods such as straight-line depreciation or more complex methods such as accelerated depreciation or fair value depreciation. Proper valuation and depreciation of fixed assets helps to determine the net value of assets and to make informed decisions about their replacement or repair (Mirea and Munteanu, 2017, p. 88).

In order to keep fixed assets in good working order and to extend their useful life, it is essential to implement a proper maintenance and upkeep program. This can include regular overhauls, preventive and corrective repairs, replacement of worn or defective parts and compliance with safety standards. A well-planned and implemented maintenance programme can reduce operating costs, minimise downtime and extend the life of fixed assets.

To manage fixed assets effectively, it is important to monitor their use and efficiency. This can be done by collecting and analysing relevant data such as operating hours, yield or costs associated with asset use. Monitoring enables the identification of non-conformities, inefficiencies or needs for improvement and facilitates informed decision-making to optimise asset utilisation and resource allocation (Munteanu and Condrea, 2018, p. 525).

In order to minimise the risk of loss or damage to fixed assets it is important to implement appropriate protection and insurance measures. This may include insuring against fire, theft or other unwanted events, implementing an adequate security system, and developing policies and procedures

for the proper use and handling of assets. Adequate protection and insurance of assets helps to minimise risks and protect their value and integrity.

As fixed assets reach the end of their useful life, it is important to plan for their replacement or upgrade. This may involve developing a phased asset replacement plan so as to avoid the costs and problems associated with suddenly replacing all assets at once. By planning to replace and upgrade assets, the organisation can ensure operational continuity and maintain optimal performance.

3. Research methodology

The main objective of this study is to conduct an exploratory analysis of the risk of non-compliant financial reporting in asset management.

The exploratory analysis method used in this research is a process by which various sets of financial data are examined to better understand patterns, trends and relationships between different variables (Hoque, 2017, p. 241; Aivaz et al, 2022). This analysis is usually performed before any attempts are made at financial modelling or prediction.

The main steps of an exploratory analysis of financial indicators are:

- Understanding the data: It is essential to understand the nature and structure of the data set we have. This might involve examining the types of data, measuring variation and understanding how the data was collected.
- Cleaning the data: This process involves removing any errors, gaps or anomalies in the data. It is also important to identify and deal with outliers that could distort the analysis.
- Descriptive analysis: This step involves summarising the data using statistical measures such as mean, median, mode and standard deviation. The aim is to get a clear picture of trends and patterns in the data.
- Visual analysis: This involves graphing the data to make it easier to understand patterns and relationships. This may include using bar charts, line graphs, scatter plots or box plots.
- Inferential analysis: Once the data have been visualized and described, more advanced statistical methods can be applied to better understand the relationships between variables. This may include hypothesis testing, regression analysis or other similar methods.
- Interpretation of results: Finally, the findings of the exploratory analysis are interpreted in the context of the research questions or business issues of interest. This is the stage in which conclusions are drawn and recommendations are made for further stages of analysis or action (Pintilescu, 2007, p. 10; Pintilescu, 2022, p. 23).

For this exploratory study, we recorded the financial indicators: fixed assets and tangible fixed assets, the data being publicly available on the website of the Ministry of Public Finance of Romania. Fixed assets show us the predilection of an entity to invest for the long term.

Where fixed assets are smaller than tangible assets, the risk of non-compliance in financial reporting appears to be significant. There may also be situations of reclassification or correction of fixed assets to other categories of assets, which are required to be explained in the notes to the financial statements. Given the differences identified in this analysis, the risk of non-compliance with financial reporting appears to be probable and significant.

These situations may indicate the existence of errors either in the current reporting or in prior years' reporting. The error may also arise either from the erroneous recording of depreciation or from the erroneous reporting of items in the categories of fixed assets (intangible assets and/or financial fixed assets).

4. Findings

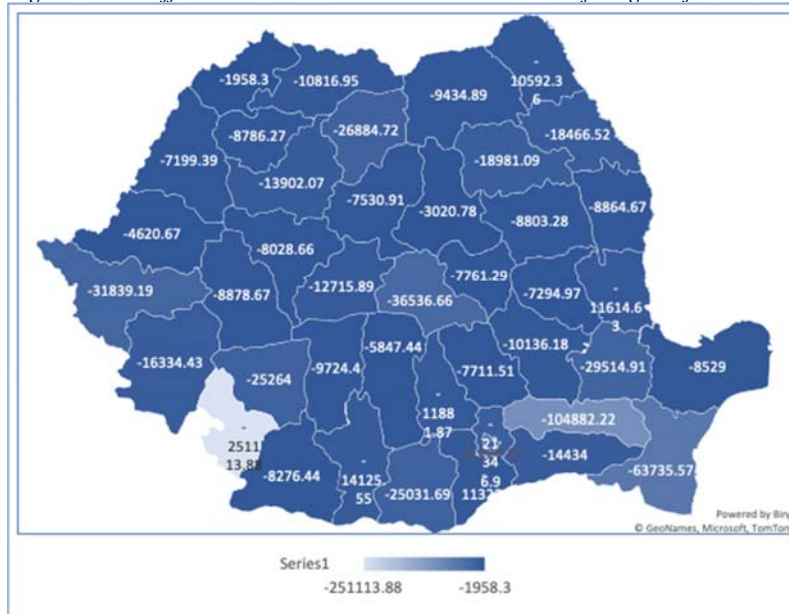
Analysing the data presented in Figure 1, we can observe significant differences between counties in the values of tangible fixed assets and total fixed assets.

The highest level of tangible fixed assets is recorded in Botoşani county, with a value of 4,166,619 lei, followed by Braşov county with 1,155,843 lei and Ilfov county with 1,112,946 lei. These counties stand out for their significant investments in tangible assets, such as buildings, land, equipment, etc.

At the opposite pole, Covasna county records the lowest level of tangible assets, with a value of 80,920 lei.

Similar to tangible fixed assets, Botoşani county ranks first in terms of total fixed assets, with a value of 4,156,027 lei. The next counties are Prahova with 912,324 lei and Ilfov with 1,091,599 lei. At the other end of the spectrum, Covasna county also has the lowest level of total fixed assets, with a value of 73,159 lei. Also, from the analysis of the data, we can deduce that Botoşani county stands out for its high level of investments in tangible fixed assets and total fixed assets, while Covasna county is at the bottom of the ranking in terms of these values.

Figure no. 1 Differences between counties in the values of tangible fixed assets and total fixed assets



Source: Authors' work

Based on these data, there are several possible explanations for these results:

- Economic development: Botoşani County may have more fixed assets due to significant economic development. There may be more companies or public institutions that have invested in long-term assets in this county.
- Industries present: The type of industries present in a county may influence the level of fixed assets. For example, counties with many factories or other types of manufacturing that require expensive equipment and facilities will have more fixed assets than counties with more service-based economies.
- Population and size: Larger counties or counties with a larger population may also have more fixed assets because more infrastructure is needed to serve more people.
- Investment policies: Differences may also be influenced by the investment policies of local organisations or governments. Counties that encourage investment in long-term assets may have higher levels of investment.
- Historical factors: Sometimes differences of this type can be the result of historical factors, such as a legacy of past investments.

It is important to note that these figures reflect the level of fixed assets at a particular point in time and do not provide information on the economic performance or profitability of the respective counties.

Table 1 is the result of a statistical analysis intended to provide an overview of tangible fixed asset values and total fixed assets within the identified taxpayer groups. The "Large" group represents a single taxpayer and the average values for tangible fixed assets and total fixed assets are approximately 64,565,699 and 64,503,260 respectively. It is important to note that this group contains only one taxpayer, so the values represent the result of this single case.

The "Small" group consists of 2,162 taxpayers and the average values for tangible fixed assets and total fixed assets are approximately 747,910.93 lei and 728,412.86 lei respectively. This group represents taxpayers with lower values compared to the "Large" group. These lower values may indicate smaller business sizes or lower investments in fixed assets.

Table no. 1 Average level of tangible fixed assets and fixed assets by large taxpayer group

Taxpayer group		Tangible fixed asset	Total fixed assets
Large	Mean	64565699.00	64503260.00
	N	1	1
Small	Mean	747910.93	728412.86
	N	2162	2162
Middle	Mean	5165239.74	5079934.40
	N	81	81
Total	Mean	935799.26	913906.66
	N	2244	2244

Source: Authors' work

The "Middle" group is composed of 81 taxpayers and the average values for tangible fixed assets and total fixed assets are approximately 5,165,239.74 lei and 5,079,934.40 lei respectively. This group falls between the "Large" and the "Small" group in terms of recorded values. This suggests that taxpayers in this group have a more significant level of investment than those in the "Small" group, but less than those in the "Large" group.

Finally, looking at the whole sample, the average values for tangible fixed assets and total fixed assets are approximately 935,799.26 lei and 913,906.66 lei respectively. This represents the average value for the whole sample of 2,244 taxpayers. The average value for the whole sample reflects the distribution of these values across the whole population of taxpayers. As the majority of taxpayers are in the "Small" group, this may have a significant impact on the overall average.

Possible explanations for these results could be as follows:

- Company size and financial capacity: the "Large" group may include a large corporation or a firm with significant financial capacity, which would allow it to hold a higher value of property, plant and equipment and total fixed assets. Also, the type of business this company conducts may require a significant investment in fixed assets.
- Number of contributors in each group: The large number of taxpayers in the "Small" group may contribute to lower average tangible fixed assets and total fixed assets. If many of these firms are small or medium-sized and have fewer financial resources to invest in fixed assets, this could lead to a lower average value.
- Type of industry or sector: The 'Middle' group may include firms in sectors or industries that require a moderate level of investment in fixed assets. For example, these could be manufacturing firms that need equipment or facilities, but on a smaller scale than a large corporation.
- Investment strategy: Differences between groups can also be influenced by the investment strategies of companies. Some companies may prefer to invest more in fixed assets to increase production or efficiency, while others may prefer to invest less in these assets and more in other areas such as human resources or marketing.

- Higher value of tangible assets compared to the value of total fixed assets: deviations from accounting regulations, errors in the accounting of the value of fixed assets held in the balance sheet (Munteanu I., 2020, pp.978). Each particular case requires its own analysis and appropriate accounting treatment. An exploratory analysis such as the one proposed in this article is not only recommended, but also necessary for the correct balance sheet recording of a company's financial indicators, as well as for the correct basing of managerial decisions on correct financial indicators.

This analysis allows us to get an overview of the distribution of the values of tangible fixed assets and total fixed assets within the different groups of taxpayers. It can be useful in identifying significant trends and differences in the level of investments and fixed assets within these groups.

5. Conclusions

The management of fixed assets is essential to ensure efficient and sustainable use of organisational resources. By properly identifying and recording assets, assessing their value and depreciating them appropriately, implementing a maintenance and upkeep programme, monitoring their use and efficiency, protecting and insuring them appropriately, and planning for replacement and upgrading, organisations can manage assets effectively and ensure a seamless workflow and optimal use of resources. Effective management of these assets contributes to achieving organisational goals, reducing costs and increasing long-term performance.

Exploratory analysis of deviations from the rules plays a key role in asset management and ensuring long-term organisational success. By identifying and assessing these deviations, organisations can identify risks and opportunities, improve operational performance and efficiency, maintain compliance with legal and regulatory requirements and improve organisational culture. Therefore, it is crucial that organizations pay attention to exploratory analysis of deviations from regulations and take appropriate corrective and preventive measures to ensure effective asset management and achieve their strategic objectives (Krambia-Kardis, M., 2002, pp.266).

In the cases analysed in this study, where fixed assets have lower values than tangible assets, there is a significant risk of non-compliance in terms of financial reporting. There is also the possibility of reclassification or correction of fixed assets to other categories of assets, which should be described in detail in the notes to the financial statements. Due to the discrepancies identified in this analysis, the risk of non-compliance with financial reporting rules appears to be both likely and significant.

6. References

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