Strengthening the annual financial statements of the banks

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Abstract:

Strengthening of the annual financial statements of companies that are in some cases explicitly regulated is a legal obligation stemming on the part of international practice and on the other side of prudential requirements and supervision. Specificity and impact on the banking, financial and economic environment, coupled with the trend of banking globalization, requires more than paying special attention to strengthening of the annual financial statements of the banks.

On paper, there are presented a series of issues related to the strengthening of the annual financial statements of the banks which are Romanian legal entities.

1. Regulatory requirements for strengthening the annual financial statements

One of the components of prudence measures adopted by the competent authorities with the regulation and supervision of financial markets at national and European level is mandatory consolidation of accounts.

Romania as a member of the European Union and the harmonized national regulations with the European consolidation of accounts of companies. For the banks have been issued by the appropriate rules by the regulators authority, concerned by National Bank of Romania.

In accordance with national regulations, companies are required to prepare annual consolidated financial statements may make such situations according to the regulations or accounting in accordance with Directive VII of the European Economic Community, under International Financial Reporting Standards.

Operation of consolidation of accounts by banking companies, Romanian legal persons, is mandatory in certain situations expressly covered. Thus in Romania, according to legal regulations, the banks Romanian legal entities, are required to prepare consolidated financial statements and annual reports consolidated administrators unless a joint bank together with one or more entities that are subsidiaries of its form a banking group, the meaning Romanian legislation. This regulatory requirement is mandatory for any banking institution - romanian legal persons, if they are in one of the following situations:

- directly or indirectly owns a majority of voting rights to another entity, which in juridic effect is a subsidiary of it;
- detentions capital as a shareholder or member of his right to appoint or remove a majority of the members of the management or control or majority leaders of other entities;
- has the right to exercise a dominant influence over an entity which is a shareholder or member, under clauses contained in contracts concluded with the entity or of provisions contained in the memorandum of that entity;
- is a shareholder or member of an entity - and controls alone, under an agreement with other shareholders or members, the majority of the voting rights in that subsidiary.
A banking institution that is in a position to hold one or more subsidiaries and the conditions above is called parent.

Must be made to specify that in situations where a subsidiary or other person acting on behalf of a parent, voting rights and the right to appoint or revoke thereof, should be added to those of the parent.

Annual financial statements of a bank, in its parent company and its subsidiaries should be consolidated, regardless of where they are located premises of social branches. From the general principle there can be some exceptions in certain situations expressly covered. Please note that not qualify for the exemption of preparation of the consolidated financial statements, banking companies whose securities are officially listed on a regulated market in Romania or in a Member State of the Union.

2. Designing the consolidated financial statements

Banking companies-Romanian legal entities, which together with its subsidiaries are a banking group, are required to prepare consolidated financial statements in accordance with international accounting standards adopted in accordance with the procedure laid down in Article 6, paragraph 2 of Regulation nr.1606/2002 European Parliament and Council of 19 July 2002 on the application of international accounting standards.

In the process of drawing up consolidated financial statements, it is necessary to take account of legal obligation that rests with the group to present information in accordance with the requirements of international accounting standards and provisions contained in the accounting rules in accordance approved by the National Bank of Romania. It is also necessary that the notes to the consolidated financial statements to provide at least one set is information that can not miss those relating to:

a) nomination entities included in the consolidation of head office and share capital held within them;

b) an indication of entities associated with an entity included in the consolidation, and the fraction of their capital held by entities included in the consolidation or persons acting on their behalf.

c) description of the associated entities included in the consolidation and the conditions under which exercise the common;

d) the holding of up to 20% of the entities included in consolidation with other entities that do not meet the requirements listed above;

e) the average number of employees engaged in financial exercised by entities included in the consolidation, broken down by categories, and personnel costs for the financial year and the average number of employees employed during the financial year by entities that are controlled jointly;

f) the amount of remuneration granted during the financial year members of the administration, management and control of the company - the parent by virtue of their responsibilities in society - parent and consolidated entities

g) the amount of advances and loans granted by the bank, as a parent and consolidated entities, members of the administration, management and control of the company's banking and commitments made by the bodies concerned in these people by way of guarantee of any kind.

Such information has a minimal, but a financial group –Bank- may communicate any relevant information which it deems necessary.
3. The report strengthened the management

Administrators of banks that together with one or more of its subsidiaries form a banking group, shall for each financial year to produce a consolidated report of administrators including at least a fair review of the performance and development activities and position entities included in the consolidation, considered as a whole, together with a description of the main risks and uncertainties that they face.

The revision is a balanced and comprehensive analysis of business development, results and the overall situation of the entities included in the consolidation, considered as a whole, appropriate size and complexity of the work. To the extent that it is necessary to understand the evolution of the business, or the results of the entities, the analysis covers both financial indicators and, where appropriate, key non-financial indicators of performance, relevant to specific activities, including information on environment issues and employees. In the analysis, strengthened the management report contains, if any, references and additional information on the amounts presented in the consolidated financial statements.

The report strengthened the management should also contain, and a range of information about entities enter into the composition of the group on:

- any major events since the end of the year;
- developing predictable entities concerned, considered as a whole;
- activities of those entities considered as a whole, research and development;
- objectives and political entities on financial risk management, including their coverage of each major type of forecasted transactions that is used for hedge accounting;
- exposure to price risk, credit risk, liquidity risk and the risk of cash flow;
- a description of the main features of the systems of internal control and risk management of the group, in connection with the process of preparation of the consolidated financial statements, where the securities of a credit institution are admitted to trading on a regulated market, as it is defined in the legislation in force on the capital market.

Members of the administration, management and supervision of the banking group to prepare consolidated financial statements and consolidated report of the joint administrators have an obligation to ensure that the consolidated financial statements and consolidated report of the administrators are prepared and published in accordance with national legislation.

4. Auditing annual consolidated financial statements

In accordance with the laws referred to above, the annual consolidated financial statements of banking groups must be audited by auditors. Based on the analysis carried out in accordance with the procedures of the audit, auditors have an obligation to express an opinion on the degree of conformity of the report strengthened the management of the annual consolidated financial statements for the financial year.

Conclusions auditors are formalized in a report, which must include at least the following elements: an introduction that identifies at least the annual consolidated subject to audit, together with the financial reporting that has been applied in preparing them; a description of the scope audit, which identifies at least auditing standards under which the audit was conducted, an audit opinion that expresses clearly the auditors that the annual consolidated gives a true and fair view in accordance with the relevant financial reporting and, after case, if the annual consolidated comply with legal requirements. Audit opinion can
be unqualified, with reservations, a contrary opinion, or if auditors were not able to express an audit opinion, expression of views impossible.

Also in the report there should be an explicit reference to any matters on which the auditors draw attention by a separate paragraph, without the audit to be reserves, and the auditor's opinion on the line.

5. Availability annual consolidated financial statements

As the financial company's annual banking as a parent, and the annual consolidated financial statements at group level, accompanied by the administrators for the financial year in question and the auditors, should be subject to the approval of a general meeting of shareholders or members, according to the laws in force. After approval, the banks have the legal obligation to submit to the National Bank of Romania and the direction of the territorial Ministry of Economy and Public Finance at which the credit institution is registered, a copy of the annual financial statements of the credit institution with a copy of the report administrators for the financial year, and the auditors' report on the annual financial statements.

After approval, the annual report of a company bank becomes available to all members or shareholders, for consultation at its head office. Annual reports may also be distributed free to shareholders or members.

Government corporate rules and legal regulations require that annual financial statements, duly approved, and administrators report, together with auditors report to be published. The publication can be achieved in whole or in a form.

It should be pointed out that when the annual financial statements shall not be published in full, it is necessary to specify that the published version is an abbreviated form and to refer to the Trade Register which were submitted annual financial statements in question.

It noted that the audit report financial not be published, but it is imperative that the published documents to be made to specify whether it was an opinion expressed unqualified audit, with reservations or not, or if auditors were not able to express an audit opinion. It is also necessary to mention that the audit report referred to issues on which the auditors draw attention by a separate paragraph, without the audit to be reserves. With the publication of the annual financial statements must be published and proposed distribution of profits or hedge accounting loss.

Companies are banking on the possibility that the next annual financial statements prepared in national currency, to publish these situations and in Euro, converted by using the exchange rate in effect at the balance sheet date.

All issues listed on the annual financial statements prepared by a banking company are applicable and approved consolidated financial statements, strengthened the management report and the report prepared by the person responsible for auditing the consolidated financial statements.

In cases where the banks that have branches in member countries of the European Union and reinforces the annual financial statements in accordance with Romanian accounting rules are required to publish annual financial statements and the consolidated financial statements prepared in each Member State of the Union in which those institutions have branches.
6. Conclusions

The consolidation of the annual financial statements of the banks is a very important operation to be prepared and carried out with consummate professionalism by a large number of internal and external stakeholders.

Compliance with the sequence of steps and presented their requirements on which it insisted during the work are likely to ensure quality, consistency and compliance throughout the process of consolidation of the annual financial statements of the banks.

How to achieve publication of information must respond on the one hand, regulatory requirements, and on the other hand the financial communication needs of each company in the banking side.

Bibliography: