

Study Regarding the Evolution of Audited Entities in Romania

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Abstract

Despite the fact that the entrances of foreign direct investments in Romania have recorded increases during the last years of the 2005-2011 time-span, the overall level of the foreign investments of 2011 is by 65,18% under the foreign investments attracted in 2005, at national level. The research study aims at monitoring the evolution of the audited entities that have carried out activity within the North-West region of Romania (in the County of Cluj) from an extended, general perspective and from a narrow, particular one, too, with the purpose of appreciating the alignment of the evolution of the audited entities to the development trend of foreign investments at national level. The study is an exhaustive one, built based on pieces of information available at local level: all of the audited entities from this geographic area (Cluj County) during the 2005-2012 time-span, respectively a number of 304 entities.

Based on data concerning possible changes in the capital structure and/or activity, the total value of share capital, the foreign participation in the share capital and/or foreign management and the field of activity of each entity, we have proceeded to analyze their correlation.

Keywords: Financial audit, Corporate governance, Share capital structure, Audited entity, Restructuring operation

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1. Introduction and research methodology

The research is based on entities which in the 2005-2012 time-span were subject to external audit (according to the Minister of Public Finance Order no. 3055/2009, published in the Official Bulletin no. 766/2009). From this point of view were considered a total of 304 entities for which there were selected data regarding their name, fiscal code, type of ownership, the current state of each entity, any change in the capital structure and/or activity (merger, dissolution following merger, absorption for the absorbed entity, liquidation, insolvency, temporary suspending of activity), the date on which these events occurred the total value of the share capital, the subscribed and paid share capital structure depending to the currency in which the contribution was made (lei or foreign currency), the number and nominal value of the shares or social parts related to share capital whether there is or not foreign participation in the share capital and/or foreign management, the field of activity of each entity. For efficient management of any organization, managers should be provided an adequate information system, which gives the relevant information to facilitate decision making (Briciu, Căpușneanu, Topor, 2012). We proceeded to analyze and interpret the collected data, trying to determine their extent and how they have evolved over the years.

2. Data analysis

The selected audited entities were classified in order to conduct the study into seven categories (Table No 1):

- a. entities that at the time of the study (September 2012) operate in conditions of continuity;
- b. entities that are under the law concerning the insolvency procedure (Law 85/2006, published in Official Bulletin no. 359/21/04/2006, modified and supplemented);
- c. entities under liquidation during this time-span;
- d. entities deleted from the records of the National Trade Register Office after dissolution operations followed by liquidation (D-DFL);
- e. entities deleted from the records of the National Trade Register Office after dissolution operations without liquidation, being absorbed following the merger-absorption operation (D-DWL-M);
- f. entities deleted from the records of the National Trade Register Office following a change of registered office and fiscal in other district (D-COD);
- g. entities that at the time of the study are in a 3-year time-span of temporary suspending of their activity, according to the Accounting Law no. 31/1990, republished in the Official Bulletin no. 454/18.06.2008 and updated.

The most part of the audited entities (201 in 304 entities that were subject of the study) at the time of the study, are in working order (business continuity), and others (103 entities) registered or are register change operations in the activity and/or share capital structure. On the other hand in the case of 201 entities that operate, one may mention that two of them have recorded partial division operations, one has carried a merger operation, absorption as absorbent, and three audited entities have transferred their registered and fiscal office away from Cluj County.

Entities which operate under conditions of continuity register a share of 66% in the analyzed time-span, while a percentage of 34% of entities register changes in their activity and/or social capital structure as follows: 17% were deleted due to an absorption resulted from the merger process-absorption, 6% were deleted from the dissolution followed by liquidation, 1% of the entities undergo a liquidation process, 4% are in insolvency, 4% have registered and fiscal office changes in other counties and 2% have suspended their business activities for 3 years (Chart No 1)

The total amount of the share capital of the entities audited throughout this time-span was of 21.733.079.964 lei (4.877.262.110 euro), the larger majority of the share capital value returned to entities which have transferred their registered and fiscal office in other counties, namely 16.621.312.236 lei (3.730.079.000 euro) (Table No 2)

Within the value of share capital of the entities that operate, the entities that have conducted partial division operations hold a share capital of 882.687 lei (198.098 euro) those who have conducted the absorption merger operations register values of 71.180.400 lei (15.974.057 euro), and those who have transferred the registered and fiscal office in Cluj County register subscribed and paid share capital values of 58.914.923 lei (13.221.482 euro).

As it results from the Chartno 2, if we appreciate the market developments of the audit contracts according to weight of the value of the share capital of entities, which are subject to audit, the situation changes dramatically compared to the previous aspects.

Thus, in the analyzed time-span, the share capital value of the entities which have transferred their registered and fiscal office from Cluj County (77%) is much higher than that of carrying out their activities in this area (23%). The share of the social capital of the audited entities which have registered changes in their activity and/or capital structure is insignificant in this situation. According to study's results the most part of the transfer of value of the share capital of the entities was achieved in 2005 (about 90%), and since 2006 until 2011 the percentage of the entities' the capital which have transferred their registered and fiscal office decreased significantly (a percentage of only 10% of the social capital in the total of the entities transferred from the records of the National Trade Registry Office Cluj).

From the results of the analysis it appears that a significant number of the entities organized as limited liability companies ask for audit works, their share in relation to joint stock companies is revealed by the Table No 3.

Relatively speaking, we appreciate the share of the entities that are organized as a limited liability companies is significant (Chart No 3).

The entities that are organized as limited liability companies were subject to 10% of the total contracts of external audit carried out during 2005-2011 in ClujCounty, while 90% of the entities were organized as joint stock companies.

Also, from the total of the audited entities which registered changes in the activity and/or share capital structure, 20% are organized as limited liability companies and 80% as joint stock companies. Although, both as absolute numbers and as a percentage in the total entities which registered changes, joint stock companies have a higher share, it cannot be said the same if we report the number of entities with changes in activity and structure of each category in the total number of entities in each category. Thus, it appears that limited liability companies are more prone to the kind of operations mentioned above (a rate of 65% of the limited liability companies registering changes for a share of 37% of social capital for this category of entities) while only 30% of the joint stock companies have encountered this kind of situation.

Therefore, we can say that limited liability companies which are subject to external financial audit are much less stable than the joint stock companies when it comes to changes in activity and capital structure.

We appreciate particularly relevant the study results about the temporal distribution over the last seven years in the number of entities which registered changes in their activity and capital structure (Table No 4).

For the time-span under review the last 8 financial years in regard to the entities which were subject to external audit at the level of ClujCounty, is relevant the slightly upward trend of the number of activity suspending operations, of liquidation, dissolution following the merger absorption, deleting due to dissolution followed by liquidation or transfer of the registered office and fiscal in jurisdiction of other counties (Chart No 4). Relevant is also the distribution over time of the changes in these entities from the perspective of the share capital value. If we relate to the share capital value of the entities audited, we can see that the aspect is slightly different compared to the time evolution of the number of these entities (Table No 5).

The descending trend for the financial years 2005 and 2006 is due to the transfer by audited entities of registered office outside Cluj County, following that during the next 6 financial years, the restructuring operations maintain themselves to a much lower level of share capital, but still on a growing trend (Chart No 5). From this perspective we can conclude that there is an overlap regarding the number and the value of share capital during the financial years 2006-2012 on the one hand and the period of financial and economic crisis on the other hand. Therefore, we can say that the economic and financial difficulties specific to this time-span had repercussions also for the audit market, to limit the latter due to processes of liquidation, merger, transfer of registered offices, temporary suspension of activity and last but not least, insolvency.

As it results from the Chart No 6, the proportions in which each of these operations affects the financial audit activity at the level of Cluj County are different:

It is obvious that the largest share have the deleting operations of the entity absorbed following the mergers absorption operations (52%), followed by deleting operations of audited entities after liquidation, by the transfer of registered offices in other counties (13%) and it seems that a significant number of restructuring operations aims the insolvency of audited entities (12%). Therefore, if we approach the situation in a comprehensive way it appears that:

- only 20% of the operations of this kind have as a consequence the permanent reduction of the number of audited entities (the ones radiated and liquidated or those that are in liquidation);
- a percentage of 15% of the entities that have registered changes are at least temporarily maintained outside the area of auditing services;
- the majority of operations, meaning a percentage of 65% (such as the entities that have transferred their registered office to other counties or those that have been deleted because they have been subject of absorption following the merger) have as indirect effect, the increased indicators at national level of the audited entities: profit, turnover and number of employees. Therefore indirectly, it cannot be considered a negative influence.

Audit activities are directly dependent on the economy is evolution in general, which in turn is significantly supported by the level of foreign investment capital (Boța-Avram, 2012). The study conducted approached the relationship between the audit scope, on the one hand and the level of investment and foreign management on the other hand (Table No 6).

The analysis of the information shows that out of a total of the 304 audited entities at the level of Cluj County over this time-span, 54 registered foreign participation and 87 of them have foreign management. Interesting is that the number of entities with foreign management is superior to that of with foreign capital, so it seems that a significant number of local investors prefer foreign managers.

There is no doubt that the foreign investment in the audited entities is significant. Relevant in this regard is that foreigners have financed 18% of number of the audited entities in Cluj County. On the other hand the value share of the investment, meaning the percentage of the participation in the share capital of the entities is lower, reaching the level of 10% (Chart No 7). Therefore it can be concluded that foreign investors prefer to diversify their investments, at least at the level of the firms covered by the study. In other words, they prefer to invest to a greater extent in different entities and to participate in the share capital of these entities to a lesser extent.

This principle is maintained also at the management level: foreign management is achieved in 29% of the total number of the audited entities, while it covers only 20% of the share capital of these

entities (Chart No 8). If we correlate the two aspects related to foreign investments and foreign management to obtain some conclusions about the audited entities appears the following aspects: Number of entities in which there are foreign associates is lower than where there are foreign managers. The level of the share capital of the entities managed by foreign managers is double compared to the level of share capital invested by them.

3. Conclusions

The entities which operate under continuity conditions register a share of 66% in the analyzed period, while a rate of 34% of the entities register changes in activity and/or share capital structure. Of the total of the audited entities which have registered changes in their activity and/or share capital structure, 20% are organized as limited liability companies and 80% as joint stock companies. Therefore it can be said that the limited liability companies which are subject to external financial audit are much less stable than the joint stock companies when it comes to changes in activity and capital structure. For the period of time under review the last 8 financial years in regard to the entities audited external to the Cluj County level, is relevant the slightly upward trend of the number of operations of suspending, liquidation, dissolution following the merger absorption, deleting due to dissolution followed by liquidation or the transfer of the registered office and fiscal in jurisdiction of other counties. Regarding the level of foreign investments in the audited entities, this is significant. Foreigners have funded 18% of the audited entities in Cluj County. Therefore it can be concluded that foreign investors prefer to diversify their investments, at least at the level of coverage of study. In other words, they prefer to invest to a greater extent in different entities and to participate in the share capital of these entities to a lesser extent. Nistor (2010) talks about the foreign investment influence in companies and although in a different study it is interesting to notice that he notices a clear relationship between foreign investors and practices related to corporate governance, just as we had.

If we correlate the two aspects related to foreign investments and foreign management to obtain some conclusions about the audited entities it can be observed that the number of entities in which there are foreign associates is lower than where there are foreign managers and the level of share capital of entities managed by foreign managers is double compared to the level of the share capital invested by them.

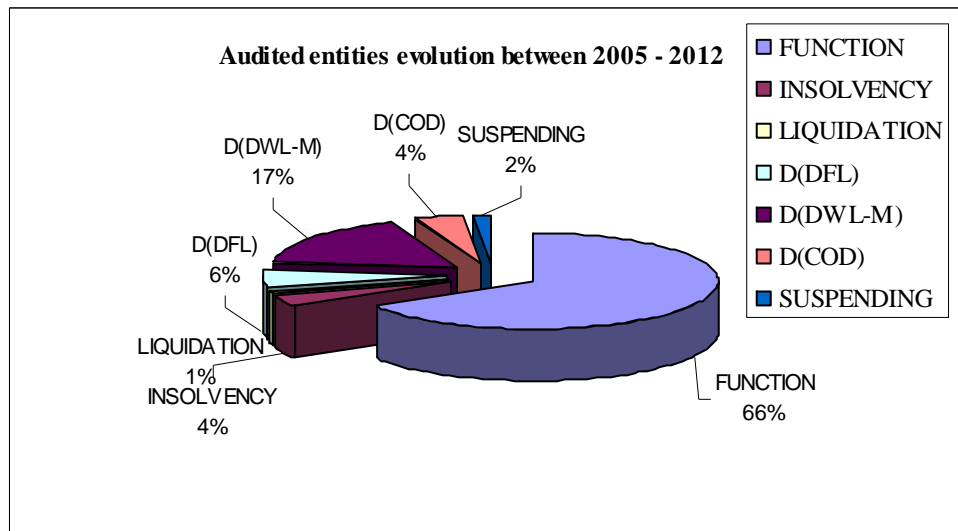
4. Tables and Charts

Table No 1:
Structure of the number of the audited entities in the County of Cluj during the 2005-2011time-span

Explanations	Function	Insolvency	Liquidation	D(DFL)	D(DWL-M)	D(COD)	Suspending	TOTAL
Number of audited entities during the period 2005-2011, which recorded changes in the capital structure and/or activity	201	12	3	17	53	13	5	304

Source: Statistical data processed by the authors

ChartNo 1:
The share of the audited entities in the County of Cluj in the 2005-2011time-span, according to their number



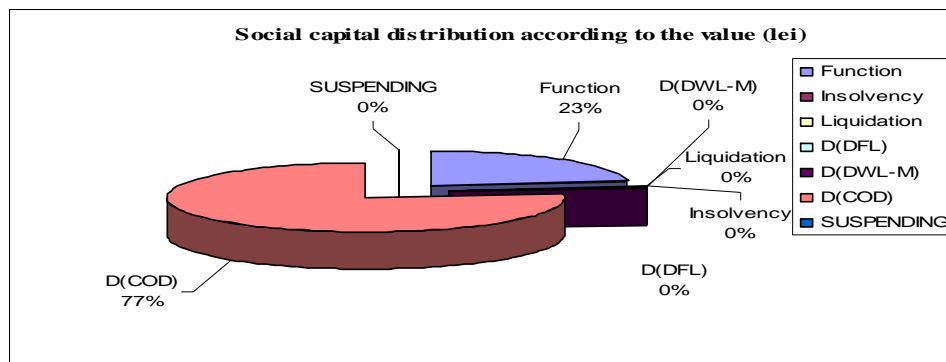
Source: Statistical data processed by the authors

Table No 2:
The share capital structure of the entities audited in Cluj County during the 2005-2011 time-span

Explanations	Function	Insolvency	Liquidation	D(DFL)	D(DWL-M)	D(COD)	Suspending
The level of the subscribed and paid capital for the audited entities during 2005-2011 -euro-	1.104.821.557	11.038.304	10.777.419	1.273.167	19.123.711	13.730.097.001	130.951

Source: Statistical data processed by the authors

ChartNo 2:
The structure of the share capital of the entities audited in Cluj County during 2005-2011 according to the changes in their activity and/or capital structure.



Source: Statistical data processed by the authors

Table No 3:

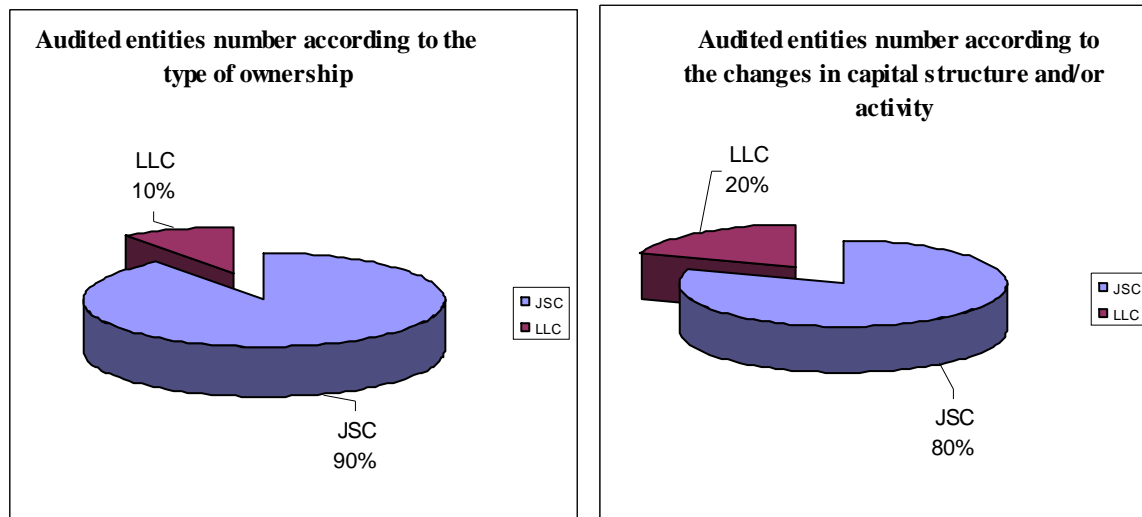
Distribution of the audited entities during 2005-2011 according to the type of ownership

Type of ownership	Number of entities	Level of share capital (Euro)	Number of entities which registered changes in their activity and/or capital structure
JSC	273	4.869.971.650	82
LLC	31	7.290.460	20
TOTAL	304	4.877.262.110	102

Source: Statistical data processed by the authors

Chart No 3:

Distribution of the audited entities by type of ownership



Source: Statistical data processed by the authors

Table No 4:

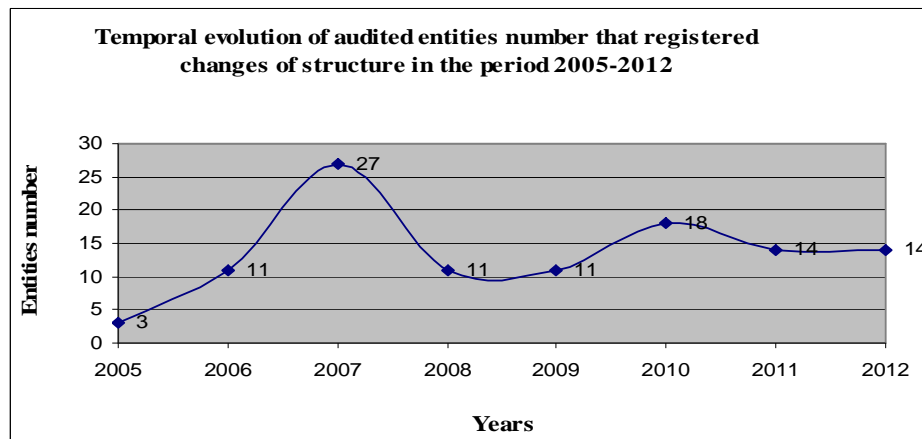
Distribution of the number of the audited entities which recorded changes in their activity structure and/or capital

Financial year	2005	2006	2007	2008	2009	2010	2011	2012
Number of audited entities which registered changes in the 2005-2012 time-span	3	11	27	11	11	18	14	14

Source: Statistical data processed by the authors

Chart No 4:

Distribution of the number of the audited entities that registered changes in their activity structure and/or capital



Source: Statistical data processed by the authors

Table No 5:

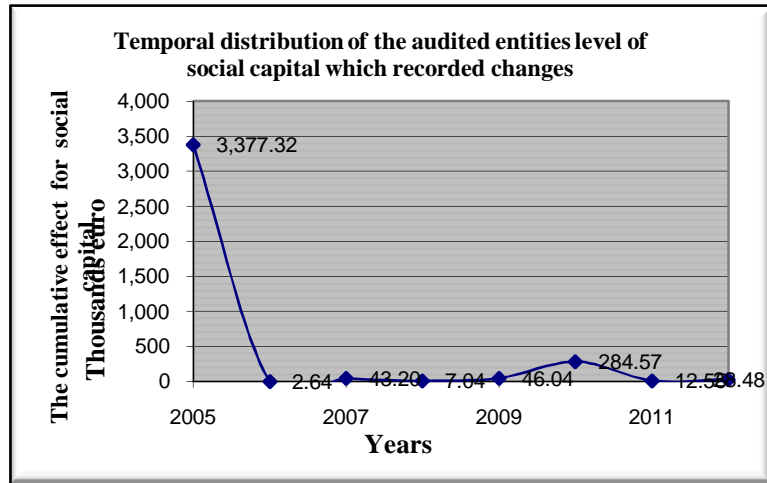
Temporal distribution according to the share capital of the audited entities which registered changes in activity structure and / or share capital

Financial year	2005	2006	2007	2008	2009	2010	2011	2012
The level of the subscribed and paid capital -thousand euro-	3.377.315	2.642	43.145	7.042	46.038	284.573	12.549	28.479

Source: Statistical data processed by the authors

Chart No 5:

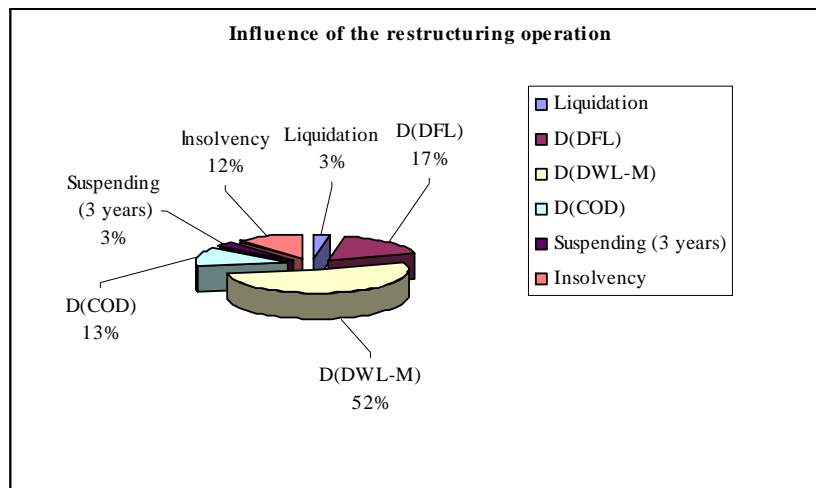
Temporal distribution depending on the share capital



Source: Statistical data processed by the authors

Chart No 6:

The share of each operation in the total of the recorded changes of activity or capital structure



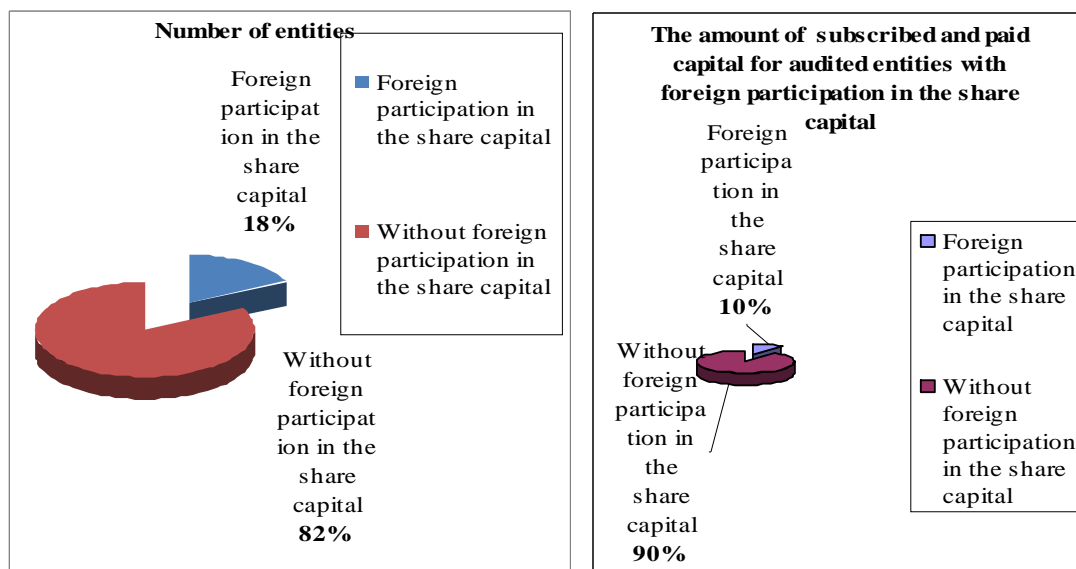
Source: Statistical data processed by the authors

Table No 6:
The level of foreign investments of the entities audited in Cluj County during the 2005-2011 time-span

Correlation between shareholders/ associates and management	Foreign participation in the share capital	Without foreign participation in the share capital	Foreign management	Local management
Number of entities	54	250	87	217
Amount of subscribed share capital of audited entities with foreign participation in share capital -euro-	485.691.034	4.391.571.077	954.842.708	3.922.419.402

Source: Statistical data processed by the authors

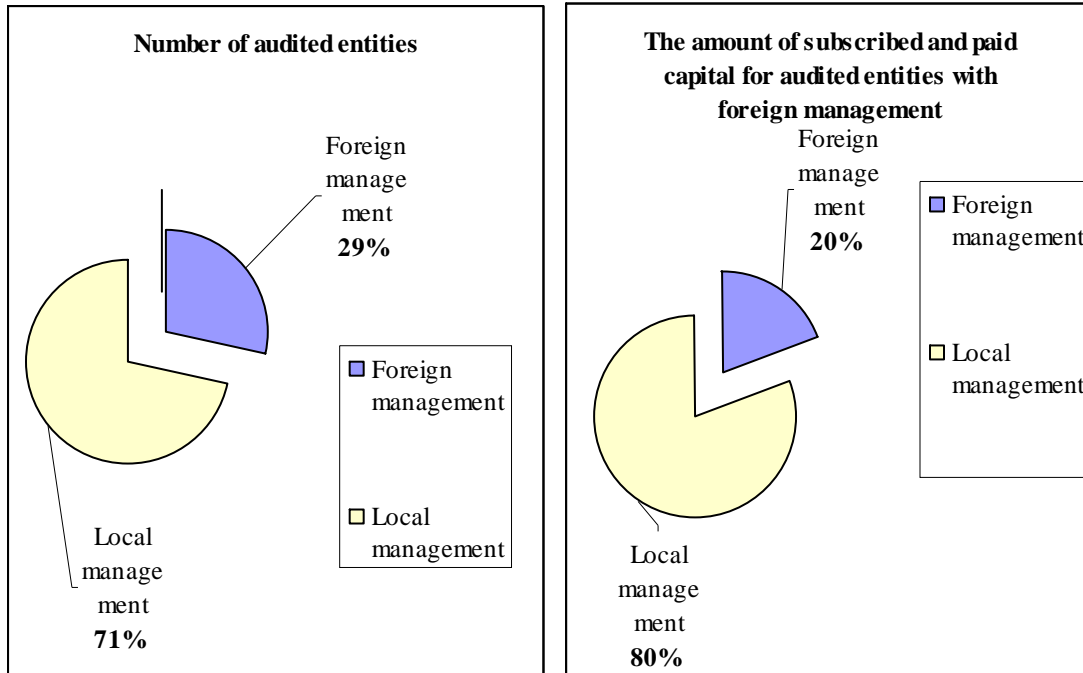
Chart No 7:
Structure of number and share capital level within the entities audited at the level of Cluj County during the 2005-2011 time-span



Source: Statistical data processed by the authors

Chart No 8:

Evolution of foreign management from the perspective of number and level of share capital within the entities audited in Cluj County during the 2005-2011 time-span



Source: Statistical data processed by the authors

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