



Raising the Awareness on the Benefits of Good Financial Reporting

The Enhancing Quality of Financial Reporting
Project (EQ-FINREP) - Albania

Preparer's survey

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Introduction

The World Bank Group has initiated the strengthening of financial reporting through "The Road to Europe Program of Accounting Reform and Institutional Strengthening (REPARIS)" program. This program aims to create a transparent policy environment and effective institutional framework for corporate reporting within eight countries located in south central and South-East Europe. This initiative is supported by the generous contribution of State Secretariat for Economic Affairs (SECO), Swiss Confederation.

The regional activities of this program are focused on creating awareness as well as a reform-enabling environment while the country focused activities aim to support implementation of those reforms in each participating country. Albania is an active participant in this program that is going to contribute to foreign direct investment, foster private and financial sector developments, improve the business environment, and facilitate potential integration into (or harmonization with) the European Union.

In relation to the reform for strengthening the financial reporting in Albania, the Ministry of Finance and Economy engaged Deloitte Albania Sh.p.k and Deloitte Poland ("Deloitte") together with New Media Communications ("New Media") with the purpose to conduct an empirical research in order to assess the quality of financial reporting by using approved survey instruments. The findings of the survey will be disseminated through various media, social network channels and an event with the participation of the most active preparers and users of financial reporting.

After an in-depth assessment of the current situation and the Public Awareness Strategy, Deloitte conducted a survey to target financial statements preparers' such as employed accountants and preparers that operate in the professional practice. The aim of this survey was to understand what preparers consider while compiling financial statements and reports, what are their perceptions about quality

and accuracy of financial statements and audit reports, as well as their recommendations for improvements.

Executive summary

Deloitte analyzed the needs of a wide range of financial reporting preparers with special focus on public interest entities, including also large corporations and SMEs operating in Albania.

In order for this questionnaire to be as comprehensive as possible, the target groups selected for this survey were employed accountants from different private economic sectors, public institutions, individual financial and accounting consultants as well as preparers that operate in the professional practice.

The survey for preparers of financial reporting contains 30 questions. All the questions are designed with multiple-choice answers and they require an average time of 15-20 minutes to complete. The survey was disseminated electronically through survey monkey and marketed in social media. Responses are analyzed as described in the sections below.

All preparers responded to our request for completing the survey and provided their recommendations with regard to improvement in the quality of financial reporting in Albania.

Respondents were asked about their role in relation to financial statements, economic sectors they operate, as well as enterprises and clients they represent. It is worth considering that most of them hold interest in financial and insurance industry, retail, software and technology, consumer service and transportation. They were also asked about the stakeholders they consider while preparing financial statements as well as the frequency they report to them, types of models of financial statements they use, standards they apply, staff engaged, IT applications used for accounting purposes, issues or problems they face with financial statements and what is needed to improve financial reporting in Albania.

The results of the survey indicate there is a substantial improvement on the financial reporting situation in Albania during the last five years, however additional improvements focused on the quality of financial reporting are expected. Preparers know the benefits of good financial reporting and are open to accept the challenges and the benefits it brings.



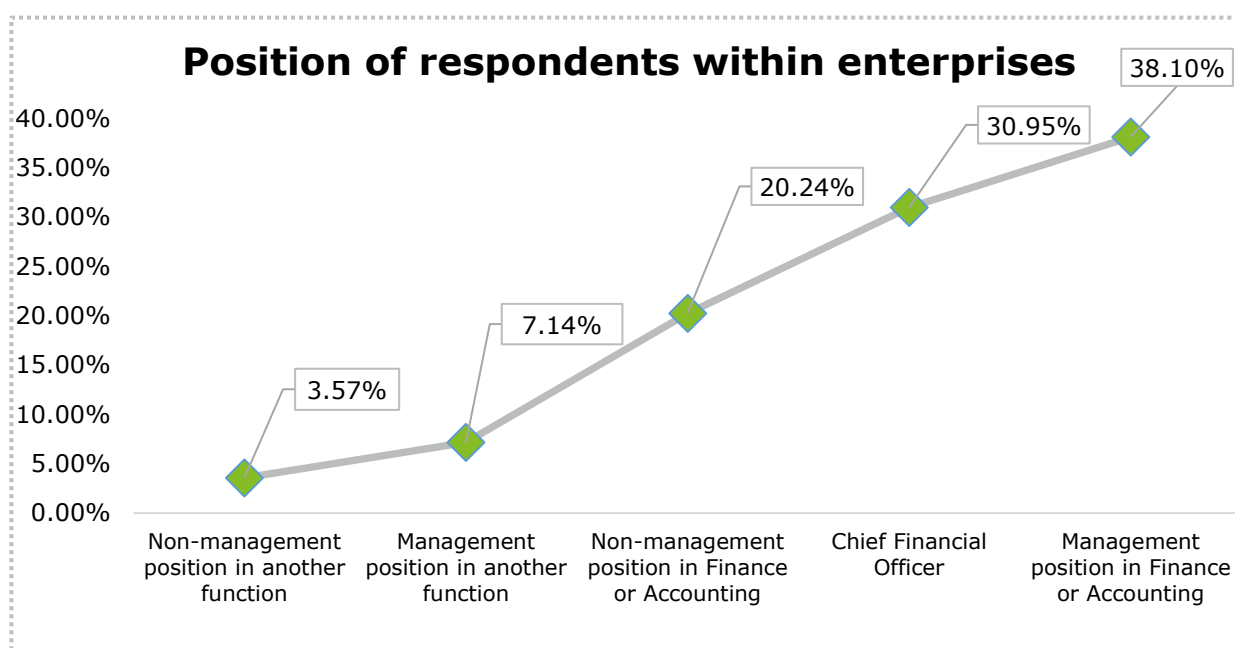
Survey participants

A considerable number of preparers responded to our request for completing the survey. This survey included similar questions for employed accountants and preparers that operate in professional practices and also different questions depending on the characteristics of each respondent.

1. Employed Accountants

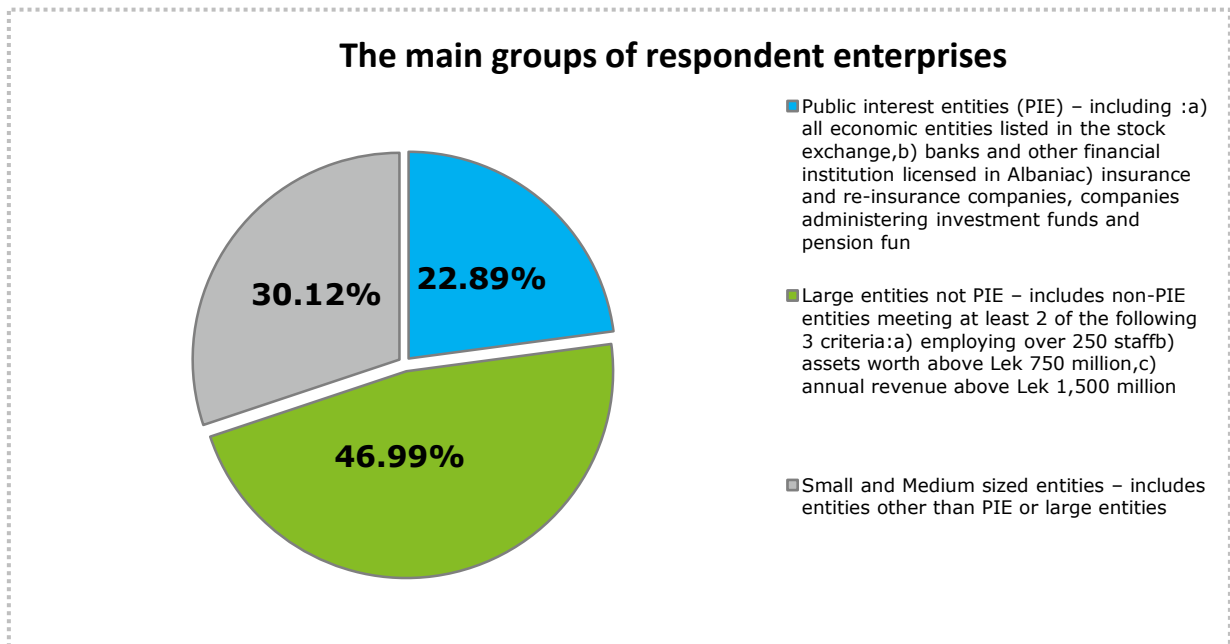
1. Indicate your position within the enterprise

Chief Financial Officers (31%) and management level in the finance or accounting departments (38%) are the main respondents of this survey. Even though it does not have a specific target group of preparers of financial statements, the majority of the respondents of this survey come from the management level, which is also the primary controller and reviewer of financial reporting in every enterprise. Management has a significant impact in how the other enterprise functions best, usage of laws, standards, technology, methodology, etc. to limit any errors in performance and aiming for a higher quality of financial reporting within the enterprise and beyond. The positions held within the enterprise for the rest of respondents are shown in graph no. 1.



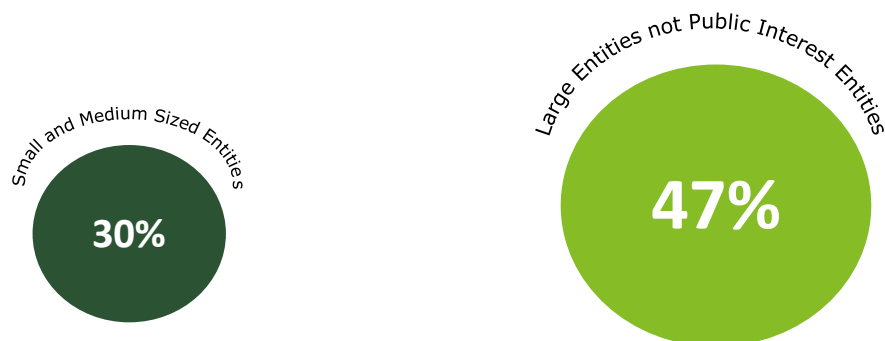
Graph 1: Position of respondents within enterprises

2. Indicate in which of the following groups the enterprise you represent is classified.



Graph 2: The main groups of respondent enterprises

Based on the results of the questionnaire, 47% of respondents represent employees of enterprises classified as large entities not Public Interest Entities¹ (PIE), followed by small and medium sized entities 30%, and PIEs² 23%. This reflects the scenario of the Albanian enterprises in which the majority of them are small and medium sized entities with an increased trend in large entities not PIE.



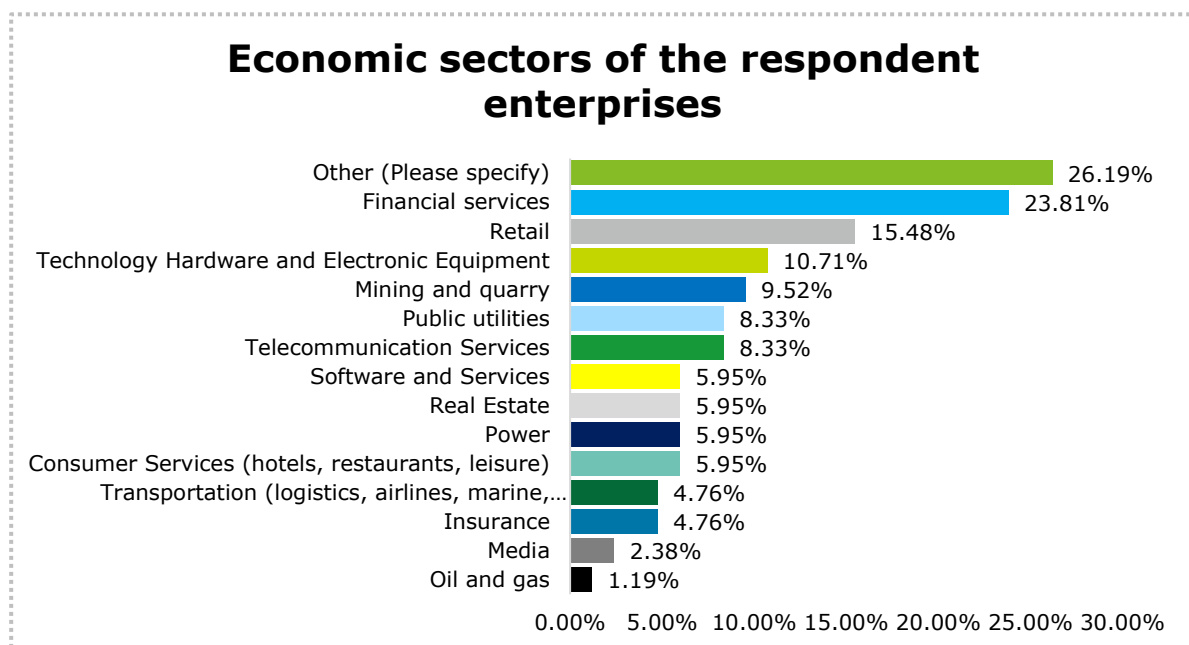
¹ Large entities not PIE includes non-PIE entities meeting at least 2 of the following 3 criteria: employing over 250 staff, assets worth above Lek 750 million, annual revenue above Lek 1,500 million.

² The entities are categorized in three groups: public interest entities (PIE), large entities not PIE and small and medium sized entities. Public Interest Entities (PIE) include all the following entities: all economic entities listed in the stock exchange, banks and other financial institution licensed in Albania, insurance and re-insurance enterprises, enterprises administering investment funds and pension funds, and other private and public entities which due to their size and impact are considered as PIE through Decision of the Council of Ministers (DCM).

3. Indicate in which economic sectors the enterprise you represent operates.

The main economic sectors taken into consideration are based on the categorization used to measure the country's GDP³: (i) financial and insurance sector, (ii) consumer and retail sector, (iii) the extractive sector (oil and gas, power energy and mining and quarry), (iv) information and communication sector (media, software and services, technology hardware and electronic equipment and telecommunication services), (v) real estate sector, (vi) transportation and public utilities.

According to this division, graph no. 3 shows that the majority of the respondents (24%) are prepares of financial statements directly related to financial reporting of enterprises that operate in the financial sector.



Graph 3: Economic sectors of the respondent enterprises

Retail is another economic sector from which 15.5% of our respondents are from. This is also in line with the recent data from INSTAT, which indicate that the retail contribution to the real GDP growth rate has been relatively high during the last few years.

Another sector in the development phase is the information and communication sector (27%), as new technologies are evolving in this sector. New technologies require large investments. These investments are also made by considering a thorough evaluation of the financial statements of the enterprise.

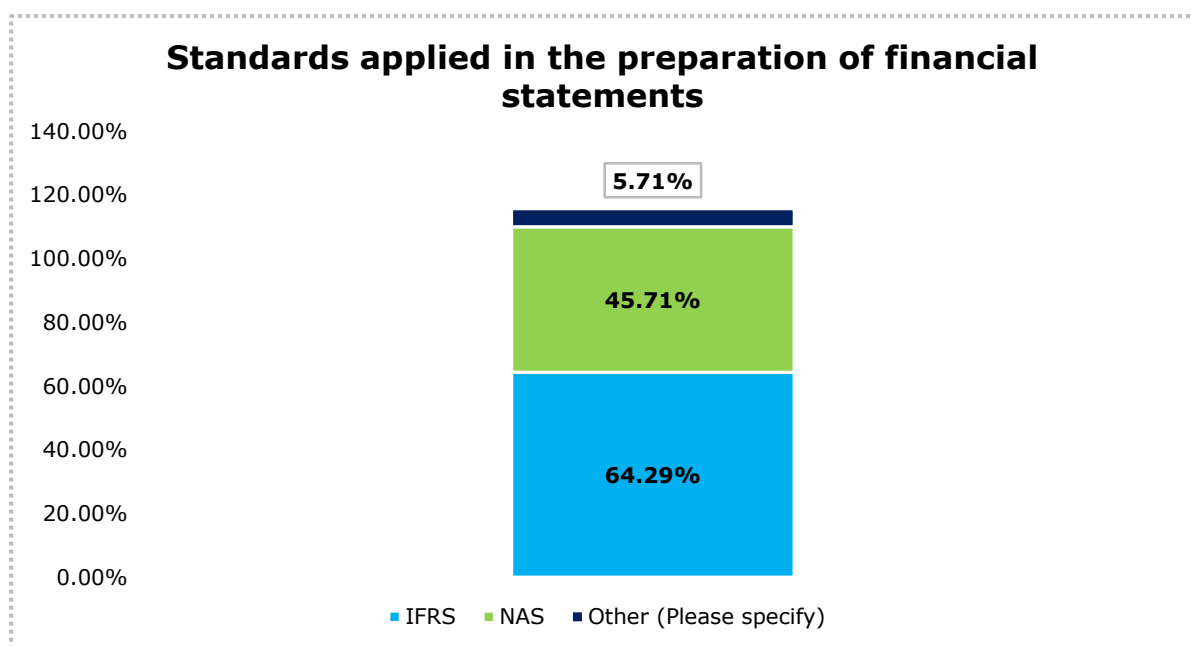
Some of the respondents are involved in more than one economic sector, which indicates that financial reporting is being standardized throughout economic sectors and highlights the importance of financial reporting in the sectorial economic growth of the national economy.

³ Source: www.instat.gov.al

4. What are the standards applied by the enterprise you represent in the preparation of financial statements?

In this question, respondents, based on the accounting standards used by the enterprise they work for, have the option to choose more than one category of accounting standards.

As shown in graph no. 4, 64% of respondents operating in the economic sectors, use International Financial Reporting Standards (IFRS),⁴ and 46% use National Accounting Standards (NAS).⁵ Moreover, a significant percentage of respondents use both IFRS and NAS depending on the sector in which they operate and accountancy policies indicated by the current accounting legislation.



Graph 4: Standards applied in the preparation of financial statements

Economic developments represent the need for a global market, business communication, unification of information, transparency and credibility of financial reporting and communication with business. This global market requires standardized financial reporting, as a way to provide the unique information expressed in the business language. Since Albania is a developing country, many international investors have seen a profitable opportunity to open businesses in the country. These international investors have brought up the use of their standards rather than the national ones, to help standardize financial reporting. IFRS is one of these standards, which they see as a necessity in order to successfully report to parent enterprises abroad. IFRS provides a common global standard that makes financial statements understandable and comparable across all the countries they operate.

⁴ International Financial Reporting Standards (IFRS) are a set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements.

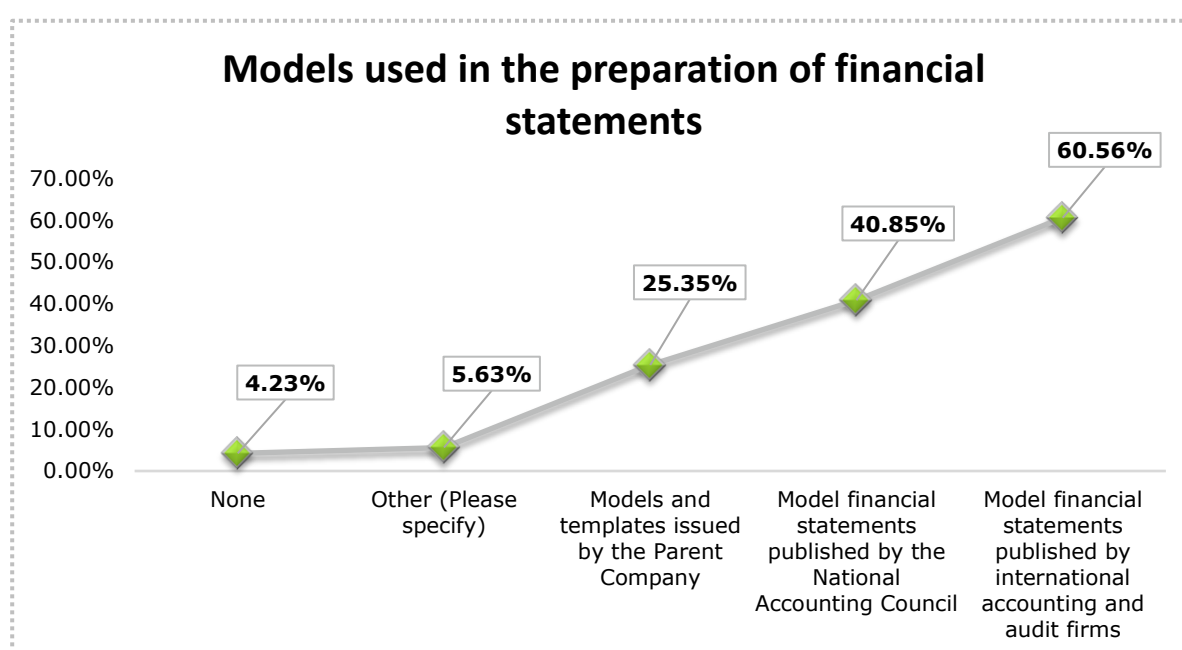
⁵ National Accounting Standards (NAS) are accounting standards compiled by the National Accounting Council, which are applicable only for enterprises that operate and report in Albania.

5. Indicate if you use the following models in the preparation of financial statements.

When drafting financial statements preparers follow different models that are well defined depending on the standards they use.

With reference of the above question related to accounting standards applied by preparers of financial statements in Albania, 61% of the respondents use the model of financial statements model in accordance with IFRS.

In relation to ailing table notes and information, 41% of preparers use financial statement models published by the National Accounting Council. Moreover, 25% of them use models and templates issued by the parent enterprise that have made large international investments in the country.



Graph 5: Models used in the preparation of financial statements

6. Indicate the IT application that the enterprise you represent uses for accounting purposes.

Preparers use many applications and tools to draft financial statements for accounting purposes such as the accounting ledger, efficient cash management, inventory, customers, treasury, loans, production, human resources, financial planning and budgeting, etc. Other computer programs such as Microsoft excel (52%), also facilitate the process of preparing financial statements by extracting various reports, presenting figures to stakeholders, introducing processes and operations, etc.

Referring to our question, most of preparers of financial statements use Accounting and General Ledger (86%). Accounting and General Ledger is very necessary for the preparation of financial statements because it provides a complete record of financial transactions over the lifespan of an enterprise as it holds accounts for

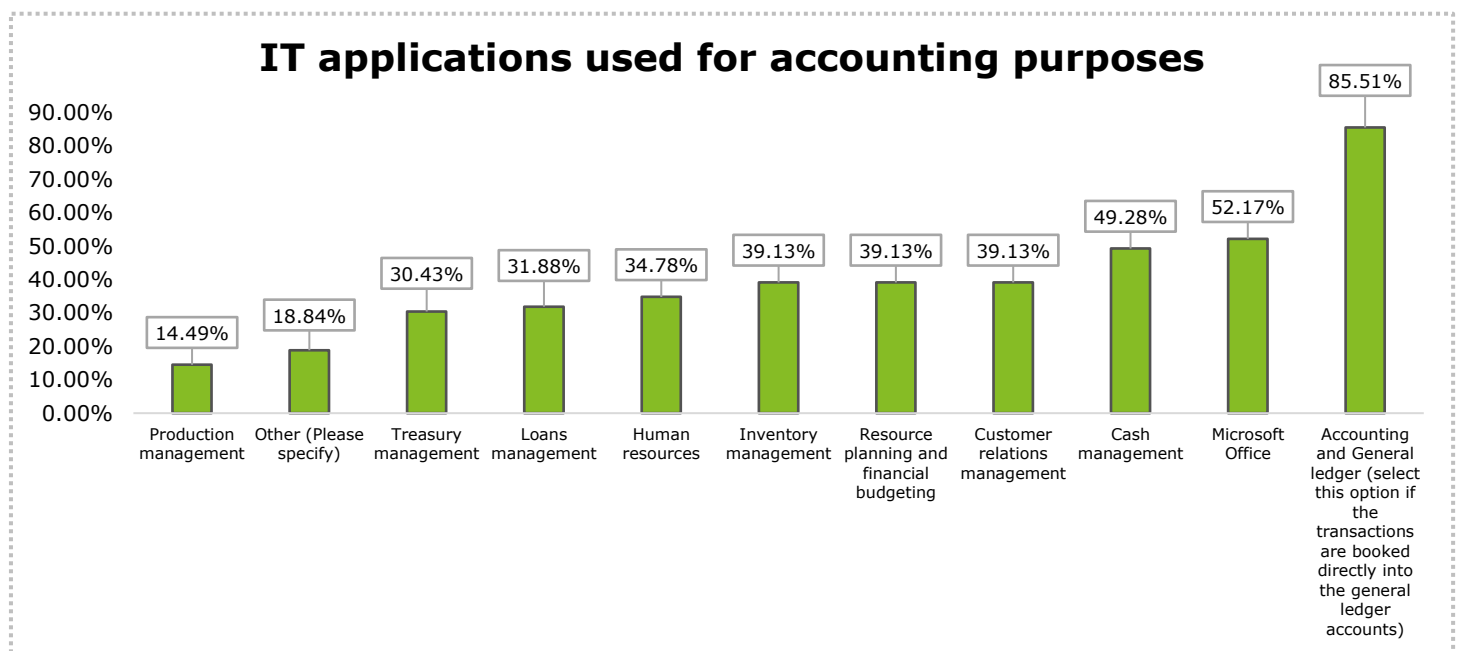
assets, liabilities, owners' equity, revenues and expenses, which are extremely important while considering important financial and non-financial decisions.

Cash is a key element to have more control over enterprise's activities and to avoid difficulties in performing daily activities such as paying suppliers, purchasing raw materials, making investments, paying dividends, etc. 48% of the survey respondents use cash management applications to understand and document the process of collecting, maintaining, using and investing cash. Cash management is of high importance in the financial sector and industry.

A significant percentage of the respondents (39%) consider inventory management during their financial reporting.

Inventory management application is an IT application that many preparers use for the purpose of ordering, storing and using an enterprise's inventory such as raw materials, components and finished products. This is in line with the effective cash management of receivable accounts and payable accounts.

Based on the answers given in question no. 6, there exists a relation between retail and inventory management. In order to meet customer requirements and to avoid unnecessary stockpile, retail sector should consider inventory management, since the operational activity that this economic sector operates in is very dynamic.



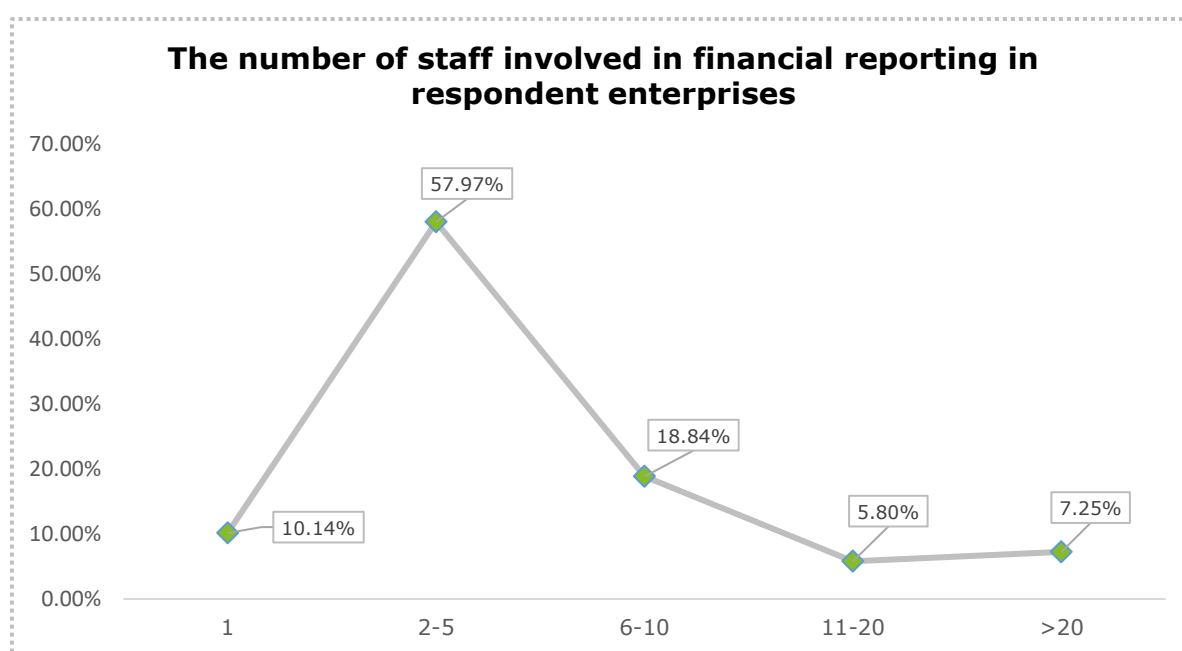
Graph 6: IT applications used for accounting purposes

Customer relationship management (39%) is another approach that helps manage the enterprise's interaction with current and potential customers. Considering today's competition and the endless opportunities faced by consumers, managing relationships has become a key element for any business.

7. Indicate the number of staff engaged in financial reporting for the enterprise that you represent. (Please include in your count senior and less senior members involved with the preparation and review of the accounting records, accounting estimates and financial reports produced during the year and for the year-end).

Results of this question show that 58% of the respondents answered that the number of staff engaged in financial reporting varies from 2 to 5 employees. At the same time, 19% of the respondents answered that the number varies from 6 to 10 employees.

This outcome is in line with the results obtained in question no. 7 where 47% of the respondents represent enterprises classified as large entities not PIE, and 30.12% small and medium sized entities.



Graph 7: The number of staff involved in financial reporting in respondent enterprise

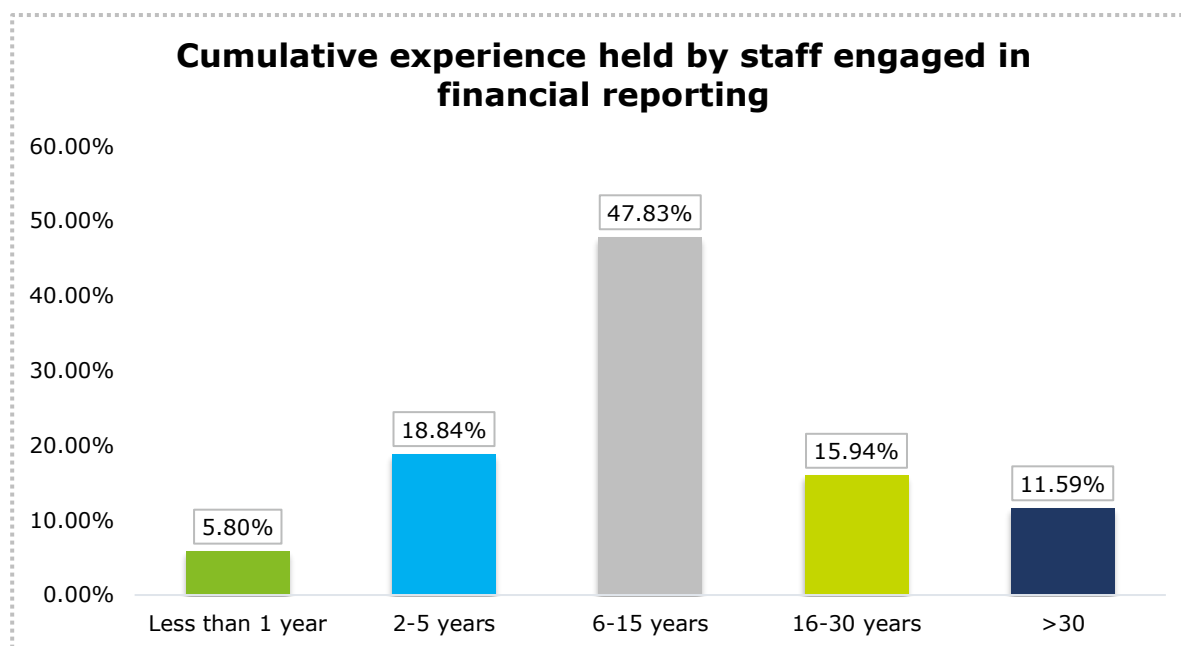
8. Indicate the cumulative experience held by the staff engaged with financial reporting in the enterprise you represent. (Please include in your count senior and less senior members involved with the preparation and review of the accounting records, accounting estimates and financial reports produced during the year and for the year-end).

This question tends to show the cumulative experience held by the staff engaged in financial reporting.

Answers to this question show that the cumulative experience held by the staff engaged in financial reporting varies from 6 to 15 years (48%). This result is in line with question no. 8, that discloses the number of staff engaged in financial reporting which varies from 2 to 5 persons, explaining the considerable cumulative experience of the staff in the preparation and review of the accounting records, accounting estimates, and financial reports.

There is also a group of 19% of respondents who answered that the cumulative experience of staff engaged in financial reporting varies from 2 to 5 years.

These young professionals can also bring a benefit to the department. It is not difficult for them to embrace changes in the accounting and financial field, and they can easily develop in an accounting environment with a new approach for a qualitative financial reporting. Recognition of new technologies comes handy to them, and they have higher acceptance for the unknown or little-known standards such as IFRS, etc.

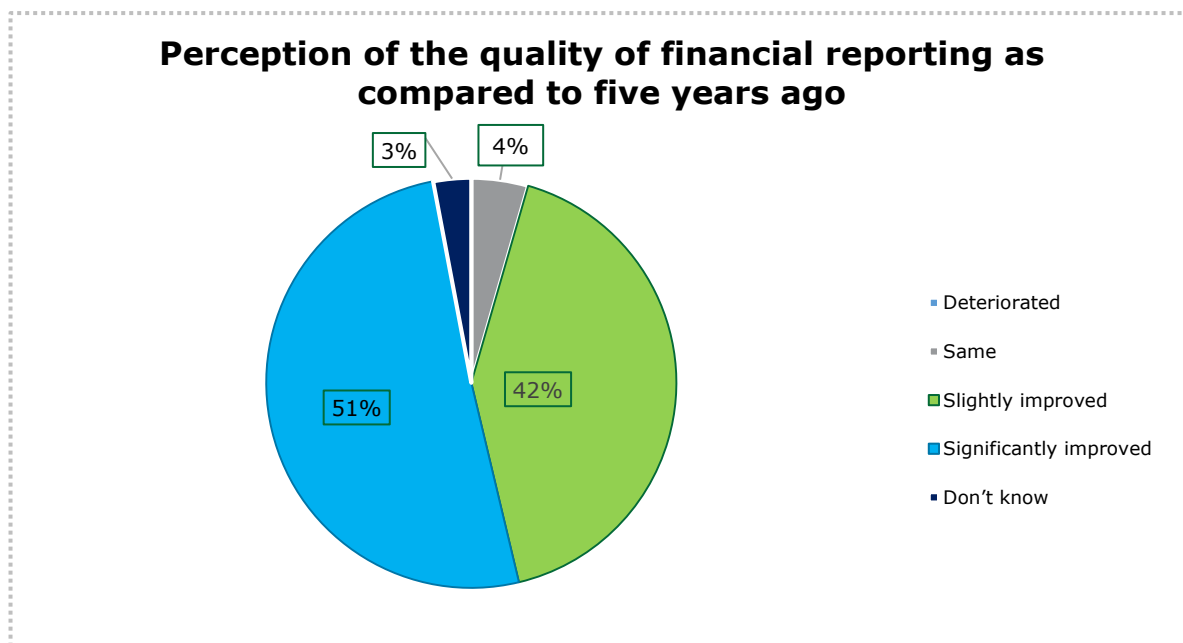


Graph 8: Cumulative experience held by staff engaged in financial reporting

9. How would you rate the quality of financial reporting today as compared to 5 years ago for these types or entities?

The majority of the respondents (51%) admit that there is an evident improvement to the quality of financial reporting in Albania as compared to 5 years ago. However, another 42% of the respondents state that there is only a slight improvement in the quality of financial reporting in the country.

A minor share of 4% of respondents stated that the quality of financial reporting today is the same as compared to 5 years ago. Most of them are from the group of preparers with an experience of 2-5 years, indicating that this group cannot give a complete assessment about the financial situation and the reforms that are undertaken over the years.



Graph 9: Perception of quality of financial reporting as compared to five years ago

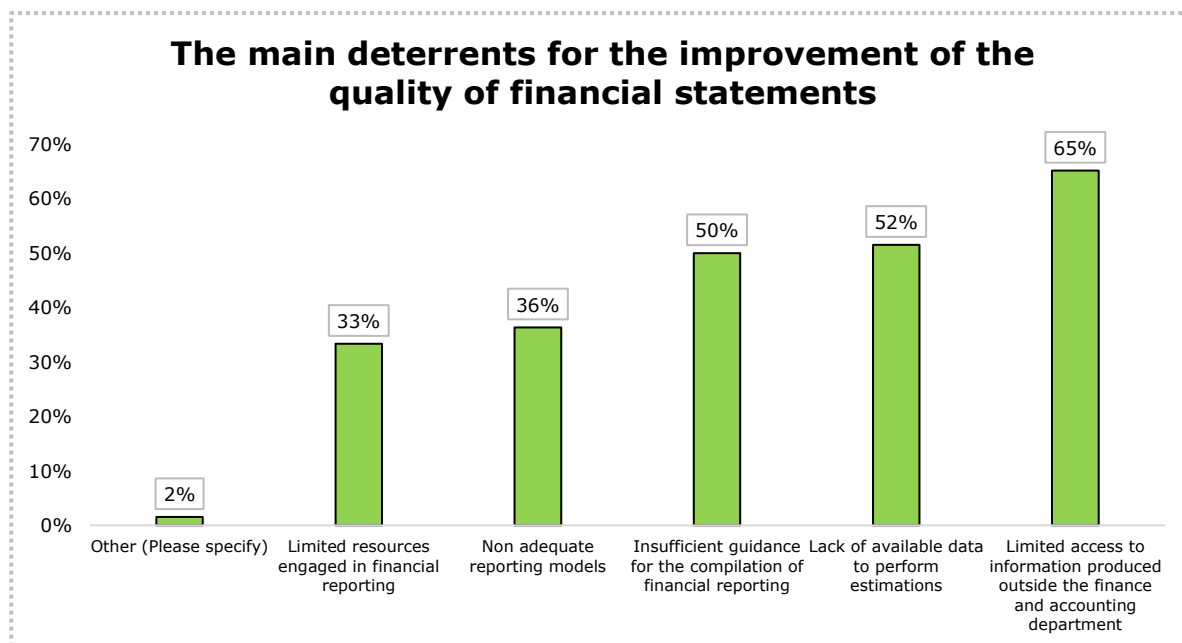
10. Indicate the main deterrents to the improvement of the quality of the financial statements.

Limited access to information produced outside of the finance and accounting department (65%) is the main deterrent that preparers face in the improvement of the quality of financial reporting.

There is a direct relationship between the finance department and other departments of an enterprise. This is why a good collaboration between the finance and accounting department, as well as the other units outside or inside the enterprise, is key to the improvement of the overall financial situation and performance.

Absence of cooperation between the financial and accounting department with other departments inside the enterprise leads to lack of available data to perform estimations. This enables poor and not true calculations of the financial performance.

As represented in graph no. 10, respondents of the survey have also indicated that insufficient guidance for the compilation of financial reporting (50%), as well as non-adequate reporting models are other deterrents that preparers encounter in the drafting of financial statements. The need for ongoing trainings, guidance and reforms in the field of accounting and financial education is a very important step in avoiding and eliminating these deterrents and improving the quality of financial statements.



Graph 10: The main deterrents for the improvement of the quality of the financial statement

2. Professional Practice

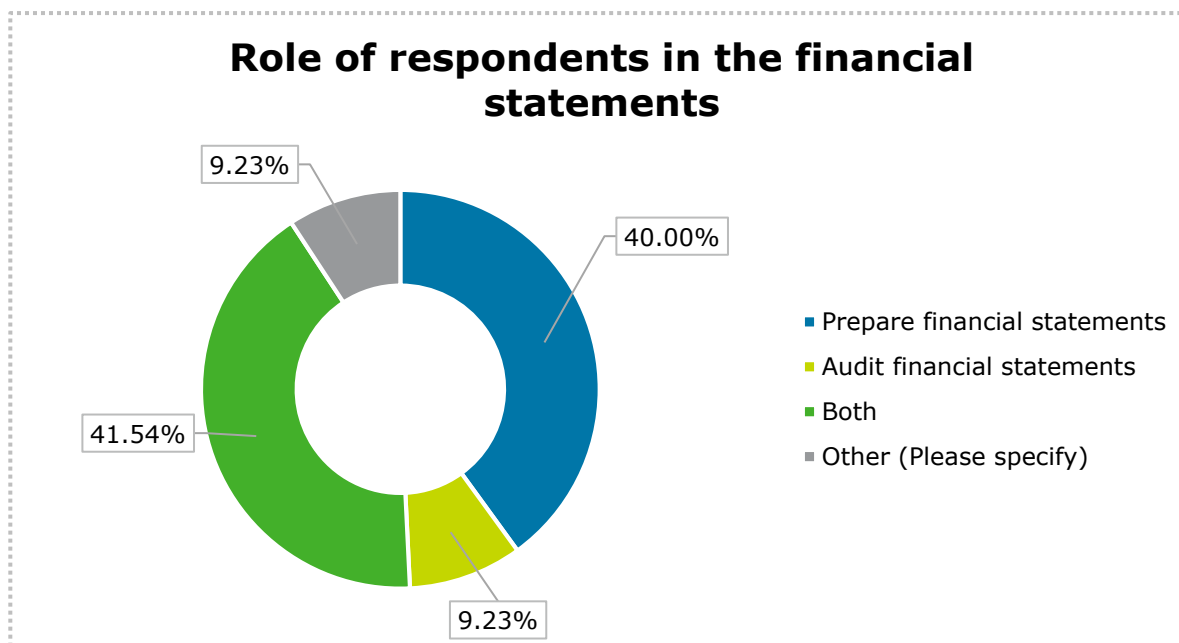
11. Indicate your role in relation to the financial statements.

The preparation of general-purpose financial statements, which includes the balance sheet, income statement, statement of retained earnings, and statement of cash flows, is the most important step in the accounting cycle because it represents the purpose of financial accounting.

In other words, the concept of financial reporting and the process of accounting cycle are focused on providing external users with useful information in the form of financial statements.

In Albania, most of the preparers of financial statements in professional practice (42% of the respondents) prepare the financial statements and audit⁶ them at the same time. Maintaining confidentiality and non-inclusion of personal interests, they cannot prepare and audit the financial statements of the same enterprise, but they can prepare the financial statements of an enterprise and audit the financial statements of another enterprise, which has no relationship with the first one.

⁶ An audit of financial statements is the examination of an entity's financial statements and a center pricing disclosures by an independent auditor.



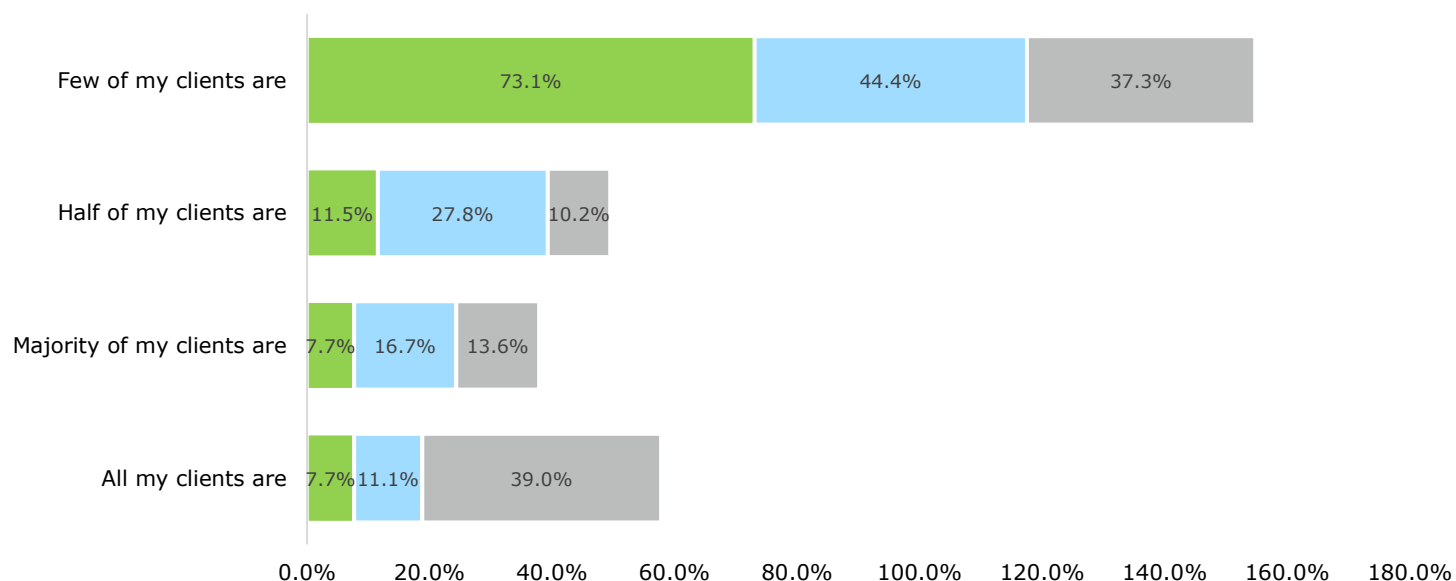
Graph 11: Role of respondents in the financial statements

12. Indicate in which of the following groups the enterprise you represent is classified.

Question no. 12 tends to categorize the clients to whom the respondent person prepares the financial statements.

Most of the respondents admitted that their clients' portfolio consists mostly in large enterprises, separated in PIE (73%) and Large Entities not PIE (44%). According to answers of respondents, 39% of all clients are small and medium-sized enterprises while the majority of the clients of the preparers are Large Entities not PIE, with a value of 17%.

Classification of clients in responding enterprises



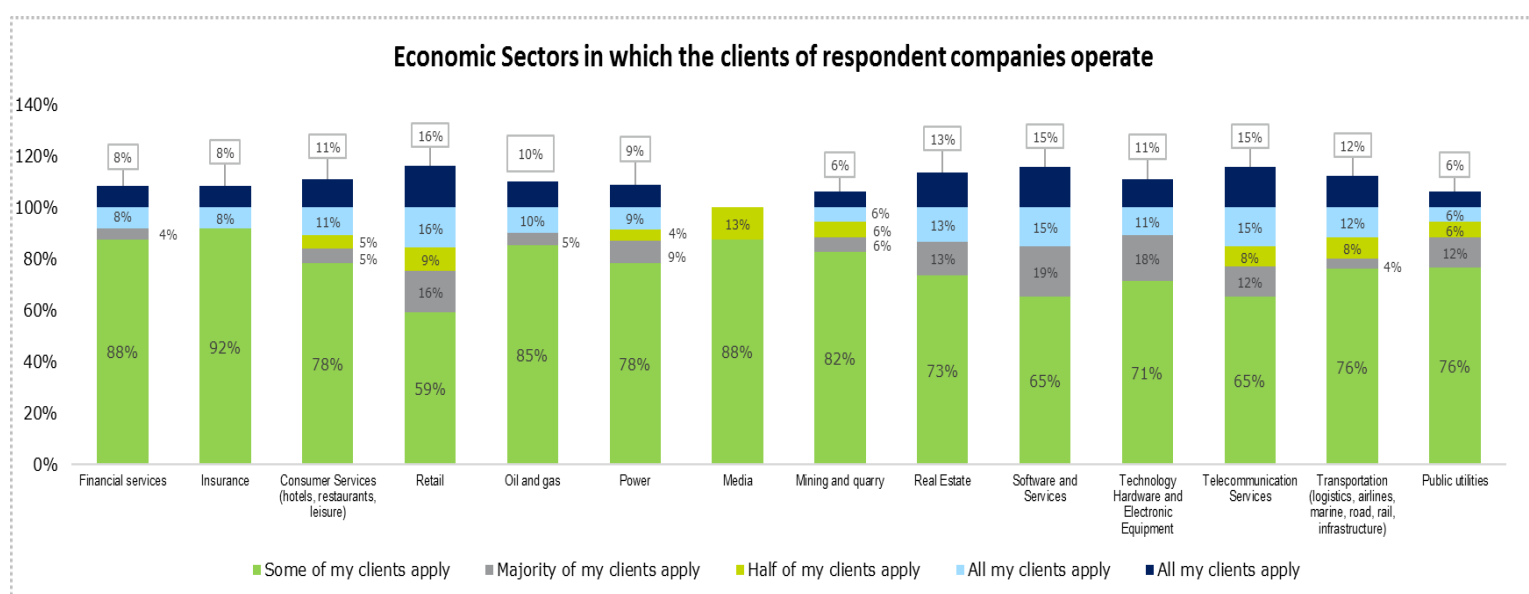
- Public interest entities (PIE) – including: a) all economic entities listed in the stock exchange, b) banks and other financial institution licensed in Albania, c) insurance and re-insurance companies, companies administering investment funds and pension
- Large entities not PIE – includes non-PIE entities meeting at least 2 of the following 3 criteria: a) employing over 250 staff, b) assets worth above Lek 750 million, c) annual revenue above Lek 1,500 million
- Small and Medium sized entities – includes entities other than PIE or large entities

Graph 12: Classification of clients in responding enterprises

13. Indicate in which economic sectors your clients operate.

Among the main economic sectors taken into consideration to measure the country's GDP based on the categorization employed by INSTAT are: (i) financial and insurance sector, (ii) consumer and retail sector, (iii) the extractive sector (oil and gas, power energy and mining and quarry), (iv) information and communication sector (media, software and services, technology hardware and electronic equipment and telecommunication services), (v) real estate sector, (vi) transportation and public utilities.

According to this division, graph no. 13 shows that most of the respondents (92%) have clients who are engaged in the insurance sector, since this is an economic sector that is growing due to the customer awareness for ensuring business, property, and machinery. Another sector where most of the clients of prepares (88%) operate is the media sector, since this is a sector that is focused on the implementation of new technologies that require large amounts of investment, and investors are informed about the enterprise's performance through these financial statements.



Graph 13: Economic Sectors in which the clients of respondent enterprises operate

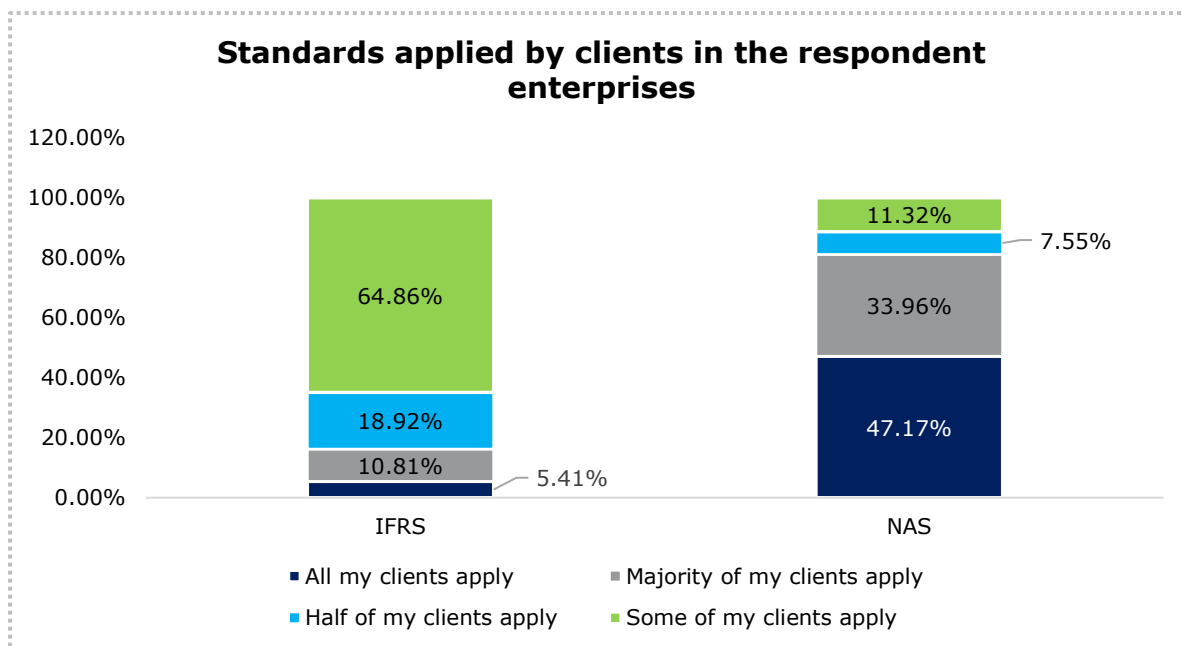
14. What are the standards applied by the enterprise that you represent in the preparation of the financial statements?

The reform undertaken has influenced the quality of financial reporting, since the accounting legislation is approaching the international one. Improvements in the accounting legislation aim at introducing provisions on the responsibility of individuals who are responsible for preparing and publishing financial statements. The responsibility for consistent implementation of accounting policies developed under international accounting regulations lies not only with the management of each enterprise but also with accounting experts and auditors of these financial statements.

The objective of financial statements prepared under NAS is to provide information about the financial position, financial performance and cash flow of the entity. This information is useful for economic decision-making of a wide range of stakeholders that do not require special reports to meet their needs.

IFRS provides a common global language for business affairs so that enterprise accounts are understandable and comparable across international boundaries. They are a consequence of growing international shareholding and trade, and are particularly important for enterprises that have dealings in several countries. They are progressively replacing a significant number of different national accounting standards.

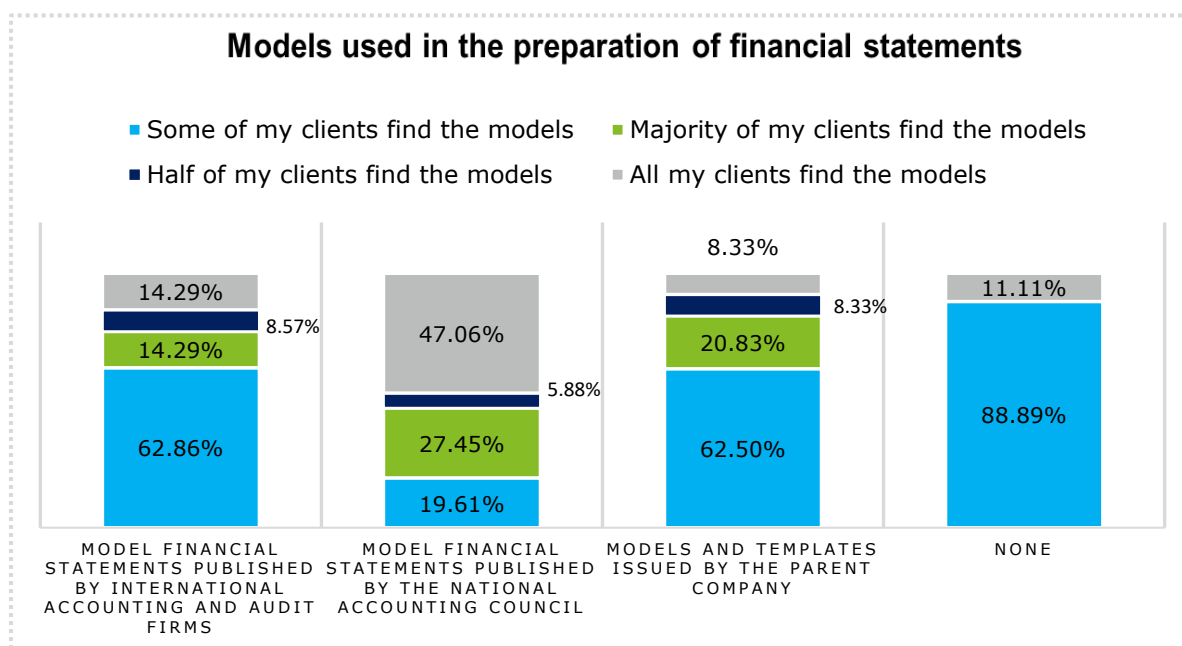
According to the graph no. 14, most of the respondents (65%) have confirmed that some of the clients use IFRSs. While some of them (47%) have claimed that NAS are the standards used by the majority of the clients.



Graph 14: Standards applied by clients in the respondent enterprises

15. Indicate if you use the following models in preparation of the financial statements.

Preparers of the financial statements admitted that most of their clients are small and medium-sized entities. This is in line with the financial statements model published by the National Accounting Council, as these models are easily used by enterprises operating in Albania. Therefore, preparers have responded that 47% of all their clients use the financial statements model published by the National Accounting Council.



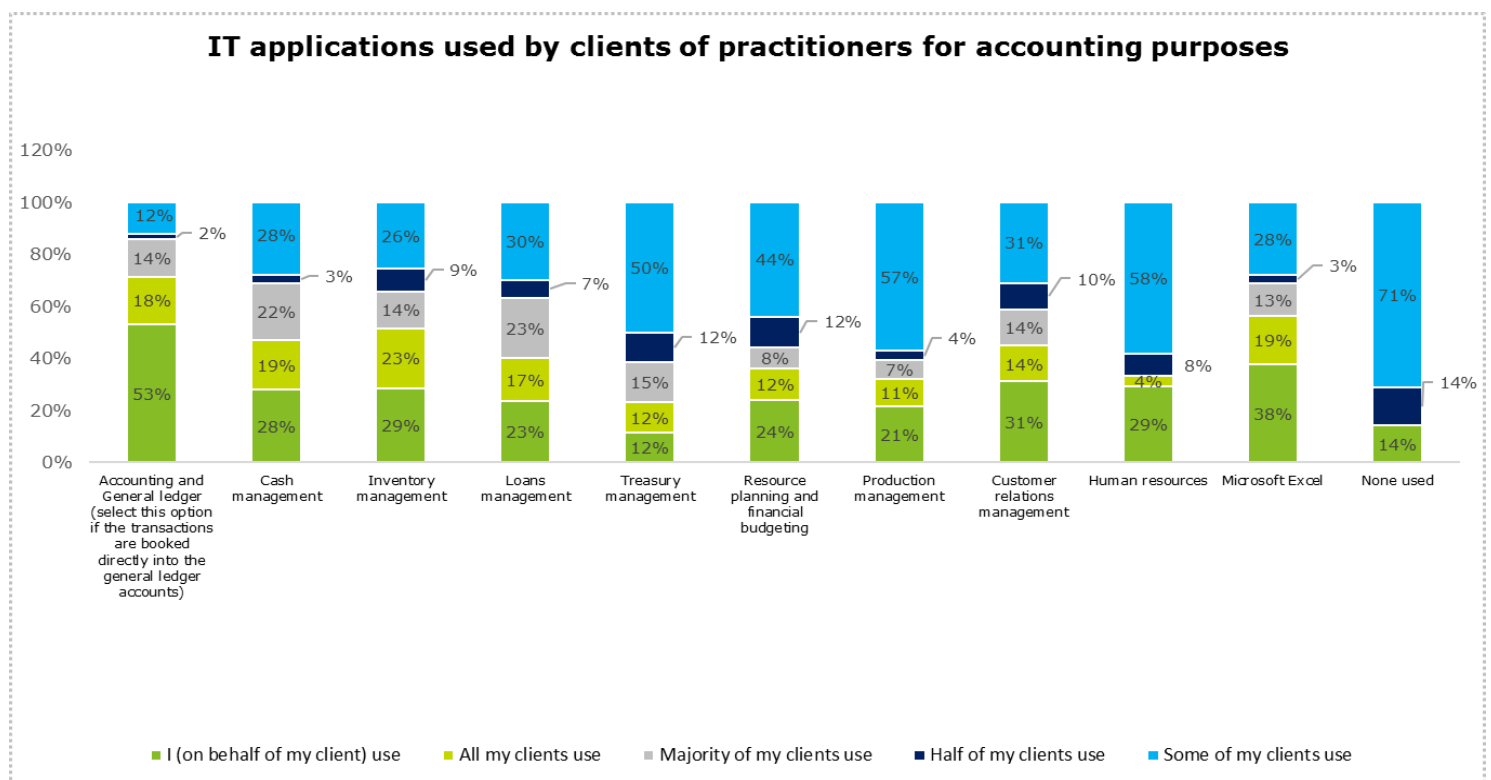
Graph 15: Models used in the preparation of financial statements

To continue, most of the clients of preparers use either the models of financial statements published by International Accounting and Audit firms or the models and templates issued by the Parent Enterprise, respectively 62.80% and 62.50%. This way, the parent enterprises as well as the international enterprises have an easier monitoring system resulting from the unification of the models and reporting standards.

16. Indicate the IT application used by the enterprise you represent for accounting purposes.

Preparers are asked to select the IT application that is used by their clients or by themselves on behalf of their client for accounting purposes.

According to the graph no. 16, most of the preparers (53%) acting on behalf of their clients, use accounting and general ledger to extract financial statements.



Graph 16: IT applications used by clients of practitioners for accounting purposes

Most of all, the clients (23%) use inventory management because it can be adjusted to businesses of any size and industry. Knowing when to restock certain items, the right amounts to purchase or produce, price tag – as well as when to sell and at what price – can easily get complicated.

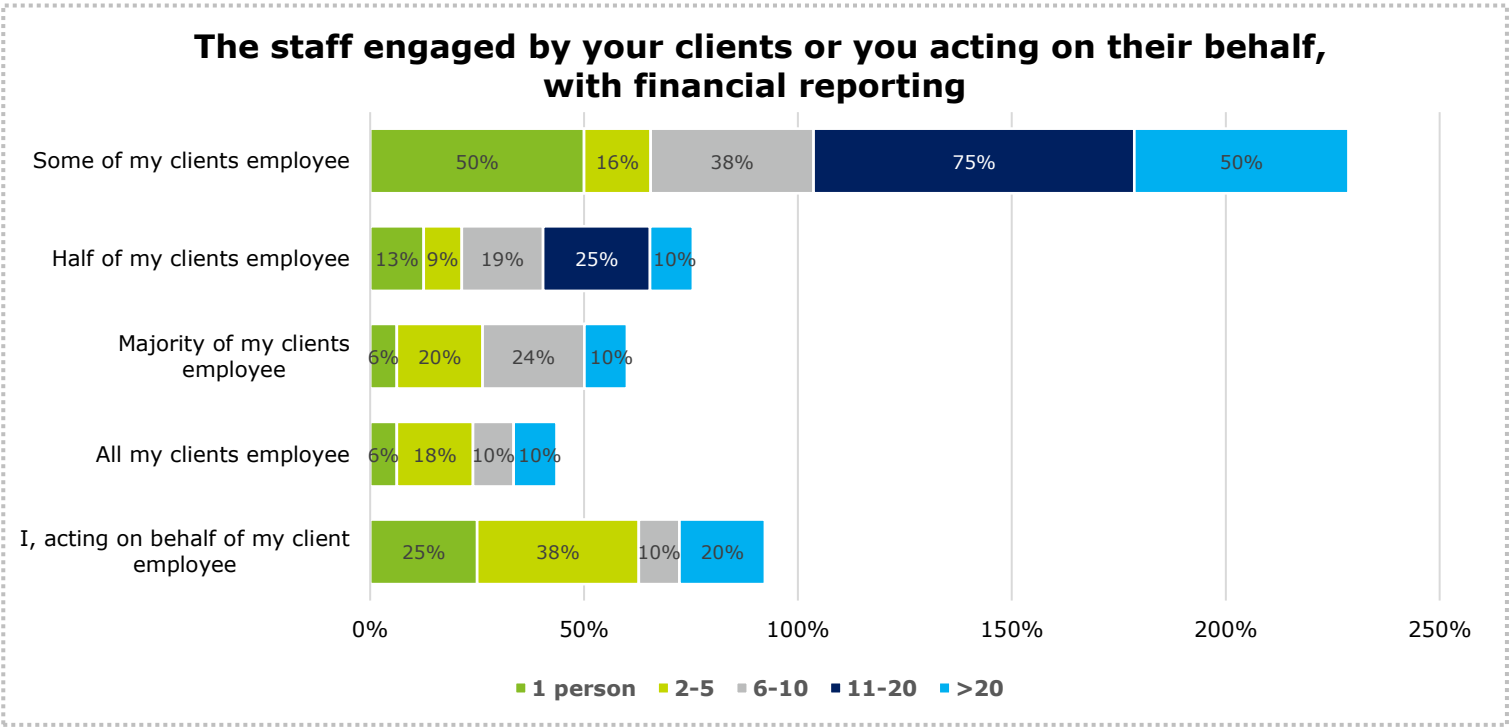
Regarding the IT application that most of the clients use, 23.33% of them use loans management, as it is a key indicator to potential lenders. While some of the clients use (i) cash management, (ii) loans management, (iii) treasury management, (iv) resource planning and financial budgeting, (v) production management, (vi) customer relations management, and (vii) human resources.

17. Indicate the number of staff engaged in financial reporting in the enterprise you represent. (Please include in your count senior and less senior members involved with the preparation and review of the accounting records, accounting estimates and financial reports produced during the year and for the year-end).

The number of employees engaged in financial reporting varies from one enterprise to the other, influenced also by the size of the enterprise they are employed.

Most of the preparers (38%) acting on behalf of their clients engage 2-5 staff in financial reporting. Also, most clients (18%) engage 2-5 staff in financial reporting, since they are public interest entities (PIE) and the staff employed is more specialized, so they don't need more employees responsible for financial reporting.

The majority of clients (24%) engage 6-10 staff in financial reporting, since they are large entities. One of the criteria that classifies these entities into large entities is to have more than 250 employees. However, most of the clients of the preparers (75%) engage 11-20 staff in financial reporting.



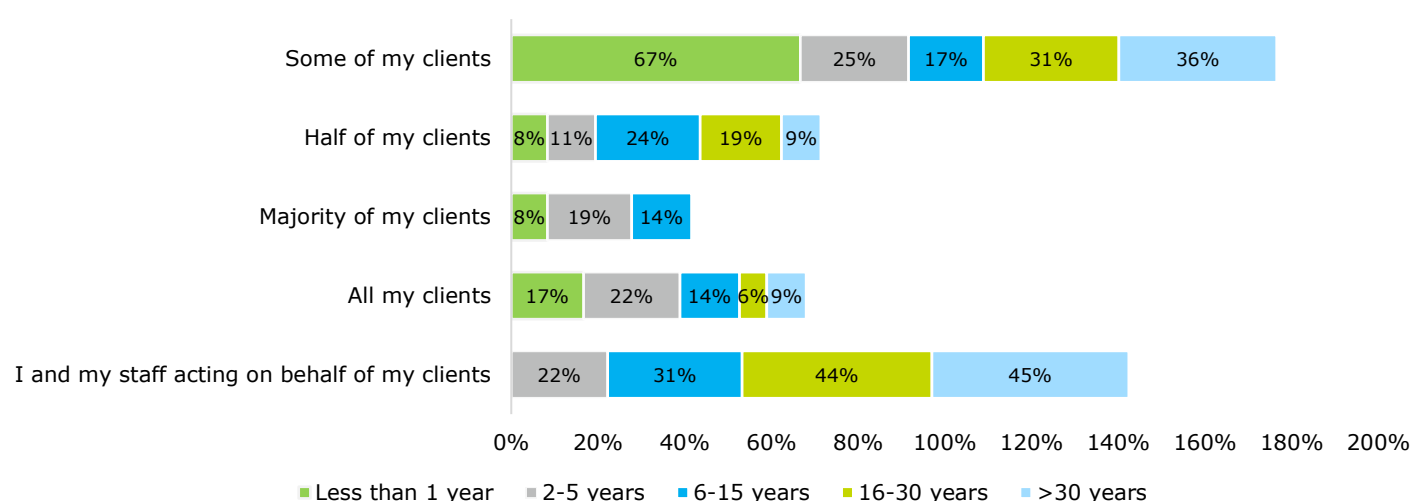
Graph 17: The staff engaged by your clients or you acting on their behalf, with financial reporting

18. Indicate the cumulative experience held by the staff engaged in financial reporting in the enterprise you represent. (Please include in your count senior and less senior members involved with the preparation and review of the accounting records, accounting estimates and financial reports produced during the year and for the year-end).

As we can infer from graph no. 18, most of preparers and their staff (45%) acting on behalf of the clients have more than 30 years of cumulative experience, therefore the number of employees is small, ranging from 2 to 5 people from the staff engaged in financial reporting.

Most of the respondents admitted that the majority of the clients (42%) have staff with accumulated experience ranging from 2 to 5 years. While 67% of the respondents answered that they have a few clients whose staff have an accumulated experience of less than 1 year, therefore the number of employees varies from 11-20 staff engaged in financial reporting.

Cumulative experience held by the staff engaged with financial reporting in respondent enterprises

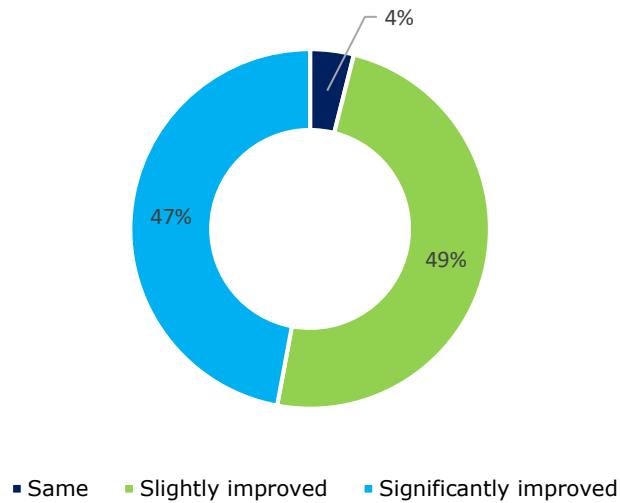


Graph 18: Cumulative experience held by the staff engaged with financial reporting in respondent enterprises

19. How would you rate the quality of financial reporting today as compared to 5 years ago for these type of entities?

The majority of the respondents (96%) admitted that there is an improvement of the quality of financial reporting in Albania as compared to 5 years ago. Out of the total, 49% of the respondents who rate the quality of financial reporting improved, admitted that this improvement is minor and 47% rated this improvement as significant. Only a minor share of 4% of the respondents agreed that the quality of financial reporting today is the same as compared to 5 years ago.

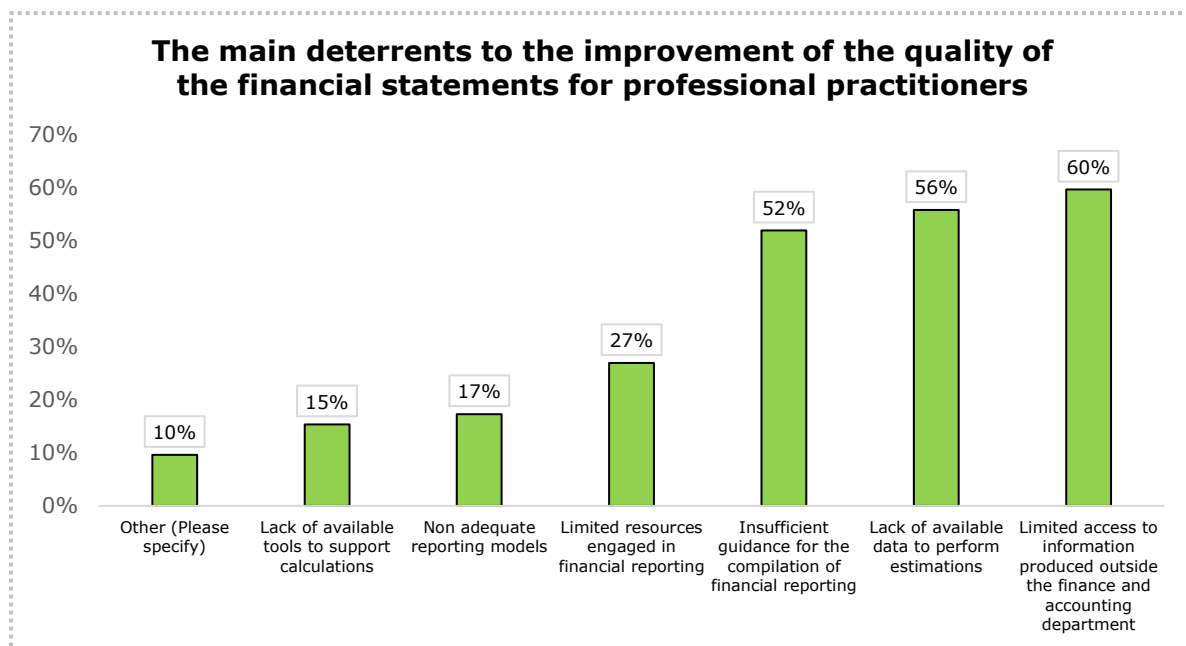
Perception of professional practice on the quality of financial reporting compared to five years ago



Graph 19: Perception of professional practice on the quality of financial reporting compared to five years ago

20. Indicate the main deterrents to the improvement of the quality of financial statements.

The financial information, which is produced in all accounting processes, is related to many users particularly to customers. A customer focused management approach became very important in today's enterprises because the quality of products that are manufactured by the enterprise are evaluated by customers. The performance of the enterprise is measured by means of using the indicators such as service quality, error rate, and rate of performing the services in time. This aspect is focused on internal processes, which make the most important influence on financial purposes of the organization as well as customer satisfaction. Each enterprise has a unique transaction process with regard to creating values for customers and obtaining financial profits. This is why most of the respondents (60%) admitted that limited access to information produced outside the finance and accounting department is a deterrent to the improvement of the quality of financial statements.



Graph 20: The main deterrents to the improvement of the quality of financial statements for professional practitioners

3. Similar areas

21. Indicate whether you are part of a professional body:

In order for this questionnaire to be as comprehensive as possible, we decided to distribute it among two main groups. The first group refers to one group of *employed accountants* in different public and private enterprises, and the other group refers to *preparers that operate in professional practices*.

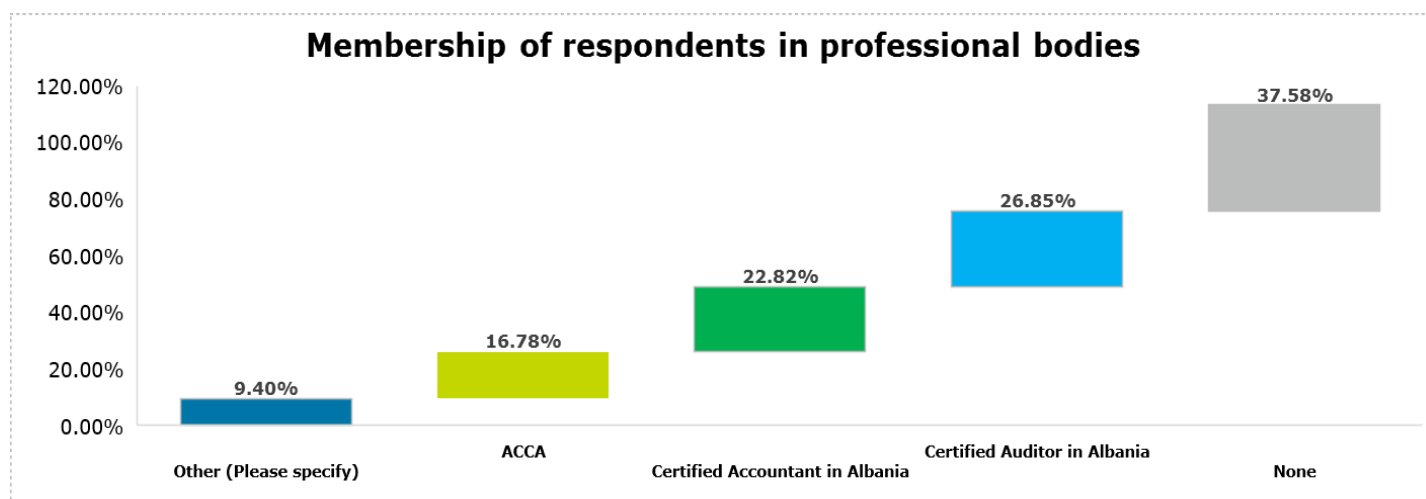
The main target of the survey were practitioners that held certifications from recognized professional institutions such as Certified Auditor in Albania, Certified Accountant in Albania, Association of Chartered Certified (ACCA)⁷.

Respondents that are not part of a professional body represent 38% of the targeted population out of which 30% are employed accountants and 8% are preparers that operate in the professional practices.

The rest of the participants represent 27% as Certified Auditors in Albania, out of which 21% are preparers that operate in professional practices, and 6% are employed accountants.

Only 17% of the respondents are part of the ACCA, among whom 11% are employed accountants and 6% work in professional practices.

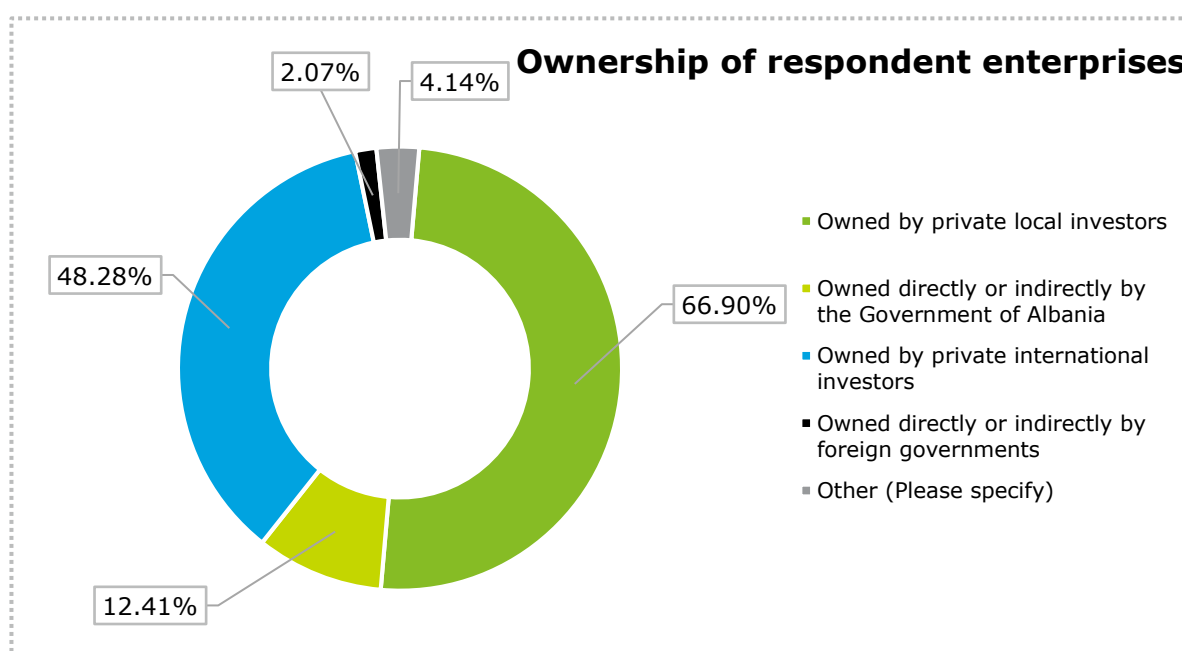
⁷ Association of Chartered Certified Accountants (ACCA) is the global professional accounting body offering the Chartered Certified Accountant qualification.



Graph 21: Membership of respondents in professional bodies

22. Is the enterprise you represent?

According to graph no. 22 most of the enterprises (67%) for which the respondents prepare financial statements are owned by private local investors, while 48.28% of the enterprises are owned by private international investors.



Graph 22: Ownership of respondent enterprises

In addition, fractions of respondents are representatives of state-owned enterprises by the government of Albania (12%) and by foreign governments (2%).

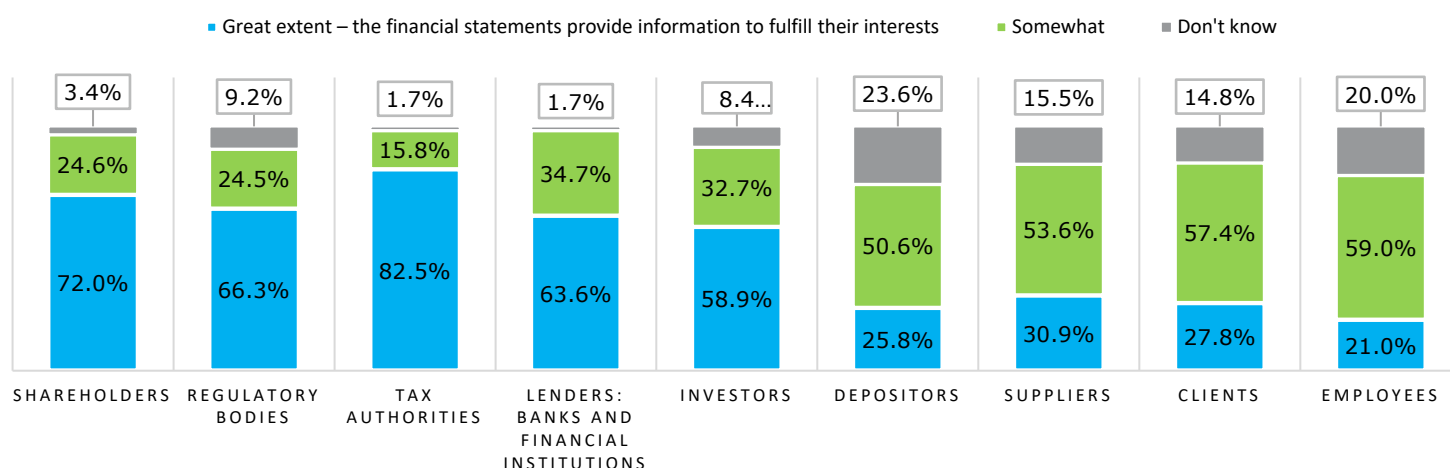
23. Indicate to what extent you consider the interests of the following stakeholders when preparing the financial statements:

Question number 23 aims to understand to what extent the preparers classified as employed accountants and preparers that are employed in professional practice consider the interest of stakeholders (shareholders, tax authorities, and regulatory bodies, banks and financial institutions, investors, employees, clients, suppliers, etc.) when preparing the financial statements.

Based on the responses taken from both groups, 72% of them believe that shareholders are the primary user when it comes to preparing financial statements, since they include information of interest for the shareholder. Shareholders are interested in the utilization of their investments to ascertain the profitability and financial strength of the enterprise in order to make appropriate financial and strategic decisions for operational expansion.

In graph no. 23 more than 80% of the respondents consider tax authorities as the main stakeholder, while more than 65% consider regulatory bodies as the one. State governing bodies are interested in entities' financial information for taxation, regulatory purposes, and for an overall assessment on how the economy is performing in order to prioritize financial and industrial policies. Moreover, tax authorities are interested in the truth as well as accurate and qualitative enterprise financial statements as a basis for assessing the value of tax liabilities.

INTEREST OF STAKEHOLDERS IN DIFFERENT ENTERPRISES OF RESPONDENTS



Graph 23: Interest of stakeholders in different enterprises of respondents

Lenders are another group of stakeholders that respondents consider in a great extent while preparing financial statements (64%). Banks and financial institutions are interested to know the short-term and long-term solvency position of enterprises to have a clear picture before lending money. They are very interested in having qualitative and reliable financial statements, liquidity situation, etc.

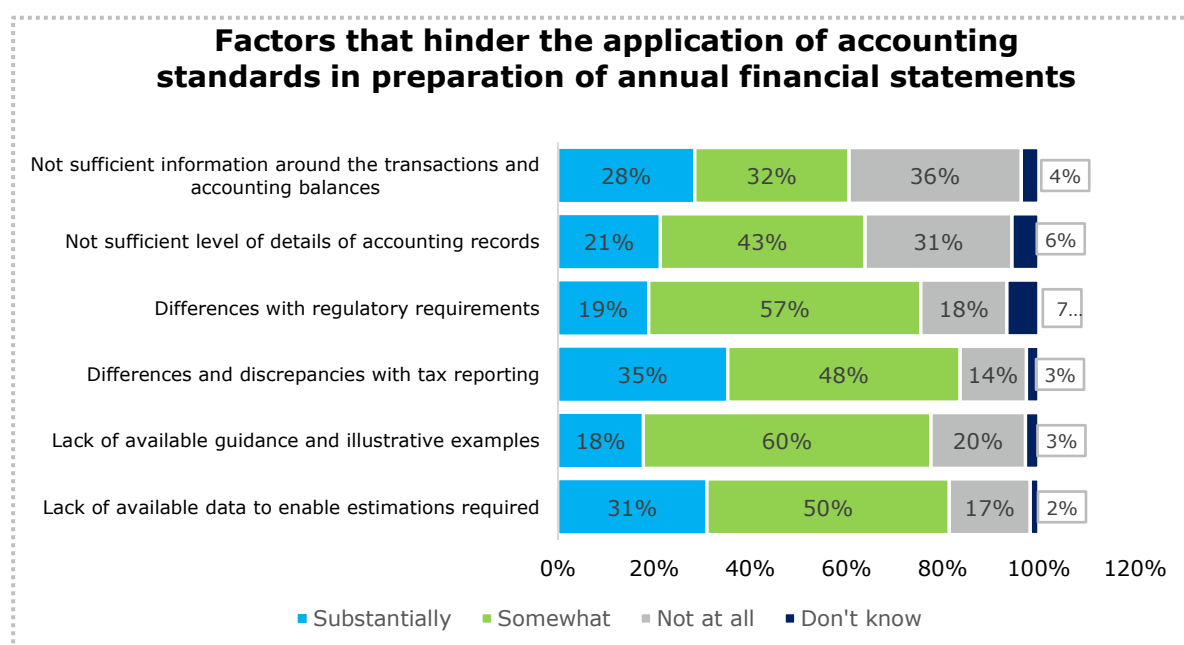
As shown in graph no. 23, clients, employees, suppliers, depositors, etc. are of secondary importance for the preparation of the financial statements and financial reporting in general.

The quality of financial reporting is characterized by a multiplier effect that influences the decision making of stakeholders. Consequently, through deformed and unrealistic reflection of enterprise's position in the financial statements, entities give incorrect signals to stakeholders, bringing dissatisfaction and operational inefficiencies.

Considering the development of financial reporting over the years, and the attention paid to the accountancy education, many accountants, auditors, financial consultants, etc. are updating their knowledge/ accounting insights and skills in order to offer a qualitative financial reporting.

24. Indicate to what extent the following deter from applying the accounting standards selected above in the preparation of the annual financial statements:

Preparers operating in the professional service were asked to identify the main deterrents of improving financial reporting in Albania. As it is presented in graph no. 24, the majority of preparers admitted that lack of available data to enable estimations required, lack of available guidance and illustrative examples, differences and discrepancies with tax reporting, differences with regulatory requirements, not sufficient level of details of accounting records create an impact in financial reporting. While 36% of the respondents answered that the lack of sufficient information around transactions and accounting balances do not have an impact in financial reporting.



Graph 24: Factors that hinder the application of accounting standards in preparation of annual financial statements

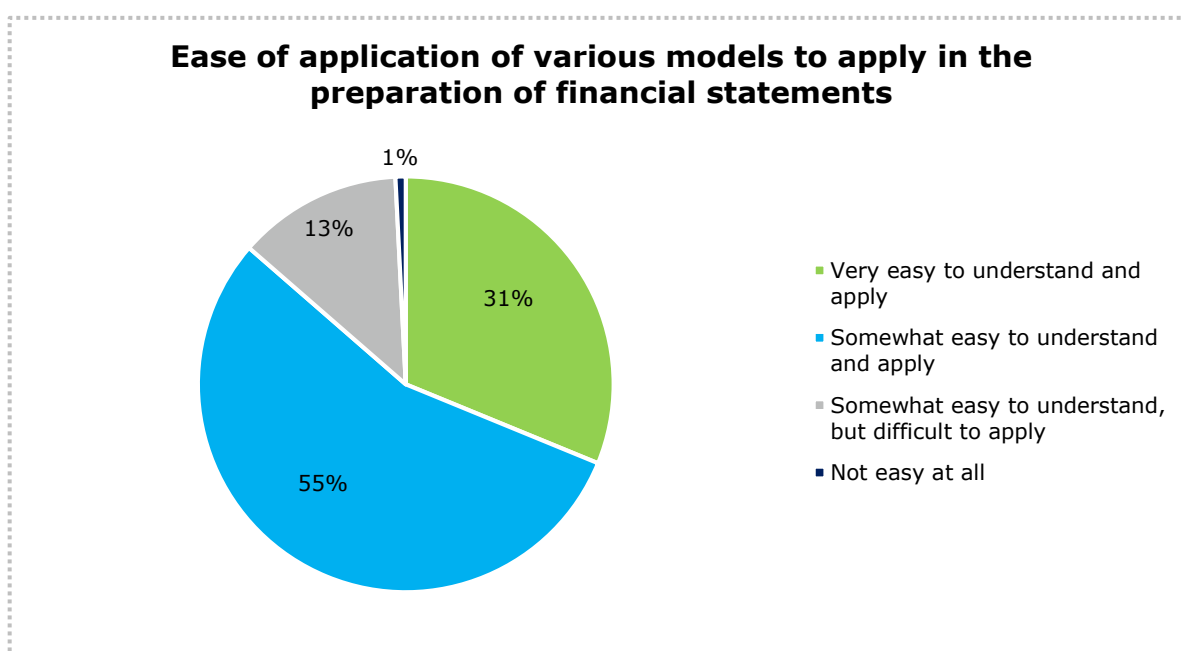
25. Indicate how easy the financial statement models are to apply in the preparation of the financial statements:

The above question aims to understand how easy the employed accountants and accountants that operate in the professional practice can apply the models indicated in graph no. 25 during preparation of financial reporting.

Most of the preparers find it somewhat easy to understand and apply in a value by 55%, out of which 24% are accountants that operate in professional practices and 31% are employed accountants.

The rest of the participants represent 31% of the preparers that think these models are easily understood and applied, out of which 15% are employed in a Professional Practice and 16% are Employed Accountants.

There is a minor share of 13% respondents agreeing that the above-indicated models are somewhat easy to understand, but difficult to apply. Most of the respondents of this group are not part of any professional body and this may indicate the difficulties in applying these models. Membership in such professional bodies is not only necessary to be updated with changes in the field of accounting but also facilitates application of various models.



Graph 25: Ease of application of various models to apply in the preparation of financial statements

26. Indicate the frequency the enterprise you represent reports to the following stakeholders.

Usually, preparers represent financial reports to stakeholders in different frequencies such as monthly, quarterly, semi-annually or annually.

The majority of respondents indicate that they report to high-level management and directors on a monthly basis while they report to regulatory bodies, lenders, etc. on an annual basis.

On a monthly basis, (i) 66% of respondents report to management, (ii) 37% of the respondents report to shareholder, and (iii) 35% of the respondents report to the board of directors.

We have categorized the preparers in two groups to better understand which percentage of the respondents belong to employed accountants and which one to preparers that operate in professional practice.

The division displayed in table no. 1, indicates the percentages of the respondents that report on a monthly basis to the following stakeholders.

Stakeholders	Total	Employed Accountants	Professional Practice
Management	66%	45%	21%
Steering Council/Board of Directors	35%	27%	8%
Shareholders	37%	20%	17%

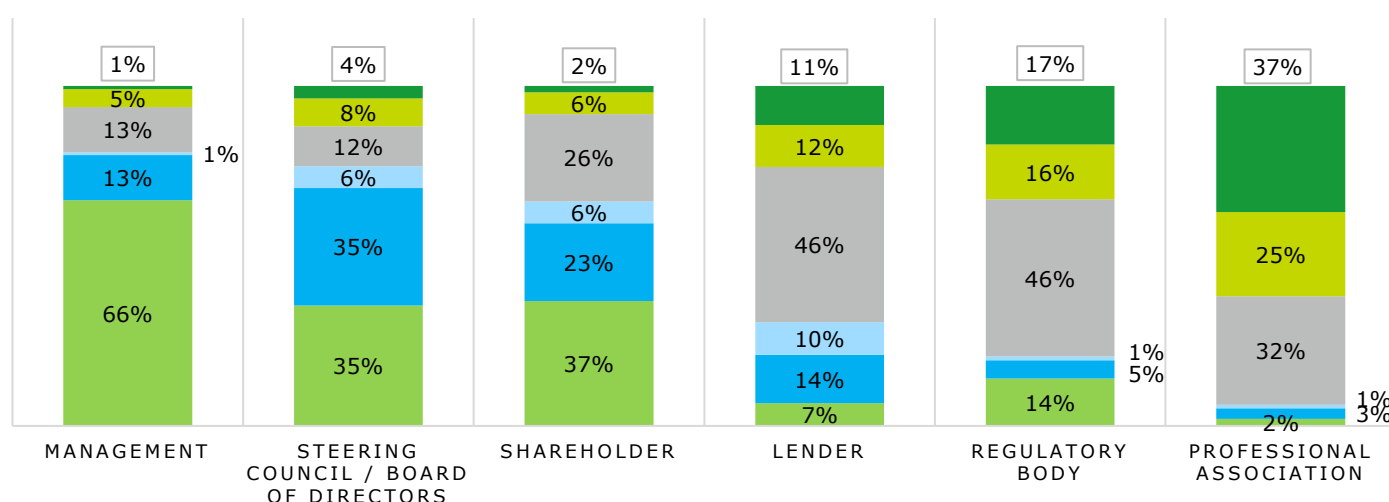
Table 1: Respondents that report on a monthly basis to the following stakeholders

Managers are mainly responsible for daily operational and financial activities of the enterprise. Considering financial statements and reports, they take effective decisions on selecting the most profitable projects and investments on a monthly basis. On the other hand, shareholders, through monthly reports, want to reach a better understanding on how management is fulfilling the tasks and how much profit they can receive from their business in the long-term.

As shown in graph no. 26, some respondents report in a quarterly frequency to management (13%), shareholder (23%), board of directors (35%), and some others report in an annual frequency to management (13%), shareholder (26%) and board of directors (12%).

FREQUENCY OF FINANCIAL REPORTING TO STAKEHOLDERS

Monthly Quarterly Semi-annually Annually Don't know Not a stakeholder



Graph 26: Frequency of financial reporting to stakeholders

Also, most of the respondents indicated that they report on an annual frequency for other stakeholders such as: (i) regulatory bodies, (ii) lenders, and (iii) Professional Associations.

Considering the classification of preparers in employed accountants and in preparers that operate in professional practice, table no. 2 indicates the percentages of respondents that report on an annual basis to the following stakeholders.

Stakeholders	Total	Employed Accountants	Professional Practice
Regulatory body	46.3%	26.9%	19.4%
Lender	45.8%	21%	24.8%
Professional association	32%	11%	21%

Table 2: Respondents that report on an annual basis to the following stakeholders.

By law, on an annual basis enterprises should declare their financial statements, audit reports, etc. to the competent regulatory bodies in order to assess tax obligations (profit tax, VAT and other taxes). Also, lenders assess on an annual basis the ability of the enterprise on solvency, liquidity, value of assets based on these declared financial statements at the regulatory bodies and tax authorities.

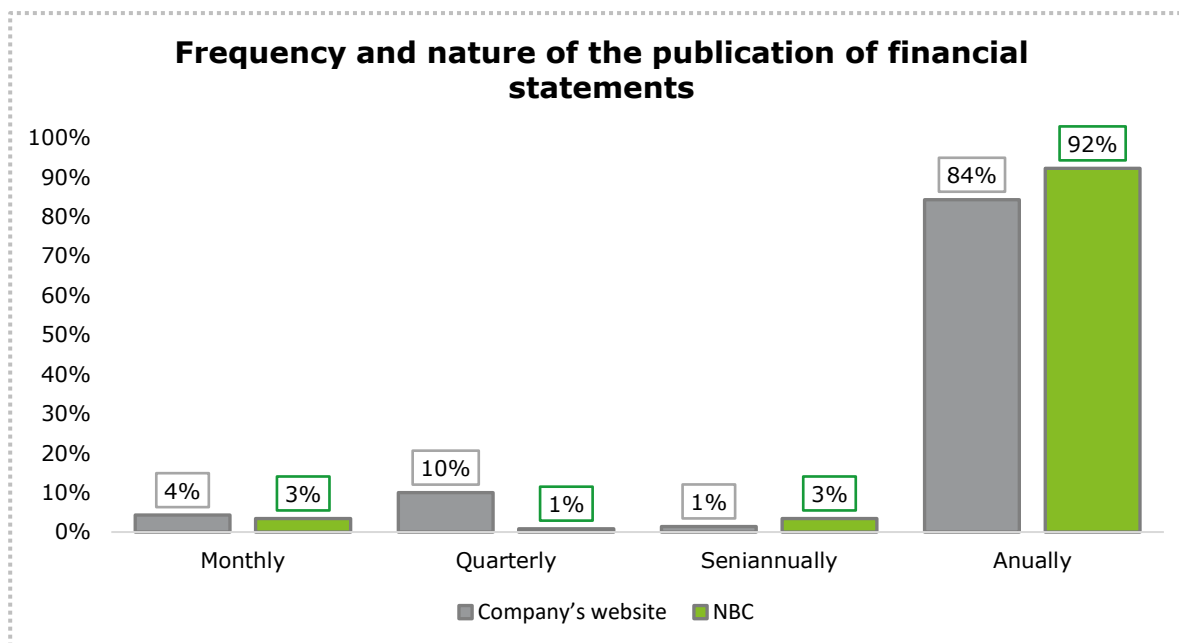
27. Indicate how often and where the enterprise you represent publishes the financial statements:

Enterprises publish financial statements to show to the public their advantages compared to the other competitors. By shifting through the firm's accounting reports, investors can have better ideas about how the business attracts new customers, innovates and invents on new products and services, along with designing more efficient operating processes.

By law, enterprises prepare financial statements at the end of every fiscal year. Most investors pay attention to quarterly filings, but the annual publication of accounting statements draws greater interest. This is because annual filings are more comprehensive and touch on various aspects of the activity of an enterprise, including nonfinancial data.

Enterprises publish mostly their annual financial statements on the enterprises website (84%) and in National Business Center (NBC) ⁸ (92%).

⁸ The National Business Center (NBC) is an institution under the dependence of the Ministry of Finance and Economy, established under Law no. 131/2015 "On the National Business Center" as a result of the merger of two institutions, the National Licensing Center and the National Registration Center. The main purpose of the National Business Center is facilitating the procedures and registration of the subjects set forth in the law regulating business registration for the purposes of fiscal registration, social and health insurance, and inspection of labor relations.

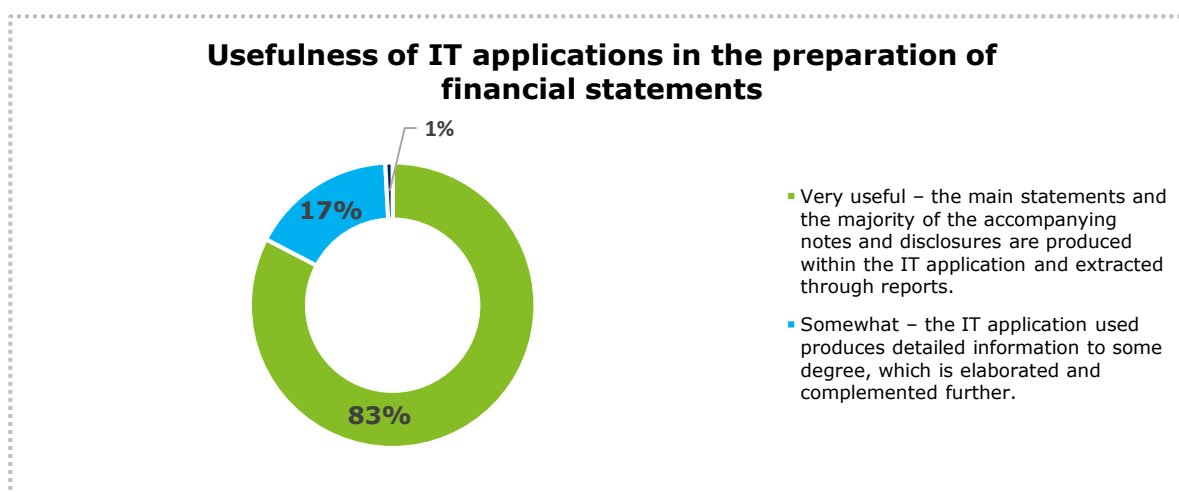


Graph 27: Frequency and nature of the publication of financial statements

28. How useful you find the IT application for the preparation of the financial statements:

A growing number of enterprises are switching from manual preparation of financial statements to financial reporting applications that automate the process. It outlines eight key benefits of using software or IT applications to automate accounting and generation of financial reports. Some of the benefits include time saving, cost saving, risk reduction, improved efficiency, increased regulatory compliance, audit preparation, reduced turnaround time and cost effectiveness.

According to graph no. 28, most of the respondents (83%) have confirmed that IT applications are very useful. While some of them, (17%) have claimed that IT applications are somewhat useful.



Graph 28: Usefulness of IT applications in the preparation of financial statements

29. Indicate to what extent the following are necessary to improve the quality of the financial statements in Albania:

Given that this questionnaire aims to assess the quality of financial reporting in Albania, we also included questions to understand what additional improvements the employed accountants and preparers that operate in professional practice think are necessary for qualitative financial reporting.

According to the answers of the respondents, there is an immediate need for improvement. About 67% of the respondents find it necessary the provision of more details on the valuation techniques and inputs used for estimates presented in financial statements.

As shown from responses, 66% of the preparers find the details on exposure towards risks and risk management activities as in high need from improvement in financial reporting. People who tend to invest in different enterprises or to receive services, usually need to be informed about risk policies when making important financial decisions. If an enterprise defines objectives without taking the risks into consideration, chances are that they will lose too much when risks appear. Considering this, risk policies need to be clearly defined in financial statements to minimize the problems and costs of the future.

Some of the preparers of financial statements` consider it very necessary that the higher the level of details and explanatory information on the numbers, the better the understanding of the financial situation. More details and explanatory information helps the respondents to have a clearer view of the financial position and the performance of the enterprise in order to justify the numbers and to verify their truthfulness.

Characteristics	Total	Employed Accountants	Professional Practice
More clarity around related party relationships, exposure and transactions	63%	35%	28%
More details on exposure towards risks and risk management activities	66%	39%	27%
More details on the valuation techniques and inputs used for the estimates presented in the financial statements	67%	39%	28%

Table 3: Characteristics the preparers consider for a qualitative financial reporting

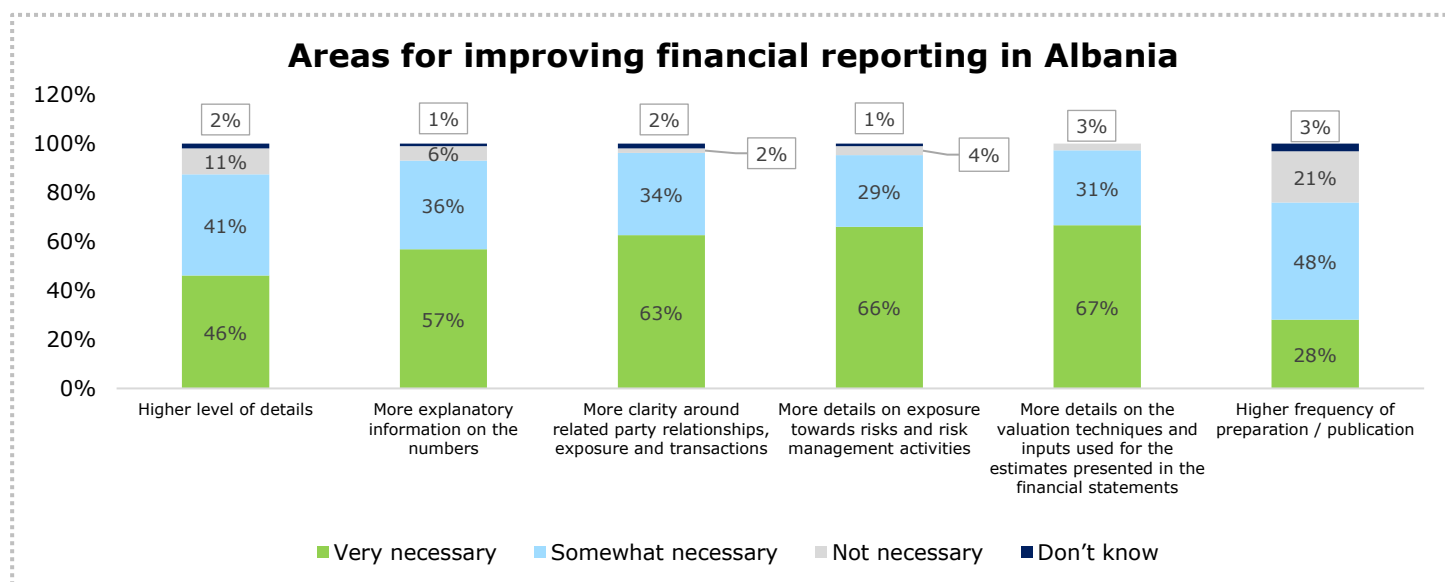
The clarity around related party relationships, exposure and transactions (63%) is also very important for increasing the quality of financial reporting. These transactions have a considerable weight in financial statements that need to be considered when making important financial decisions.

Considering the classification of preparers in employed accountants and in preparers that operate in professional practice, table no. 3 indicates the most necessary characteristics that the preparers consider for a qualitative financial reporting.

Also, an average of 36% of the respondents found somewhat necessary improvements with regard to: (i) a higher level of details, (ii) more explanatory information on the numbers, (iii) more clarity around related party relationships, (iv) more details on exposure towards risks and risk management activities, (v) more details on valuation techniques and inputs used for the estimates presented in financial statements. Most of the respondents (48%) answered that a higher frequency of preparation/ publication improves financial reporting.

Only a few of the respondents answered saying they do not know if the above stated characteristics of financial statements will lead to improved financial reporting in our country.

The availability of this information will help enterprises operating in our economic environment to set up the same comparative basis for accounts of financial statements.

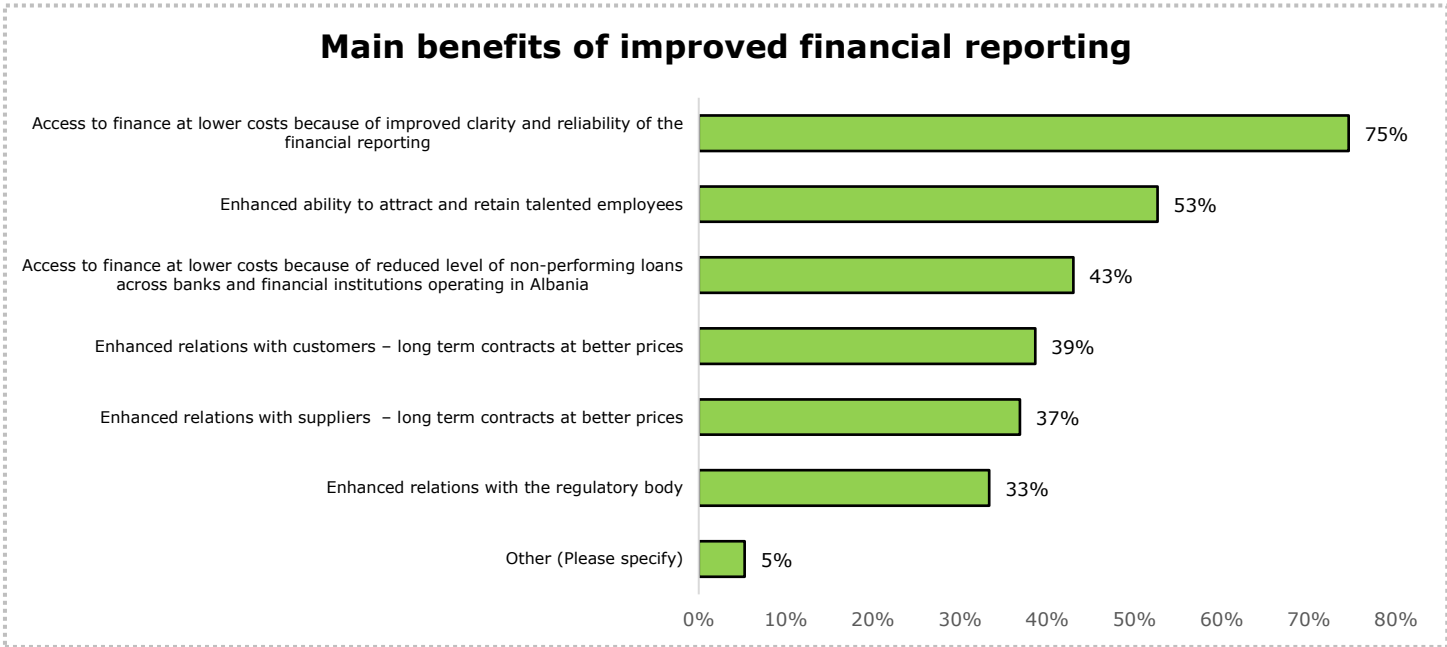


Graph 29: Areas for improving financial reporting in Albania

30. Based on your experience/opinion, what are the main benefits of improved financial reporting?

Financial reporting is a communication between an enterprise and those who provide resources to that enterprise. The purpose of financial reporting is to provide a clear picture of the enterprise's financial situation. By taking into consideration the improvement of the financial reporting process, the enterprises weigh the cost of making accounting changes versus the benefit of those changes to investors. For this reason, 75% of the preparers have responded that this led to access financial information at lower costs due to the improved clarity and reliability of the financial reporting.

Financial statements contain information on financial profitability, liquidity and management indicators that provide a more detailed and easily comparable overview with other enterprises in the same sector. Therefore, 53% of prepares have responded that it enhances the ability to attract and retain talented employees.



Graph 30: Main benefits of improved financial reporting

Conclusions

The survey results provide empirical data on the perception of preparers regarding financial reporting in Albania.

A large number of survey participants represent enterprises and clients that are classified as small and medium sized entities and large entities not PIE, mostly owned by private local investors and private international investors. These enterprises and clients operate in economic sectors such as the financial service, insurance, retail, consumer services, transportation, telecommunication service, insurance, real estate, power, public utilities, etc.

The results also imply that preparers employed in the above-mentioned enterprises use IFRS more than NAS and preparers that operate in professional practice use NAS more than IFRS. These standards applied by preparers provide indications on the models used by them in preparing financial statements.

In different extent, when preparing financial statements, preparers consider the interests of various stakeholders such as shareholders, regulatory bodies, tax authorities, lenders, investors, depositors, suppliers, clients, employees etc. Tax authorities, shareholders, lenders, investors, and regulatory bodies are considered as the main stakeholders. Preparers report to them in a monthly, quarterly, semi-annual or annual basis.

Preparers also indicated that enterprises and clients that they represent used different IT applications for accounting purposes, and they were more likely to use the general accounting ledger. It provides a complete record of financial transactions over the life of the enterprise as it keeps records on the value of assets, liabilities, owners' equity, revenues and expenses, which are key indicators while considering important financial and non-financial decisions.

Based on the results of the survey, the number of staff engaged with financial reporting varies from 2 to 10 employees with a cumulative experience from 2 to 15 years.

The responses however, also suggest that there is a need of improvement in financial reporting through higher level of details, more explanatory information on the numbers, more clarity on third party relationships, and further details on exposure towards risks as well as risk management activities.

Overall, there is a positive improvement in the quality of financial reporting today as compared to 5 years ago. However, there is still much more to be done in the context of the reform in improving financial reporting in the country. Worth considering is the fact that preparers are conscious about the benefits the reform will bring to the financial reporting situation in Albania.



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