



Raising the Awareness on the Benefits of Good Financial Reporting

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

User's survey

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Introduction

The World Bank Group has initiated the strengthening of financial reporting in south Europe through the “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 and 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 as it will 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 to assess the quality of financial reporting 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 users and preparers of financial reporting.

After an in-depth assessment of the current situation and the Public Awareness Strategy, Deloitte conducted the first survey to target the users of financial reporting such as banks, commercial companies and public institutions, etc. aiming to understand their perception on the quality and accuracy of the financial statements and audit reports, as well as the use of financial reporting and recommendations for improvements.

Executive summary

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

The survey for users of financial reporting contains 17 questions and requires an average time of 15-20 minutes to complete.

Most of the questions are designed with multiple-choice answers and adequate space for less structured answers. Targeted users for this survey were groups of interest such as Bank of Albania, Albanian financial supervision authority, lending institutions, banking and non-banking institutions, INSTAT, insurance companies, shareholders, universities, etc.

All users from the categories previously mentioned responded to our request for completing the survey and provided their opinions and support for the improvement in the quality of financial reporting in Albania.

This questionnaire was disseminated electronically through survey monkey and marketed in social media. Responses are analyzed as described in the sections below.

The respondents were asked about economic sectors they hold interest. Most of them hold interest in financial and insurance industry, as they are the main users of financial statements and financial reporting. The respondents were also asked about their objectives on financial reporting, types of financial statements they use, standards they prefer, issues or problems they face with financial statements and what is needed to improve financial reporting in Albania.

Despite the significant improvement of the financial reporting situation in Albania during the last five years, the respondents expect additional significant changes and more focus on the quality of financial reporting. Everybody knows the benefits of good financial reporting and is ready to accept the challenges that it brings.



Survey participants

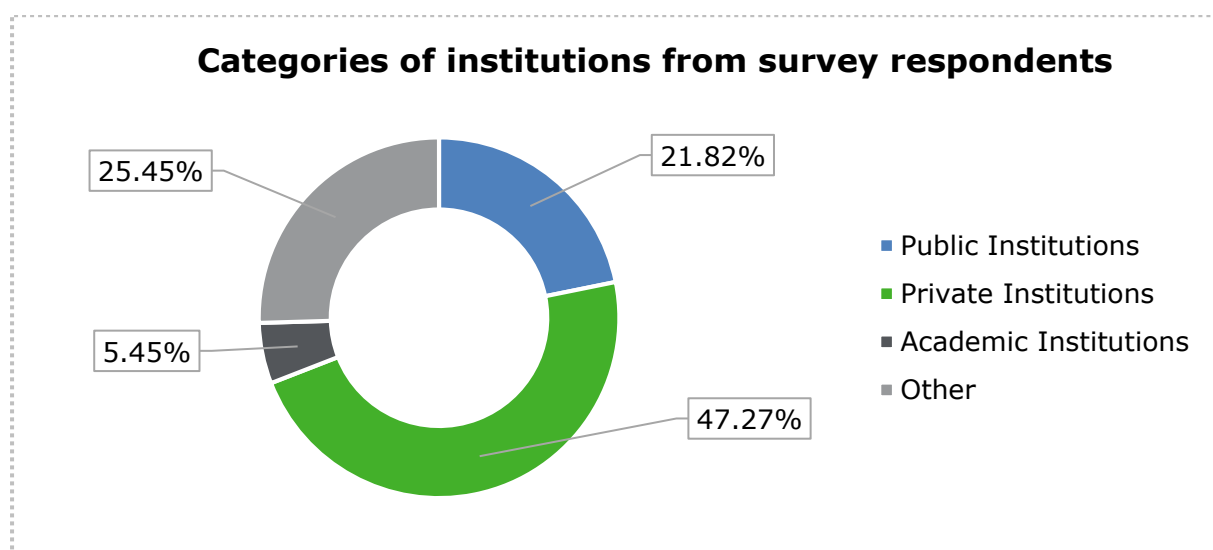
A considerable number of users responded to our request for completing the survey. Our target included financial and non-financial institutions, commercial enterprises, public and private institutions, as well as academic institutions, etc.

1. Indicate the institution you represent and position (optional).

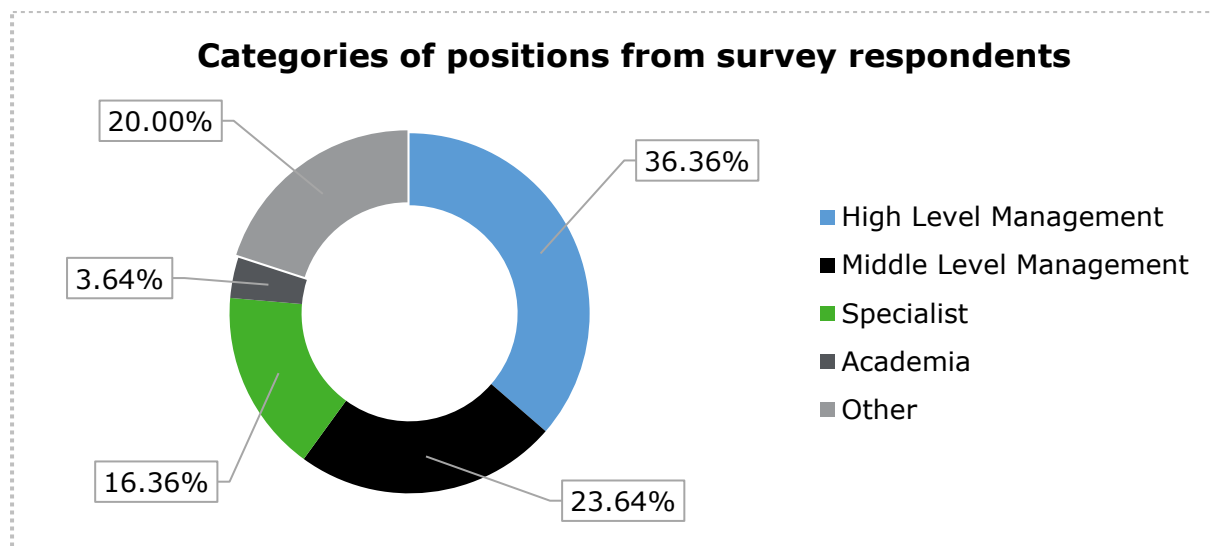
We classified the institutions of the respondents of users survey as public, private and academic while their position as high management, middle management, specialist or professional in academia).

According to this division, graph no.1 shows that 47.27% of the respondents represent private institutions, 21.82% represent public institutions, and 5.45% represent academic institutions. In addition, 25.45% did not specify the institution they work for, so they are categorized as "other".

As we see in graph no.2, respondents from high-level management are the majority with 36.36%, followed by middle level management, 23.64%; specialists, 16.36%; and professionals in academia, 3.64%. Financial reporting is a key element that leads to strategic decision making in the private sector and public institutions. This explains the highest percentage of responses from high-level management. The remaining 20% did not specify the position they hold in, so they are categorized as "other".



Graph 1: Categories of institutions from survey respondents



Graph 2: Categories of positions from survey respondents

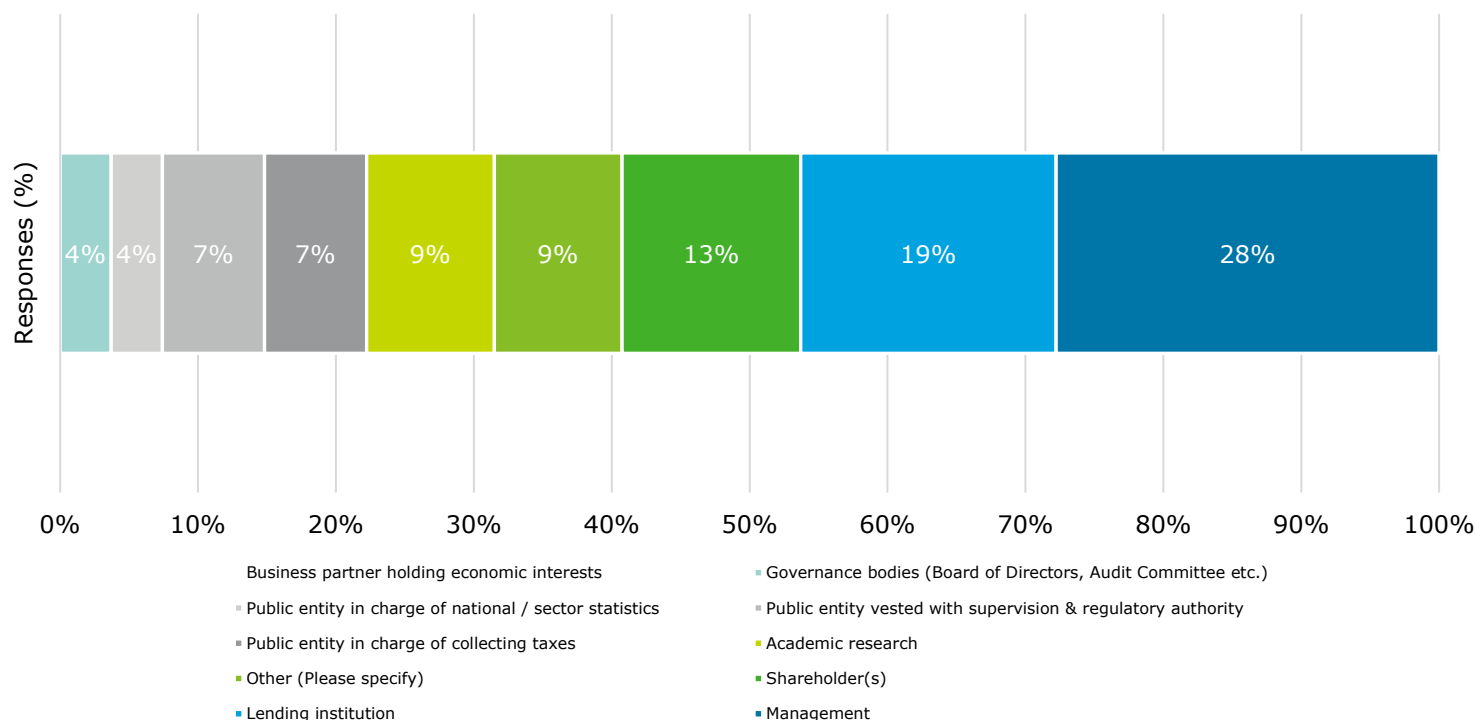
2. Indicate the group of interest you represent.

In order for this questionnaire to be as comprehensive as possible, our survey aims a broad categorization of interest groups. Respondents have defined the interest groups they represent as management, regulatory bodies, academics, shareholders and other stakeholders. As we see in graph no.3, management in various industries is the main group of interest with a value of 28%. It has a widespread use of financial reporting, since reporting is a key element that leads to strategic decision-making in the private sector.

Public institutions (Ministries, Bank of Albania, Institute of Statistics, The General Directorate of Taxation, etc.) also have a considerable number of responses (22%). This is an indicator that these institutions have had a serious commitment in completing the survey. These regulatory institutions have a key role in drafting policies aiming at the improvement in the quality of financial reporting in Albania.

The inclusion of academics, as one of the participant interest groups, brings additional views to our survey. This occurs as academics use financial statements not only for research and development purposes, but also to educate people who are seeking to continue their professional journey in the accounting and finance field.

Main groups of interest from the respondents



Graph 3: Main groups of interest from the respondents

3. Indicate your objectives with the financial reporting of the corporate entities:

The objectives of users of financial reporting in their organizations are diverse from a wider use to a more specific one, depending mostly on the purpose of using it.

According to graph no.4, most of the respondents (35%) indicate that their objectives refer to data gathering and analysis. Respondents indicate the use of financial statements administrative issues such as legal purposes, regulatory or monitoring the sector parameters and other specific targets such as data gathering and analysis of statements in several industries. Users can easily measure liquidity, asset or activity management, debt, profitability, or firm value through financial reporting. As a country in transition, foreign and domestic investments are growing rapidly and this has led to an increased demand for money. These investors have an increasing need for borrowing, which is why it is very important for lending institutions to continuously monitor the enterprise's financial statements in order to give a fairer judgment about the financial situation of potential borrowers and to limit any errors in performance evaluation. The main objectives of the respondents on financial reporting are also shown in figure 1.



35%

Data gathering and analysis



26%

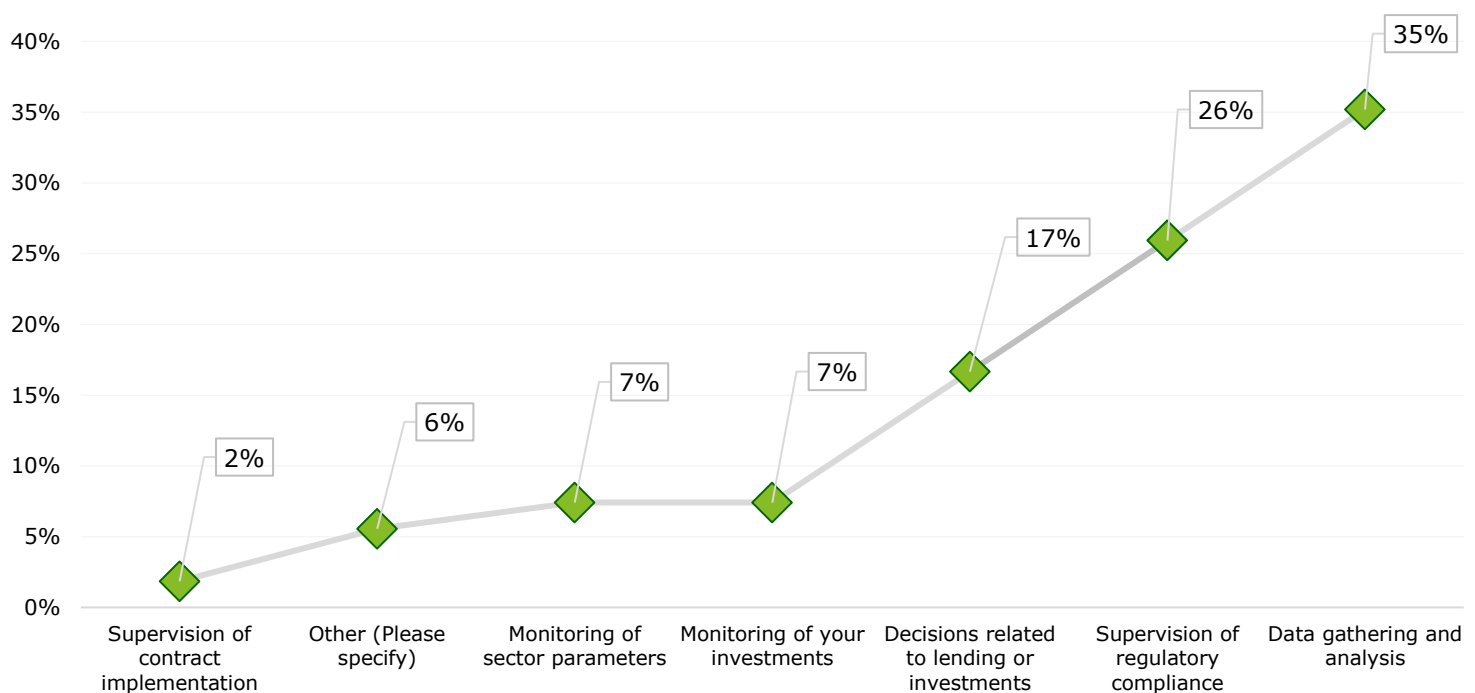
Supervision of regulatory compliance



17%

Decisions related to lending or investments

The objectives of the respondents on financial reporting in Albania:



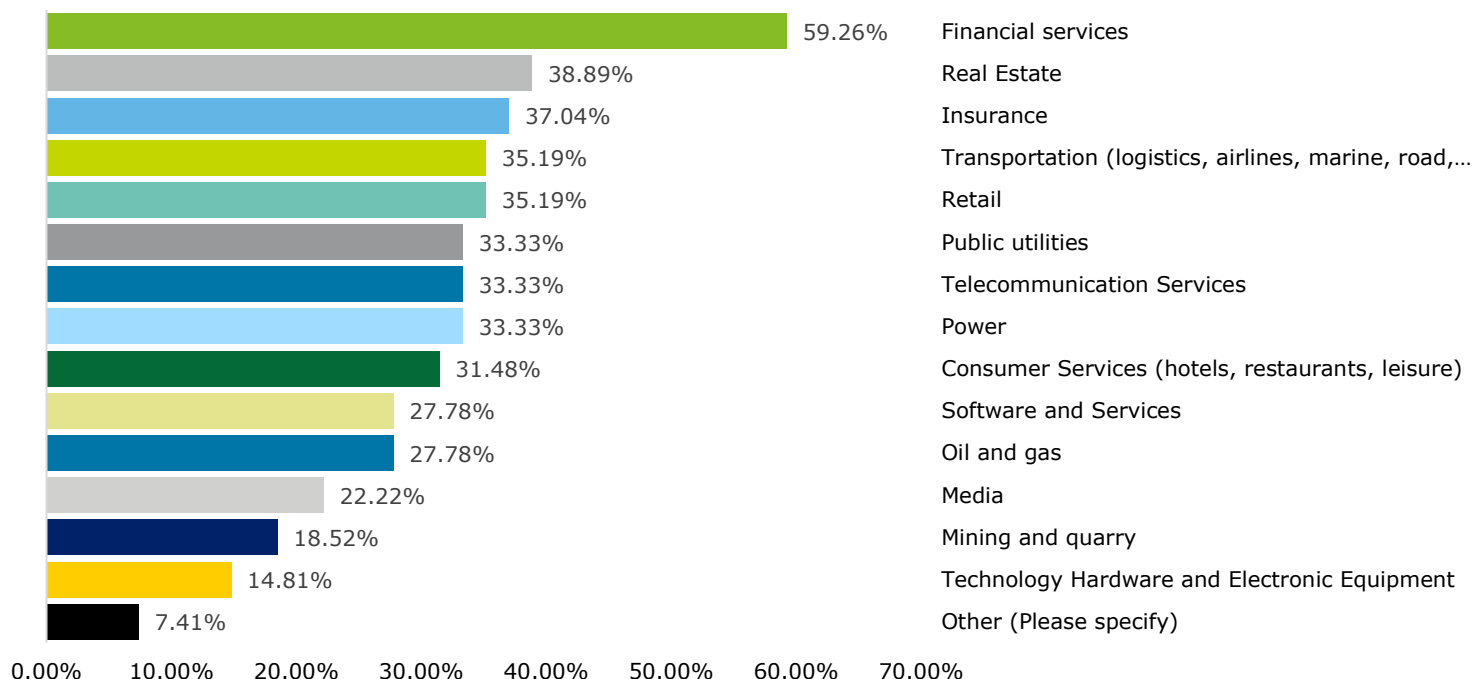
Graph 4: Main groups of interest from the respondents

4. If you hold an interest in the financial reporting of any public or private entities, please indicate in what economic sector this entity belongs.

Among the main economic sectors taken in consideration to measure the country's GDP¹ 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.

¹ Source: www.instat.gov.al

Sectors of economic interest in the financial reporting



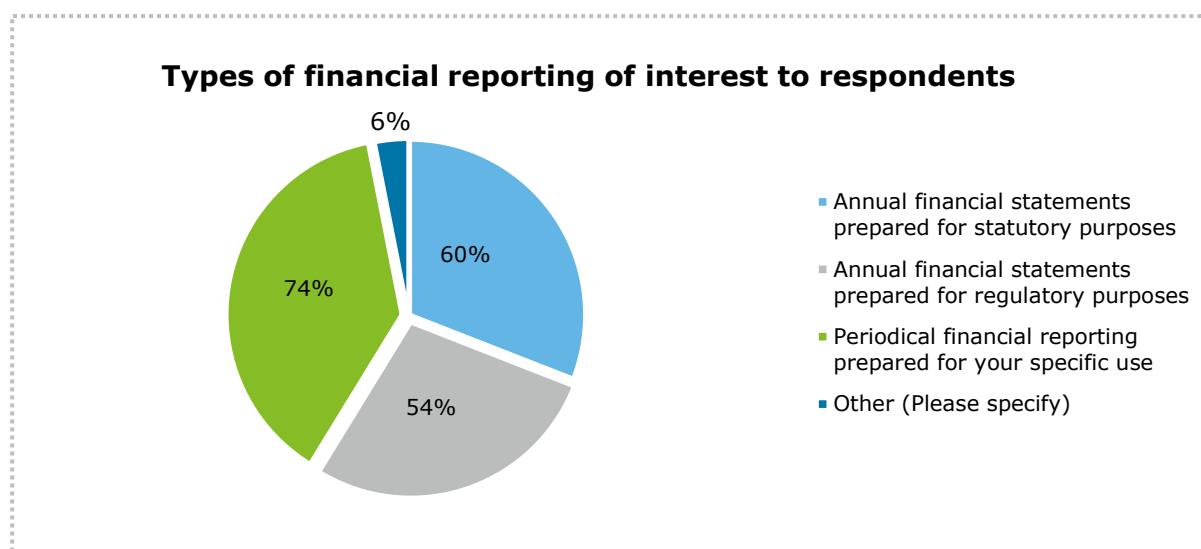
Graph 5: Sectors of economic interest in the financial reporting

According to this division, graph no.5 shows that most users of the financial statements are people who are engaged in the financial and insurance sector (96%), since they are directly related to the nature of business of the companies operating in this sector. The role and support of banks, leasing companies and other insurance creditors is very important to Albanian entities (especially for small and medium enterprises) that do not have access to capital markets. In regards to this matter, banks need to access information on a regular basis on financial reporting of entities seeking to rely part of their operations on bank lending. The information and communication sector is another sector where there is an increase in the use of the financial statements. The new technologies evolving in this sector are the ones causing this progressive change in reporting. New technologies require large amounts of investment, and investors are informed about the enterprise's performance through these financial statements.

Some of the respondents are involved in more than one sector, making it a cross-sectorial interaction, which emphasizes the importance of financial reporting in sectorial economic growth and overall national economic development.

5. What types of financial reporting do you use in pursuing your interests? Mark all those that apply.

Companies use annual, semi-annual, quarterly or monthly financial statements for pursuing their interests and meeting their objectives. In order for the question to be as comprehensive as possible, periodic reporting is also included.



Graph 6: Types of financial reporting of interest to respondents

Most of the respondents use periodical financial reporting (74%) that are prepared for their own use in order to understand and obtain a clearer picture of the enterprise's financial position. During the year, the enterprise is exposed to different financial account changes and financial transactions so periodical financial reporting enables a step-by-step performance evaluation, and it avoids potential errors and adverse situations. As shown in graph no.6, 74% of the respondents use annual financial statements for statutory purposes prepared to meet reporting needs of stakeholders including owners' legacy, lenders, fiscal administration, and to a certain extent, the needs of regulatory bodies. The lowest value is 54%, which relates to the use of annual financial statements prepared for regulatory purposes. Even though the percentage of use of annual financial statements prepared for regulatory purposes is lower than the need to use annual financial statements prepared for statutory purposes and periodical financial reporting, it remains a key element for strengthening financial reporting in Albania.

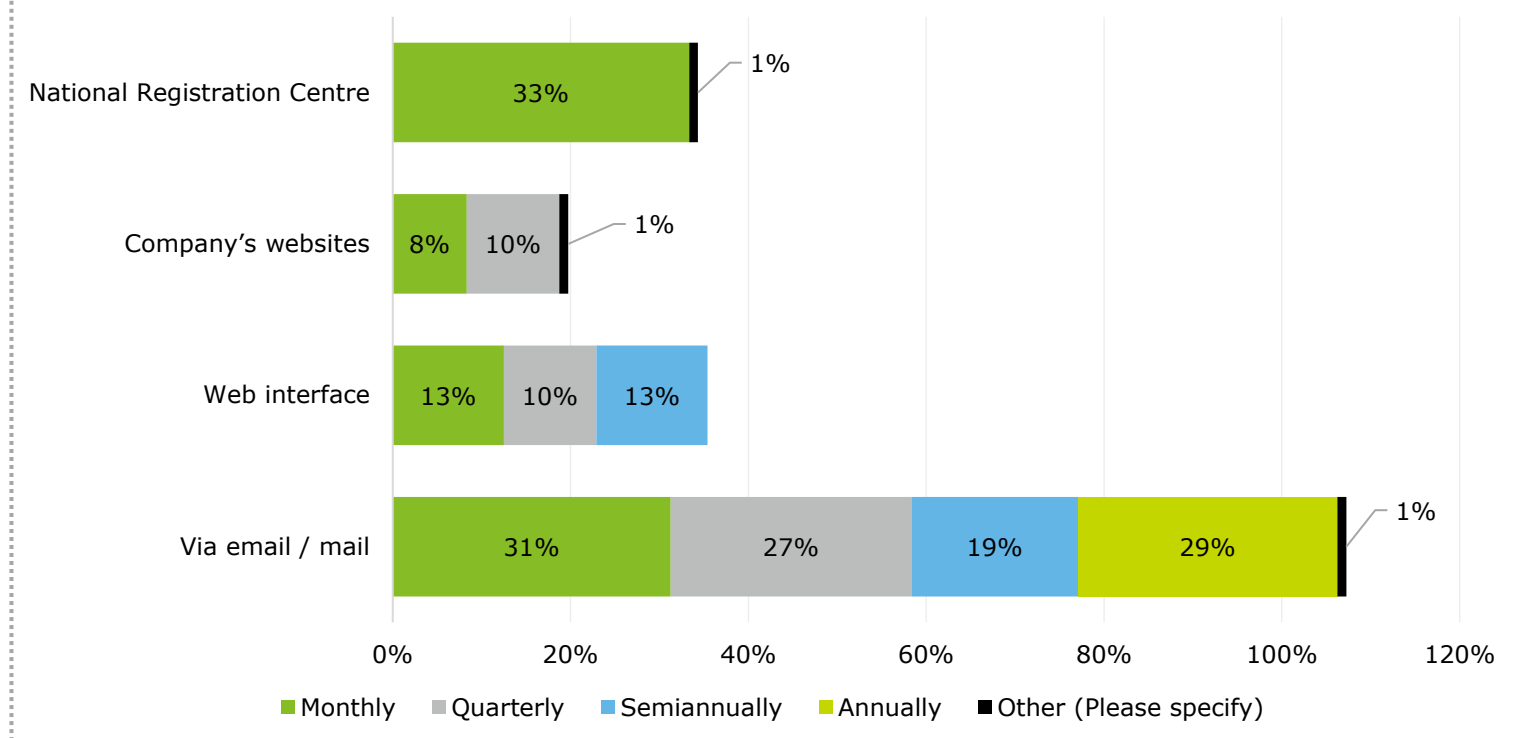
6. Indicate how often you receive updated financial reporting and the means for receiving these statements:

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

As it is shown in graph no.7, users of financial reports receive the financial reports not only annually, but also monthly, quarterly and semiannually. Responses indicate that the most common way to receive reports is via e-mail. This is related to the fact that the largest group of respondents are in senior management levels and they are informed about financial reporting through their e-mails.

The web interface is used by 36% of the respondents while 33% of them use the national registration center website as a source to find financial reports of required periodicity.

Means of receiving updated financial reporting



Graph 7: Means of receiving updated financial reporting

7. Please indicate in which of the following groups the entity(ies) you hold an interest in are classified. Mark as many answers as necessary.

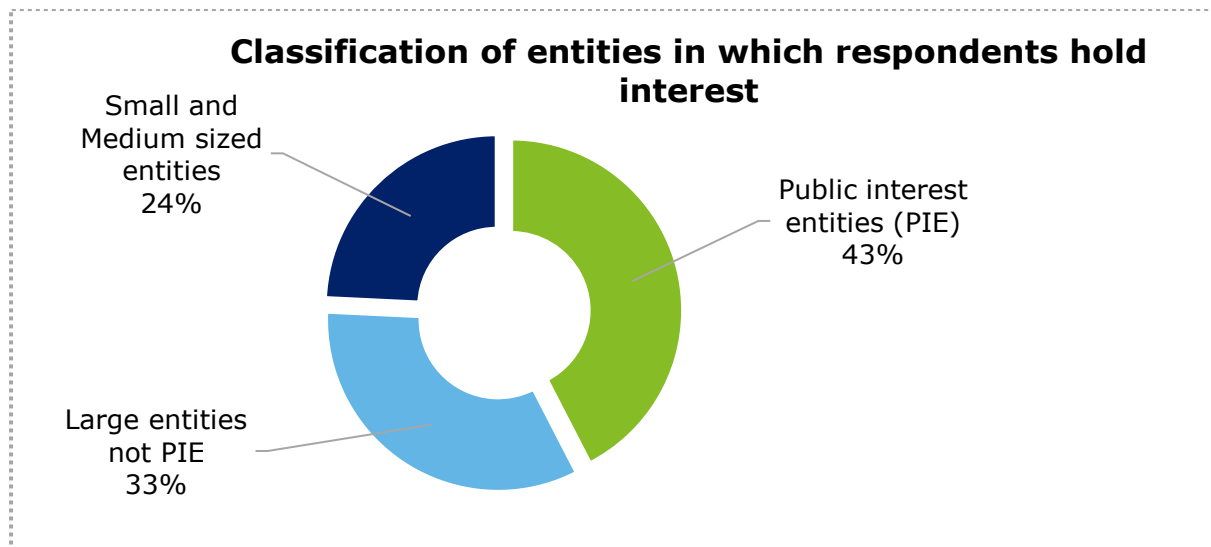
Question no.7 tends to understand in which group the entity that the respondent holds an interest in is classified.

Based on the respondents answers for question no.7 and question no.4, most of the respondents hold an interest on Public Interest Entities² (PIE) (57%), followed by large entities not PIE³ (45%). The lowest percentage recorded is on small and medium sized entities.

Most of the respondents are from PIE and large entities not PIE, implying that they are supporting this survey as part of the initiative for a better financial reporting quality in Albania.

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 institutions licensed in Albania, insurance and re-insurance companies, companies 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 Large entities not PIE include non-PIE entities meeting at least 2 of the following 3 criteria: employing over 250 staff, owning assets worth above Lek 750 million, generating an annual revenue above Lek 1,500 million.



Graph 8: Classification of entities in which respondents hold interest

8. Indicate to what extent you prefer one set of accounting standards to the others:

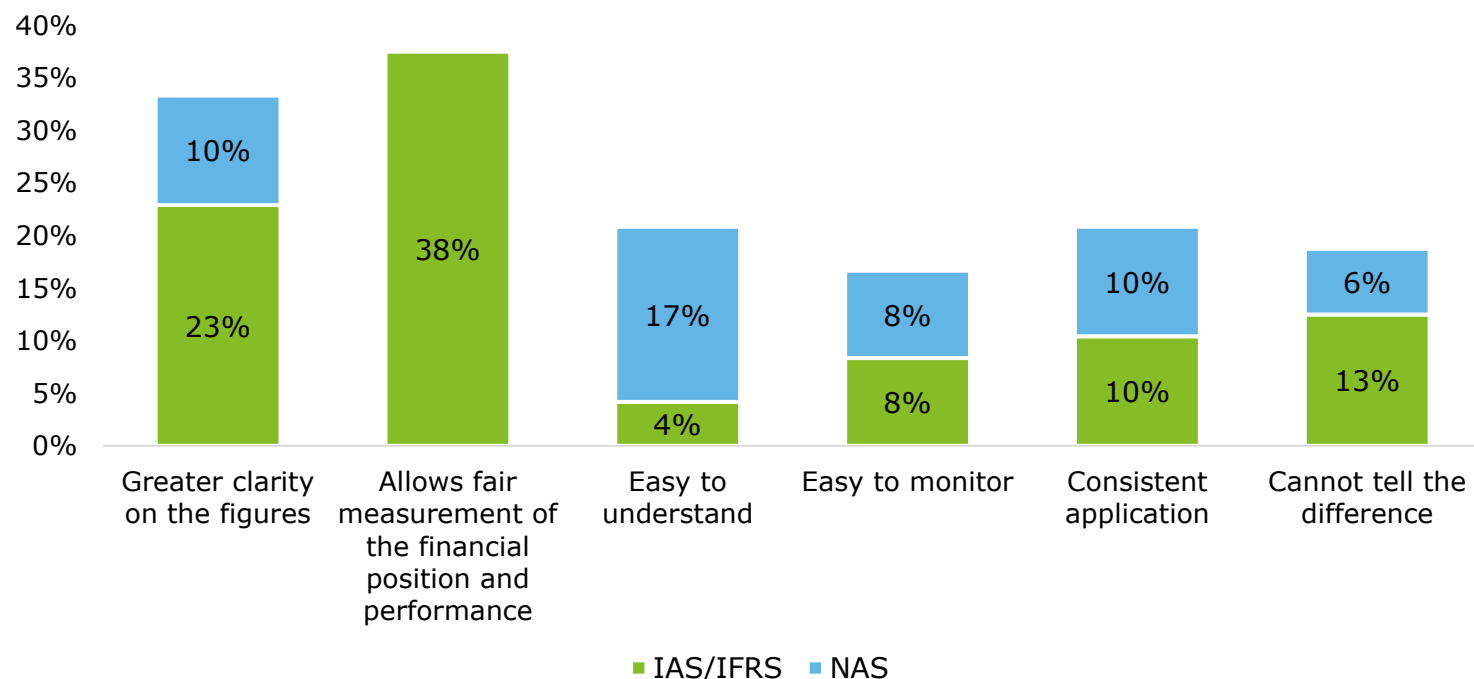
Current regulatory provisions in Albania require entities to apply either International Financial Reporting Standards⁴ (IFRS) published by International Accounting Standards Board⁵ (IASB) or the National Accounting Standards⁶ (NAS) published by the National Accounting Council for statutory accounting and reporting purposes. IFRS are mandatory for adoption by all corporate entities classified as public interest entities.

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 The International Accounting Standards Board is the independent, accounting standard-setting body of the IFRS Foundation.

⁶ National Accounting Standards are accounting standards compiled by the National Accounting Council, which are applicable only for companies that operate and report in Albania.

Preference of respondents to the use of set of accounting standards



Graph 9: Preference of respondents to the use of the set of accounting standards

Based on the law for the use of IFRS and NAS, this question aims to better understand the extent at which the respondents prefer one set of accounting standards to another set based on its clarity and understanding, fair measurement of the financial position, monitoring and consistent application.

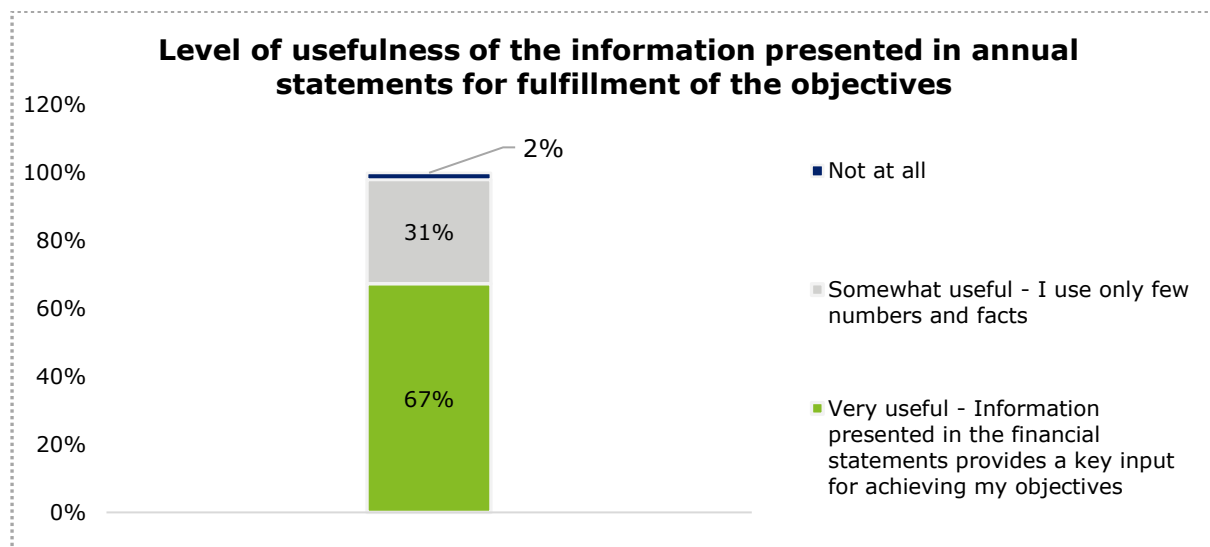
Despite the latest law for the use of IFRS, most of the respondents think that NAS is easier to understand than IFRS. This comes as a result of the bibliography for the two applied standards. NAS can easily be found in Albanian literature, while IFRS cannot, which can cause confusion in understanding.

As shown in graph no.9, the level of understanding is also higher for National Accounting Standards. However, the level of clarity is greater in IFRS and it allows a fairer measurement of the financial position and performance. In addition, the respondents think that in a consistent application of IFRS and NAS, it is easier to monitor financial reporting in Albania.

9. Indicate to what extent you find the information presented in the annual financial statements prepared for statutory purposes useful for the fulfillment of your objectives:

An enterprise publishes financial statements to show its financial performance to the public in order to attract new investments. By running through the accounting reports of the enterprise, investors can have better ideas about how to attract new customers, innovate new products and services, and design more efficient operating processes. The analysis is also a measure of the performance of the

departments of the enterprise by pointing out the sectors that are causing losses while finding an effective way to reduce costs in order to maintain profitability.



Graph 10: Level of usefulness of the information presented in annual statements for fulfillment of the objectives

In the meantime, public institutions are working to unify the standards for financial reporting by drafting financial statements that have the same comparative basis with the private sector. Based on the financial statements drawn up in accordance with national or international accounting standards, users of these statements find them more practical to make the necessary analysis and comparisons as the key input in achieving their objectives. The majority of the respondents (67%) find the information presented in the annual financial statements prepared for statutory purposes very useful for the fulfillment of the objectives.

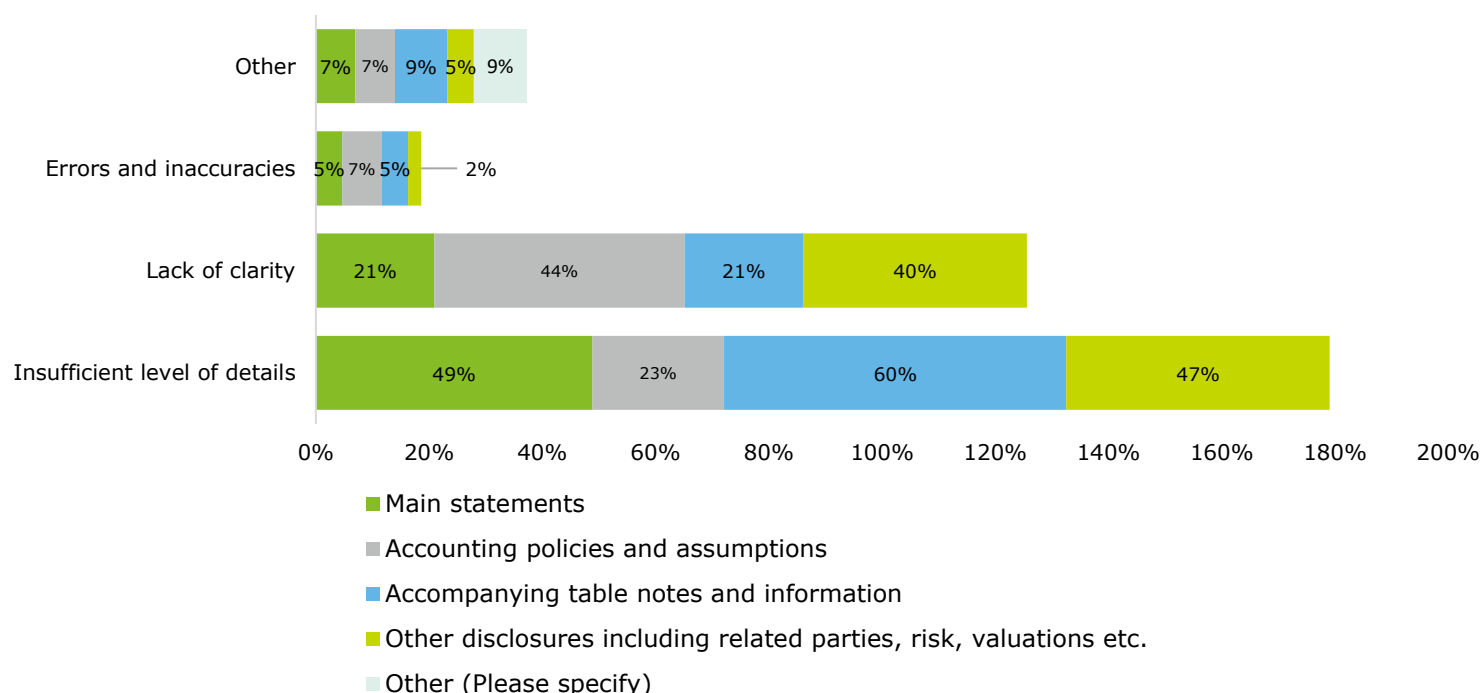
10. Indicate, based on your experience, what are the current issues with the annual financial statements prepared for statutory purposes:

With reference to the main financial statements, which are generated by different sectors of the economy and which can easily be accessed by users, 49% of the respondents indicate that insufficient level of details is the main issue for the annual financial statements prepared for statutory purposes.

Regarding accounting policies and assumptions, 44% of the respondents indicate that the lack of clarity is the main issue for the annual financial statements prepared for statutory purposes.

In relation to accompanying table notes and information, 60% of the respondents indicate that the insufficient level of details is the main issue for the annual financial statements prepared for statutory purposes. For other disclosures including related parties, risk, valuations, 47% of the respondents indicate that the insufficient level of details is the main issue for the annual financial statements prepared for statutory purposes.

Current issues with the annual financial statements prepared for statutory purposes



Graph 11: Current issues with the annual financial statements prepared for statutory purposes

By referring to graph no.11, the respondents have answered that the main issue for the annual financial statements prepared for statutory purposes is the insufficient level of details. This happens because some of the reporters still use old templates, which unlike the new templates based on IFRS or NAS contain less explanation, mostly focused on the main items in the financial statements.

11. List up to 3 items that you would like to find in the annual financial statements in addition to those currently included.

As this questionnaire aims at assessing the quality of financial reporting in Albania, we also included open questions to understand what additional information the respondents would like to find in the annual financial statements in addition to those currently included.

The most common answer in this question is the need for a cleared financial note and more detailed information to reflect the changes of financial statement accounts in accordance with the standards (12 answers), especially for material changes. A detailed financial note helps the respondent 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.

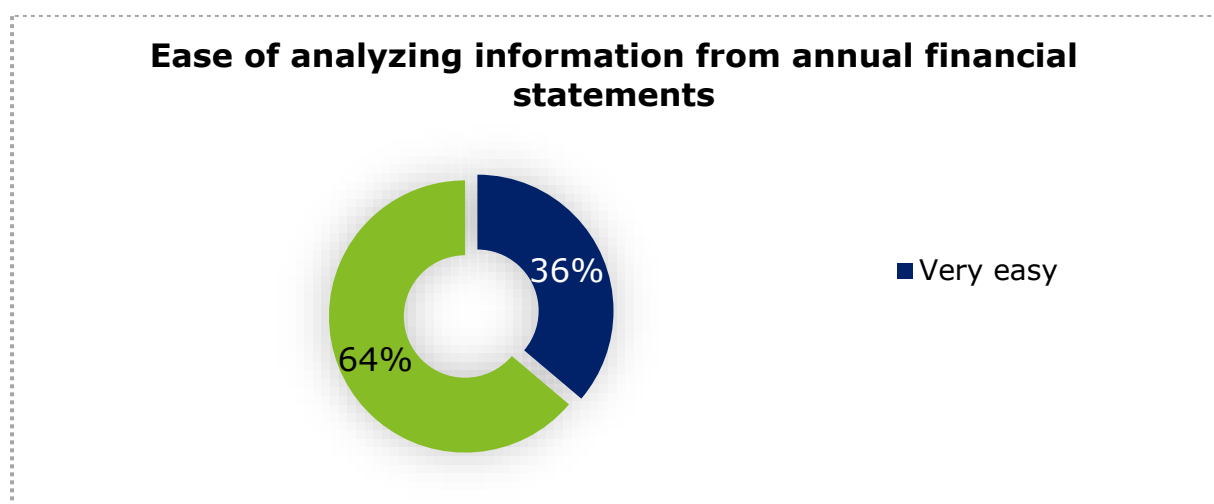
These answers are characterized by a uniformity of standards and their correct application in similar industries (7 answers). The standards should be applied correctly and unified based on similarities among industries to ensure an easier comparison and to avoid confusion.

Another common answer given by the respondents is the level of clarity about risk management policies and their classification. People who either tend to invest in different enterprises or receive services from these enterprises usually need to be informed about risk policies when making important financial decisions. If an enterprise defines objectives without considering the risks, chances are that they will lose too much when risks appear. Considering this, risk policies need to be clearly defined in the financial statements in order to minimize any issues or costs that may arise in the future.

Details on important engagements and contracts are also an important item that respondents would like to find in the annual financial statements. This is because these accounts have a considerable weight in financial statements that need to be considered when making important financial decisions.

12. Please indicate how easily you can analyze the information derived from the annual financial statements.

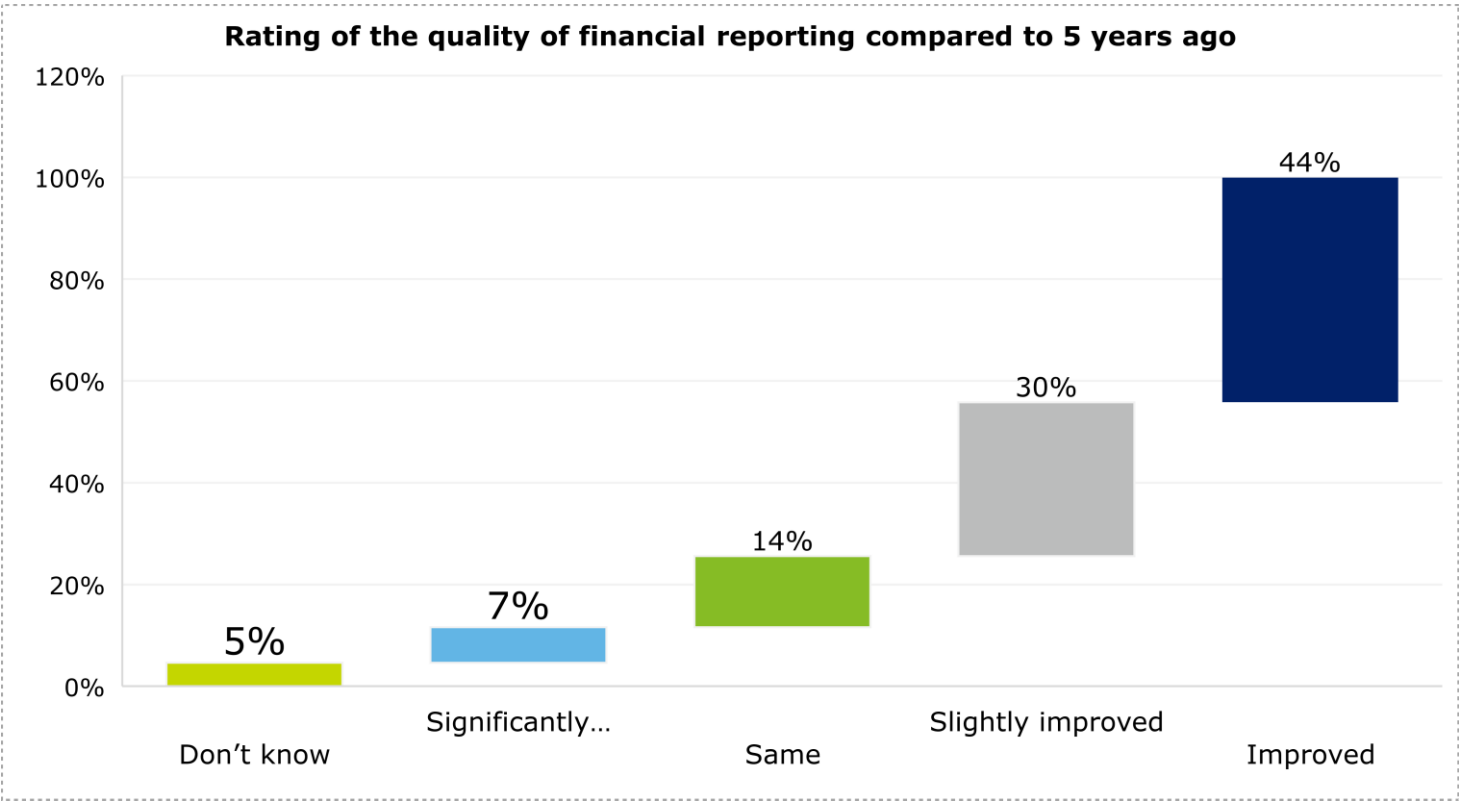
Financial analysis is a process of selecting, evaluating, and interpreting financial data, along with other pertinent information, in order to formulate an assessment of an enterprise's present and future financial situation and performance. Therefore, in order to achieve a right assessment of the financial performance, users should find the information derived from annual financial statements useful and easy to understand. The survey indicates that most of the respondents (64%) have found the analysis of the information derived from the annual financial statement somewhat easy.



Graph 12: Ease of analyzing information from annual financial statements

13. Based on your experience, please rate the quality of financial reporting today as compared to 5 years ago.

The majority of respondents (44%) admit that there is an evident improvement of the quality of financial reporting in Albania as compared to 5 years ago, but there are also 30% of the respondents who admit that there is a slight improvement in the quality of financial reporting in Albania. They have expectations for additional changes that will focus on the quality of financial reporting.



Graph 13: Rating of the quality of financial reporting compared to 5 years ago

Only a minority of the respondents, 14%, agree that the quality of financial reporting today is the same as compared to 5 years ago. Most of them are from the audit/risk group with a consistent use of the financial statements in various industries.

14. Based on your opinion and your needs, to what extent are the following necessary to improve the quality of the financial statements.

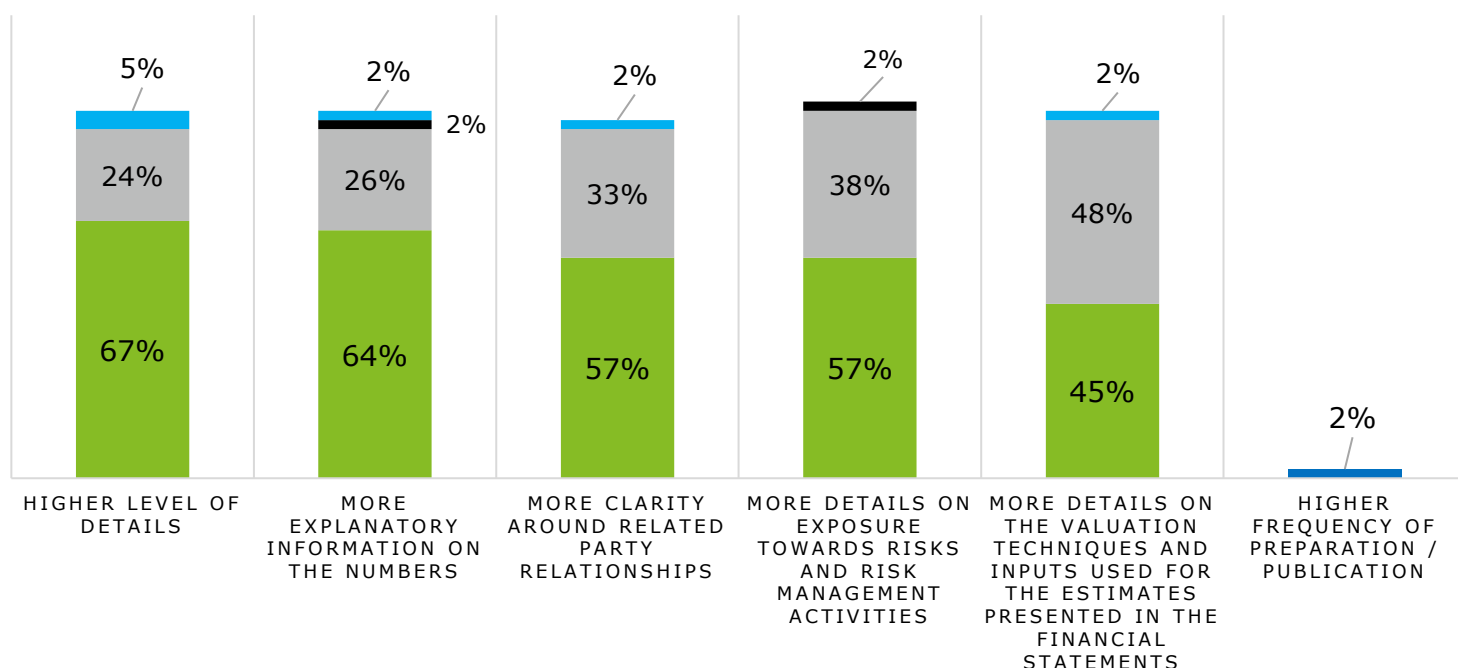
The financial statements should give a real picture of the financial situation that the entity is going through at any given moment.

According to the answers of the respondents, there is a need for improvement, because an average of 58% of the respondents find it very necessary for improvements in the provision of : (i) 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 the valuation techniques and inputs used for the estimates presented in the financial statements. Most of the users of financial reporting (67%)

found it very necessary for the financial statements to include higher level of details in order to better understand the financial situation.

IMPROVEMENTS NECESSARY FOR BETTER FINANCIAL REPORTING

■ Very necessary ■ Somewhat necessary ■ Not at all ■ Don't know ■ Other



Graph 14: Necessary improvements in financial reporting

In addition, some of the respondents (an average of 34%) found somewhat necessary the improvement in: (i) higher level of details, (ii) more explanatory information on the numbers, more clarity around related party relationships, more details on exposure towards risks and risk management activities, more details on the valuation techniques and inputs used for the estimates presented in the financial statements. Most of the respondents (48%) answered that more details on the valuation techniques and inputs used for the estimates presented in financial statements improve financial reporting significantly. The availability of this information will help enterprises operating in our economic environment to set up the same comparative bases for accounts of financial statements.

Only a few of the respondents answered that they do not know whether a higher level of details, more explanatory information on the numbers, more clarity around related party relationships, more details on exposure towards risks and risk management activities or more details on valuation techniques and inputs used for the estimates presented in the financial statements, can improve financial reporting in our country.

15. Indicate the main deterrents to the improvement of quality of the financial statements. Mark all that apply.

In response to the need for continuous improvement in our financial reporting system, the purpose of this question is to understand the main deterrents in the improvement of the quality of financial statements.

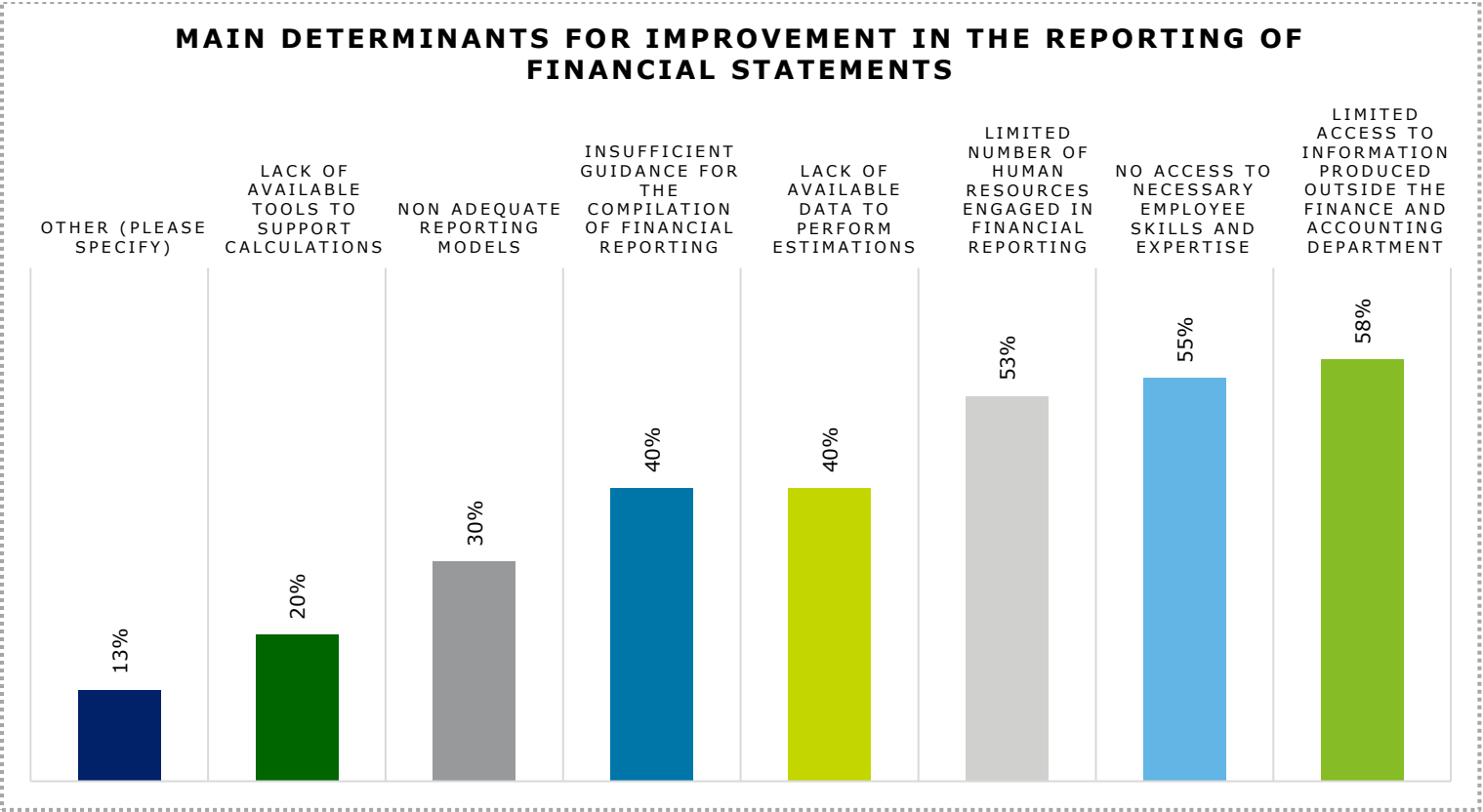
Limited access to information produced outside the finance and accounting department is one of the main deterrents that respondents face regarding the improvement of the quality of the financial reporting.

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 and other units outside or inside the enterprise is key for improvement of the overall financial situation and performance.

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

As we see on graph no.15, the respondents have also provided other answers except the ones that we have indicated.

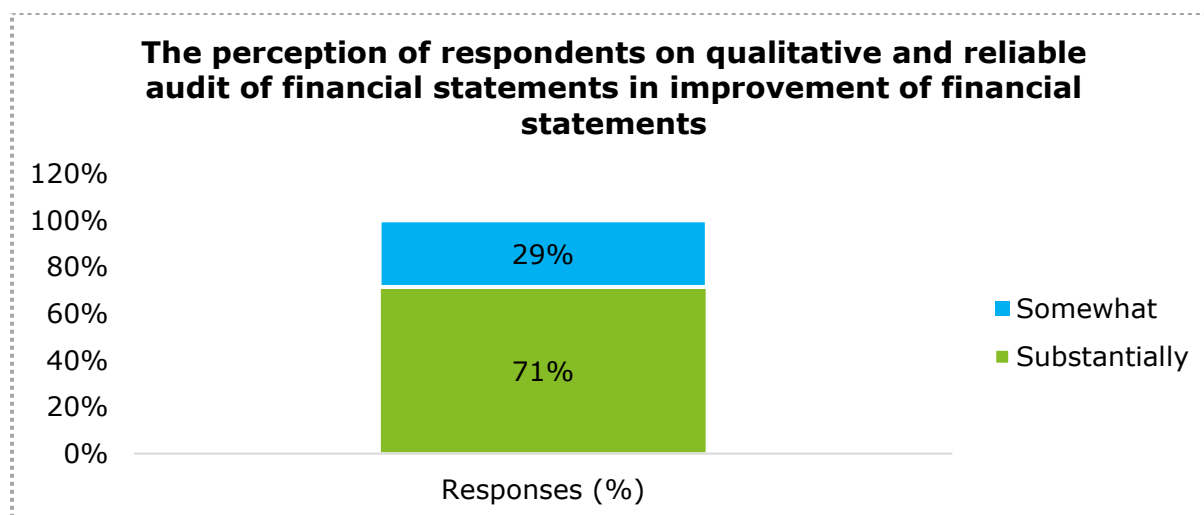
Some of the other deterrents in the improvement of the quality of financial statements indicated by them were the lack of attention given to this statements by the regulatory and controlling bodies as well as the high costs of ensuring correct financial reporting. Taking into account the responses, there are no facilitating effects for enterprises that apply standards in reporting, compared to those that do not disclose them to the fiscal authorities, financing from banking institutions, subsidies from government institutions, etc.



Graph 15: Main determinants for improvement in reporting of financial statements

16.To what extent do you think that qualitative and reliable audit of the financial statements will lead to improvements in the financial statements:

An audit financial statement is the examination of an entity's financial statements and accompanying disclosures by an independent auditor. The result of this examination is a report by the auditor, attesting the fairness of the presentation of the financial statements and related disclosures.



Graph 16: The perception of respondents on qualitative and reliable audit of financial statements in improvement of financial statements

The purpose of a qualitative and reliable audit financial statement is to add credibility to the reported financial position and performance of the enterprise. Our respondents indicate that increased quality and reliability in the auditing of financial statements will lead to improvements of financial reporting.

17. What are, based on your experience/opinion, the main benefits from improved financial reporting? Mark all that apply.

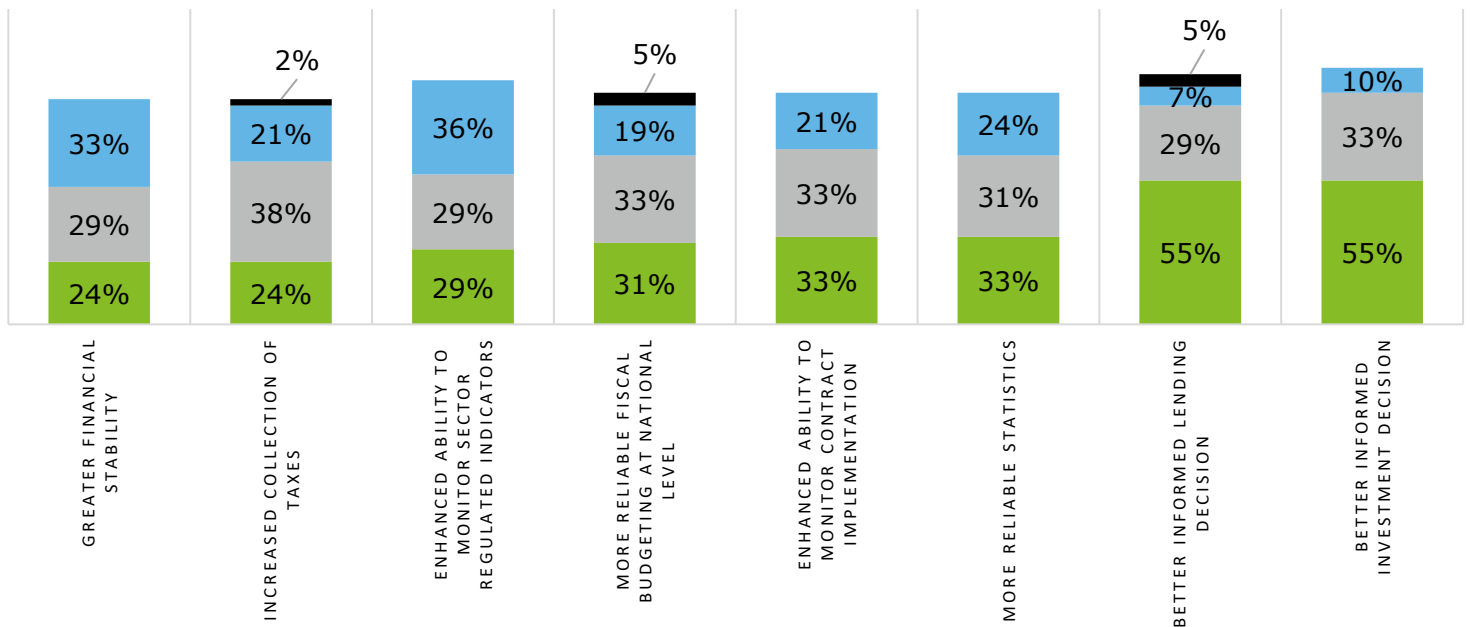
An improved financial reporting, allows the management and specialists of lending institutions to obtain a clearer and more comprehensive view of the financial situation of the enterprise. As such, their decision in lending or not becomes easier and more effective in the future.

Most of the respondents (55%) think that greater clarity and comprehensiveness in financial reporting will bring improvements in financing through lending institutions as the information in the financial statements will be more reliable.

Furthermore, from the improvement of financial reporting, the general directorate of tax, receives from these statements an accurate and fair representation view of the financial situation of the enterprises operating in the country. Therefore, they can collect their correct amount from these statements.

THE MAIN BENEFITS OF IMPROVED FINANCIAL REPORTING

■ Greater clarity and comprehensiveness
 ■ Accurate and fair representation
 ■ Consistency in applying standards
 ■ Other



Graph 17: The main Benefits of improved financial reporting

Conclusions

The results of the survey provide the first empirical data about the perception of the respondents about financial reporting in Albania.

The survey obtained information from a diverse group of academic, government institutions, private and public financial institutions, non-financial institutions, etc. The survey data provide evidence about how the respondents perceive the situation of financial reporting in Albania and how to improve it.

A large number of survey participants held interest in PIE and large entities, not PIE and economic sectors such as financial service, insurance, real estate, retail, transportation telecommunication service, power, and public utilities.

The results also indicate that users objectives are mainly oriented on data gathering and analysis, which justifies the periodical financial statements that they use. As indicated in the questions, users cannot easily analyze the information derived from the annual financial statements. Taking into account that the participants find it more feasible to analyze and gather data, the level of ease of analyzing the derived information from the annual financial statements should be greater.

Based on the survey results, users would like to find information that is more detailed such as: (i) more financial notes, (ii) risk management policies, (iii) standards uniformity, (iv) details on important engagements and contracts, (v) etc.

Another notable highlight was that financial reporting users prefer IFRS than NAS because it allows a greater clarity on figures and fair measurement of the enterprise's financial position and performance.

In addition, the responses suggest that there is a need for financial improvement reporting through higher level of details, more explanatory information on the numbers, more clarity around related party relationships, and further details on exposure towards risks as well as risk management activities that determine the appropriate actions to reduce.

Overall, the survey findings suggest that there is a considerable improvement of the quality of financial reporting today as compared to 5 years ago. However, there is still much more to do in the context of the reform.

Most importantly, the survey results demonstrate that users are aware of the changes that the reform will bring and its benefits in the financial reporting situation in Albania.



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