THE FINANCIAL INFORMATION'S VULNERABILITY

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Introduction

Mankind has evolved and developed due to the use and gathering of knowledge. Knowledge is not possible outside the information world.

Knowledge is that information that is gathered, transformed and used with different purposes.

Information is the raw material of the decision process that allows the individual or collective evolution.

Decisions are outputs, results of the system generated by the transformation model (the system).

The quality or value of the decision depends on the value of the processing system and on the value of the input information.

A big part of the information around us is of economic or financial nature. The financial information concern or make reference to macroeconomic or microeconomic processes or phenomenon. Most of them are included in the second group, coexisting with a multitude of risks.

1. The sense of financial information

The information regarding the processes that take place in the company is very different and can be regarded from many points of view.

They become means of supporting the decisions oriented towards certain purposes (on short term or long term).

Information is used by different groups of interest that act inside the company:

a. Managers
b. Owners
c. Employees

but also by groups of interest that act outside the company and are interested in the evolution of the company or business:

a. Consumers
b. Environment
c. Community
d. Government
e. Suppliers
f. Investors and so on.

The financial information can be an ally or an enemy of the information user. One should take into account the "reality behind the image". The information network builds up the image regarding the financial position and performance of the company (by generalizing, we can also refer to an economic sector).

The artificial drawing up of the financial statements is influenced by those that are included in the informational flow: managers, auditors, controllers, suppliers and information users.

The information tells us what happens or what has happened, how much reality it includes. It also tells us who are its supplier or who offers an insurance regarding the quality of the financial information.

2. The purpose of the financial information

The purpose of the financial information is the fulfillment of the objectives or offering an image of the financial state of the business.

The purpose is different if we refer to the management, owners, employees, State organisms and so on.

The owners are interested in the company's performance, in its continuity and therefore in increasing its value. On the other hand, the management is more oriented towards the profit or in other words towards the short term gains. It is interested in the bonuses or in the value transfer inside the group.

History is full of little business (of a few persons) that have lasted for hundred of years, while big companies have collapsed in a very short time. The difference was made by the rush for profit at any cost and by the informational asymmetry.

3. The rush for profit is a risk

The goal of many companies is to make profit.

In time, this goal proved to be a destructive one if it is not backed by other goals.

The goal of "creating wealth" is no better when the owners only think of themselves. Then we can face situations when the owners enjoy their wealth even when the company has no profit and faces liquidity problems.

It is easy to observe that the financial information can be maneuvered or "made up" in order to offer a different "face" of the business than the real one. The short term main objective is to gain advantages in any way. It is a destructive policy based on the failure vector: big debts and a poor increase rate; we can talk about financial passivity.

The financial information can create an opposite image, namely a state of success and security. Information is maneuvered according to the purpose it has.

Many of the information users (mainly the investors) fall in the trap of false information, altered in order to gain money, no matter about the risks (this happened with the banking system but also with important and serious foreign companies).

Therefore, the rush for profit is an important risk, a vulnerability of the information.

4. The information's asymmetry

Information can be processed in different ways, according to the final user and his needs:

a. Management of the company
b. Owners of the company
c. Third parties (outside the company)

The management, named by the owners, is interested in the short time gains and therefore it has a negative impact on the corporative governance.

The information regarding the financial position, financial performance and the changes in the financial position are at the root of the decisions taken (according to the user and its purpose):

- The managers:
  - ✓ The operation level
- The owners
  - ✓ Checking the capacity of obtaining dividends and of increasing the value
- The investors
  - ✓ Buying, selling or keeping different securities (bonds)
- The employees
  - ✓ The capacity of the company to increase wages or the possibility to change working places
- The creditors
  - ✓ The capacity to reimburse that generates the increase or decrease of the debts level
- The suppliers
  - ✓ Evaluating the solvability in order to increase or decrease the volume of sales, to offer or cancel different facilities
- The clients
  - ✓ Evaluating the continuity of the business in order to buy products or to set long time partnerships
- The public
  - ✓ Evaluating the economic and social impact of the company
- The Government and other institutions
  - ✓ Evaluating the company for fiscal purposes or for calculating macroeconomic ratios

In conclusion, different users have different objectives but they all rely on the financial information offered by the company.

5. The information's quality requests

The financial information generated by the transformation model must fulfill certain quality parameters. Between the quality characteristics we can name: intelligibility, comparability, relevance and credibility.

These requests are validated by the existence of a set of quality filters that ensure the reality and exact image.

6. The informational filters

The lack of filters or the existence of filters that do not work properly maintain the risk of unreality and the lack of trust in the financial information. Who can know the quality level of the information, except the information's supplier?

A first filter is that of the norms, principles and rules of accounting processing of the economic information. The fulfillment of the requests, according to the professional ethical and deontological codes, gives a high level of trust regarding the reality and fidelity of the information.

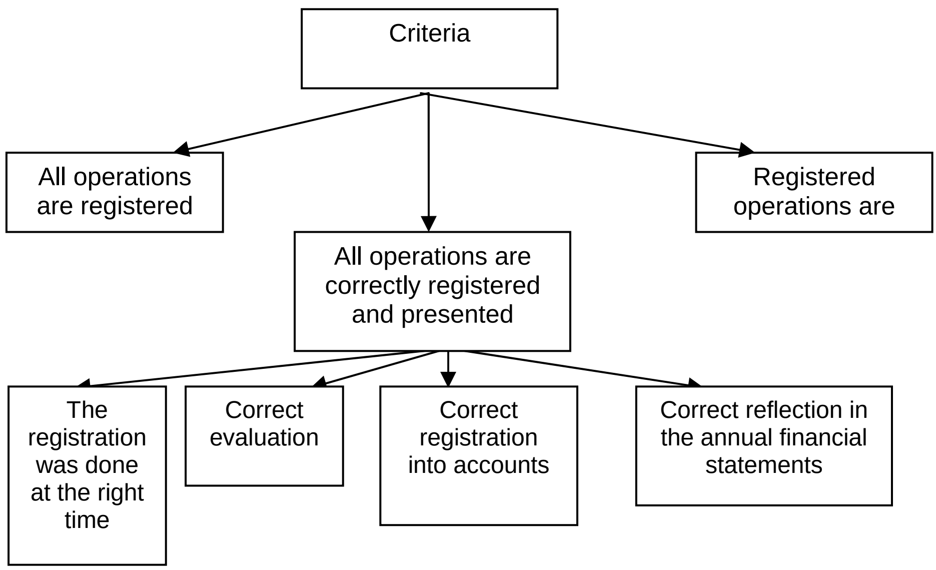
Another filter is that of the internal control system. This system consists of the internal control and the internal audit of the company. As in the case of the first filter, at this level we also have norms, standards – both professional and conduct, behavior ones – that need to be respected and applied in a proper manner. Otherwise, the information that is generated is not a truth-full image, a correct reflection of a financial state, a sincere opinion.

In certain cases, the financial information is evaluated, according to quality criteria, by an external control formed by the statutory, independent audit. This audit is done according to standards and requirements of the ethic and deontological codes.

Despite all the above mentioned filters, there are cases, well known in the financial world, that express in a concrete manner the vulnerability of information and therefore of the financial informing regarding the financial state of a company.

The criteria of evaluating the truth-full image regard:

Figure 1. Criteria of appreciating the financial information



7. Science and belief

The successive processing of financial information is based on models created and based on science.

The model is based on a list of variables that were identified during the analyze of the problem stage; on the relations between variables; on the rules of doing the calculus in order to reach the requested result; on the interconnections that are structured in a logic ascendant evolution (inputs, procedures, results); on reporting according to the logic of the model.

The models that are not based on reality lead to improper decisions.

A model both reflects and affects, equally, the understanding and perception of the real world.

The model could never identify all the aspects of a reality and therefore, there will always be a certain degree of uncertainty in the predictions set by the model.

All models have a set of disadvantages:

- ✓ They over-simplify certain aspects
- ✓ Not all relations can be expressed in a mathematic formula
- ✓ The possible rigidity of the model
- ✓ The tendency of certain managers that have special interests to manipulate the inputs in order to obtain the desired outputs

Reality is built according to certain conventions and constraints. Those that give the insurance that the supplied information reflects reality are the professionals of the mentioned filters. The trust that the information is real is based on the belief that the information disclosed is a faith-full image of reality.

But in this case too, there were times when the trust in the professionals that expressed their opinion regarding the reality of the information was deceived. Many have lost their hope and the trust they had in the financial statements. And how could this be different when professionals said that the company is secure and successful when the reality was that the company was on the slope to failure and risk, with an accentuated depreciation of its financial state, with no hope of recovery.

8. The maneuvering of information and its purposes

The financial information can be maneuvered according to the interests of a group of interests or another, especially now when globalization affects everybody.

Globalization generates the risk of altering information with different purposes: investment, fiscal, distribution and so on.

When there is the wish to transfer the profits in regions that have certain fiscal facilities or privileges, the financial information can be maneuvered in order to obtain a gain.

The same can be done when there is the intention of legal or illegal fiscal evasion.

This alters the trust in financial information, too.

9. Wealth in globalization

Considering the wealth of the owner the main reason for a company to exist is as dangerous as considering profit the only purpose of it. The wealth of only one party is a risk for continuity and a cause for reaction decisions on the part of the components that generate the added value that is the support of wealth. When the wealth is shared with the others, the risk of altered, virus information is reduced.

The informational globalizing can be itself a risk regarding the maneuvering of information by viruses, altering, fragmenting, fraud, that all lead to reflecting an image that is different from reality.

Possible combinations done in order to modify the faith-full image are instruments that affect the quality of the financial information and cause problems for the information's users.

Globalization does not eliminate competition and does not create a feeling of brotherhood.

10. Doing no harm to people around

Those that disclose financial information as well as those that check their accuracy and conformity to the norms and standards have the responsibility to ensure the information's users that their decisions and calculus are based on exact and real information.

When information is neutral, it does not bring advantages to some people and disadvantages to others. All have access to the same information. It is up to them how they process this information and what purpose they have.

Doing no harm doesn't mean doing well.

Conclusions

The information's vulnerability must be limited.

Information means life and life must be protected.

The information's users must be protected from the toxic and inappropriate information too.

The information must be processed according to models that are largely accepted by everybody. Systems should also be protected from different aggressions that can produce serious consequences to people around.

History is full of informational situations that pretend to be "faith-full images" but in reality are far from the reality they should reflect.

The most vulnerable information are the financial ones and therefore it is normal the concern of the State organisms and of the international organisms to protect this kind of information.

The financial information is more and more vulnerable when the number of quality filters increase. This seams to be a paradox. The problem is that the number of people that apply their professional reasoning according to the Code of Professional Ethics increases. And as men are men, it is up to the one that applies the filter what output he'll get. Not all that use information know how to do it. Often they believe that the information they get is real and exact, and reflect "what has happened".

The financial information theory reveals "what is possible" while the information reflects "what happens". Between these two, there is a reverse connection, a feedback connection that offers the possibility of adjustments.

The risk factors that make the financial information vulnerable are numerous but can be included in one of the following categories:

1. connected to the law system
2. connected to mentality
3. connected to the financial and fiscal policies
4. Connected to the professional level.

The frame for generating financial information includes many risks that are presented in the specific Codes, Norms and Directives. If these are well known, the financial information's vulnerability should be limited or eliminated. This way the requirements of paragraph 10 are respected, even if we live in a world where "cash is king".

The set of moral values must prevail.