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Fiscal Digitalization- The Antidote of Creative Accounting

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Abstract: The current context, national and international, characterized by a broad economic crisis, reveals more than ever the need for special attention to creative accounting in terms of increasing the role of digitalization in its maintenance, identification and analysis of manifestations in connection with the informal economy. Creative accounting is the product of economic realities that are manifested in a maneuvering range between tax optimization and tax fraud and digitization can amplify, through its resources of creativity and novelty, the negative impact on the informal economy. The world, everything around, everyday life is becoming more and more digital, the way of functioning and manifestation of the implicit interpersonal relations and of the economic ones, the economy as a whole, is changing. Digitization, characterized by rapid transformations to adapt to new technologies, while at first glance eases the task of tax authorities in combating the negative effects of creative accounting, may as well make this process difficult by fraudulent use of intent by power information in the digital environment. Beneficially, digitization can enhance the virtuosity of creative accounting by connecting it to the rapidly evolving markets and payment systems, but just as well due to the desire for enrichment and business perversity it favors the negative sides of creative accounting: manipulating accounts, beautifying companies' image, distorted presentation of performance, choice of convenient measurement, communication and information methods, etc. Digitization, driven by the Covid crisis, has reformed the world to unimaginable parameters, the influence on human psychology being very visible, confirming Naser's theory that creative accounting is the combination of the complexity of economic reality with psychological factors specific to human beings. Fiscal digitization, adopted in Romania in 2022, by implementing and generalizing SPV, introducing electronic invoicing Ro-Invoice, SAF-T reporting, RO e-Transport declaration, directs accounting creativity to the correct area of real-time tax reporting, significantly reducing the range of its action in the area of fraud that will allow the authorities to identify and take operational action.

Keywords: creative accounting; digitization; electronic invoicing; tax fraud; optimization; virtual private space

JEL Classification: E26; E62; H26; M41

1. Introduction

The two concepts, fiscal digitization and creative accounting, although at first sight seem to be different from each other, are in fact in a conditioning relationship, digitization largely influencing the course of creative accounting, like most spheres of economic and social life at global.

Starting from the fact that regardless of the opinions shared, all those involved in its study recognize that the basis of creative accounting is the accounting information and the professional who creates, manipulates, interprets it is self-evident the connection and influence of digitization on it.

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I say this because digitization has as its central point all kinds of information, including the natural information that underlies accounting, including creative information.

Also, because accounting information reflects almost every aspect of society as a whole and digitalization, through its ability to master the world is interconditioned with accounting and thus with creative accounting.

The paradigm of creative accounting versus digitization is grafted on the background of an irreversible transformation of the world as a whole dominated by digitization, accounting for activities following the same trend, adaptation and development, the difference being given by the goal for the benefit of society as a whole .

This axiom of the connection of accounting with digitalization, implicitly also of creative accounting, is a characteristic of the accounting profession that must be seen “as a living being that is evolving more and more , being in a continuous change” (CECCAR, 2019).

2. Data Analysis. Theoretical Fundamentals

In order to present the connection between them, it is necessary to make a brief presentation of them, seen as two linguistic concepts, which can detail the reciprocal interconditionality in the current globalized world in most aspects that characterize it.

By definition, creative accounting is a concept that has been the subject of many approaches in the literature, failing to reach a consensus on its standardization.

The most common opinions consider that this type of accounting is either a manipulation of accounts by professional accountants (Feleagă & Malciu, 2002, p. 389), or a way to inform management to investors of improved information (Trotman, 1993) or even the presentation by interested investors of a beautiful image of the position and performance of companies (Shah, 1988).

However, its most defining expression is that “the process by which, due to the existence of gaps in rules, accounting information is manipulated and, taking advantage of flexibility, those methods of measurement and information are chosen that allow the transformation of summary documents from they should be what managers want” (Naser, 1993, p. 14).

Contrary to popular belief, there are also opinions that emphasize the positive role of creative accounting, as a result of the imagination caused by the demands of financial markets (Accounting Law and Creative Accounting, 1993), or of the accounting innovation generated by the evolutionary socio-economic-legal trend of globalization (Malciu, 1999), within the limits of the existing regulatory framework

Digitization, similar to creative accounting, is seen as diversified, from several angles, pros and cons, at least in terms of its role in everyday life.

In principle, digitization, through digitization, generates, converts, transforms and transmits information, reshaping human existence and its development strategy through automation taken to a higher level, using digital technology (software, computers, internet, cloud computing, nanotechnology, robotics, etc.).

According to the Gartner Glossary, “digitization is the use of digital technologies to change a business model and provide new revenue and value opportunities; it’s the process of moving to a digital business” (Glossary, n.d.).

The use of platforms, applications, networks, etc. is already well known, words such as e-commerce, e-government, e-invoice being the order of the day, especially in the field of business in the relationship of all parties involved (customers, suppliers, authorities, investors, etc.)

In addition to information, another common feature of creative accounting and digitization is innovation, only that the impact of digital innovation acquires a special significance when we talk about accounting.

Through digitization, the state through its authorities can also impose in real time the real-time accounting of the entire activity of the real economy, greatly narrowing the room for maneuver of the informal economy and thus the creative accounting put in its service.

Equally, digitization, used fraudulently by stakeholders, can provide them with much more in-depth and hard-to-detect opportunities to hide or erase information exposing the hidden side of business.

Also, through excessive digitalization, the state can enter the accounting of business with the boot, being able to direct the interest of its corrupt representatives, towards an unfair competitive area.

In today's world of conflict, ideological, economic and political, cyber insecurity is already emerging at the global international level, including of course the individual / national level, which creates enormous risks to the confidentiality of information, both individuals and legal entities regardless of their position.

Mankind's great mistake may come from viewing digitalization as a goal and a victory, rather than as a means to solve the many and difficult problems facing humanity.

Regardless of the advantages and disadvantages of digitization in conjunction with creative accounting, the most important I consider is the role of digital transformation in combating creative accounting, by imposing voluntary compliance and reforming accounting and tax reporting.

The impact of the digitalization of accounting ensures the desire to reduce the creative sphere of the accounting ecosystem by:

- a standardization of accounting and tax treatment;
- accepting a favorable attitude towards accounting in accordance with tax legislation;
- real-time accounting transparency;
- correlation and collaboration with the fiscal bodies;
- clear traceability of accounted transactions;
- reducing the time allocated to the processing of transactions, their accounting and reporting;
- finally eradicating the negative effects of evasion.

By integrating the accounting and taxation of transactions when they are made, digitization reduces the risks posed by creative accounting, namely:

- of non-registration or erroneous registration;
- no declaration or misstatement;
- non-payment of tax obligations.

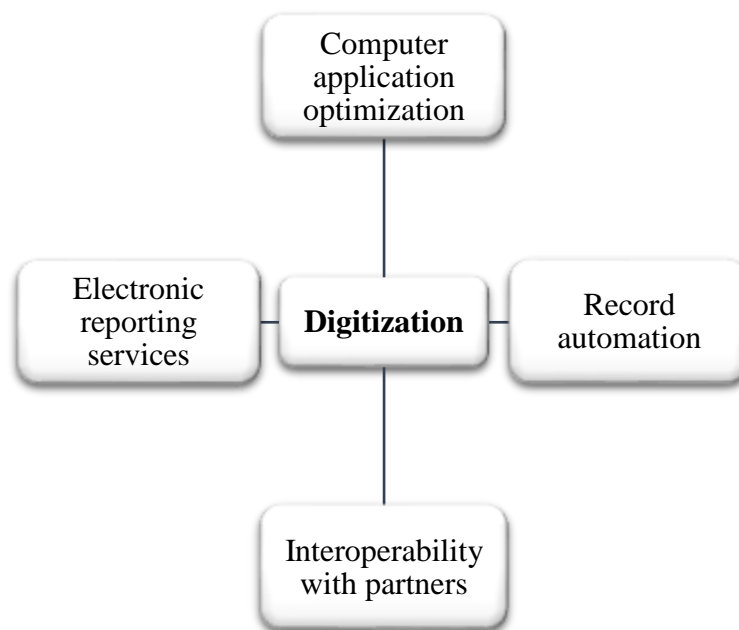


Figure 1.1. Creative accounting and digitization

Source: own conception

Digitization, like creative accounting, has no clear regulatory framework and no well-defined ethics, allowing creative accounting professionals to exploit the loopholes to streamline activities, leading to digital transformation into a creative and innovative area.

Regulatory efforts to limit the scope of creative accounting and to develop standards for digitization face national-specific cultural barriers to the public good. Not often, the image of this public good of creative accounting and digitization is different even in the perception of those involved both within countries and globally.

The normalization of digitization also requires the participation of professional accountants who adapt accounting standards to the requirements of digitization so that accounting reports are well prepared, analyzed and fiscally correlated.

In Romania, in order to know and combat the negative effects of creative accounting, a series of measures have been implemented regarding the digitalization of the public and private environment, including accounting and tax reporting.

An important first step in the evolutionary process of Romania's digitalization was achieved by setting up ADR (Government Decision no. 89/2020 regarding the organization and operation of the Authority for the Digitization of Romania, 13 February 2020), followed by the implementation of IT projects, as follows:

the interaction of the private environment-fiscal authority achieved entirely through SPV (ANAF, n.d.);
 online connection of AMEF (Electronic fiscal marking machines, n.d.) to ANAF;
 implementation of electronic invoicing RO e-invoice (Electronic fiscal marking machines, n.d.), B2G and B2B;
 monitoring RO-eTransport (Finance, 2022);
 SAF-T (ANAF, 2021) reporting (fiscal audit);

These projects of digitization of reports, being implemented quickly before have some weaknesses, first of all the old infrastructure, without multilevel architecture, are based on electronic signature meaning high costs and not through the latest technologies ex. block-chain, systems are not centralized and interconnected, e.g. AMEF information not processed with other information, etc. In this context, a positive fact is the inclusion in the PNRR (Finance, 2022) of a budget of 3,037 million euros for the digital transformation of the administration, and of the 371 million euros allocated to MF-ANAF for digitization, 325 million euros were directed, not considering the 22 million euros government cloude.

3. Conclusions

Creative accounting as well as digitization is in a continuous process of transformation and adaptation to the new technological challenges of the present and the future, based on the experience of the past. Both are based on two concepts, information and innovation, each with accounting or digital significance, achieved with the help of high-performance digital technology. Both do not have a standard definition, the opinions in the literature being sometimes controversial, favorable-unfavorable, reiterating both their pluses and minuses.

What is important to note is that digitization redefines the concept of creative accounting, in the context in which digital body and intangible technology can positively influence the accounting, reporting and taxation of activities in the real economy.

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