

## Consultancy Services and Their Impact in Financial Reporting - Case of Albania

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### Abstract

As part of an effective strategy of risk management and internal control, security services and consultancy are focused on providing reliable and qualitative information, which includes the best information at the moment of decision making by the company and they have their impact in the process of making important decisions. The values it carries report of consultancy services, which should have adjustments in use and excellence, are recognized as definitions of quality. Security services are independent professional services in the field of accounting that improve the quality of the information or its contents for stakeholders in the decision making process. As elsewhere, also Albania has started offering security services, consultancy and these services are expanding more and more in the field of accounting, especially over the last decade. Through a descriptive analyze, in this paper, we will rely mainly on the development and application of consultancy services in different sectors like telecommunication, energy and water supply in Albania. In this study we will focus on the in consultancy services in the field of accounting, also the from processing of data collected in the questionnaire will be given a clear description of actuality in Albania which will be to a great help in giving end to the necessary recommendations of stakeholders for this service.

**Keywords:** accounting and consultancy services, consultants, standards of providing security, assurance.

### Introduction

The accounting profession in Albania is increasing rapidly during the last years and in the meantime areas of its use are being expanded. The list of works which were previously performed by accountants adds a lot of new services that require professionalism, skill, and implementation of standards. However, with the new technological changes, accounting is being transformed into something more than just recording, summarizing and reporting of transactions to overcome these routines and practical functions expanding and including the organization, functions delegated processing methodologies, controls and outputs expected, which all together are considered as "system". The system is in fact "the anatomy" of accounting. It includes all dimensions of business operations, including the flow of financial data across the organization and beyond.

### An overview of the literature review

We have often found in literature studies and efforts to tell the role of the consultant in entities. The role of auditors is increasing constantly, referring to the fact that in recent years, the external auditors are required to perform a set of services that go beyond the audit of financial statements. The way to pass from the audit of financial statements in security Services, was anything but easy. In 1986 the American Institute of Certified Public Accountants, AICPA developed standards for granting Security Services. Core Concepts of Consulting for Accountants Publisher: Wiley.

Publication Date: 2001 highlights the strong influence that guidelines of AIS have had in various sectors of the economy, including organizational behavior, interpersonal skills, and management of giving security in order that accountants realize and provide consulting services. Tavares LV "Advanced Models for Project Management" (Boston, Kluwer, Academic Publishers) stresses how important is the management of time and resources at the time of the consultancy and security services.

In July 2000 the International Federation of Accountants<sup>1</sup> published an international standard on giving security Services. His objective was to help professional accountants worldwide to provide services over diversified information, including data, systems, process and behaviors.

Reeb Wiliam.C. 2008<sup>2</sup> identifies the importance and environmental management of internal and external of an entity.

In 1998 Robert Elliot predicted that although the security services were conducted by the audit services, accountants and auditors need to compete effective programs signatures, lawyers etc. According to the report NO.86 the LP's (Szadek, Raynard S, M P & Forstater, 2004) security services are offered by external and internal providers.

In 1997 in Albania was established the Institute of Authorized Accounting Experts in Albania (a non-profit organization) as a professional organization, in order to improve and strengthen the public oversight of the profession of accounting expert of legal auditors. As each country in transition, in our country in the accounting field, we started reforms whereby we would establish the Law on Accounting and Financial Statements in 2004 and the establishment of the National Accounting Council as a public body with full competencies draft and publish accounting standards and regulate accounting in accordance with the requirements of this law. Subsequently, in 2009 Law no. 10091, dated 05.03.2009 "On Statutory audit and organization of professions of registered accounting expert and approved accountant" was approved, law that has undergone recent changes. Studies in the field of providing consultancy services are fewer, but among them we will include the study of Shuli I and Cepani L (2011)

From the results of the study related to the future of accounting profession and auditors in Albania (Shuli.I, Cepani.L, 2011) we come to the conclusion that security services in Albania are mainly offered by different companies accounting audits, which in fact are the first to reflect the challenges and opportunities of a global market using the new services strategy.

### **Methodology**

In order to identify the Albanian situation we have used data whose primary analysis will be the main basis and providing recommendations at the end of the paper. We have also prepared a modest questionnaire, which is the essential instrument of this research and that relates to a series of written questions, relative, according to the scope of this paper. It distributed about 150 respondents of which only 100 were collected. The Target groups this questionnaire are professionals in the field of accounting, with a distribution 35 in the city of Vlora, 15 in Pogradec and 50 in Tirana, employed mainly on small and medium entities. This sample can be considered valid for highlighting the knowledge that accountants of those cities have about security services and consultancy. The questionnaire of this paper is formed by several different sections, divided according to the problems or arguments that are going to be analyzed. Some of the questions are opened, while some of them are closed, giving thus the respondents the opportunity to express their thoughts. These questionnaires were distributed in electronic format as well as hand delivery which give you the opportunity to work on problems that could face the respondent by the interviewees. The analysis of the data is descriptive and comparative. Also in the treatment of paper were used secondary sources such as foreign and domestic literature, which served to create a theoretical basis for the scope of the paper. Undoubtedly, this paper has its limitations, but it can easily serve as a mean to create an image on the importance of security services and consultancy in accounting profession in Albania.

### **Consulting services in the field of accounting**

The quality of accounting services is what customers consider important in their job performance. The quality of services is accompanied by a high level of customer satisfaction. Nowadays, we know very little about the agreements between service providers and their users. It is important to consider these aspects for some reason.

First of all, despite the fact that the quality of each service depends on the customer though, it is also the product of what users expect.

Second, the outcomes of technical accounting are often based on the concepts and techniques that users can not fully understand which can have a direct impact on the perception of quality.

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<sup>1</sup> IFAC-International Federation of Accountants

<sup>2</sup> Reeb Wiliam.C "Start consulting"-How te walk and talk.(New York:American Institute of Certified Public Accountants) 2008

Finally, the perceptions of service quality accounting are likely to be affected by two informal accounting factors (according to the status and reputation within the organization) and objective criteria (ex, education, professional experience and certification of providers accounting services).

Although accounting services should be designed to satisfy customer's demand, the lack of a mutual understanding of the capacity of users, together with a poor communication may hinder these efforts. The result may be a gap between providers and users.

### Types of consulting services in different fields

Consulting services provided in different fields for solving problems and legal issues that economical unit face during the development of their activity:

Table 1. " Consulting services"

|  |  |
|--|--|
| <p><b>Main Services</b></p> <ul style="list-style-type: none"> <li>• Solve problems and barriers facing business units, including tax analysis, legal protection (avoiding penalties) and fiscal.</li> <li>• Provision of consultancy in connection with the application for licensing business             <ul style="list-style-type: none"> <li>• rules regarding the reporting of income, for taxes and sales taxes and "hiding" them.</li> </ul> </li> <li>• Consultancy regarding the selection of software for accounting and recording and implemented by these software-s cost-benefit analysis.</li> <li>• Training of staff in relation to the accounting and taxes</li> </ul> <p>Provided financial analysis</p> | <p><b>Business Plans</b></p> <ul style="list-style-type: none"> <li>• Plans can be prepared for two purposes 1-internal and 2 external</li> <li>• advice on securing funding and lines of credit</li> <li>• measurement of performance and motivation of key employees in the organization</li> <li>• buy-sell agreements, predictions, analysis and strategic planning flexibility</li> </ul> <p>Giving the consultancy regarding litigation and bankruptcy proceedings.</p> <ul style="list-style-type: none"> <li>• planning to do about bankruptcy, and asset management in kind</li> <li>• Problems of loan repayment.</li> <li>• insolvency of the unit</li> <li>• addressing the problems of fraud and errors that occur in the organization</li> </ul> |
|--|--|

The need that Small and Medium Enterprise (SME) and their increasing needs to improve accounting and financial reporting systems make it more likely to feel the need to seek expert assistance in the accounting field. Once these businesses rarely have available the necessary skills to meet these needs to be successful and strong competitor at the right time, what they really want is a solution that will meet their needs, will fit to their business and have an effective cost to implement.

**Consultancy facilitates services**-This service includes specialist consultancy that gives the customer or a third party (responsible person) to reach the expected standards of customer care. In this group of services may also be included a list of services that are available to the community, third party. Consulting services may include some assistance to the client or third party security selection of care and level of care for each type of care required.

**Consulting services** -Consulting services include traditional commitments accountants as business tax calculation. They are a continuity of business planning that takes into consideration how your business will continue depending by the way you see it as a whole picture.

In accounting services operate only successful officers and directors that have clear how to spend their time using it effectively and efficiently. One of the main factors that may affect the provision of services of consulting is the environment where businesses evolve. The way many industries across the world compete each other has changed rapidly. The same happens in Albania. This change is increasing rapidly and is nearly impossible to be stopped. Terms of a competitive environment make the world of business much more dangerous, where the investments needed to compete in the global view are increasing and becoming larger, thus failure consequences and risks are very high and severe. Different factors have greatly influenced in creating competitive environments.

Researchers have shown that the external environment plays a very important role in increasing the benefits of a business. Environmental conditions with which different businesses have to be faced today have changed radically in recent decades.

*Technological changes* and the detonation of the use of the information technology as well business proficiency for the elaboration of this information require a careful decision-making and a critical need for people to consult with experts in different fields.

*Sociological* rapid changes that are occurring in many countries have an impact on the manpower as well as on the nature of the products required by a variety of increasingly consumers.

Government policies and laws strongly affect the way how and where firms will operate as well as the way they will compete each other.

Companies have to be conceit as well as to understand the effects of these factors in order to be able to compete. Through a range of different methods businesses try to understand their external environment gathering information on competitors, on clients and on other principals in the external environment.

At the local level the external environment consists of macro environments and industry environment (five factors of Porter). In the environment where they compete, firms should very carefully analyze competitors therefore a number of the recently researchers have been inserted in the external environment and on the competitor environment.

Macro environment consist of distant elements into more of an integral part of the particular society which may be necessary to industries and businesses. These elements are grouped in politico-legal factors, economical, socio-cultural, technological, demographic and global factors.

Specialists in the field of consultancy need to carry out an accurate analysis of the five key factors that make up the so-called PEST analysis as these factors are precisely influencing effective decision-making that will be associated with achieving success and increasing revenue. Businesses can't control and influence these factors, on the contrary the challenge lies in the way it influences any of its components and factors as shown in the table below: Many businesses operate in an increasingly troubled, complex and global environment, which makes the latter very difficult to predict and interpret. Regardless of the methods used to analyze the external environment, the main objective is to identify the chances and threats.

**Table 2: Macro environment: factors and elements**

| Macro environment: factors and elements  |   |
|--|---|
| Legal political factors <ul style="list-style-type: none"> <li>• Un-trust Laws</li> <li>• Laws on employment</li> <li>• Taxes</li> <li>• Education Policies</li> <li>• Norms and Laws</li> <li>• Sustainability</li> </ul>                                 | Technological factors <ul style="list-style-type: none"> <li>• Product Innovation</li> <li>• Government cost</li> <li>• Innovations in development process</li> <li>• Applying knowledge</li> <li>• Communication</li> </ul>    |
| Economic factors <ul style="list-style-type: none"> <li>• Inflation rate</li> <li>• Level of personal savings</li> <li>• Interest rate</li> <li>• Level of corruption</li> <li>• The trade deficit</li> <li>• GDP</li> <li>• The budget deficit</li> </ul> | Demographic factors <ul style="list-style-type: none"> <li>• The number of the population</li> <li>• National minorities</li> <li>• Age</li> <li>• distributions of the incomes</li> <li>• Geographical distribution</li> </ul> |
| Socio-cultural factors <ul style="list-style-type: none"> <li>• Workforce</li> <li>• Environment</li> <li>• The diversity of the workforce</li> <li>• The trend for career</li> <li>• Habits and norms</li> <li>• Products/required services</li> </ul>    | Global factors <ul style="list-style-type: none"> <li>• Important political events</li> <li>• Recently industrialized countries</li> <li>• Markets</li> <li>• Institutional and cultural powers</li> </ul>                      |

Source: The Impact of Micro and Macro Environment Factors on Marketing, [oxfordcollegeofmarketing.com/2014/11/04/the-impact-of-micro-and-macro-environment-factors-on-marketing](http://oxfordcollegeofmarketing.com/2014/11/04/the-impact-of-micro-and-macro-environment-factors-on-marketing/), December 2016.

Macro environment and its factors affect every industry and business. The matter is on scanning, monitoring, forecasting and evaluating those factors and many other elements which come to be important. Results must include the changes, trends, opportunities and intimidation created in the environment. Changes then are being compared with basic competencies of company. When these comparisons and the results that emerge from them are successful it can be said that the companies compete successfully in the environment where they operate.

An industry is a group of businesses which produce products and services needs which can substitute each other as well as be so related to each other.

Compared with Macro environment, industrial environment has an impact on most of strategies and profits of a company. The degree of competition and the potential for benefits to industry are a function of the 5 forces: New enters suppliers, clients, replacers as well as the competition itself.

While studying the competitive environment companies concentrate on businesses that have a direct competition.

In addition to focusing on the clients, a better determining method than that of determining the limits of industry necessary for determining the market, a company must also analyze the geographical limits.

The analyses of the industries in which in our country operates must be carefully considered by the consultant. Due to the impact that globalization has on today industry analysis should include the international markets and their rivalry. In fact researches have shown that international variables are more important than national variables in the determination of competition in some industries. Moreover due to developments in the global markets and industries structures which are not limited by boundaries most structures are often global industries.

Consultants must review the Situation of knowing and understanding the objectives, strategies, assumptions and capacities of the competitor. In successful companies the process of analyzing the competitor is used for determining:

- Which are the long-term objectives?
- What is the competitor doing and what can he do based on its current state.
- What does the competitor believe that is going to happen with him and the industry in which he operates?
- Which are the competitor's capabilities presented by capacity?

The information on these issues is helping to prepare the analysts to a detailed profile for each competitor. So an effective result on competitor analysis can help a business to understand, interpret and foresee the actions and initiatives of its competitor.

### Analysis of the data


In Albania, the consultancy service, although there is a long time offered, we think it is in its first steps and if you ask an accountant what he understands with consultancy service then the answer you will get is very confusing and unclear so on the basis of some questionnaires addressed to the independent professionals who provided this service to our country the results of the collected data from questionnaires addressed to accountants were presented as follows;

The legal form of the respondent consists of: 15% were a limited liability company (KPS) and 85% were Physical Persons.

Employees of companies that provide consultancy services in most of the societies around 90% had Occupation: Economists (The Institute of Authorized Chartered Auditors of Albania (IEKA), Financier, and Manager), Lawyer, and attorney for litigation.

While 10% of respondents except economists and lawyers had the engineers of different fields such as:

1. Plumber
2. Environmental engineer
3. Surveyor
4. Electro-mechanical engineer
5. Geologist



Which cooperate to provide qualitative consulting services?

### Areas in which consulting services were provided:

Fiscal and legal consultancy 41.5%

Consultancy regarding the "Law for traders and Commercial society 15.5%

Consulting "Prevention of Money Laundering" 1.4%

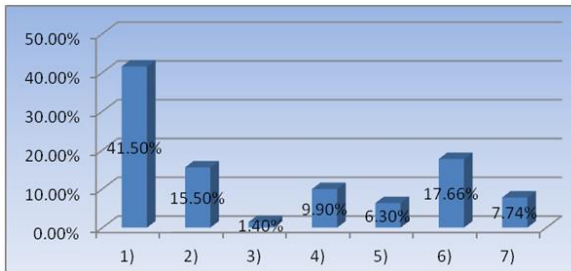
Legal consulting about technical and sanitary conditions of food production, dairy products which provide consultancy regarding quality management 9.9%

Consulting for foreign companies which are seeking to invest in our country. By providing detailed studies of the market and competitive environment 6.3%

Consulting issues for appeal court fines and other legal issues.17.66%

Consultancy in public infrastructure, water, sanitation sector and environmental protection 7.74%

**Graphic 1: Areas in which consulting services were provided**



Source: Authors

1. Fiscal and legal consultancy
2. Law for traders and commercial companies
3. Prevention of Money Laundering
4. Legal advice for technical and sanitary conditions
5. Consulting for foreign investment in our country
6. Consulting for the appeal of fines
7. Consulting for public infrastructure

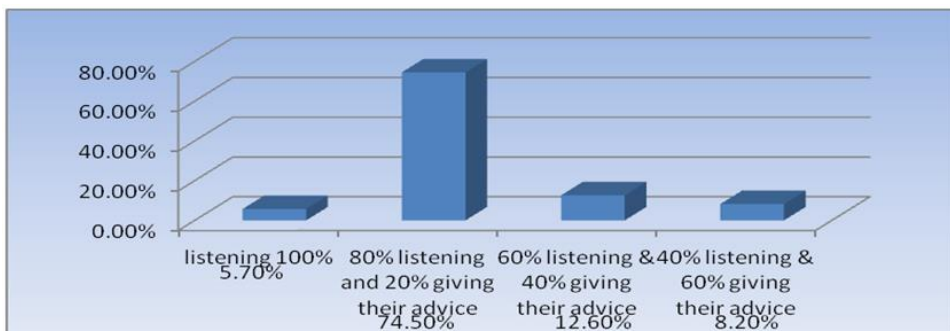
About 94.7% of respondents signed an agreement with their customers, while 5.3% do not.

And these agreements were valid for about a 1 year (81.4% of them) and 1-3 years (18.6%).

**The Forms that different clients developed were:**

- a. 74.5% of them (80% listening and 20% giving their advice)
- b. 5.7% (listening 100%)
- c. 8.2% (40% listening & 60% giving their advice)
- d. 12.6% (60% listening & 40% giving their advice)

**Graphic 2: Forms those different clients developed**



Source: Authors

## Time Management

From the moment the client appeared in the company unit for a consulting service until the problem was solved, an average of 1-2 weeks was needed, but very important to note that the time management depends on the complexity of the problem.

Albanian question whether the market has the capacity required for the provision of consultancy services respond to 100% yes.

Once respondents felt that you were given full consultancy businesses, but depended on how much they were willing to implement the consultant's advice because in our country there is also a very important phenomenon that the informal economy and implementation of law by economic units will compete with those businesses that do not implement it (the law) will led in a bankruptcy of companies.

Question whether end customers remain satisfied service?

You are 100% responded yes

## Conclusions and recommendations

In Albania, the accountant's profession is becoming more and more demanding. The areas of its use have been added. The list of jobs that formerly performed by accountants add to the many new services that require professionalism, skill, and implementation of standards.

Obviously, in the context of regulating the accounting profession, it should be assumed that the relevant legal basis should also respond to new requirements for new services added to the list of services currently performed by accountants. In addition to preparing the approval of the respective regulatory framework, we also need to improve the level of preparation of accounting specialists at the university and postgraduate level.

More concretely, all necessary steps should be taken to regulate as soon as possible the profession of consulting services in the field of accounting.

From the study and data analysis we have found that the consultancy services in our country are provided by the economic units as a complete package, not only accounting but also in other areas such as legal, engineering, etc. This is because the organization of the professionals in a single economic unit made it possible to realize the packages of consultancy services. This service was provided through direct contact with the client and the most widespread form was "Consultation-Consultation". The services provided provided a very high level of customer satisfaction.

The national economy of a country relies on the financial, capital, human and product markets. The lack of equilibrium between these four components led to a social clash. But it should be noted that the countries in which there is a difference between these markets are very attractive to businesses. Consequently, what we suggest is that in our country, even though there is a law on free professions, a full legal basis must be established to respond to ever-increasing demand for consultancy services, especially in the field of accounting, as they exist for other services provided, such as legal, or engineering.

Human resources should be given priority, which through effective management of training and retraining, qualifications and incentives can be turned into a true treasure, a good source to create a competitive edge in the field of accounting and directly or indirectly in the provision of consultancy services.

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### Web Resources

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- [5] <http://www.allbusiness.com>
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- [7] <http://www.startaconsultancy.com>
- [8] <http://www.wordtracker.com/>
- [9] <http://www.keyworddiscovery.com/>
- [10] <http://www.goodkeywords.com/>
- [11] <http://www.ctsguides.com> (The Requirements Analyst-Software Selection tool)
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