
Relationship between risk and transparency in the financial statements of professional services entities

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Abstract

The purpose of financial reports is to provide useful information to users; the utility of information is defined through the qualitative characteristics (fundamental and enhancing). The financial crisis emphasized the limits of financial reporting, which has been unable to prevent investors about the risks they were facing. Due to the current changes in business environment, managers have been highly motivated to rethink and improve the risk governance philosophy, processes and methodologies. The lack of quality, timely data and adequate systems to capture, report and measure the right information across the organization are fundamental challenges to implementing and sustaining all aspects of effective risk management. Starting from '80s, the investors have become more interested in narratives (from the Notes to financial statements), than in primary reports (which disclose financial position and performance). In this research, we aim to identify whether the accounting services entities disclose risk information in their financial statements. The research will use a regression model for the assessment of the relationship between the size, profitability, leverage ratios and risk reporting by the accounting and taxation services providers in Romania during the period 2009-2013.

Keywords: Risk, financial reports, risk management, risk reporting, notes to financial statements.

JEL Classification: M20, M29, M41

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