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THE IMPORTANCE OF FINANCIAL AND ACCOUNTING INFORMATION IN DETERMINING AND COMBATING ECONOMIC CRIME

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Abstract: *Economic crime includes fraud, tax evasion, money laundering, corruption, and other illegal activities. It usually arises from the desire to avoid the high costs associated with regulatory compliance. Taxes perceived as too high or unfair can lead entrepreneurs to seek illegal ways to reduce their tax obligations. The effect of these activities is a loss of revenue for the government, which highlights the importance of an efficient tax system.*
Keywords: *financial and accounting information, economic crime, tax evasion*

1. Introduction

Economic theory highlights the essential role that trust and security play in fostering growth and ensuring the smooth functioning of the market economy, which is understood as a set of necessary procedures and rules for the production of resources and their efficient exchange within society. This trust and security among economic operators stem from the belief in a complex system of rules guaranteed by public institutions' controls, which focus on steering the attitudes and behaviours of economic operators in the desired direction, as well as penalizing dishonest conduct and resolving conflicts of interest. The development of the modern economy is constantly influenced by the quality and quantity of illicit and criminal acts committed, with public institutions being responsible for ensuring transparency in capital and labour, maintaining competitive order in the market for goods and services, and ensuring the effectiveness and efficiency of the justice system in defending rights and resolving disputes.

2. Basic content

Over time, accounting has developed considerable knowledge of a company's economic and financial situation. It can optimally provide the necessary information about a company's position and performance and help determine its fiscal risk. One of the purposes of accounting is to serve as a "dashboard," a guiding tool for economic entities to operate under optimal conditions and in compliance with current legislation, thereby avoiding the transition of companies into the underground economy.

The accounting information made available to the management of units, regardless of their field of activity, provides the opportunity to choose optimal programs and establish economic policy guidelines. The current trend in accounting information is to become much more efficient through the use of electronic computers and automated management calculations, which significantly reduce data processing time and offer timely support for economic and financial decision-making.

The scope of accounting information is vast, often presenting specific information derived from processing and interpreting value movements related to a creative activity using accounting logic.

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"The main data source of the economic information system, and at the same time one of its core components, is accounting, the primary tool for understanding, managing, and controlling the assets and results achieved by economic entities.[32]"

Accounting information is the primary tool used to carry out controls. Its usefulness stems from its ability to describe, measure, and classify economic activities, allowing for advanced processing and ensuring long-term compatibility. Transparency of information is essential for fulfilling the functions of accounting information. It aims to provide a fair representation of the risks within a company's economic activities and ensure the proper functioning of the market based on fair competition. Through transparent and timely communication, fraud prevention is achieved.

Control involves continuous or periodic supervision, analysis, and verification of a situation or activity to monitor its progress and make decisions to reduce potential risks and improve operations. The constant evolution of operations and transactions subject to control requires a complex structure, determined by various criteria:

a) Based on the time of execution, about when the respective operations are carried out, we have:

- Preventive control – exercised before the execution or commitment of the respective operations. This type of control is typically carried out during the approval or authorization of transactions and operations;
- Concurrent control – performed during the execution of the controlled operations, taking the form of hierarchical control, mutual control, or self-control;
- Subsequent control – conducted after the operations have been completed and carried out by specialized control bodies (internal audit, budgetary control, inventory control, or specialized state inspections).

b) Based on the objectives controlled, we have:

- Economic control – focuses on the planning and efficient use of material resources, as well as fulfilling the established tasks. It uses measurement standards in terms of value, natural units, and labour;
- Financial control – generally takes place within credit relationships and financial relations. It primarily uses the value standard;
- Technical control – ensures compliance with product quality, manufacturing technologies, the characteristics of fixed assets, etc.

For control to be effective, it must be comprehensive, requiring both an economic and financial approach and a technical one for the objectives being controlled. The economic and financial solutions adopted can have technical consequences, and vice versa.

"Between economic control and financial control, there are numerous interferences, as most economic operations also have financial and management implications, which is why, in practice, we exercise an economic-financial control or financial and management control"[33].

c) Based on the methods used, there are:

- Documentary-accounting controls – which involve the analysis of primary documents, operational records, and both analytical and synthetic accounting registers;

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[32] Conf. Univ. Dr. Elena Diaconu, *Rolul informaţiei financiar-contabile în dezvoltarea durabilă a firmei*, Universitatea „Spiru Haret" București.

[33] Prof. Dr. Ioan Oprean, *Control și audit intern – suport de curs pentru masterat,* Cluj Napoca, 2010

- Factual controls entail on-site inspection, physical observation, expert evaluation, and inventory checks.

d) Based on the level of proximity to the controlled activities, we have:

- Direct controls – which involve the personal supervision of the controlled activity or subordinates' activities by control bodies or management;
- Indirect controls – through which the analysis of the controlled activity is based on information and reports received, tax declarations, statements, explanatory notes provided by those being controlled, etc.;
- Mutual controls – which are conducted between members of working groups, between enterprises, or between departments, based on comparing different documents that contain similar indicators;
- Self-control – which involves a self-analysis of the activity to determine the degree of achievement of the proposed objectives.

e) Based on economic and financial interests and the level from which control is exercised, we have:

- State-exercised controls – carried out by state control bodies, ensuring compliance with the current legal regulations within the controlled domain;
- Controls exercised at the company level – aimed at managing risks that may jeopardize the achievement of objectives, as well as the efficient and proper management of assets;
- Legal or statutory control – performed by independent experts who are members of the Body of Expert Accountants and Authorized Accountants of Romania (CECCAR) or the Chamber of Financial Auditors of Romania (CAFR).

f) Based on the scope, we have:

- Comprehensive controls – which involve a multifaceted approach to the controlled activities, with participants including specialists from various fields, forming a "mixed control brigade." These brigades can include experts in sociology, taxation, accounting, IT, marketing, technical, legal fields, etc.;
- Partial controls – which focus on a specific group of objectives or a particular sector of activity, such as payroll, legality of trade operations, stock management, compliance with fiscal and financial discipline, etc.

Thematic control is a form of partial control carried out by state control bodies that target several companies at the same time, analyzing the same limited group of objectives.

Both partial and comprehensive controls can be conducted as spot checks or as full controls. Typically, spot checks are conducted initially, and if irregularities such as falsifications, omissions, frauds, or other significant errors are found, the control is escalated to complete control.

The totality of illegal acts committed by organizations, associations, companies, or individuals in connection with banking, financial, commercial, and customs transactions through fraud, money laundering, deception, falsification of business figures, breach of trust, fraudulent bankruptcy, unpaid insurance policies, tax evasion, and other offences constitutes an economic and financial crime or economic corruption. Among these, tax evasion is the most common in practice.

The phenomenon of tax evasion is considered omnipresent and can be explained from multiple perspectives: economic, legal, theological, political, physical, and moral. Regardless of the level of taxes and duties, tax evasion exists in varying proportions across different countries.

When discussing global financial markets, it is also necessary to consider the globalization of white-collar crime and corruption. Therefore, an effective strategy to combat tax evasion, coordinated at the global level through legal norms and rules on transparency and economic security, is a priority. Tax evasion often falls within the white-collar crime category and can result in significant material losses. Tax evasion lies at the border between illicit and licit activities. It manifests as a protest by taxpayers against suffocating fiscal policies, thereby contributing to the growth of the black economy.
Tax evasion reflects the attitude of taxpayers who refuse to comply with their legal obligations to pay taxes and duties, which can lead to administrative or criminal liability for the taxpayer.
Tax evasion can take several forms:

- Traditional fraud – characterized by evading the payment of tax obligations, typically through the non-submission or incorrect submission of legal documents; the drafting of false documents; underreporting the value of inherited assets; increasing expenses to reduce taxable income; or providing services or producing goods paid under the table;
- Legal fraud – involves concealing the true nature of a contract or entity, such as continuing an economic activity without a profit motive in order to avoid paying the corresponding taxes;
- Accounting fraud – the most advanced form of tax evasion, characterized by maintaining regular accounting records using false documents to inflate expenses and reduce income; preparing false tax records and registers; falsifying balance sheets; creating fictitious payment documents, etc.;
- Valuation fraud – for example, this may involve underestimating the value of inventory or overestimating provisions and depreciation, thereby deferring profit over time.

Tax evasion is classified according to the following criteria:

a) Based on the method used to avoid compliance with tax regulations:

- Legal (or tolerated) tax evasion – this occurs when a portion of the income of certain individuals or social categories is exempt from taxation through legal loopholes, simulated evasion, or oversight. "In the case of legal tax evasion, the taxpayer tries to position themselves as favorably as possible to take maximum advantage of the benefits offered by the current tax regulations"[34]. Due to the high level of taxpayer innovation regarding current legislation, the most common methods of legal tax evasion include: investing in machinery and technical equipment whose value can be deducted from profit tax according to regulations (e.g., electronic fiscal cash registers); deducting protocol and advertising expenses from taxable income; offering employee benefits (deducting professional expenses, company cars); making donations; and supporting scientific and cultural activities, among others.
- Fraudulent tax evasion – involves concealing the taxable object, underreporting the taxable base, or using other means to evade the payment of due taxes and duties, all of which involve violations of the current legal provisions. The most common form of tax evasion is fraud, as opposed to legal evasion, and it automatically entails a breach of legal provisions based on fraud and bad faith.

In practice, distinguishing between legal and illegal tax evasion is very difficult because the transition between the two is more continuous than a clear break. Thus, taxpayers' constant attempts to exploit legislative loopholes can direct them from legality to fraud.

b) Based on geographic scope:

- National fraud – conducted within the territory of a single state;

[34] D. D. Șaguna, *Tratat de drept financiar și fiscal*, Ed. All Beck, București, 2000, p. 286

- International fraud – transcends the borders of one state.

c) Based on the perpetrator of the fraud:
- Fraud committed by individuals;
- Fraud committed by legal entities.

d) Based on the complexity of the means used:
- Simple or artisanal fraud – involves deficient methods of execution due to the involvement of a single perpetrator, typically acting without the help of others;
- Industrial fraud – characterized by a high level of complexity, mainly due to the ingenious techniques applied and the use of fictitious supporting documents.

e) From a fiscal perspective, fraud includes:
- Income reduction, representing the diminishing of the taxable base, regardless of the means used;
- Timing of tax obligations, primarily composed of value-added tax (VAT) and customs duties.

f) Based on the duration of the tax fraud:
- Long-term fraud – in this case, an economic agent initially builds a good reputation, then proceeds to stop paying taxes and duties owed to the state, along with failing to pay debts to suppliers of goods and service providers, eventually leading to insolvency and transferring revenues to another state;
- Short-term fraud usually manifests in creating a company with the sole purpose of requesting a VAT refund for a specific economic transaction, after which the company ceases its activity following the receipt of the VAT.

Tax evasion is considered a measure of a state's inability to implement effective public policies. Therefore, developing a solid tax system is the ideal solution for combating tax evasion. This tax system must regulate taxes and duties, allow for lower taxes that are easier for taxpayers to bear, and establish penalties for violating tax provisions.

Since taxpayers typically pay taxes and duties out of fear of the penalties they may face, one measure to counteract tax evasion would be to increase the severity of actions aimed at combating tax evasion. "Economic studies show that tax evasion decreases at the same rate as the likelihood of detecting tax evasion cases increases, along with the intensification of penalties aimed at such offenses"[35].

Combating economic crime can be achieved by curbing tax evasion, and the main methods that can be implemented include:
- Changing taxpayers' mentality alongside shifting the tax administration's attitude towards taxpayers, which can be accomplished by fostering a partnership between the two;
- Increasing the strictness of authorization conditions for economic agents;
- Relaxing fiscal policies, such as tax amnesty, short-term tax and duty reductions or exemptions, and the gradual reduction of the share of direct and indirect taxes in the long term);
- Improving the tax apparatus through the professional and social training of officials;
- Increasing data transparency, a measure aligned with the EU's policy on combating tax evasion;
- Promoting non-cash payments – using bank cards linked to accounts allows for tracking the origin of funds and, in the long term, helps eliminate a significant portion of the underground economy.

[35] M. Zagler, *International tax coordination: an interdisciplinarity perspective on virtues and pitfalls*, Ed. Routledge, New York, 2010, p. 52

The current fiscal innovations of ANAF (the National Agency for Fiscal Administration) include improving interaction with taxpayers through the Virtual Private Space (SPV), the obligation to submit electronic invoices (e-Invoice system), the requirement to obtain a UIT code for the transport of goods with high fiscal risk (e-Transport platform), as well as the pre-filled VAT declaration (e-VAT), which is currently in the process of being implemented.

3. Conclusions

In conclusion, economic and financial information is the primary tool for conducting controls, thus forming the starting point for combating economic crime. The importance of economic and financial information stems from its ability to describe, measure, and classify economic activities, enabling advanced processing and ensuring long-term compatibility. Information transparency is essential for fulfilling accounting information functions, fairly representing the risks inherent in a company's economic activities and ensuring the proper market functioning based on fair competition. In this way, transparent and timely communication helps prevent fraud.

The totality of illegal acts committed by organizations, associations, companies, or individuals about banking, financial, commercial, and customs transactions through fraud, money laundering, deceit, falsification of business figures, breach of trust, fraudulent bankruptcy, unpaid insurance policies, tax evasion, and others, constitute an economic and financial crime, or economic corruption. Among these acts, tax evasion is the most common in practice.

Combating economic crime can be achieved by curbing tax evasion, with the main methods that can be implemented including changing taxpayers' mentality; increasing the strictness of authorization conditions for economic agents; relaxing fiscal policies, such as tax amnesty, tax and duty reductions or exemptions (in the short term), and gradually reducing the share of direct and indirect taxes (in the long term); improving the tax apparatus through the professional and social training of officials; increasing data transparency, a measure aligned with the EU's policy on fighting tax evasion; and promoting non-cash payments – using bank cards linked to accounts, which allows for tracking the origin of funds and, in the long term, eliminating a significant portion of the black market economy.

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