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Corporate Governance - Key element in the Growth of Audit Quality

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Abstract
In the recent years, because of the many financial scandals, we have witnessed numerous debates concerning topics, such as government enterprises or aspects of participants reporting process. It is obviously that it is necessary to examine the corporate governance issues and those relating to the audit committee; that's why, even if the financial statements are the responsibility of the management, it's important to ensure the provision of information taking into account the principles of true and fair play, in the audit committees and through the external auditors.
Keywords: financial audit, corporate governance, audit committees

Introduction

The concept of governance has versatile significance and it comes from many sciences. It is necessary to understand knowledge concerning the history of the national economies, to understand company law, organizational management, business finance, accounting, etc.

Practice confirms the need and role of corporate governance as a result of recent studies, because it was observed that those organizations that have adopted a governance model effectively perform much better against organizations that fail to do so.

Material and Methods

This article aims to investigate a topical issue that is discussed more and more often in the economic literature. As a research method it was used the descriptive analysis, which attempted to study the role of corporate governance and audit committees in improving the quality of financial audit.

Literature review

The paper is based on the analysis of the results coming from a relevant international research concerning corporate governance and audit committees, conclusions that in fact inspired the Romanian laws and regulations in that field, including here: Company Law no. 31/1990 as amended and supplemented, Governance Code (2009) issued by the Bucharest Stock Exchange and the Institute of Corporate Governance (IGC), Deployment Guide to Corporate Governance Code issued by BSE and IGC in March 2010.

Results and Discussion

Currently, no modern society can be imagined without the existence of highly diversified organizations in which different individuals are associated with a variety of interests. These interests can generate potential conflicts between them. In terms of the business internationalization of the markets and the absence of strict rules, it may appear difficulties in the organizations, which requiers the adoption of some measures, accordingly.

In Romanian, the term "governance" is synonymous with "management" and "leadership"; corporate governance or enterprise governance comes from the Anglo-Saxon translation of the term "corporate governance", designating the entire system by which economic entities are directed and controlled.

The literature abounds with various definitions. There is still some confusion about the concept of corporate governance. Nowadays, the definitions of governance have certain common characteristics regarding exercise levels, supervision and structures, ethical and social responsibility, mechanisms and instruments, all the rules and procedures of governance having the purpose of increasing the value of the organization.

Internationally, we note that there are several approaches in defining corporate governance, coming from different institutions or organizations. Among them we believe that the full definition is that given by the Organization for Economic Cooperation and Development[1]. This definition summarizes in the best way the relationship of an organization with the internal and external environment, emphasizing the interaction between these environments and the entity's management structure. According to OECD, corporate governance means:[2]

- a set of relationships between the management of the company, the Board of Directors, its shareholders and other interest groups;
- a structure through which the companies objectives are set to achieve the monitoring performance;
- a system of incentives for the objectives of the Board and of the management, needed to increase the interest of the society and of the shareholders and to facilitate the monitoring; it encourages - at the same time - the entities to use resources in an efficient manner.

The subject - corporate governance has come under the spotlight following a series of failures in the private sector. That have created around the investors a sense of uneasiness, seriously shaking their confidence in how are managed both: large organizations and public institutions. The question arises whether these failures were due only to a lack of integrity in management or were consequences of the gaps in the legislation.

In response, the government's bodies made important changes concerning the legal sanctions, introducing ethical and transparent policies to be adopted by the companies.

The government's role is to provide a framework for the activities of the companies and institutions, identifying and achieving common interests for all the involved parts. From here emerges the idea that governance especially has some socio-economic structure in which an important role occurs the following entities:[3]

- joint stock companies, in which the Government ensure that shareholders are not only simple investors;

[1] The abbreviation used in the literature for this organization are: in English - OECD (Organisation for Economic Cooperation and Development) or in French OCDE (Organisation for Cooperation et de Développement économiques);

[2] OECD Principles of Corporate Governance, 1999

[3] Aslău, T., Almasi, R., Internal Audit, 2009, Arad, Aurel Vlaicu University Press, pg. 82

- public institutions, such as state and local authorities, which must ensure the rights of the citizens;
- social organizations, ensuring both: respect for the contributors and for the beneficiaries of social action;
- various other legal associations, which aims, through the act of governance, to ensure the respect for all the members.

In any of these structures, the corporate governance is aimed primarily towards performance increase, in harmonization with the interests of various groups. Thus, corporate governance has many socio-economic benefits.

There is no single model of corporate governance. Each structure is unique and consequently.

A corporate governance model that have to be implemented is influenced particularly by the company's characteristics[4]. In other words, corporate governance model differs from one country to another, depending on the nature of the society and its development. However, each governance model should consider at least four principles:

- shareholders' rights and an equitable treatment;
- the role of interest groups (stakeholders);
- board and management oversight;
- transparency and disclosure of information.

In our country, the concept of corporate governance has emerged recently and it is only visible for about 9 to10 years. There are serious efforts to generalize corporate governance in Romania.

The Romanian corporate governance can't be analyzed only in terms of the evolution of political, legal, economic and social context of the transition from the centralized economy to a market economy; the Romanian companies' management is strongly influenced by the ownership reform.

Therefore, the national legal framework allows both: tier management systems specific to the Anglo – Saxon model and the German model specific tier. However, in our opinion, the Romanian model of corporate governance is a combination of the two models established at EU level.

We believe that legislation may provide a potential basis for solving many problems that Romania still has in terms of corporate

[4] Bowman, B. Principles and recommendations proposed in the new Code of Corporate Governance, Journal "Financial Audit", no. 10/2010, pg. 52

governance. We also note the progress relating to the management of the Romanian companies reform, leading at least to a substantial improvement of the legal framework. The governance models must be developed to include those additional levels regarding liability, as a result of financial audit.

We also consider that different systems of governance can have a significant influence on the role and financial audit quality, as evidenced in countries where the predominant entities with diversified ownership structure have a favorable perception of the role and usefulness of the audit services. In other words, understanding different systems of governance can have a significant impact on the understanding of the financial audit.

Effective corporate governance models assign important roles to the auditors, particularly in matters relating to the financial reporting transparency and the monitoring of internal controls. In these circumstances, the role of communication between auditors and those with governance is obvious.

Communication is extremely important because it supports the understanding of the audit issues, developing constructive working relationships between the independent auditors and those charged with the governance. Good communication between the two parties may assist the auditor in obtaining relevant audit information and also assist those charged with governance in carrying out their responsibilities in overseeing the financial reporting process.

The standard that sits in the foreground relationship communication between the auditor and those charged with governance is ISA 260, "Communication with those charged with governance". For this, the auditor must first identify those persons that are charged with governance. According to the legislation, in Romania they may be the administrators of the entities, the directorate and supervisory board. In both cases, these entities are required by the law to audit the annual financial statements and should establish an audit committee.

Also, the auditor should use professional judgment in identifying those charged with governance taking into account the specificities of the governance, of the entity, the circumstances of the engagement and any relevant legislation.

A good governance of an entity requires also a good cooperation between the supervisory boards, the management, the managers and the audit committees. Regarding the financial reporting process, they are primarily responsible the supervisory board, the managers and the external auditors. The role of the audit committee is to inform the Board about the accurately of the financial reports and not to make decisions. Eventually, the audit committee can guarantee the accurate and complete financial information.

In our opinion, the role of oversight committees and audit committees in the corporate governance process should be a key one.

Given the composition and responsibilities of the audit committees, they can be a useful ally for the shareholders, not only in matters of financial reporting, risk monitoring of the internal control and audit. However, to achieve this important role within an entity, the audit committee members must be independent, having also an excellent training.

Conclusions

We consider absolutely necessary to continue the efforts concerning the alignment of the Romanian corporate governance practices with the established internationally standards, deleting the ambiguous and contradictory provisions.

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