



Problematical Interdependence between Accounting and Corporate Government in Nowadays Context

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Abstract This article, having as topic: "Problematical interdependence between accounting and corporate governance in nowadays context" wins the reader's attention in order to a better understanding of the interdependence upon some aspects linked between the corporate governance issues and IFRS/IAS in the nowadays context which concerns the accounting from Romania.

Key words:

Accounting, corporate governance, IFRS, globalization, internal audit, the risk of the management

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1. Introduction

"The corporate governance includes public and private institutions of a country, both formal and informal, that govern the relations with the people who manage these corporations and all the corporations investing in the resources of that country." Generally speaking, the corporate governance is defined as a managing relationship of a company with its shareholders, with all it concerns this company. As an ensemble of rules according with which companies are directed and controlled, the corporate governance is the result of such norms, traditions and behavioural patterns developed for each system of legislation¹.

2. Interdependence between Accounting and Corporate Government in Nowadays Context

In the EU, the communitary *acquis* concerns the companies laws, but there is not an *acquis* concerning the Corporate Governance (orders and commands or some obligatory legislation), but only recommendations – an introduction in the national legislation and/or its application; in the international plan, the principles of the governance started to harmonize, if we quote, for example, the "OECD Principles of Corporate Governance" – re-examined in 2004.

The very beginning of this century is dominated by the globalization's phenomenon, which concerns the markets by which it is intended the achievement of a

right balance between the economic processes that globalization requires first of all, taking into account the national cultures and their integration in the global development. Achieving these processes are not easy steps, as recorded by various international economic organizations, which, by help of numerous conferences, have pointed out this aspect.

Among these international corporations we can remark: the OECD (European Organization for Trade and Development), the FEE (Federation of European Accountants), CILEA (Europe Latin America Integration Committee), ISAR (International Standards of Accounting and Report). Such organizations have identified obstacles facing businesses in the accounts and the production of high quality financial information as well as some major problems that hinder the development processes of globalization.

The crisis of confidence which is resulted from these facts shook the whole economic and financial construction and showed the need to review the regulatory and the control mechanisms at all levels.

The Anglo-Saxon term of "corporate governance", translated by us as "corporate governance" or "enterprise governance" means the system by which companies are directed and controlled. Many people believe that the most judicious expression would be "big companies' government", because researches and recommendations are, essentially, parts of this category of enterprises.

In this respect, the organization and the management of the companies was recommended with the concept of "Corporate Governance - GC". In order to show this

¹ Bălăceanu C. (2012). *Transition, between government and governance*, Pro Universitaria Printing House, Bucharest, p. 26.

concept, the existing practices have been studied in five countries from different geographical areas, namely Brazil, USA, Russia, France and Kenya. The selection of countries was founded on the criterion of similarities and differences between the significant economic and socio-political particularities. To demonstrate this line of action, FEE published in July 2003 a document of great importance, entitled: "Financial Reporting and Auditing Aspect of Corporate Governance," which among other things stated that: "FEE believes that recommendations should be reviewed on GC, so that they become effective, equally to the preparation and presentation of the financial information quality by application of IFRS". The corporate governance, as a method of organization and management of the commercial companies which follow the path of globalization, is presented in the specialized literature by help of several definitions, each of them emphasizing one of its significant components. The OECD definition, which is considered the most authorized is: "The corporate governance is expressed by an ensemble of relationships between the company's management, its board, its shareholders, other holders of securities ... also it provides the structure through which are established means to accomplish those objectives and for which monitoring performance are pursued. "The OECD states in this respect the principles that can also materialize objectives, namely:

1. The development of information concerning the company and their accuracy and transparency.
2. The role of the most important shareholders.
3. Fair treatment of shareholders.
4. Shareholders' rights.
5. Responsibilities of the Board.

In listing these principles is noted that through its, there is not shown the principle of Board's qualification, because this term has different meanings in the board having a monist leadership, by comparison to those with dual leadership.

Corporate governance take into consideration that relationships in order that these be established between the company's management, its board, its shareholders and other holders of securities and must be organized in an efficient way.

So, the relational structure of the dual management systems is presented by the OECD, as follows:

A. Objectives and criteria:

- Legal and statutory requirements;
 - Rules, procedures and codes of conduct;
- B. External entities linked to the company, having specific measures to be taken:
- External audit;
 - National and international supervising institutions.

C. The management body of the organization (Board of Directors) with movement and frequent communication of information:

- The Audit Committee;
- The Internal Audit.

D. Management, which shall function permanently:

- The internal control based on duties' separation;
- The hierarchical oversight processes and self-discipline integrated operations.

Under the monist leadership, the entire Board may be called to give statements for their enterprise's management and the quality of the company's financial situation. So, the dualist system requires that the structure of the company may include a management board and a supervisory board. First accomplish the specific tasks and responsibilities in the conduct of daily operations as well as on the development of business strategy, and is responsible for conducting daily operations. The second appoints and supervises the members of management's board, in order to ensure the quality of the external reports and in the respect of solving conflicts of interest.

In the context of corporate governance requirements, the role of full and fair presentation of the information is considered as being crucial because "if investors do not trust the level of presentation of information, the capital will move in other directions." This is the reason why the presentation is considered to be the most powerful tool to monitor and influence the behaviour of a company's management.

All of this being considered, from the accounting point of view, in Europe were adopted a series of regulations, such as the "Investment Security Law", "Recommendations of the EU in July 2003," steps on the convergence between US-GAAP and IAS, a new edition of IAS and IFRS first publication and the completion Auditing Standards.

Requirements concerning information must accomplish at least the following conditions:

- they must result from the requirements of law;
- they must be developed on the basis of some solid accounting standards;
- they must be audited by independent auditors;

That is why, concerning the responsibility and the management of a company's board were identified ten principles of the presentation of the information:

- a) the financial statements that fairly shows the financial position and the performance of an entity;
- b) the presentation of information concerning significant transactions with related parts;
- c) full disclosure of remuneration of directors and staff officer of the entity;
- d) presentations concerning the compliance with best practice corporate governance;

- e) timely and balanced presentation of material matters concerning the entity;
- f) information on the risk of the management's capacity and about the consistency of the internal control systems;
- g) presentation of board structure and the situation of non-executive and executive directors;
- h) the submission of committees, their composition, number of meetings, etc.
- i) the disclosure of the adopted methods concerning the evaluation of the Board and the supervisory body, as appropriate.
- j) presenting matters concerning the entity's policies and actual practice on environmental, health and social security.

About the scope of the Board's responsibilities, the following four are considered as priorities: the strategic direction of the company, the effective monitoring of the management, responsibility towards the company, responsibility towards shareholders.

A legal requirement that must be imposed in such conditions concerning the corporate governance means promoting the separation of the management that holds the company with the interests of their participation. The Board of Directors shall be at the crossroad between management and shareholders and should ensure: management's oversight and to obtain benefits for shareholders.

A key concept is the distinction between the members of the board of the corporate governance: the executive directors (within the entity) and the non-executive directors (outside entity). The presence of the non-executive directors, in terms of corporate governance has the following advantages: improves the business's performance, strengthen the governance structures, acts as a guardian of the shareholders'.

In order to exercise their experience and their expertise, the directors should have sufficient access free to the financial and other non-financial information about the business.

As a result, the American legislature imposed more drastic regulations concerning the corporate governance: the Sarbanes-Oxley Act, which took effect in 2002. That law impose draconian internal organization and financial reporting for the companies listed on the U.S. capital markets, the managers' material and criminal involvement being detailed well thought-out. So, the Sarbanes-Oxley legislation includes numerous provisions by which the area and the method of work of audit firms performing companies listed on U.S. stock markets are clearly defined and delineated, as well as the rules to be followed for the management of the listed companies in order to produce and publish financial information. As a result, "American liberal spirit of judgment" was defeated by an

ensemble of norms concerning the law's foresights or that concept following which it results that too much freedom of expression led to abuses, and the state was forced to intervene.

The conclusion is that the government intervention was necessary in order to regain the confidence of the investors about the companies listed on U.S. stock markets, but there are some voices who dispute a too high degree of interference in the internal affairs of companies. Another conclusion is that building a culture of corporate governance becomes a necessity understood nowadays, if we start from the reality that good corporate governance leads to the best financial performance, improves the access to the capital markets which may allow an entity and increases shareholders' wealth. Also, according to the principles of the corporate governance, it results that: "Directors of public companies, but also those of the private companies have the same responsibilities towards the companies they lead". Why? Because they should be concerned with profitability and efficiency, by the jobs creation employment and wealth, and the increased competitiveness in global markets and domestic markets. Clearly, the capitalist system began to accustom us with its advantages and failures. Enron, World Com, Xerox and Ahold are names that means reading or hearing about them, not only financial scandals, but also examples of corporate governance².

In almost all the countries there are organized concerns and direct actions aimed to protect the shareholders, the balance of power in the management bodies of companies up and, where it is necessary, the powers' extension concerning the statutory audit and the establishment of the audit committees, the internal control organization, the understanding of the significance of transparency and the quality of the financial information³. Developing regulations on companies seeks the principles and others provisions of the communitary acquis's assimilation concerning the corporate governance in the field of companies' matter. Thus, the draft of the companies law, recently approved by the government were treated as provisions of European directives.

In order to adapt the national legislation to the OECD's standards in matters of corporate governance as a component of the legislative reform, the most important elements of novelties contained in the draft law concern the private companies as a reshaping of the

² Feleagă (Malciu) L., Feleagă N. (2005). *Financial accounting, an European and international approach*, Vol. I, Infomega Publishing House, Bucharest, p.168

³ Morariu A., Suci Gh., Stoian F. (2008). *Internal Audit and corporate governance*, University Publishing House, Bucharest, p.180.

management: to manage the company introducing the option of either unitary or two tier, distinguishing clearly between the non-executive and the executive factors.

In this respect, the main reform proposals were considered:

- the unitary system administration:
 - a) by the Board of Directors;
 - b) the delegation of senior management (General Manager);
- Tier system administration by:
 - c) the Director;
 - d) the Supervisory Board;

- Clarification of the financial audit regulation.

In this respect, it is required the financial statement audit and the internal audit organization by:

- Companies which carry into practice the size criteria set by accounting regulations, regardless of management system applied, but with mandatory delegation of the management (the administration in an unitary system);
- All companies, regardless of type (SA or SRL), which chose the two-tier system administration.
- Optional, can be applied to other types of entities, with the same requirements;

In the case of joint stock companies whose financial statements are subject to a legal obligation to a financial auditing, creating an Audit Committee is obligatory.

- It is also required to be pointed up that the obligation remained clear concerning the internal audit organization, towards all entities being subject to the financial audit, internal audit coordination of people who have the financial auditor function, being recognized by the CAFR. Internal audit activity based on standards developed by the CAFR;

- The Censor institution was restricted only to public limited companies which are not subject to a financial audit;

- Revise of the status and the independence of directors;

- Improving the protection granted to shareholders;

- The development of the transparency requirements, the presentation and the publication of information of the company's activity.

The OECD Principles of the Corporate Governance refers to the transparency and the markets' efficiency, the shareholders' rights in their relation towards the management, the fair treatment of the minority shareholders, the role of stock holders - other stakeholders besides shareholders - in processes which facilitates corporate governance, the access to information and the responsibilities of the board.

Nowadays, in the name of the Order no. 1286 of the 1st of October 2012 approving the Accounting Regulations in accordance with the International Financial Reporting

Standards applicable to the companies whose securities are admitted to trading on a regulated market, (the Article 12), it is explicitly stated in the directors' report requiring the declaration on corporate governance. This statement will include: a reference to the corporate governance code applicable to the entity and / or corporate governance code which the entity has voluntarily decided to apply, a description of the main features of the internal control and the risk management systems in relation towards the financial reporting processes, the conduct of the general shareholders meeting and its key powers, and a description of shareholders rights and how they can be exercised, the structure and the operation of the administrative department, the management and their supervisory committees.

When the entity is removed from the code of corporate governance that is applied to it or has chosen to apply its explanation on the part of the code which do not apply to non-application reasons.

In the case of entities whose securities/ movables values - all or some of these titles are admitted to trading on a regulated market that is subject to a takeover offer as defined in the legislation on the capital market in same section of the management report on corporate governance which will include the detailed information on their capital structure, including securities not admitted to trading on a regulated market, and other information required under this order.

3. Conclusions

Nowadays, information is the center of finance and accounting. Financial information is the cornerstone of the relations between the company on one hand and its bringers of equity, banking and market system, on the other hand. The objectives and the significance of the corporate governance are part of the economic-organizational phenomenon recently in use, the corporate governance being the system by which companies are directed and controlled, and, in the same time, a key to improving the business efficiency. The corporate governance is already widely acknowledged as essential for establishing an attractive investment climate, characterized by the existence of competitive companies and efficient financial markets in the current context.

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*** Order no. 1286 of 1 October 2012 approving the accounting regulations in accordance with commercial standards whose securities are admitted to trading on a regulated market, MO nr.687 of October 4, 2012.

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