# CORPORATE GOVERNANCE IN THE CURRENT CRISIS

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***Abstract:***

*Corporate governance is a set of functional processes and structures established by the leadership of the organization in order to inform, direct and monitor lead activities in order to achieve predetermined objectives. Efficient and effective corporate governance involves goals, long-term strategic plans, policies and implementation of the strategy, but also a proper leadership which sets the appropriate issue appropriate decisions to achieve the objectives and ensure the functioning of the established structures to maintain the integrity, reputation and the liability of the organization, both from inside and outside.*

*The concept of corporate governance has been developed based on the theory of the agent, which put in evidence in the first place, the relationship between the investor/shareholder and manager/administrator and then extends to the full range of relationships that must exist between those involved directly or indirectly in the activities of an organization.*

*In our country corporate governance is the system by which organizations are led and controlled at the same time, and the decisions and actions taken by senior management in order to achieve the objectives set, using the appropriate means and resources. In addition, corporate governance involves a set of relationships between entity management and other personnel, which must be lead to improving the effectiveness of the activities conducted and the growth of the organization as a whole.*

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**The characteristics of corporate governance**

The concept of corporate governance published initially that response to a series of economic and financial failures in the private sector, has expanded into most areas of activity. In the last period of time has been adopted, particularly by public sector organizations.

Corporate governance involves a set of rules and control systems, verification, assessment, et al., applied by the entity in order to achieve an efficient management and effective, in order to ensure the achievement of the objectives set. In this sense, the concept of corporate governance should be associated with the risk management and internal control system.

In order to ensure a proper leadership, governance public entity must devise and implement a strategy for the development of an entity and specific policies for each area of activity, as well as to organize a system of internal control/management suitable for ensuring that the objectives laid down, which is directly responsible shall be carried out at least in the planned conditions.

In practice there is not yet a definition of the concept of corporate governance date and unanimously recognized by specialists in the field. However, the most widely used concepts of practitioners are those formulated by the IIA and IFAC, respectively:

- Governance is a combination of processes and structures implemented by the board of directors for to inform, to driving, direct and monitor leads the activities of the organization, in order to achieve predetermined objectives;
- Corporate governance is a set of practices of the board of directors and executive management, carried out with the aim of providing strategic directions of action, achieving the objectives proposed, risk management and responsible use of financial resources

From the analysis of these concepts are found, they synthesize a organize relationships both with the internal environment, represented by shareholders and employees, as well as with the external environment represented by suppliers, lenders, community, but also the interaction between Board of Directors and company management.

Corporate governance is organized on the basis of principles, which are regarded as pillars of good governance, respectively:

a. **Integrity**, corporate governance is an essential concept, which involves applying an ethical and professional behavior, with regard to respect for the interests of others and social responsibility.

b. **Transparency** is required, since the exposure of any irregularities or poor performance of the public and the critics lead to improvement of specialists ' behaviors and performance. Also, without opening there was evolution and performance.

c. **Responsibility** is the most simple and important principle of governance, but, at the same time, it is the least understood and respected within the organizations. Because, in most cases, is the fact that the times is not sufficiently defined at the level of the Organization, it is not clear for both driving and for the rest of the staff.

Mainly at the organization accountability can be achieved by:

- very good knowledge of the responsibilities relating to the activities, results and behaviours;
- hierarchical responsibility toward the person who granted responsibility;
- the person who grants the responsibility must be sufficient and specific information in order to assess the results of the employee to whom they were determined to achieve certain tasks;
- responsibility committed must be subjected to an independent examination, such as internal audit;
- the establishment of effective mechanisms of reward and sanction, to be properly applied and whenever it is necessary

In these respects it is noticed that, corporate governance principles have been laid down in general, leaving up to the establishment of instruments and mechanisms of the organizations, including the importance of them.

At the same time, the management of risks for the implementation of the system of internal control, in compliance with corporate governance policies and codes has come to be synonymous with integrity, sincerity, transparency and responsibility.

The leadership of the organization is responsible for formulating strategy and long-term planning for the development of the organization and meet in front of shareholders with regard to achieving the objectives that have been set. To avoid getting poor results, management entity has all the appropriate measures in order to achieve the strategy and developed policies and at the same time to organize a proper internal control system with which to master the risks and evaluate the organization.

**Ensuring the necessary framework for good governance**

The concept of governance in our country has been defined by art. 2 (a). h1) of Law No. 672/2002 on public internal audit, republished, with subsequent modifications by "the ensemble of processes and structures implemented by the management in order to inform, directing, management and monitoring of the activities of public entities to achieve its objectives".

Also in the vision of the Institute of Internal Auditors from the S.U.A, there are the following basic pillars which provide a good framework for corporate governance at the entity level:

- Executive management or managing entity;
- The internal audit committee,
- Internal audit,
- External audit.

Each of these pillars provides, independently of each other, an assurance with respect to corporate governance.

Analysis of these pillars in the context of entities which are organized and function in the public sector in our country has set out the following:

**A. The entity's management**

Entity management is responsible for the design and implementation of management and internal control/to provide an assurance to all those interested in the achievement of the entity, in terms of economy, efficiency and regularity.

People who are part of the entity are called entities and representatives have the responsibility to select and recruit the leaders of functional structures of the entity, as well as the execution staff, to analyze the policy promoted in the field and the needs of citizens and to design appropriate policies and strategies in order to achieve the proposed objectives.

In order to ensure achievement of the entity's management developed and approved a budget of income and expenditure, an activity plan and define qualitative and quantitative indicators for measuring performance. Also register economic activities in the accounting system and synthesizes them, usually on an annual basis, in situations of financial reporting on the basis of national regulatory standards.

Entity representatives analyze the performance of the entity and financial results obtained by the entity's management and follow if public funds or provided leadership and used judiciously, in terms of economy, efficiency and effectiveness.

The management entity must give proof of competence in performing their duties the incumbent and has the right to order any measures which it considers appropriate to achieve the objectives and activities, but is responsible for all actions taken as a result of the decisions taken.

Corporate governance guarantees with regard to the attainment of the conditions in which the entity has the ability to get the best management decisions, and functional structures and staff leaders of execution has the knowledge, skills and values necessary for carrying out the activities for which they are responsible.

**B. Audit Committees**

The audit committee is a tool of corporate governance, which is intended to ensure the Organization and ensure the proper functioning of internal control, internal audit and its relationship with the management entity.

Acknowledgement the audit Committee activity is determined by the order of formation, of the requirements of autonomy, sizing and transparency of the activities, as well as the ways in which maintains the relationship with the internal auditors and entity management.

Committee activity is done on the audit Committee Charter, which provides information about the committee's practice, the frequency and duration of meetings, the analysis of materials and expressions of opinion or issuing of approvals, and reporting to the entity's management.

In international practice, The Audit Committee, in addition to the duties imposed on the provision of insurance relating to the efficiency of the internal audit function, and some additional responsibilities to meet, including the risk management and internal control, as well as establishing investigation with special character, at the request of entity management.

To carry out the responsibilities set out the audit committee must have a relationship with the entity and sincerity with the internal auditors and to fulfill functions effectively.

Internal audit and external audit functions of the entity represent by means of which the audit committee carried out its duties and responsibilities. Therefore, both the internal auditors and the external auditors must have direct connection with the audit committee. Maintaining the dialogue between the audit committee and the internal audit division management enables the committee to be informed promptly about the problems that confront internal audit or that affect the independence and objectivity.

Management entity to ensure that the responsibilities of the Internal Audit Committee determined it is necessary to follow as members of the Committee to have a level of knowledge and expertise, as well as a judgment and independence.

Results of the activity of the audit committee shall be notified, in writing, to the knowledge of the entity's management analyzes and can make suggestions or request expansion of investigations or investigations.

In our country, Internal Audit Committees were placed in public *Law entities 191/2011 for amending and completing Law No. 672/2002 on public internal audit.* According to the dispositions of the law “central public institutions that developed during the budgetary exercise a budget greater than 2.000.000.000 RON must constitute an internal audit committee to act in order to increase the efficiency of public internal audit activities”, and other public entities optionally may establish internal audit committees.

In accordance with requirements established by regulations established within the internal audit committee which was established within the public entities in our country are collapsed, meaning that they act only in addition to the internal audit departments in order to improve their activity, as follows:

- *debating and approves the multi annual plan and annual plan for public internal audit activity;*
- *analyze and issue an opinion on the recommendations made by the internal auditors, including those which have not been accepted by the management entity;*
- *analyzes and approves the annual report of the public internal audit activity.*

From the analysis of the duties laid down by the internal audit committee it is noticed that they provide public internal audit department an assurance relating to the operation of its activities. Internal audit committees don’t have direct connection with the entity and may not meet other responsibilities at its request, but indirectly, through the improvement of internal audit activities, as a result of opinions and opinions expressed, contributes to the improvement of activities and the achievement of entity and supports, at the same time, the independence and effectiveness of the internal audit department.

Members of the audit committee must play an active role in supporting the independence of internal audit and to ensure that it has sufficient resources to provide a proper level and quality of the information provided in the following activity.

**C. Internal audit**

Internal audit is an independent and objective activity, which gives the public an insurance entity in terms of the degree of control over operations, a guide to improve operations and contribute to adding an extra value. Help the entity to achieve the objectives of assessing, through a systematic and methodical approach of its processes of risk management, control and governance of the Organization, and making proposals to strengthen their effectiveness.

Experts in the field *consider that public internal audit is an essential tool for optimizing the performance of the activities of public utility, through a contribution to the identification of irregularities and disturbances.*

In performing its function, internal audit: evaluates the pertinent and efficacy the control device on the governance of the organization; operations and information systems; the reliability and integrity of financial and operational information; the effectiveness and efficiency of operations; protection of cultural heritage, as well as compliance with laws, regulations and contracts.

You can appreciate that, internal audit is a component of the control system of the organization, which however fails to control, but performs independent analyses and evaluations processes that takes place within it, in order to assess and control system to provide reasonable assurance on the management functionality.

Regarded as the function, internal audit entity is not a managerial activity, but an activity that takes place on the next manager to help and assist in the decisional processes.

From the point of view of its purpose and mission of the internal audit is an intrinsic component of management, and from his point of view, is an autonomous activity specify that requires professionalism and fairness, helping both entity management, as well as people interested in entity.

Types of public internal audit covered and which can be achieved in practice are:

a) Audit of regularity, which is examining the effects of financial actions on behalf of public funds or public assets, in terms of the observance of the principles, procedural and methodological rules that apply to them;

b) Performance audit examines if the criteria laid down for the implementation of the objectives and tasks of the public entity is correct to assess the results and appreciates if results are consistent with the objectives;

c) System audit, which is an evaluation of the depth of management systems and internal control, in order to determine whether they work economically, efficiently and effectively, to identify deficiencies and formulating recommendations for correcting them.

In terms of coverage area, internal audit included all activities carried out within the framework of public entities, which have a direct or indirect financial implication, which involves the use of a wide range of specialists.

The general objective of internal audit is to assess the risk management systems, control, and governance of the organization, in particular regarding the establishment and the use of public funds and the management of public assets, in order to provide a reasonable assurance that such systems work as it was envisioned, as will enable the organization to achieve the targets and proposed purposes, to propose recommendations for improving them.

For the definition of internal audit is necessary to take into account the fact that the internal audit is a component of the system of control of the entity, which evaluates and improves the efficiency and effectiveness of the system based on risk management, control and managerial processes. Analyzed in this context, the main objectives of internal audit qualify and define as follows:

- *Evaluation of risk management-internal* - audit entity public, offering help to ensure that the risk management system is adequate and sufficient to protect the funds and property of the public, sound management, thus contributing to the identification and evaluation of significant risks and establishing recommendations for the improvement of this system.

- *Assessment of internal control system internal audit* - management of the organization's public support for maintaining an effective and efficient internal control, assessing the reliability of financial and operational information, effectiveness and efficiency of operations, funds management processes and public patrimony, compliance with laws, regulations and contracts. In this context, highlights the significant weaknesses of control devices and propose recommendations for improving internal controls.

- *Evaluation of the governance process of the public entity* - based on the unanimous view that each entity is characterized by an "identity of its own", we consider that the practices adopted by the entity in terms of governance is the result of their own cultures, continuous evolution, which influences the roles, behaviors, determine the causes and strategies objectives, measuring performance and defines responsibilities.

Public internal audit is an essential tool for optimizing the performance of the activities of public utility, through a contribution to the identification of irregularities and disturbances. The recommendations offered a thoroughly bring management to the strengthening of stability, their objectives, risk management and efficient use of financial resources that they have available to institutions.

Public institution may don't have the performance in terms of where there are irregularities, non-conformance or prejudice of the heritage. Evaluation made by public internal audit considering the functioning of the institution as a whole.

Good international practice in the field of corporate governance principles advice the use, in order to ensure realization of the internal audit function, in order to avoid unwanted events, with consequences on the entity.

**D. External audit**

External audit, considered the fourth pillar of corporate governance, based on the provisions of public *Law entities. 94/1992 concerning the organization and functioning of the Court of Auditors, republished, with subsequent modifications.*

The Court of Auditors to exercise external audit function, including the activities of financial audit and performance audit, providing insurance in respect of the reliability of financial reports and to achieve the objectives established entity.

Financial audit activity is exercised on the annual accounts of the execution of the state budget, state social insurance budget, special funds, budgets of administrative-territorial units, budget of state treasury, the budgets of the autonomous public institutions and of the public debt of the state, foreign funds grants budget etc.

The Court of Auditors is the only authority empowered to pronounce on the data contained in the accounts of the execution, above, by certifying the accuracy and reliability of these data.

External Auditors check that these accounts to reflect correctly the financial performance of the entity and its debts and assets at the end of the accounting year. At the end of a mission carried out expressing an opinion on the accounts on the basis of the position adopted.

External auditor carried out test and depending on the obtained results provides a reasonable assurance of management entity regarding the significant weaknesses of internal control, errors or fraud affecting the entity.

**Conclusions**

In carrying out the activity of each pillar of corporate governance is based on the activities of the other pillars, but all must work in a timely manner in order to provide a general assurance concerning the proper functioning of the entity. At the same time, each pillar provides independent assurance to interested persons from outside entities and entity regarding the achievement of entity.

The literature shows a combined insurance model that presupposes the existence of multiple levels of security, with which devices are implemented to ensure the attainment of established entity, as follows:

- Implementation of a control system intern/managerial that assume establishing actions for each internal control standards adopted and their implementation. Implementation of standards control internal/managerial in a timely manner is assurance on the achievement of objectives.
- The second level is considered risk management process, with which the entity to identify risks that may affect the achievement of the objectives, evaluates and treats them with a view to maintaining them within the limits which it has accepted. Proper risk management determine improvement of internal control system/management, as identified with high risk activities involves establishing and implementing appropriate control devices for reducing the risk.

From the analysis are found to these two levels is the responsibility of the management entity, which has the obligation to set up an internal control system is adequate and appropriate managerial/who to detect lack of internal control and risk management process that ensures a proper risk management and to prevent the expression of them.

- The third level is the one represented by the internal audit and external audit, which evaluates the first two levels and provide independent insurance in respect of their operation and the ability of the entity to achieve its objectives.

Corporate governance in public entities must establish appropriate management systems to meet the interests of the State and its citizens, and these in turn driving systems, which represent the key elements of improve efficiency and economic growth, we must provide solutions for achieving the targets.

The concept of corporate governance is supported by internal audit, which play an important role in assisting the reorganization system of internal control and advising management.

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