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**Corporate Governance and International
Financial Reporting Reference (Ifrs)**

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Abstract: Between corporate governance and IFRS there is a causal relationship. Financial reporting is based on managerial accountability. Corporate governance is the economic branch who studies how companies can become more efficient through the use of institutional structures such as: incorporation, organization and legal framework. This branch is limited, in most cases, to studies on how shareholders can motivate executives to benefit the company through their efforts, resulting - finally - dividends. Starting from the global nature of the current crisis, we have considered as being necessary to point out its effects on the financial reporting and, implicitly, on the requirements for the corporate governance consolidation in order to ensure the economic and financial stability desired. The macro-economic context favored the start of the crisis, but the analysis made by experts showed other reasons for this, out of which some of the most important are the corporate governance weaknesses and the insufficient means for protection against risks. We consider that these are reasons which ask for an objective analysis and a correct assessment of the regulatory process but also of the practice in the area corroborated with an invitation for a responsible behavior both of the entities management but also of the representatives of the accounting profession so much involved in the correctness of the accounting reporting and therefore in the financial health of the entities.

Keywords: financial reporting; corporate governance; internal control; accounting conformity; accounting convergence

1. General Issues Concerning the Financial Reporting and the Corporate Governance

The concept of corporate governance emerged in 1992 as a result of the Cadbury Report in the United Kingdom of Great Britain. It is a discussion of the concept of „social responsibility of the company”. If in 1970, Milton Friedman's „Theory of stock-holder” believed that maximize financial results of the dividends paid to shareholders is the greater social responsibility of a company, subsequently the conceptions changed. At present it is considered that a company belongs more to the community where it operates, she became a „citizen of the community” to which he has some rights and a lot of obligations. IFRS have a key role in completing the corporate governing. Corporate governance is a little-known concept in Romania. It describes all the rules by which a company is managed and controlled (corporate governance is defined as a relationship management of a company with shareholders and with society, at large). Set of annual financial statements are based on corporate governance.

The beginning of the third millennium we can say that it is really sounding by the events that characterize it. We can say that the financial scandals from Enron, WorldCom and Parmalat, as well as other big and very big companies which largely affected the managers credibility concerning the capacity for a good management of the entities but also the financial reporting relevance remain insignificant in comparison with current global crisis which affected the economic life of the planet by destroying balances which sometimes were largely and forever established.

In most of the countries worldwide there are a lot of efforts and actions are developed with the purpose to reestablish the economic-financial balances starting from identifying the reasons for the current global situation. More than ever, group of experts from the international organizations in the area reached conclusions almost unitary concerning the real reasons for the current worldwide crisis which started in the financial market (bank and credits), its reasons being deeper like for example the macro-economic and micro-economic mechanisms. It is also pointed out the paradox of the crisis, which consist in the fact that although the liquidities seems to be sufficient, these can not be found at the right place and do not circulate in accordance with the economy needs, this crisis taking by surprise almost all the players in the economic environment by the amplitude and the rapidity of its expansion at the global level starting with the fourth quarter of the year 2008.

Principles of corporate concern: information transparency, protection of shareholders, board responsibility. Nothing can be achieved without the annual financial statements, without complying with the five components: balance sheet, income statement, statement of changes in equity, cash flow statement and explanatory notes, the purpose of expressing an accurate picture of assets under empire of corporate governance, which is a modern and effective management tool for social economic entity.

We consider as being representative the fact that, as result of the analysis of the reasons for the crisis, it could be seen that one of the most important reason is the insufficient corporate governance and risk management.

Therefore, the results of ACCA (**Association of Chartered Certified Accountants**) **research**, in cooperation with different groups of experts to identify the reasons for the crisis, showed that among the main factors that led to the situation created we can mention:

- the major discrepancies between the business risks and the budgetary provisions concerning the financial incentives awarded to the managers;
- excessive risks assumed, doubled by the short term approach of the remunerations and incentives granted to the managers;
- existence of some areas of the risk management which lack the power and influence;
- lacks in information reporting on the current and potential risks and on the transactions they refer to;
- inappropriate supervision of business by the executive directors and the lack of a proper supervision of thee by the administrators and the supervision commissions;
- lack in regulations on the responsibilities inside the organizations, and between these and their management, or the lack in exercising this responsibility.

For the emerging economies in countries like for example Romania, where the main challenge is to overpass the effects of the crisis together with a sustained effort for continuing development and implementation of the measures meant to ensure the convergence with the other European countries economies and to maintain the macro-economic stability, knowledge, understanding and implementation of the corporate governance and management risk principles represent a must.

The changes brought to the Company law between 2006-2008 have the purpose to also adapt it to the principles of the Organization for Economic Cooperation and Development (OECD) in relation to the companies corporate governance. In this framework we would like to point out the provisions of the above mentioned law on the companies management either in one tier or two tier system, the requirements concerning the establishment of the consultative committees (audit committee, remuneration committee, etc), establishment for the board of directors of some tasks which can not be delegated to the administrators, establishment of the shareholders rights, etc. At the same time, by the Order of the minister of public finance the requirements of the Directive 2006/46/CE, concerning the entities which securities are admitted to transaction on a regulated market and to present information on the corporate governance have been implemented in the Romanian legislation.

A realistic assessment of the legal provisions, both in the companies legislation area and in accounting area, shows that to date these contain minimal requirements on corporate governance but we consider that yet the provisions on the responsibilities in the area and especially in as far as concerns the internal control, the protection mechanisms against the risks and last but not the least the responsibilities of the executive directors and of those with tasks in the coordination and supervision area are not yet clear enough. The developments and additions concerning the accounting regulations which are to be in force starting with 2010 bring a necessary plus in regulations, new requirements and responsibilities concerning the accounting policies and treatments, internal control organizing, its objectives, how to develop the internal control procedures and to perform periodic assessments of the internal control performance in order to ensure that the internal control is adequately adapted to respond to the new risks that appear.

As far as concerns the provisions of the economic entities legislation, we consider that these should be developed further especially in the area of the provisions concerning the responsibilities of the executive directors and of the management, considering that detailed elements on corporate governance organizing and functioning can be developed in corporate governance codes and regulations of some specialized bodies in the area.

2. Crisis Implications on the Entities Accounting and their Financial Reporting

Notwithstanding that the current crisis did not started or it has not been significantly favored by the accounting information quality or by the quality of the audit engagements, the accounting profession in general (bookkeepers, accountants, auditors) is concerned by the difficult period the economy witness, this period pointing out once more the importance of the professional services they provide.

Considering these concerns, we believe that the proceeding of the International Conference „The Financial Crisis and Its Implications on The Financial Reporting Architecture and the Financial Stability” organized by UNCTAD in Geneva at 1st July 2009 are very significant and the agenda contained issues like debates on the credit crisis implications on the corporate financial reporting in the context of the current challenges to the financial stability (attended also by representative of the Romanian profession). The importance of the issues on the conference agenda and the fact that they covered problems to date in the financial reporting area are also outlined by the following: the realism in approaching the role of financial reporting in ensuring the financial stability and intensification of the economic development; requirements on fair value evaluation considering the crisis; requirements on professional ethics and transparency, the independence of the regulatory bodies; the statutory audit in the context of the crisis; increased role of the rating agencies in order to ensure the financial stability and progress; presentation in the financial reporting of the information on corporate

governance; reporting of how the responsibilities that flows from the corporate governance are met and ensuring the financial stability considering the application of the International Financial Reporting Standards etc. Also the International Federation of Accounts, the two Romanian professional bodies are full members to– CAFR (Chamber of Financial Auditors of Romania) and CECCAR (The Body of Expert and Licensed Accounts of Romania)-, in its report on 2008, recently published, outlines the initiatives to rebuild the global financial stability and appreciates that one of its main activities, namely, international standards and guidance development, become more relevant and necessary than ever considering the current economic environment, pointing out also the need for convergence to global standards.

In the same context of the convergence to the global standards, at the European level, in the Conference on „Financial Reporting in a Changing World” organized by the European Commission in Brussels on 7-8 May 2009, the IASB representative announced the acceleration of the completion of the draft replacing the IAS 39 „Recognition and evaluation of financial instruments”, with the purpose to introduce some changes mainly on:

- fair value evaluation on the liquidities markets;
- reducing the complexity of the rules on the financial instruments;
- increase in the transparency and comparability of information.

The urgent nature of these measures is also pointed out by the fact that the USA body for the accounting standards development (FASB – Financial Accounting Standard Board) recently published in April this year a series of changes to the accounting standards and there is a risk for the appearance of some non-equivalent accounting treatments.

Concerning the status of the financial reporting regulation in our country we would like to point out the conformity with the European directives in the area concerning the individual financial statements of all the categories of entities, as well as the conformity to IFRS for the consolidated financial statements of the entities admitted to transaction on a regulated market. The totality of the measures developed in order to be applied starting with 1st January 2010 for the individual financial statements bring, on the one hand, a more convergence to IFRS, and on the other hand to strengthen the responsibilities on adoption and application of the accounting policies, organization of the internal control and ensuring the credibility and relevance of the financial-accounting information.

In order to analyze the effective application in practice of the financial reporting and corporate governance issues, recently it has been completed a research in the area, based on a questionnaire sent to some public interest entities from Romania (credit institutions, insurance-reinsurance companies, national companies and entities). The results of this research are meaningful especially considering that this category of entities is subject to some regulations of a special nature in which the requirements in the area and the responsibilities are better pointed out. We can say that at the level of this category of entities the objectives concerning the relevance, credibility, completeness and opportunity of the financial and management information become a priority. The internal control of the respective entities assumed its responsibilities in the area of: ensuring the conformity of the published financial information to the applicable accounting regulations; application of the accounting policies and procedures established by the entities leadership, protection of the entities assets; preventing and detecting the frauds and accounting irregularities etc.

The audit committees which become functional in most of the public interest entities started their activity in modernizing the financial reporting process in accordance with the provisions recently adopted by the EGO no. 90/2008 on statutory audit.

3. Conclusions

We consider that the development and consolidation of responsibilities in the financial reporting area should become a priority for all the categories of entities, especially considering the current global economic environment. Also, we consider that it is necessary to promote the international professional knowledge by the staff of public companies in Romania and their theoretical and practical improvement through international cooperation and standardization (see standardization already existing in accounting, auditing and financial reporting - IAS / ISA / IFRS).

Among other proposals that we could have, we underline:

- establishment of a National Institute of corporate governance, as well as some specific standards according the existing models;
- transparency, financial reporting, internal control and risk management including corporate information system;
- establishment of a causal relationship between corporate governance and actuarial accounting;
- establishing causal relationship between corporate governance and the cyberspace of electronic accounting.

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