

CORPORATE GOVERNANCE OF ROMANIAN PUBLIC INTEREST ENTITIES

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Abstract: *The paper presents some of the findings of an empirical research carried out in 2009 on the topic of corporate governance of public interest entities in Romania. The research found there is confusion regarding the implementation of corporate governance regulations, as well as a certain lack of interest and knowledge in this field. The paper presents the factors that lead to this state of facts. The strengths and weaknesses of the regulatory framework are also pointed out, together with suggestions for improving it.*

Key words: *governance, public, empirical, Romania*

1. INTRODUCTION

Corporate governance is a topic of great interest, both at national and at international level. According to the Organization on Economic Co-operation and Development, corporate governance comprises a country's public and private institutions, both formal and informal, which together govern the relationship between the people that manage companies and all others who invest resources in the country's companies. Corporate governance means the existence of a set of relationships between a company's management, the board, its shareholders and other stakeholders. Due to the importance of this field, the international literature comprises a diversity of studies on corporate governance. Research such as that of Jeffers (2005, 221– 232) and Letza et al. (2008, 17-32) analyses different corporate governance models. Moreover, there are numerous empirical studies such as Bhagat and Bolton (2008).

However, although there is an obvious interest in the Romanian literature for the concept of „corporate governance”, for different mechanisms related to corporate governance (e.g. accounting policies – Petre et al., 2010) and for corporate governance systems in other countries, empirical studies (such as Manolescu et al., 2010) are scarce. Moreover, the legal requirements in Romania regarding the introduction of corporate governance principles are young (less than 5 years).

2. RESEARCH OBJECTIVES

On this background, the empirical research on the corporate governance of public interest entities in Romania is original and novel. The researchers' objectives were to find out: how is control perceived in public interest entities; which are the forms of control; what is the control's role in the entity; which are the control tools; what's the task of managerial control; what are the managerial control tools; what are the instruments and objectives of internal control; the link between internal audit and corporate governance; opinions on the audit committee; the connection between audit committee, internal control, internal audit and financial audit. The central overall research question was: “To what extent are corporate governance regulations properly known, understood and implemented by Romanian public interest entities?” Moreover, the relevant national regulations were also assessed.

3. RESEARCH DESIGN

The research was carried out in 2009. An empirical research approach was chosen. The questionnaires were sent to all categories of public interest entities and the answers were received mostly from qualified persons: managers, members of the audit committees, members of the board, executive directors etc. A number of 105 entities (see Table 1) answered the launched questionnaires. The sample represents approximately 20% of the total population.

National companies/national entities	6,67 %
Trade companies	51,48 %
Credit institutions	18,14 %
Insurance companies	3,81 %
Non-banking financial institutions	16,09 %
Other legal form	3,81 %

Tab. 1. Structure of the sample

4. RESEARCH FINDINGS

Answers were gathered, aggregated and processed. Thus, the strengths and weaknesses of the process of assimilating the corporate governance principles in Romania were identified. The main findings refer to:

- the strengths and weaknesses of the regulatory framework;
- the understanding of the corporate governance concept;
- understanding the responsibilities of the entities, in general, and of the public interest entities, in particular, in applying corporate governance principles;
- the connection between managerial control, internal control, internal audit, and external audit and the role of each of these mechanisms within corporate governance;
- the communication to stakeholders on corporate governance issues etc.

This paper presents the research findings that resulted from the critical analysis of the regulatory framework on corporate governance, performed by taking into consideration the results of the survey. The questionnaires revealed confusion and lack of decision in public interest entities in matters related to the implementation of corporate governance regulations. The paper presents the factors that lead to this state of confusion and lack of decision, to be found in the legal framework. Moreover, the strengths of the regulatory framework are also pointed out, together with suggestions for improving it.

4.1 Factors leading to confusion in implementing corporate governance regulations

First of all, in Romania, the legislative process regarding trade companies, in general, and financial institutions, in particular, was influenced by Romania's objective to become member of the European Union.

Therefore, the law on trade companies and the legislation applicable to public interest entities comply with the requirements of the adherence treaty, of the European Directives, of the related regulations, decisions and recommendations, and with the requirements regarding financial reporting and internal and external control.

Second, most of the legal requirements on the introduction of corporate governance principles are relatively young (under five years) (e.g. the amendments of the law on trade companies starting with 2006 and until today).

Third, although the law on trade companies was introduced by the Ministry of Justice, this Ministry does not have the obligation to issue application norms. All these aspects lead to frequent confusion in implementing corporate governance regulations.

Additionally, in Romania, unlike the majority of the member states of the European Union, there was no corporate governance code for companies and no culture in this respect. The regulations regarding the roles of basic corporate governance mechanisms, such as internal control and audit committees were issued either incompletely or with delay. This is another factor which has led to confusion and lack of decision in public interest entities.

4.2 Improvements of the relevant regulatory framework

Following the research carried out, we found that there is a need for improving the legal framework on internal control. The requirements of the Law on trade companies no. 31/1990 (subsequently amended and republished) are not explicit with respect to internal control (the law refers to financial control and not internal control).

However, the Order of the Ministry of Public Finance no. 3055/2009, applicable since the 1st of January 2010, fills a gap in internal control, in general, and in accounting and financial internal control, in particular, by comprising clear requirements in this matter.

We think that the requirements of these regulations are very useful for external auditors in assessing the internal control system. In our opinion, the accounting regulations mentioned, that concern all categories of entities, should considerably help the persons charged with corporate governance, the entities' management, and the financial auditors in making internal control an essential factor in providing information that is reliable and in compliance with the legal provisions of the professional standards.

At the same time, in our opinion, the Law on trade companies should be modified, so that the legal requirements regarding the responsibilities for setting up the internal control system to be clear and explicit.

An important role in enhancing the process of implementing corporate governance principles in Romania is played by statutory audit. International auditing standards set clear responsibilities for statutory auditors regarding the communication with those charged with governance (ISA 260, "Communication with those charged with governance" and ISA 265, "Communicating Deficiencies in Internal Control to Those Charged with Governance and Management").

The auditor should communicate adequately the internal control deficiency identified according to his/her professional judgment to the persons charged with governance and to the management of the audited entities.

These clearly defined responsibilities regarding the statutory auditors lead, in our opinion, to the need of permanent actions of the national professional body (The Chamber of Financial Auditors of Romania - CFAR).

The Chamber of Financial Auditors of Romania should analyze and debate practical matters related to communication, since this leads to great advantages for all.

5. CONCLUSIONS

The research pointed out the strong and weak points of the process of assimilating the corporate governance principles in Romania. Within the entities in the sample, the research found situations of confusion regarding the implementation of corporate governance regulations, as well as a certain lack of interest and knowledge in this field.

The paper contains the results of the critical analysis of the relevant national regulations that exist at this point. The authors identified the weaknesses of the regulatory framework on corporate governance and implicitly the factors that lead to confusion in the implementation process. Moreover, authors emphasize the strengths of the regulatory framework and make suggestions for further improving it.

The research's limits consist in the fact that the research focused on the compliance with the current minimal requirements in the Romanian legislation on corporate governance.

We think that the research could be extended in the future, in order to find solutions to the identified deficiencies, to improve the existing legislation, to create a corporate governance culture, to enable persons charged with corporate governance to understand their responsibility and to develop training programs in this area.

6. ACKNOWLEDGEMENTS

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