

The Role of Corporate Governance in Confronting the Financial and Accounting Corruption in the Public Firms

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Abstract
The study aimed to shed light on the concept of corporate governance in Jordan and explain its beginning, developing and importance with focusing on the role of audit committees in the administration boards.The study also aimed at drawing the attention of the responsible areas to the danger of financial and accounting corruption.The researcher recommended to work on educating the corporate governance to be a part of the people education. In addition, the necessity for the commitment of the public firms to transparency and clarity.
Keywords: Corruption, Governance, Financial, Accounting

Introduction

The recent financial crisis that took place in huge American firms like Anron for Energy and the collapsing down of Arthur Anderson firm – which represents the biggest audit company all over the world – because of involving in collapsing down Anron firm and other factors that all contributed in having a new concept "corporate governance".

Corporate governance offers the right solution to deal with the collapsing down reason and the trust crisis that in fluenced most dealing in world markets. The main reasons for such crisis were the misleading and the low level of internal and external audit among the firm boards and control and accounting system in the companies which influenced badly the investors. Therefore, corporate governance which is mainly based on auditing is really important to be effectively applied in the companies.

The audit in the companies should gear towards success through inspecting and assessing the financial and accounting activities in addition to provide the administration by information to help carrying out strategies correctly.

The researcher dealt with this problem because the public firms lack the mechanism of corporate governance that control the financial and accounting corporation all those firms suffer from This study aimed at finding out cognitive frame for the concept of corporate governance .Through identifying and presenting the beginning, development and usages of corporate governance In addition, the financial and accounting corruption are identified and its reasons and results are presented ,aswell moreover, the role of mechanism of corporate governance in controlling such corruption is presented.

Problem of the study

The economy of many countries, particularly those that face a politically transitional stage converting from comprehensive system into democratic one or inverting the public firms into economic once like converting from planned economy into market economy which is a big challenge, increasing the chance for financial and accounting corruption. Therefore, the problem of the study is crucial because the firm lack for having the mechanism of corporate governance which limits the financial and accounting corruption those firms suffer from.

The Objective of the Study

The study aimed to clarify the concept of firms' corporate governance, its beginning, development, importance and justification. In addition, clarifying its main mechanism with great focus on the role of audit committees in the administration boards as the main pillars for achieving this new concept in addition to the relation of these committees with the mechanisms of internal and external auditing moreover, the study aimed at drawing the attention of all authority areas towards the risk of financial and accounting corruption through identifying the concept of corporate governance, reasons for using it, its features and its results and the reflection on the national economy in particular and on the whole community in general, in addition to the role of the mechanisms of firm corporate governance in controlling the financial and accounting corruption.

The significance of the study

This study is important because of:

1. The danger of financial and accounting corruption which spreads out in different firms leaving bad effect on the national economy and on the whole community, as well.
2. The increasing interest of firms corporate governance in the last few years because its basics, principles and mechanisms are considered modern and new concepts on the world level in general and on local level,

in particular. The awareness of such concepts and applying it leads to transparency and justice by giving the firm the right of questioning and as a result of that protecting the contributors and controlling the financial and accounting corruption which is clearly represented in the misuse of authority for gaining special interests.

Method of the study

The inductive method is used by reviewing the related studies in particular, the modern ones in order achieve the objective of the study and answer the questions related to the problem of the study. All the studies published in the specialized and academic periodicals and magazines and the ones on the internet where all consulted. In addition, mechanisms and the rules of corporate governance originated from the world and local organization were consulted, as well and all the data were analyzed and discussed. In addition, some suggested recommendations where presented.

The Concept of Corporate Governance

Corporate governance is a system measuring the firm ability in achieving it target within definite moralistic frame originated from its inside as being spiritual organization having systems and administrative staffs without counting on any individual's authority.

This concept has become much more common is use in world businesses and its importance is not restricted to the dealers in the capital markets but it included the business establishments especially after the collapsing down which represented the capital market in countries like USA, Canada, United Kingdom, Greek, Russia, Japan and east Asian countries .The scandals of such firms and the disasterous results of the firm collapse down led to the appearance of corporate governance.

The idea and meaning of corporate governance

The Beginning and Development of Firms' Corporate Governance

Corporate governance system started when a lot of companies broke in the USA because of the administration board didnot take responsibility and authorized the executive manager and his assistants to do the tasks which led to the lack of internal observation resulting bribes for some officials.

In (1992) the stockmarket in London established Cadbury committee which included representatives for different British industries who offered nineteen recommendations related to administration board, executive and in executive administration board member and financial and supervision officials (Hample Ronnie 1998).In 1999, the economic and the development corporative organization with the international bank issued the institutional principle for corporate governance which included different areas related to administration Stock holders' rights, administrative responsibility and telling demands (http//:www.oecd.org).The root for the idea of firms' corporate governance is due to Berle and Means who first dealt with separating the administration from the ownership in 1932. Corporate governance came to bridge the gap between the managers and the owners of the company because of the bad works that affect badly the company and the industry, as well (Arab complex for legal accountants 2007.

The Importance and Justifications of Corporate Governance

The importance of corporate governance has increased recently in the companies because of its great role in the development and in enhancing the economic luxury for the community individuals. This has clearly appeared after the Asian financial crisis 1997 -1998 and the falling down and scandals of the biggest companies like Anron for energy. In addition, the presence of chain financial manipulations discovered in the companies as result of corporation with the world audit companies.

This bad cooperation in playing with companies books pushed the cooperative economic and development organization OECD to issue acollection of rules of corporate governance for the private companies in 2004 and for the public ones in 2005. As on the economic level, the importance of the right rules of corporate governance of the companies have become very active which was assured by (Winkler 2004) the pointed out the importance of firms corporate governance in achieving the economic development and avoiding having financial crisis. This could be carried out through putting down a number of performance standards which support the economic basis in the markets and uncover the financial and accounting corruption that leads to gain the trust of the dealers in the markets to make such markets stable and control the severe rotation in order to achieve the demanded economic progress.

As for the organization of economic and development and cooperation, it assures that corporate governance is a main factor in enhancing the economic sufficiency, economic growth and the trust of investors.

According to the accountant and supervision area, the importance of corporate governance is represented in the following (Charter 2003):

1. Having laws and rules care about the stock holders' rights as the right for voting, electing and

administration board and external auditors and organizing the administration board.
2. Having and audit committee assures the complete work of the company which is related to the executive administration, external auditing and the honesty and good quality of financial informing.
3. Fighting financial and accounting corruption in the companies.
4. Achieving the maximum degrees of transparency, straightness and subjectivity for all works in the company in the administration board and the executive manager in all administrative level.
5. Minimizing purposeful faults as possible.
6. Achieving maximum benefit from the internal used system of accounting and supervision in the companies.
7. Achieving acceptance level of transparency and honesty in the financial lists.

Justification and Importance of Corporate Governance in Public Companies

Public companies have great importance in many countries in spite of some inversions; such companies represent basic part in the total local output in providing job opportunities. This is clear enough in the economy of many countries , such as Jordan where those companies play animportant role in developing the national economy by offering job opportunities for a great number of the citizens and contribute greatly in the total local output.

Based on what has been mentioned, the problems such companies suffer from should be studied, in particular the financial and accounting corruption in order to protect the companies to fall down.

The Concept of Financial and Accounting Corruption

It is undoubtful that financial and accounting corruption has become a clear characteristic of modern time although it had appeared since the beginning of caliph time and in the beginning of life. Corruption appears clearly and in high rates these days especially in the developing countries which have low living level. The financial and accounting corporation is represented in bribes, in disciplined employees, productivity weakness, personal contacts, routine and complicated procedures in carrying out the works.

The Concept of Corruption Definition of corruption

Many definitions explained corruption, but there is no specific definition for it. As a whole, corruption is the misuse of authority of job to achieve personal interests.It is also violating the rules, policies and procedures to again personal interests on the account of the whole community by taking bribes or privileges (Mohmmad Mostafa, 2006).

Reasons for Financial and Accounting Corruption

All the negative phenomena the communities suffer from should be diagnosed to limit its reasons. The World Bank identified a number of reasons for having financial and accounting corruption These are:

a) Ignoring the role of supervision in institutions although they are sometimes corrupted.
b) Having bureaucracy in some of the institutions in the country.
c) Having emptiness in the political authority resulted from the struggle for controlling the institutions of the country.
d) Weakness of the civil community institutions and ignoring its roles.
e) Having a suitable political and social environment for the corruption.

In addition to what has been mentioned, three dimensions could be identified as the reasons for the financial and accounting corruption. These are:

The political dimension: The financial and accounting corruption is due to weak political will coexisting with corruption as in the developing countries, such as Somalia. Such those administrations are unable to make a positive change even if they are serious and having the true intention for that because of the lack of strong and effective political will capable of real facing for the corruption.

The economic dimension: The financial corruption is represented in the unemployment, low level of wages, high variant incomes and low level of living in general and in particular, the lack of economic effectiveness antd the suspicious trade deals resulted from commissions and from financial brokers, as well.

The social dimension: When every thing has its price according to the community culture, in such case, the community will be affected by the corruption culture which is hard to be cured from.

Features of Financial and Accounting Corruption

Corruption has serious effects destroying the community as in the public robbery for the national property which leads to transferring the state money into the corrupted pockets illegally. In most cases, the state money is transfered aboard instead of being used inside for the public good Financial and accounting corruption have many features and dangerous effects, as well (Mohmoud Abdel Fadeel, 2004).These are:

1. **Political corruption:** It is related to financial deviance and violating the rules and regulations that organize

the work of the political institutions in the country.

2. **Financial corruption:** It is related to the total financial deviances and violating the rules and financial regulations that organize the financial and administrative work in the institutions of the state. In addition, this corruption is due to the violation of the special in structions of the financial observation system as the central system for financial observation which is related to observing and supervising the accounts and the money of the government and the public institutions and companies.

Financial corruption aspects could be noticed through bribes, robberies, tax escaping, land particularization, personal contacts and discrimination in employment.

Administrative corruption: This is related to the aspects of corruption, administrative, employmental and organizational deviances, such violations are committed by the public employee while doing the tasks of his job. The administrative corruption is represented by not respecting the time of work in attendance time, in leaving and in spending the work time in reading newspapers and receiving visitors.

Ethical corruption: It is represented by the total behavioral and moral deviances that are related to the personal behaviors and morals of the employee as conducting immoral actions in public.

The Results and Effects of Corruption on the Community

Although the most effective bad results of corruption are related to bad economic effects, there are social, regional and spiritual results which are badly effective. The results and effects of corruption are identified as follows (Mahmoud Abedl Fadeel, 2004):

1. **Destroying resources**: This is represenfed in converting the resources of public income and preventing this destruction from reaching the state treasury which will be used for the public good and reflected on the low level of the services presented to the citizens.
2. **Limiting the economic growth**: It is resulted from the control of some individuals or groups of great amounts of public money resources.
3. **Weakness of living Level**: The flowing of public great amounts of money in the pockets of some individuals leads to lowering the available resources of economic development which is parallel to terribly enriching for some individuals resulting very low level of living for the majority of population.
4. **Shaking the state reliability**: The developing countries depend on the aids of other countries for developing its economy. In the availability of corruption among the executive officials will affect badly the reliability of the state. As a result of that, the helping countries will be uncertain about the ability of the developing country in activating its economy which delays the development opportunities.
5. **Weakness of the public performance effective**: When the corruption spreads out in the state it leads to weaken the administrative skeleton and organization on of the state deviancing a group of officials from doing their tasks and instead approaching towards wealth opportunities for their own interests illegally.

The Role of Corporate Governance in Limiting the Financial and Accounting Corruption

The financial and accounting corruption is considered the most dangerous problem the state institutions are suffering from in general and the public companies in particular. This corruption includes the interests and the privileges gained illegally – which were earlier mentioned – resulted extra expenses on the companies reflected on its productive goods prices and the services such companies offer. These things weaken the companies power to compete or even to survive. The companies corporate governance plays an important role in treating the problems of financial and administrative such companies face. This role is represented through a collection of mechanisms classified into internal and external corporate governance (Mohammad Mustafa, 2006). These are as follows:

1. The Internal Mechanisms of the corporate Governance of Companies

Companies internal corporate governance could be classified into the following:

a-**Administration Board**: As a result of increasing and continuous development in the financial processes in the companies, the need for effective supervision and observation in the administration board is crucial to enhance the institutional corporate governance. This includes the best activation for the company economic recourses. The administration board could take over the investors in questioning the executive managers for their performances; therefore, the administration boards could practice effectively its supervision and observation role independently by having a number of non-executive members in the board to play the role of corporate governance. By doing this the family governance in the administration board would be decreased and then they could achieve the interests of the contributors and the administration, as well (Awad Salameh Al- Raheli, 2005).

b- **Audit committee**: This committee has been identified by the Canadian aspect for legal accountants CTCA as "a committee consisting of the members of administration board. of the company whose responsibility is reviewing the annual financial lists before delivering them to the administration board, It also selects the external auditor and discusses the auditing results with him. In addition, they together

could review the internal observations system for the company to assure its certainty and to assure the application of the company corporate governance rules ((Awad Salameh Al- Raheli, 2005).
The audit committee has recently been the main concern of the world scientific aspects, local specialized aspect and the researchers, as well, especially after the financial setbacks that took place in the world compamies , this committee plays a good role in companies corporate governance and increases the trust and transparency in the financial information the companies offer. In addition, it has a role in backing up the external audit aspects and increasing it's independency in addition to its role in assuring the commitment to the principles of companies' corporate governance. In the USA a law of Sarbanse Oxley Act was issued in 2002 that forced all the companies to form an audit committee because of its important role in preventing future financial lists and in creasing the auditor. As in UK a number of recommendations have been issued to form this committee. For example, Simth Report in 2003 that included many recommendations about the role and responsibility of audit committee.
It is indicated that there are other countries, such as Canada, France, Germany, Malaysia and Singapore in which the concept of this committee has appeared since years ago. This concept has been developed after having many recommendations and suggestions for solving the problems the audit committee might face in practice. Such committees becme nowadays important instruments for companies corporate governance.

Functions and Responsibilities of Audit Committee

The researcher has mentioned that the main responsibility of the audit committee is to ensure the application of the corporate governance rules through a collection of mechanisms. In addition, having an internal observation system is a main responsibility of the administration board. The main role of the audit committee in reference with such system is to verify its sufficiency and execution effectiveness and offer recommendations to the administration board which in return will activate and develop the system to achieve the company purposes and to protect the owners' benefits effectively with reasonable expenses.
PSCGT suggests the following functions for the audit committee (Mintz, Steven M, 2003):

- Reviewing the financial register before offering it to the administration board.
- Offering recommendations for employing, rewarding and freeing the external auditor.
- Discussing the priorities of auditing and agreeing on it.
- Discussing with the external auditors any reservations or problems appear through auditing.
- Discussing with internal and external auditors to assess the effectiveness of the internal observation system and the administration of risks in the company.
- Supervising the internal auditing and reviewing the reports and results they offer and offer recommendations to the administration for having the necessary procedures.
- Doing any tasks related to auditing and observation asked by the administration board.

c. Rewarding committee

Most studies recommend to corporate governance for the companies. Such recommendations assure to have rewarding committees from the assure to have rewarding committees from the unexecutive administration board members. As for the public companies, the cooperative economic and development organization OECD assured the necessity for having a reasonable reward for administration board members and higher administration to gurantee the enhancing of the company interests for long-term through attracting the highly qualified professionals.

Function and Duties of Rewarding Committee

The functions and duties of rewarding committee focus on identifying the salaries, rewards and special privileges for the higher administration. Mintz has identified those duties as follows (Mintz, steven m., 2003):

- Identifying and reviewing rewards and other privileges for higher administration and recommending to the administration board to certifyit.
- Putting policies and strategies for running the program reward of higher administration and reviewing those policies periodically.
- Modifying the reward programs of higher administration when such rewards appear unreasonable.
- Putting and reviewing repeatedly the strategies for good qualities of the administration.

d. Employing Committee

The best candidates should be assigned to be the employees and the members of the administration board whose skills and experience are suitable to the company .In order to guarantee the transparency in assigning the members of the administration board and other employees, PSCGT put some functions for this committee. These are as follows:

- The employing committee in the company and with the certification of the related minister should put forward the demanded skills and experience that must be available in the demanded employees and in the members of the administration board.

- This committee should put forward transparent mechanism for employment in order to get the best qualified ones.
- With the rest of administration board members, this committee should assess permanently the demanded skills for the company.
- The committee should advertise for the vacant job for all applicants.
- This committee should be subjective in comparing between the qualifications and skills of the applicants to be fit with the job description put by the company.

2.External Mechanism for Companies' Corporate Governance Governance

The external mechanisms of companies corporate governance are the observation practiced by the external interest owners and the pressure used by the concerned world organizations where the need of applying corporate governance rules is increasing .There are examples of those mechanisms (Mosa salameh,2006).They are as follows:

a. The competition of production market (services) and administrative work market.

The competition of production market is considered an important mechanism of corporate governance through which the administration fulfils. Its that might tasks fail in competing with the companies working in the same field. Conseguently it goes into bankrupt. Therefore, the behaviors of the administration especially if there is an effective lab or market for the higher administration.

b. Mergers and Acquisitions

It is clear that mergers and acquisitions are the traditional tools for restructuring in the company sector all over the world.Jahn and Kedia (2003) pointed out that there are many related studies and clues that support the view of considering the mechanism of acquisition as an important mechanism of corporate governance as in the UAS for example. Without this mechanism, it is hard to control the behaviors of the administration effectively where in most cases, the low level of administration services are cut off when the process of mergers and acquisition work. As for the state companies, OECD indicated that the Chinese government for example has benefited from this mechanism by givings. such companies an amount of independency for decision making, such as mergers and acquisitions decisisions. But the state still needs to be certain that its rights are not affected badly as an owner of stocks because of those important decisions taken by the administration (www.oecd.oeg/daf 2000).

c. External Auditing

The external auditing plays an important role in enhancing the quality of financial list. For achieving this , it is necessary to discuss the auditing committee about the quality of financial lists. By the increasing focus on the role of administration board particularly, the auditing committee in choosing the external auditor. Abbot and Parker stated that the independent and active auditing committee should demand high quality of auditing which leads to selecting highly qualified and experienced auditors in the industrial domain in which the company works (Abbott, L,G, and Parker,S , 2000).

The external auditing is considered the corner stone of the good corporate governance of the companies owned by the state. The external auditors help those companies to achieve questioning and transparency to enhance the work and plant the trust between the interest owners and the citizen in general.The institute of internal auditors in the USA assures that the role of external auditing enhances the responsibility of corporate governance in the over sight, insight and in the foresight. The supervision focuses on verifying whether the state companies work as schedule to benefit in uncovering and stopping the financial and accounting corruption. The insight helps the decision makers by providing them to have independent assessment for the programs, policies, processes and the outcomes, and finally, it identifies the challenges the company faces. To achieve each role of these roles, the external auditors use the financial auditing, performance auditing, verification and consultant services.

d. Legislation and laws

The mentioned mechanisms are always affecting the interactions that takes place between those direct participants in the corporate governance process. The legislations have affected the basic participants in corporate governance in their roles and work and also in the way they are interacting with each other. For example, Sarbanes Oxly Act law imposed new demands on the public contributive companies in increasing the number of independent administration board members, strengthening the supervision of auditing committee on financial list making process and requesting the excusive manager CEO and financial affair manager CFO to certify the correctness of the financial report and the internal observation system, In addition to putting forward effective communication lines between the external auditor and auditing committee and identifying the ability of the company officials to certify their papers in the company which might be harmful to other owners' benefits in the company.

In addition, the responsibility of assigning and releasing the external auditor and certifying the unauditing services could be offered by auditing companies for the customers in the auditing committee.

e. Other Corporate Governance Mechanism

There are other external corporate governance mechanisms influence the effectiveness of corporate governance in different ways fulfilling the mentioned mechanisms in protecting the shareholders' interests in the company. Cohen et al. stated that such mechanisms include financial analysts and some world organizations. For example, the world organization practices great pressure on governments and countries for fighting financial and accounting corruption. World trade organization WOT also practices pressure for enhancing the accounting and financial systems. In banking sector, Pazel committee practices pressure for practicing and applying corporate governance in it.

The researcher thinks that because of having various corporate governance itswith different resources, Its execution needs a comprehensive frame work by considering all people of interests and shareholders in the public and private companies. Each part plays an important role in the process of corporate governance and they all interact in the framework of corporate governance For example, the interaction that takes place between auditing committee and the external auditor the internal auditor and between the administration board and the higher administration such in traction has great influence in limiting financial and accounting situations.

The Findings

The researcher has come with some findings. These are:

1. The increasing of financial and accounting corruption led to more concern of the necessity for having a collection of laws, regulations and mechanisms that protect the owners' and shareholders' interests by limiting the financial and accounting manipulation that took place in the companies by the executive administrations that hold the responsibility and authority in the company.
2. Financial and accounting corruption is considered one of the most dangerous problems the state institutions and the private ones suffer from.
3. The public companies have special importance because in spite of particularization witnessed by many countries as in Jordan; those companies still contribute basically in the total local output for the country and in providing job opportunities for great number of citizens.
4. Financial and accounting corruptions have politic, financial, administrative and ethical features.
5. Commitment to the rules and mechanisms of corporate governance by the public companies lead to the limitation of financial and accounting corruption and the increase of its performance competence conseguenily, this will increase the trust of local and foreign investor in the public companies and in the country as awhole ,as a result of that, the country will be much more powerful in attracfing the investment which develops the economy of the country. .

Recommendations

The recommendations of the study are as follows:

1. Applying the earlier mentioned corporate governance mechanism to deal with the financial and accounting corruption the public companies suffer from.
2. Educating the community about the corporate governance through different mass media.
3. The commitment of public companies to the principles of transparency and clarity.
4. Adopting a national strategy shared by the people of thought and opinions and the community civil organizations to spread out the thought, economic, social and religions awareness in order to raise the cultural level for the community. By this, fighting financial and accounting corruption would be a national task shared by all the community to stop and limit this disasterous phenomenon.
5. Limiting the poverty and unemployment by providing job opportunities and widening the social protective net by giving more insurances for the citizens, such as the unemployment insurance exactly like what is available in industrial countries.
6. Supporting the legislation board independency and imposing strict punishments for the financial and accounting corruptors and for those who manipulate with the public money and consider the corruption a crime exactly like honor crimes.
7. Adjusting and developing the legislations permanently to cope up with the new issues and to get along with the attitudes towards fighting all kinds of corruption.

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