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Efficiency and effectiveness of corporate governance in addressing financial and administrative corruption.

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Abstract:

Considers corporate governance one of the aspects of the administration contemporary meant to be applied in the structures of the administration of institutions because of their many advantages, and multiple owners and shareholders of those institutions, this is the basis of theories that explained the behavior of managers as well as following the recent financial crises that hit the economies of some regions of the world in the second half of the nineties, and some passion collapse of major global institutions, where it was in this context to make international efforts in order to establish and apply the principles of governance

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1. Introduction :

The financial problems faced by many of the largest companies in the world in recent years, such as the economic and financial collapses witnessed by the financial markets in East Asian and Latin American countries in the nineties, as well as what the American and European economies witnessed recently from the repercussions of the financial and accounting collapses, the latest of which was the mortgage crisis, Real estate and the resulting financial crisis:

Which was triggered by administrative and financial corruption, mismanagement, and the large gap that exists between the management rewards and the company’s performance, among other events that called for change in developed countries. It was necessary to establish a system aimed at establishing a set of controls, standards, and procedures that would achieve institutional discipline in the management of the company in accordance with international standards and methods. In addition to controlling the internal audit processes, these systems, controls, and standards were formulated in what was termed "corporate governance." Accordingly, the question that arises here is: how does corporate governance contribute to reducing administrative and financial corruption in order to achieve the growth and prosperity of institutions?

The answer to our question was through the following axes:

- background and basic concepts of corporate governance.

- corporate governance as a tool for combating administrative and financial corruption.

2. . background and basic concepts of corporate governance.

2.1 Naming corporate governance

At the local and regional levels, there was no specific synonym for the term. (Governance) in Arabic, but after numerous attempts and consultations with a number of Arabic language experts, economists and lawyers interested in the subject, the term "corporate governance" has been proposed, among a number of proposals. (e.g. corporate governance, corporate governance, corporate governance, corporate government) as well as a number of other alternatives, such as corporate governance, optimal governance, corporate governance, fair governance, etc. (Amokrane, 2004, p. 17)

There are, however, supporters of the first choice according to the elanation given by the Centre of Mashakat, but on the other hand, a number of views agree to exclude "corporate governance" because the term means that companies are the rulers or the actors, which may reflect the intended meaning. The term "corporate ruler" has also been excluded because its use may confuse one of the Islamic theories called the "ruler's theory," which deals with the government and political power of the state. The other alternatives offered were also excluded because they departed from the root of the word (provision) as opposed to "government" in English. Thus, "corporate governance" over weight is closest to the concept of the term in English, where it involves the meaning of governance and oversight through an internal control body, or an external control body, and maintains the root of the word. (Judgment) This term has been proposed by the Secretary-General of the Arabic

Language Complex and has been well received by a number of Arabic language specialists, including the Center for Arabic Studies at the American University in Cairo. (العطا, 2005) because it is consistent with the terms "globalization," and "privatization," etc. (06 صفحة ،2007 ،يوسف)The term used in Algeria at the level of communication is "adult judgment."

2.2 The definition of corporate governance

The definitions provided for this term have been numerous, so that each definition indicates the point of view of the author.

The IFC defines governance as follows:

"is the system through which companies are managed and controlled."(04 صفحة ،2007 ،يوسف م.)

The World Bank defines governance as the tradition and institutions through which power is exercised in the state for the common good. This includes:) M.abdellatif صفحة ،2003 ،p05(

* The process by which the government is selected, monitored, and replaced.

* The government's ability to effectively formulate and implement policies.

• Citizens' and the state's respect for the institutions that govern their economic and social interactions with one another.

The OECD also defines it as:

systems through the guidance and control of business organizations, defining the structure and framework for the distribution of duties and responsibilities among the participants in the contributing company, such as the Board of Directors, the Directorate, and other stakeholders. Rules and provisions are made for decisions concerning the affairs of the joint-stock company. By doing so, corporate governance gives a company the appropriate structure by which it can set its own goals, the means to achieve these goals, and the means to monitor performance. Good corporate governance must provide incentives to the board and management to pursue the objectives of the company and its shareholders, and effective governance must include control. صفحة ،2003 ،عفاف) (27

Cadbury's 1992 report also describes corporate governance as follows:

"The economy of Dolma is based on corporate leadership and efficiency, and thus the effectiveness with which governing bodies perform their responsibilities determines the competitive position of the state, which is the essence of any system of corporate governance."

Cadbury continues to have simple and tight documentation in a small but well-known sentence of the governance process:

"Corporate governance" is a system whereby companies are managed and monitored."

From previous definitions, it is clear that there are fundamental meanings to the concept of corporate governance:

a set of regulations on corporate performance control.

- Organization of relations between the Board of Directors, directors, contributors, and stakeholders.

- Emphasizing that companies must be managed for the benefit of shareholders.

- A set of rules whereby the management and control of the company are conducted according to a particular structure, which includes the distribution of rights and duties among the company's management participants, such as the board of directors, executives, and shareholders.

2.3 Reasons for the emergence of the hawk system

The original need for corporate governance stems from the separation of ownership and management in publicly owned companies, and investors seek to invest their capital in profit-generating institutions to enjoy their profits later. However, many investors do not have the time and experience to operate a company and ensure that a return on investment is obtained. The main impediment in this matter is that managers and/or managers are not often the owners of the company and will therefore not bear the brunt of the loss of investments and loss of profits in the event of a failure of the company)CIPE(08 صفحة ،2005 ،

This entails the possibility of managers and/or managers doing work to devalue shareholders' investments, as they may be too little interested in controlling the company's internal operations, too adventurous when their positions are at risk, and too unadventurous if their positions are secured.

They may prevent the merger of the company, although it would benefit in the long term, and may limit their activity to investments in collapsed but unprofitable industries. Also, managers may steal the company's funds by manipulating pension fund funds, paying too high rates to certain entities that belong to the company, or doing business on their own. (Tirole, 1995) These actions negatively affect the financial performance of the company and highlight the need to apply corporate governance.

* With the eruption of the Asian financial crisis in 1997, the world is taking a fresh look at corporate governance and the financial crisis in question, which may be described as a crisis of confidence in the institutions and legislation governing business and business-government relations. Many of the problems that came to the fore during the crisis included the operations and transactions of internal employees, relatives and friends between government workers' enterprises, and the acquisition of large amounts of short-term debt by companies, while ensuring that shareholders were unaware of these matters and concealed these debts through innovative accounting methods and systems. (mondiale, 2001)

With the rise of well-known corruption cases in major American companies such as Enron Energy and Worldcom in 2001 and elsewhere, talk began of corporate governance, as their balance sheets did not reflect their actual reality, in collusion with a major.

global auditing and accounting firms, which led the OECD to issue a set of guidelines on corporate governance in general. (Salin, 2003, p. 122)

The call for corporate governance has been intensified by the practices of multinational corporations in the economics of globalization, where they acquire and integrate firms to dominate global markets. Although there are thousands of multinational corporations, only 100 companies control foreign trade worldwide through their monopoly practices.(الصاوي، 2005)

The concept has taken on great importance for emerging democracies, given the weak legal system with which contract enforcement and dispute resolution cannot be conducted effectively. The poor quality of information also prevents supervision and control and promotes corruption and mistrust.

The importance of governance has increased as a result of the tendency of many countries in the world to shift to capitalist economic systems, where private firms rely heavily on high and sustained rates of economic growth.(العيسوي، 2003، الصفحات 36-37)

In addition to these reasons, there are other motives for corporate governance in the context of the knowledge economy.

In addition to these reasons, there are other motives for corporate governance in the context of the knowledge economy.(العشماوي، 2008، صفحة 27)

• the transformation of the economy from one based on natural resources to one based on human resources.

• the shift from a human resource to a human asset economy.

• the shift from a human-asset to a knowledge-asset economy.

• financial market globalization and liberalization

• To deal with restructuring, privatization, re-engineering, and information technology concepts.

• Transition to strategic management philosophy, application, and strategic evaluations

• A focus on knowledge management and knowledge management.

• the growth of global financial markets and exchanges.

• The emergence of a balanced performance card as a starting point for measuring and assessing true corporate performance.

• Moving toward an environmental governance philosophy and a broader circle of corporate social responsibility

2.4 Parties involved in applying the concept of corporate governance

Four key parties are affected and influence the proper application of the concept and rules of corporate governance, and they determine to a large extent whether these rules have been successful or failed.

Shareholders: They provide capital to the company through their equity ownership.

Board of Directors: They represent contributors as well as other parties, such as stakeholders.

Management is responsible for the actual management of the company and the submission of performance reports to the board of directors. Management of the company is responsible for maximizing the company's profits and increasing its value, in addition to its responsibilities for disclosure and transparency in the information it publishes to shareholders. (حماد, 2008, p. 11)

Stockhielders: A group of parties with interests within the company, such as creditors, suppliers, customers, workers, and employees. It must be noted that these parties have interests that may be conflicting or sometimes different. It should be noted that the concept of corporate governance is influenced by relations among the parties to the governance system.

2.5 Principles of corporate governance by the OECD

In collaboration with a number of international institutions, such as the International Monetary Fund and the World Bank, the OECD formulated the 06 Basic Principles of Good Governance, which became the most internationally accepted standards in this area, as well as the basic reference for many corporate governance practices.

The first principle is: "The corporate governance framework should promote market transparency and efficiency, be consistent with the provisions of the law, and clearly define the distribution of responsibilities between the various supervisory, regulatory, and executive bodies.

Second principle: shareholder rights and key functions of holders of property rights (نجم, 2006, p. 22)

The corporate governance framework must protect and facilitate the exercise of shareholders' rights.

The third principle is that shareholders should be treated equally.

It means equality of shareholders within each category, the right to defend their legal rights, the right to vote in the General Assembly on fundamental resolutions, as well as protection from questionable acquisitions or mergers, or from trading in internal information, as well as the right to have access to all transactions with board members or executive directors.

The fourth principle is about the role of stakeholders.

The corporate governance system should recognize the rights of different stakeholders, in accordance with applicable law or mutual conventions, and encourage effective cooperation between companies and different stakeholders with a view to creating wealth and positions of occupation, and ensuring the sustainability of financially healthy institutions. (عباس، 2008، الصفحات 24-32)

The fifth principle: disclosure and transparency.

This principle provides that the corporate governance framework should ensure the timely dissemination of correct information on all important issues concerning the company, in particular the financial situation, outcomes, shareholders, and corporate governance. (المشهداني, 2005)

The sixth principle is: the responsibilities of the Governing Council.

Corporate governance should ensure strategic corporate leadership and effective oversight of governance by the board of directors, as well as the responsibility and integrity of the board of directors vis-à-vis companies and their shareholders.

3. corporate governance as a tool for combating administrative and financial corruption.

3.1 the concept of financial and administrative corruption

Corruption in general has been given many definitions that differ in its perception, nature, and philosophy, including those that expand its content to relate it to the civilizational dimension and other values, traditions, and belief systems.

Before delving into the academic definitions of the term "corruption," let us first look at its linguistic origins.The corruption of a thing often comes from within itself, and the word corruption indicates that it is achieved by an external act (الكبيسي, 2005, p. 08)

Recently, there has been a proliferation of research into corruption, particularly by economists, lawyers, and sociologists : (مصيطفي, 2005, p. 11)

Corruption is the moral perversion of government and administration officials.
• Corruption is the renunciation of state ownership in favor of personal gain.
It is defined by the World Bank Foundation as the use of public functions to achieve private benefits, or to make bad use of public functions, i.e., for the private good. (commissions, bribes, tax evasion, money smuggling, customs fraud or customs evasion, disclosure of contract and transaction secrets, mediation and patronage in public office)
Finally, we conclude that corruption means the abuse or use of office or power to obtain or give advantage in order to achieve material gain, power, or influence at the expense of others, or at the expense of existing rules or regulations. (سليمان، 2006، صفحة 32)

Administrative corruption: It relates to the manifestations of corruption, administrative, functional or organizational deviations and irregularities made by a public servant in the performance of his or her functions in the system of legislation, laws and controls, the system of individual values that are not conducive to reform, the filling of space for the development of legislation and laws that take advantage of gaps rather than pressuring decision makers and legislators to constantly review and update them. Administrative machinery for achievement, inflated government services and institutions, accompanied by the choice of incompetent administrative leadership, inadequate wage policies to provide minimum living requirements, accumulated gaps in laws, regulations, and legislation, and the penetration of experienced elements of administrative corruption into the higher administrative levels. Under these conditions, citizens are usually obliged to bribe employees, while at the same time, government officials, especially in the higher administrative responsibility centres, enjoy the benefits of force and are legally entitled to personal housing privileges in the state (role).

Financial corruption: On the financial side, corruption consists of all financial deviations, breaches of financial rules and provisions that contribute to the regulation of the administrative and financial functioning of the government and its institutions, and violations of the instructions of the financial oversight bodies.

3.2 Causes of corruption

Many believe that financial and administrative corruption are associated with socialist systems alone, where companies are owned by the state and thus build up revenue for administrative deviations and financial robberies. Managers exploit their positions for purposes unrelated to corporate profit or loss, as long as the state is the sole owner capable of compensating for losses, covering up thefts, and sometimes even covering up corruption and attitudes. At present, however, many countries in the world have moved towards the concept of a free economy that focuses on the role of the private sector and the reduction of the role played by the public sector, which has led to privatization programs being carried out by states. However, in the free economy and with the application of market laws, corruption continues to vary in size from state to state and possibly even from sector to sector within a state. (سليمان، 2006، صفحة 32)

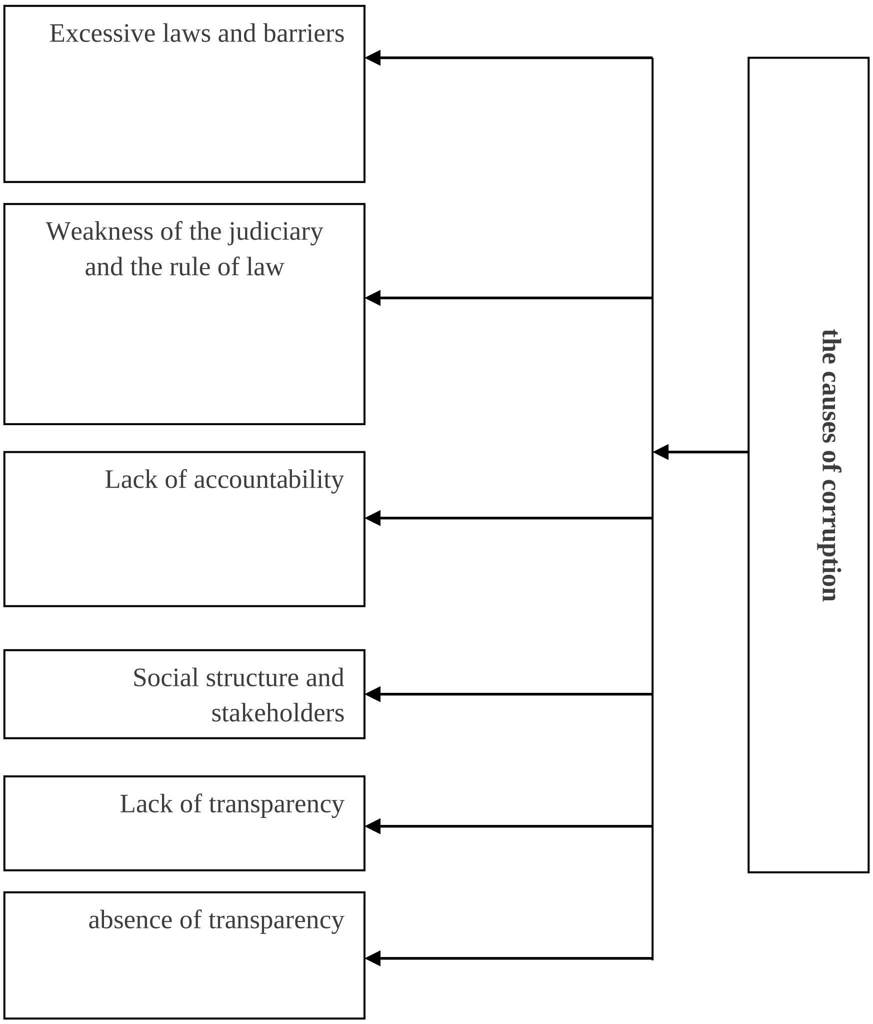
Dr. Mustafa Al-Faqi, Chairman of the Foreign Relations Commission, explained that the essence of corruption is the relationship between power, wealth, and social transformation and the degree to which it accepts corruption. (www.iraqfoundation.org)

Power and wealth: Those who said that "power-wealth intermingling breeds corruption" They were right because many political systems, especially in the Third World, relied on methods that went beyond their role and had a strong influence on financial circles, businessmen, and wealth owners, so that such intermarriage was a source of great danger, because the mutual benefits caused power men to protect businesses where they provided financial support. This illustrated the image of double corruption in both political and economic life, leading to power holders and backers playing a monopoly role and protecting corruption.

Social transformation and corruption: social transformation carries with it a system of values that varies from reality to reality, where a culture that is linked to the nature of the political system and the quality of economic activity prevails. Free economies are also linked to a "bazaar culture," based on a different system of values and traditions, including the excessive sense of individuality, the power of physical influence over life, and the absence of a central issue around which people turn, creating a general and rational phenomenon that is important in determining the conscience and conscience of the nation. I therefore believe that the problem in many new societies is the need to focus on social reform and not just stop at economic reform, because it is the general climate in each society that determines whether or not it is acceptable to corruption and also poses the way to confront it, whether it is done through legal means or cultural efforts. But ultimately, the issue of social behavior remains one of economic and political activity.

In a study by the Centre for Special International Projects, he identified a range of causes leading to corruption and the following figure illustrates them.

Figure (1): explains the causes of corruption.



The Source :35 محمد مصطفى سليمان ، حوكمة الشركات، الدار الجامعية، الطبعة الأولى، الاسكندرية، 2006، ص

3.3 Audit committees as a tool of corporate governance

Definition of audit committees:

There are several definitions for review committees, including:

• A committee whose members are appointed by the company from non-executive members of the Board of Directors is a channel of communication between the Board of Directors and the External Auditor of the Company and at the same time has an oversight role overall operation of the Company.

• A committee established through and through the Board of Directors of the Company to audit the accounting and financial reporting processes as well as the accounting and financial reporting processes as well as the audit of disclosure in accounting reports and lists published by the Company.

• It is a committee of the company's Board of Directors and its membership is limited only to non-executive members with experience in accounting and auditing and is responsible for overseeing the process of preparing the financial statements, reviewing the external and internal audit functions, and reviewing the obligation to apply corporate governance rules (سليمان, 2006, p. 145).

From previous definitions, it is clear to us that there are three distinct characteristics of the Audit Committee:

-A board of directors from the company.

- Membership is limited only to non-executive members with a high degree of independence and experience in accounting and auditing.

- The responsibility of the Audit Committee relates to the audit of financial reporting and internal and external audit processes, as well as the review of the obligation to apply corporate governance rules.

3.4 The role of the audit process in detecting management fraud

The external auditor's responsibility to detect fraud and fraud remains a thorny, contentious, and controversial issue, given the inevitable limits on the scope of the audit, on which the auditor relies in the conduct of the audit. In the last two decades of this century, there has been growing pressure on references to assume greater responsibility for fraud detection, as this issue has a significant impact on the fairness and honesty of the balance sheets.

Although audits can detect fraud and fraud by management, audit procedures are not primarily designed and can not be relied upon to ensure that balance sheets do not cheat by management but are primarily aimed at enabling references to express an opinion on financial lists.

Management fraud concept: Audit Standards Bulletin No. 82 Defined Management Fraud as the deliberate misrepresentation of facts on balance sheets, or embezzlement of assets, by manipulating records and deliberately misapplying customary accounting principles.

Importance of the Audit Committee in the preparation of financial reports: Because States around the world are aware of the importance of financial reporting for the stability of financial markets and the success of the enterprises in which they operate, they have implemented regulatory and legal procedures that make enterprises accountable for the quality of financial information disclosed to investors. Accounting and auditing also play an important role in ensuring the coordinated application of accounting rules among States and corporations.

All of this, the concept of corporate governance is the starting point for any discussion on the quality of financial reporting, as financial transparency, accounting and auditing are only part of the larger framework of corporate governance. Accounting and auditing serve as a mechanism for accountability, a method for measuring and controlling management to ensure that professional managers employ company assets for the best use to benefit the company and its shareholders. Effective oversight by the board of directors is necessary to ensure that management and internal and external auditors promote the quality of financial reports.

To assist the governing bodies in fulfilling their supervisory responsibility, there is an increasing trend to rely on the Audit Committee, which is a subset of the Board of Directors that conducts independent review and oversight of the company's financial statements, internal control systems, and the appointment of independent external auditors. Although the Audit Committee is not expected to replace the two groups primarily responsible for the preparation of corporate financial lists, namely, the company's executive financial management and external auditors, the Committee, as an extension of the entire board of directors, must work with those groups to ensure that there is a sound and well-functioning financial reporting system.

Role of the Audit Committee in the preparation of financial reports.

There was agreement on the role of the Audit Committee in financial reporting under the corporate governance concept that the Audit Committee's financial reporting function was supervisory and oversight.

It is not within the role of the Audit Committee to prepare the financial lists or to make the actual decisions regarding the preparation of the lists, as this is the responsibility of the financial management, the internal audit body, and the external auditors : (سليمان، 2006، صفحة 175)

- Review the internal and external audit findings, including any observations contained in the external auditor's opinion, as well as any responses to those observations from management.

- Review of the balance sheets and all reports submitted by the independent auditor in respect of these lists, as well as any competing differences between management and the external auditor that have arisen from the preparation of the balance sheets.

- Consider any significant changes in the audit and accounting principles and practices used in the preparation of a company's financial statements.

- Evaluation of the objectives of the establishment from the preparation of internal and external reports and determination of the extent to which those objectives have been met. Audit committees should obtain assurance as to the overall updating and integrity of the data provided in the balance sheets.

- Understanding and assessing the quality of income that appears on the income list.

- Ask tough questions and create a base for receiving good and bad news immediately and in full.

- Review the annual financial statements on time before they are submitted to the Governing Council, and members of the Audit Committee should work with management and auditors to understand important accounting estimates and decisions.

- Ensure that the company's financial reporting system gives those within and outside the company a clear idea of performance, and the audit committee should use and understand management's information on key performance indicators for the enterprise.

- Assess risks arising from excessive reporting pressures on management that may arise from analyst expectations, executive reward plans, organizational conditions, or maybe the result of previously published expectations, or the possibility of a net loss in the current period.

-, to be effective in overseeing the financial reporting process, the audit committee could not operate in a vacuum, and since the audit committee relied on information provided to it by senior financial management, internal audit staff, and external auditors to carry out its responsibility, it was important for the committee to create an open, free, frank and regular dialogue with each of those involved.

4. Conclusion:

The phenomenon of corporate governance is one of the most important mechanisms revealed by the knowledge economy and has received considerable global attention from international professional organizations and scientific groups, because of its role in protecting companies from financial and administrative disruptions and failures, as well as in protecting them from the risks of liquidation and exit from the business, as well as in maximizing the value of the enterprise in the market and ensuring its survival, growth, and sustainability at the international, regional and domestic levels.

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