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Financial Audit vs. Corporate Governance Practices – A Viewpoint on Current Challenges and Perspectives in the Time of CoVid-19

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Abstract

The focus on effective corporate governance and financial audit quality has expanded exponentially over the last two decades, but especially now, when the world is in a pandemic crisis, states, companies and citizens being in urgent need for strategies to fight, cope with and ease the pandemic, as well as to protect their societies and economies during and after this socio-economic crisis. The chosen topic for this paper lies in the challenges and perspectives of the (effective) corporate governance – (qualitative) financial audit relationship, with a particular emphasis on the factors that influence the relationship of interdependence between these two, respectively the (proactive!) role of the financial auditor, in the context of the new Coronavirus (Covid-19) pandemic. Endorsements outlined in this paper do not encompass an unequivocal statement of law, but epitomise the results of the exploratory and observation research, respectively the author's best interpretation of where things stand as of the date of publishing this manuscript.

Key words: corporate governance; financial audit; sensitive socio-economic context; CoVid-19
J.E.L. classification: G34; G30; M42

1. Introduction

Guidelines, rules and regulations are essential in business, since just a quick look at financial scandals worldwide depict the consequences in case a company goes too far in pursuing its self-interest, by breaking, in the same time, its own internal guidelines. Moreover, the global challenge generated by the current pandemic produced the largest turbulences in the environment since the Second World War. In this framework, as an outcome of the new Coronavirus (CoVid-19) pandemic, practices are shifting and fluctuating speedily.

The CoVid-19 pandemic is shaking the world economy from its roots and the outcomes will be severe. Uncertainty about the future of companies in many areas of activity is growing by the day. Both those charged with governance within economic entities and financial auditors need to give more weight to the analysis of the exposure to business risk and the implications for the annual financial statements. Starting with January 2020, auditors need to be extremely alert to audit risk, especially in terms of the direct implications for compliance with the going concern principle by audited companies.

Corporate governance, which incorporates "all the *principles of open and responsible management*, is a way of ensuring that a company keeps within clear ethical lines. It has been top of the policymaker's agenda for some time now, but can be a challenge for businesses on several levels" (Thompson, 2018).

The research's assumption refers to the fact that the major challenge the accounting profession – in general, and the auditing profession – in particular that needs to be address setting and refining the accounting regulations and auditing standards, so that *the balance of confidence in auditors' opinion (following an audit of the financial statements) is restored on medium term.*

This desire, however, implies a concerted effort by all involved professional bodies and financial auditors, regardless of the geographical position in which they operate, because an eventual crisis will require a global solution with specific application to each area or country.

2. Theoretical background

When regarding a company as "a union of some extremely diverse stakeholders and interest groups", then it is fathomable that there is an acute "*need for a system* in order to achieve the best possible way of handling these relationships between the individual groups, so no one gets cheated, prejudiced or exploited" (Thompson, 2018).

Turning to the definition of corporate governance – the author considers it as a management and control system of an organization, in line with best practices and principles in this area, a system that advocates transparency and accountability. Particularly, at the level of an economic entity, it finds its correspondent in the way in which the distribution of power and responsibilities between shareholders, directors and management is defined and structured, showing also how some decision factors can be balanced. In international literature, corporate governance is defined as *the set of links that arise between the management of a company and all stakeholders interested in its business*. According to the *Principles of Corporate Governance* issued by the Organization for Economic Cooperation and Development (O.E.C.D.), corporate governance is defined as "the system (the totality of procedures and processes) by which a corporation is directed, managed and controlled". According to O.E.C.D., the corporate governance structure "specifies the distribution of rights and responsibilities among different participants in the corporation and spells out the rules and procedures for making decisions on corporate affairs".

The key principles of a qualitative corporate governance differ depending on the region, industry, and regulator – however, most codes of governance include six major features, illustrated below:

Figure no. 1. Key elements of corporate governance

1. Independent leadership

- Companies should have an independent leadership to oversee and guide management, such as an independent chairperson or a lead independent director. An owner who selects friends and family members to sit on the board with him runs the risk of nepotism and prejudice. Independent judgement is almost always in the best interest of the company and its stakeholders

2. Transparency

- One of the fundamental objectives of corporate governance is for organizations to develop transparent business practices and a solid structure and organization so that it can trace all the company's dealings effectively. Another aspect of transparency is the company should provide free and easy-to-understand information to everyone who may be affected by the company's corporate governance policies, such as clear financial reports. That way, everyone can understand the company's strategies and track its financial performance.

3. Consensus building/ stakeholder relations

- The company should consult with the different categories of stakeholders in an ongoing discourse to reach a consensus of how it can best serve everyone's needs sustainably.

4. Accountability

- Consensus building goes hand-in-hand with the principle of accountability, which says the company must be accountable to those who are affected by its decisions. Precisely who is accountable for what should be written down in the company's code of conduct. Large companies often keep corporate governance web pages that indicate specific things the company is doing to meet the expectations of each stakeholder group.

5. Inclusion or corporate citizenship

- The principle of inclusion and corporate citizenship maintains, enhances or generally improves the well-being of all the stakeholder groups. This element of corporate governance typically includes an aspect of social and environmental responsibility, such as using the company's human, technological and natural resources responsibly and acting for the benefit of the community as a whole. Corporate citizenship provides a compelling message regarding the company's value to society.

6. The rule of law

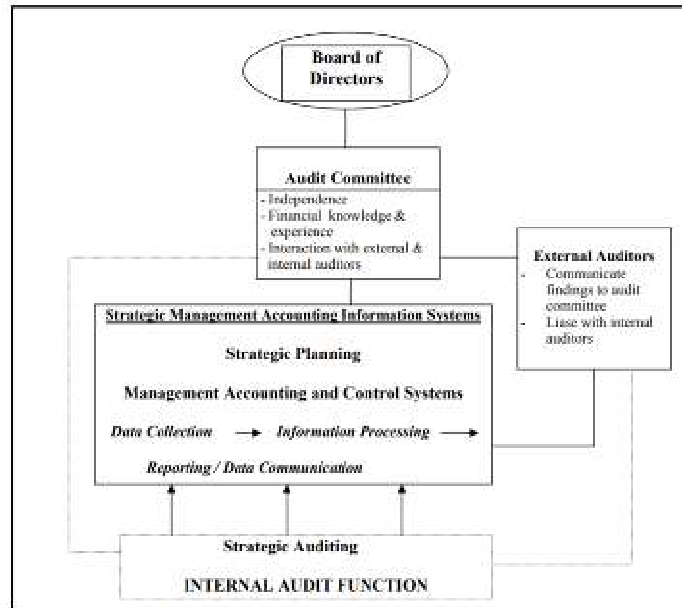
- The company shall operate within the legal frameworks that are enforced by regulatory bodies, for the full protection of stakeholders.

Source: own elaboration

When performing a synthetic analysis of the international specialty literature on corporate governance, it can be noticed that researchers identify five important players, the role and power each can exert, depending largely on both the economic environment and the corporate governance system of the country concerned: *shareholders or owners* (who have the right to express themselves through vote-guaranteed shares but who, if they disagree with the decision, also have the possibility to leave the company by selling the shares); *the Board of Directors* (the governing body of the economic entity, approving its strategy); *the steering committee* (top-management, responsible for implementing the strategic decisions taken); *employees* (together, of course, with the structures in which they act - trade unions or trade unions); respectively *the government* (which impose national rules on corporate governance).

Below the interactions amid some of the key stakeholders in a corporate governance structure are synthesized:

Figure no. 2. Actors responsible of corporate governance – a corporate governance framework



Source: Subramaniam & Ratnatunga (2003)

On one hand, *external auditors'* role is to express an opinion on the annual financial statements, providing an independent evaluation of the fairness of the financial statements and that they are free of material errors. No doubt, for them, the audit committee becomes "a critical vehicle for providing an avenue for dialogue with the company's management, as well as the management accountants", as Subramaniam & Ratnatunga (2003) highlight.

On the other hand, as they show in their research, *a strategic audit* is far different from the common perception of financial audits, since it is, in fact, "a continuous evaluation of all the strategic functions of any success-seeking entity, involving an objective assessment of the growth and exit options available to shareholders and management when difficult or critical decisions need to be made in order to maximise shareholder value".

A *Corporate Governance Code* is particularly specific to stock listed companies that may be adopted in full or in part and may include the following: corporate governance structures; the rights of holders of financial instruments of issuers; role, obligations and structure of the Board of Directors; the appointment and remuneration of its members; the administration system; financial reporting, internal control and risk management; conflict of interest and transactions with affiliated persons; transparency and corporate information regime; the social responsibility of the issuer. The *principles of corporate governance* represent in fact a guide, some guidelines, a set of rules of good practice for the organization of the economic entities themselves, but also their way of reporting on relations with third parties. On the other hand, it must be stressed that, in the case of multinational corporations, the acceleration of globalization has led to a great extent to the need to adopt the principles of corporate governance. By simply analysing articles on corporate governance that appear in different databases, one can easily see that, for instance, if Romania has a number of tens of studies, one can find a number of articles in terms of European information thousands. In a simple observation, in most cases, the principles of corporate governance are found in scientific articles, studies or research that directly refer to certain companies in communications, energy, insurance, banking, etc.

In connection with these principles, the literature distinguishes three guidelines, each of which refers to different levels of information transfer to and from the company: *administration theory*, *company theory* and *market theory*.

Very often in recent years, especially in the context of a sensitive socio-economic climate (and here the focus is in particular on the various economic and financial crises), it is called for more detailed (and more profound) implementation of these principles. Company theory, the link between company management and shareholders, or potential shareholders, is called today to clarify the level of access to financial and non-financial information.

Worldwide, according to the "traditions" of the national economy, the "artisans" of corporate governance systems have recognised three main models of corporate governance: the American/traditional model (based on the extremely close link between shareholders and the company and defining best the model of European companies, a long-term orientation of the company's strategy and stability), the German / deterministic / Continental-European model (which implies a massive concentration of capital) and the Japanese extended model (which brings cohesion to the company and holding structures). If one reflects *which of these three models can be better adapted to a particular economy*, one needs to be aware that it is complicated and difficult to approach a particular model – precisely because business models are very different (from "family" firms, which by development can become important companies at the regional level, to economic entities that "import" the way of organization of the parent companies). If in the first case the best model is clearly the Japanese one, in the case of the others it can be said that the American model is the most feasible for economic development. Although the American model may seem at first sight the most suitable for a sustainable development of a company, there are some elements that are totally lacking in the East-European companies, elements that should be considered in the next period. Thus, in the American model, internal and external auditors are two main pillars of corporate governance, and most of these companies from undeveloped countries do not yet have the culture and knowledge of the benefits of such an audit. While external audit is seen as expensive, the internal audit is considered too much related to the company's activity to be completely independent.

Elseways, if one questions *the opportunity of convergence of corporate governance systems* (in the hypothesis of a *globalization of corporate governance*), namely the possibility, necessity and desirability of a *universal model of corporate governance*, one will notice that in the specialty literature, theory pervades in a vivacious manner between: the imminence of convergence and outlining its insurmountable impediments, therefore, on this field of the debate of ideas, the competition between models takes place in the speeches of the supporters in more or less relevant and diplomatic formulas, as Clark & Wójcik (2007) outline. The *neoclassical approach* is based on the premise that a combination of international labour market competition and financial integration will result in a convergent set of best practices in corporate governance, i.e. an improved version of the Anglo-American model principles, whose supreme value is maximizing shareholder value. This trend would make it possible to accept in many other legal systems a number of provisions that were already important in American law, especially as regards the law of societies and the capital market, which is why there is a "globalization through americanisation" through which lawmakers have tried to improve the ability of companies in their states to attract capital, amid increased international competition. In another analysis – much more realistic – it is argued that, on the contrary, there is no "best model" to organize an economy, since the variety of forms of capitalism must be acknowledged and accepted as such. Thus, while the role of market forces (competition and financial integration) needs to be observed and accepted, their impact on corporate governance in a particular country or region will always have to be filtered through existing institutions. Third, the most skeptical voice on convergence comes from the *political theory* defenders, who draw attention to the central role of the state in the sense that they believe that any major change in corporate governance is determined, in the first instance, by the political forces embedded in the national state institutions.

This paper joins the *path dependence theory*, in the sense that the necessary condition for the convergence of corporate governance is that the beneficiaries (or, in any case, those to whom the consequences of change – and which are, as a rule, those owners who have control powers), to a priori appraise the increased value they would get under the new conditions (generated by convergence), their current rights, and their political partners, regardless of whether their exercise is formal or informal.

In this background, a manifestation of convergence can be identified, first of all, by the pressure on all models, coming from the other, and pointed to changes that target those features that others regards as deficiencies. Thus, Western-European (German) Codetermination or Asian (Japanese) aspiration to save the interests of other stakeholders (than shareholders) in the company's activity suffer collisions with US investors' claim for these companies to deliver more "shareholder value".

In this context, the paper's assumption lies in the fact that, until the discussion on the moment and the way in which global convergence is implemented, it must be done at a lower, i.e. regional level. Similarly, as Bratton & McCahery (2006) and McCahery et al. (2006) show in their studies, the doctrine has invented four possible ways to follow: (i) *a unitary model* (as a result of a strong convergence that combines the most valuable elements of insider and outsider models); (ii) *a universal market-based model* (that is, the achievement of the desires of the Chicago School, but which would also represent the triumph of the outsider); (iii) *the persistence of an improved variety of models* (in which poor governance would continue to survive, but would coexist with the transfer of knowledge between models); respectively (iv) *a set of distinct governance models* (based on disruptive institutional features but also on complementarity, each model retaining its identity and its own capabilities to create benefits).

As a result, the author considers that, besides the fact that such a result is undesirable, it is still an extremely long and difficult way to go to convergence towards a uniquely universal corporate governance model, as long as the diversity of the present – socio-cultural, respectively economic and legal – is rather evidence of complexity than of lack of harmony and balance.

3. Research methodology

The aim of this research is to enrich the specialized information on the role, urgency and valences of corporate governance, as well as on quality of audit and the role of the external auditor in a sensitive-socio economic context, namely the new Coronavirus pandemic. Thus, the main objective of the research finds its correspondent in offering recommendations regarding the fulfilment of the expectations of the users of the audit report in the context of Covid-19 pandemic, respectively in the context of compliance with the principles of corporate governance. This will be accomplished by *scientific documentation*, respectively by analysing the specialty literature on these aspects, which will allow the positioning of the research results in the current socio-economic context. The methodological instrument to be used in this paper is based on: *review*, *systematic analysis of literature* and *interpretation* (deductive and inductive judgments) – namely the *qualitative research methods*. Qualitative research methods have been chosen as this paper's main aim is to analyse the evolution of auditing and audit regulations over time and, above all, to provide a deep understanding of the interaction between the elements that an effective corporate governance needs to achieve, the quality of the audit, the role of the financial auditor and the modification of these regulations. *Documentation* represents the foundation of the paper, while the *comparative analysis* and *critical study* will be intertwined with *inductive-deductive reasoning*. The choice of the methods lies in the fact that the dynamics of analysing scientific literature is extremely relevant in the analysis of the factors implying an effective, sustainable corporate governance, and consequently for increasing complexity of tasks and responsibilities attached to the Board of a company, the more that we talk about a sensitive, turbulent socio-economic environment.

4. Findings

4.1. Issues and challenges regarding corporate governance

Qualitative, effective corporate governance is an epitome which is challenging to attain in its entirety. For the implementation of a rigorous corporate governance code, companies and institutions must come together regionally and internationally to draft corresponding guidelines.

The pivotal concept that is found throughout the paper is the *socio-economic crisis* that captures the concerns of all societal actors (stakeholders), "calling for fundamental reconfigurations of economic philosophies and of the dominant action logic. Therefore, it needs *strategies* (to break out of economic weakness) and *tactics* (to control the effects of entrainment, immobilization, and contribute to restoring of stimuli)" (Deliu, 2019). In this context, the *role of Boards of Directors increases*, especially in the context of *efficient, sustainable corporate governance*, their value having to acquire *new valences* by "providing additional elements related to the transparency of operations, through the need for increased vigilance towards complex financial products and the need to better understand both individual and systemic risks" (Deliu, 2018).

Main issues regarding corporate governance, especially in a sensitive socio-economic context, may refer to: stockholder approval of all stock option programs; tightening independence requirements to reduce the ties between independent directors and the company's executives; higher transparency of proxy voting (that should encourage mutual fund directors and investment advisers to exercise their fiduciary responsibilities in an appropriate manner); as well as the undertaking of "Strategic Audits" in addition to the financial statements audits that are currently mandatory.

This sought to emphasize some of the key challenges, issues and opportunities within accounting research to further contribute to the progress of an effective corporate governance (and effective corporate governance systems). The main challenge with corporate governance is that it does not stand alone, but it has to operate in conjunction with the entity's mission and values. There are several difficulties that a company might experience, especially in the current Covid-19 pandemic, as follows:

Figure no. 3. Main challenges regarding corporate governance

1. Conflicts of interest

A conflict of interest occurs when a controlling member of the company has other financial interests that could influence his decision-making or conflict with the objectives of the company. For example, a board member of a wind turbine company who owns a significant amount of stock in an oil company is likely to be conflicted, because she has a financial interest in not representing the advancement of green energy. Conflicts of interest erode the trust of stakeholders and the public and potentially open the business up to litigation.

2. Governance standards

A board can have all the equitable rules and policies it likes but if it can't propagate those standards throughout the business, what chance does the company have? Resistant managers can subvert good corporate governance at the operational level, leaving the business exposed to state or federal law violations and reputational damage with stakeholders. A policy of corporate governance needs a clear enforcement mechanism, applied consistently, as a check and balance against the actions of executive staff.

3. Short-termism

Good corporate governance requires that boards should have the right to manage the company for the long-term, to create sustainable value. This is problematic for a couple of reasons. First, the rules governing a listed company's performance tend to prioritize short-term performance for the benefit of shareholders. Managers face an unrelenting pressure to meet quarterly earnings targets, since dropping the earnings per share by even a cent or two could hit the company's stock price. Sometimes a company has to go private to achieve the kind of sustainable innovation that cannot be achieved in the glare of the public markets. The second problem is that directors only sit on boards for a brief period and many face re-election every three years. While this has some benefits – there's an argument that directors cannot be considered independent after 10 years of service – short tenures could rob the board of long-term oversight and critical expertise.

4. Diversity

It's common sense that boards should have an obligation to ensure the proper mix of skills and perspectives in the boardroom, but few boards take a hard look at their composition and ask whether it reflects the age, gender, race and stakeholder composition of the company. For example, should workers be given a place on the board? This is the norm across most of Europe and evidence suggests that worker participation leads to companies having lower pay inequalities and a greater regard for their workforce. It's a balancing act, however, as companies may focus on protecting jobs instead of making tough decisions.

5. Accountability issues

Under the current model of corporate governance, the board is positioned squarely between shareholders and management. Authority flows from the shareholders at the top and accountability flows back the other way. In other words, it's shareholders – not stakeholders generally – who are most protected by corporate governance and shareholders – not stakeholders – who get to withhold critical votes unless certain reforms are implemented.

Source: own elaboration

It can be observed that most of the recent studies in the corporate governance field were undertaken by accounting researchers from a financial accounting perspective, particularly on issues as to how to secure or motivate efficient management of corporations by the use of incentive mechanisms (Sloan, 2001).

In the author's opinion, though, in order for a corporate governance structure to be fully effective, the existence and high support from a well-designed management accounting information

system is essential, management accounting information systems being a key source of control in making available accurate and timely information for organisational decision making.

In this respect, the author considers management accounting researchers face a critical challenge in designing efficient and effective internal monitoring and control mechanisms that meet the strategic needs of senior management in discharging their corporate governance duties.

While it's certainly not undesirable to have the actions of the Board checked by shareholders in this way, the future of corporate governance is perhaps more holistic. Companies can and do have ethical obligations to their communities, customers, suppliers, creditors and employees, and must take care to protect the interests of non-owner stakeholders in the company code of conduct.

Boards' role in corporate governance, in general, is "to plan and strategize goals and objectives for the short- and long-term good of the entity and to put mechanisms in place in order to continuously monitor progress against the objectives", as Price (2018) depicts. In relation to this, Boards must understand, assess and debate the company's goals.

In this context, we have to assess *the manner in which the Boards are taking and will take into account*, in the most serious way, all these risks. *Did they manage to evaluate them? Did they prepare a plan to diminish their effects?* To alleviate "blame game" apprehensions and to prepare for the next crisis, Boards may reflect on taking into consideration some measures.

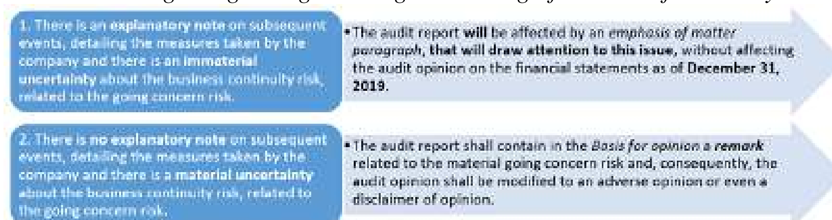
4.2. Issues and challenges regarding the financial audit

On one hand, for Public Interest Entities (P.I.E.) and Non-PIE entities for which ISA 701 "Communicating Key Audit Matters in the Independent Auditor's Report" is adopted, the auditor will now need to consider them very carefully and comprise them in a special paragraph related to the impact of the continuity risk on the activity (regarding the going concern) in the KAM section of the audit report. For Non-PIEs, if ISA 701 is not adopted, the auditor will need to consider the careful assessment of the content of the Explanatory Notes detailing these issues, as well as the risk assessment included in the Management Report, as required.

On the other hand, as of January 2020, auditors need to be extremely alert to audit risk, especially in terms of the direct implications for compliance with the going concern by audited companies. Coronavirus is an event following the closing of the 2019 financial year which may or may not lead to sharp adjustments to the figures in the financial statements, insofar as they can be reliably estimated.

The *going concern principle* assumes that the financial statements are prepared on the same grounds as the current ones, unless management intends to liquidate the entity or cease trading. The assessment of whether the appropriate basis for the continuation of the activity is appropriate shall be taken into account in subsequent events after the end of the reporting period. For example, for December 31, 2019, for companies that are severely affected by the impact of the COVID-19 pandemic, *even if the significant impact on operations occurred after the year-end*, it will be necessary for the management to consider the appropriateness of financial statements on an ongoing basis. When management is aware of *significant uncertainties* that seriously call into question the entity's ability to continue to operate, the entity should disclose those material uncertainties in the financial statements. Thus, based on ISA 560 "Subsequent Events", it is necessary to include in the financial statements as of December 31, 2019 a *detailed informative note* on the impact of this situation on the company, so that users can assess the implications or at least be aware of the effects on the entity in particular, and the economy in general. Therefore, there may be two borderline situations:

Figure no. 4. Main challenges regarding auditing the closing of the 2019 financial year



Source: own elaboration

In any of the conditions, it is suggested that the auditor obliges *additional written information*, obtaining formal management representations incidentally, carefully examining the company's risk assessment procedures, reviewing the considerations taken into consideration by the management in its risk assessment and deciding, based on his/her professional judgement and available information, whether the assessment carried out by the entity is reasonable at the time when the audit report is issued.

4.3. Future research lines and objectives

The rapidly evolving CoVid-19 is activating all kinds of risks impacting manifold features of an entity, as Beasley (2020) perceives. Unfortunately, we are seeing first-hand how "a single-root cause event can trigger interrelated consequences for an economic entity".

As depicted above, the definitions and depictions set in this paper are postulative, more like a set of recommendations for companies, comprising good practices of corporate governance. In this context, this research outlines that, as future research lines and objectives, accounting researchers must aim 3 directions, depicted in the table below:

Table no. 1. Corporate governance and financial audit vs Covid19 – primordial research lines

	Future research lines concerning the relationship between an effective corporate governance, the quality of the financial audit and the auditor's proactive role in regards to CoVid-19 that must be undertaken by accounting researchers:
A.	**Addressing new issues related to the principles of effective corporate governance** in the framework in which, over the last few years, especially in the context of a *sensitive socio-economic climate* (in general) and Covid-19 pandemic (in particular), it is called for more detailed (and in-depth!) implementation of these principles, by *highlighting the degree of importance that governance codes (in EU countries) attribute to internal audit activities and activities related to external audit.*
B.	**Assessing the opportunity for convergence of corporate governance systems** (in the hypothesis of a globalization of corporate governance), namely **the possibility, necessity and desirability of a universal model of corporate governance.** 1. *Are there any parameters of corporate governance that may differ between cultures or between nations that are not considered in the three well-known corporate governance models? Can we develop effective governance measures that can be applied in all countries, organizational cultures and industries? Can we identify the key attributes of effective governance?* 2. *What is the impact of regulations on the nature of governance processes and the role of the internal audit function in those processes?* 3. *Different reports (for example, Cadbury) have called for corporate governance reports on the effectiveness of risk management. Mandated public reports improve corporate governance? Has the nature of the internal audit function changed in countries where specific corporate governance reporting is mandatory? How does organizational governance differ in countries that have mandated reporting on corporate governance over those in which there is no such obligation?* 4. *What are the main determinants of an effective corporative governance system and how do these factors differ according to types of organizations or cultures? What cultural differences affect mostly the nature of organizational governance?* 5. *Many organizations are multinational. Are governance processes (including processes for risk analysis and risk management) different in multinational companies than in companies operating in a single culture (or country)? How do they differ and what works best?*
C.	**Addressing new issues related to the quality of the audit and the role of the financial auditor** in the context of regulatory changes, but also in the context of the necessity of **(more) effective corporate governance in the times of Covid-19**: 1. *Audit quality and financial auditor's role in the context of the new regulations and the current pandemic* 2. *Financial auditor's proactive pre-audit discussions with their clients* (assessing the impact of CoVid-9 on the client, its business, operations, reporting timetable and the related audit timetable, including contingency plans; analysing the risk of delays since the company can be interrupted in preparing information) 3. *Logistical issues in preparing accounts and undertaking audits* (developing alternative procedures, in order to collect sufficient appropriate audit evidence) 4. *Presentation, explanation and communication of key audit matters (KAM) in the context of Covid-19 (*Does the auditor assume a leading role when communicating the key aspects of the audit? Will stakeholders perceive KAM as a "performance grid" of leadership performance? Will auditors tend to communicate more than required? How will the auditor address the significant issues that were not publicly disclosed by the entity?) 5. *Audit report in the context of new regulations and the current pandemic* (less standardized for the auditors who prepared it? / less opaque for shareholders and management? / more transparent for investors? / more credible for financiers and investors? / more relevant to the public?)

Source: own elaboration

The outbreak of the current crisis, followed by its global expansion, but – especially – the persistence of its effects, have led to broader debates on the *causes and optimal policies needed to overcome the difficulties*. Inevitably, these debates brought back to the discussion – a fact that has already become a cyclical phenomenon – *the role of those charged with governance* both *in the credibility of the financial reports of the companies, as well as in the continuity of their activities*. Sustainability must be reflected as a healthy dynamism and not as the spasmodic search for a single point of balance. In this framework, in order to achieve high levels of sustainability, "it is necessary

for there to be a widespread sharing of values between those declared by the organization and those that guide the behaviours and attitudes of its employees, contributing to generating positive effects in the socio-economic environment" (**Farcane & Deliu, 2019**). Thus, in view of the above, the conclusions lead to the fact that a useful initiative is that the *role and scope of the measures taken by TCWG be discussed and analysed in the general context of the financial market regulatory reform*. Corporate governance, together with external audit, should contribute to financial stability and reduce the risk of distortion, in order to reduce bankruptcy cases.

The question is *how should TCWG act*, *how will they go through the crisis* and *what will they learn from it*? The answer lies, considering the exploration performed, in:

- caution in *evaluating the continuity of the company's activity*, respectively the *appropriateness of the use of the going concern basis of accounting*
- the *transition from effective corporate governance to sustainable corporate governance*.

5. Conclusions

The issue of the quality and relevance of financial-accounting information in a sensitive socio-economic context such as that characterized (and influenced!) by an economic-financial crisis generated by certain turbulences in the socio-economic environment (such as the events generated by the CoVid-19 pandemic, events that are unfolding right now, under our eyes) is a topic of actuality and interest in the context in which the financial-accounting information largely bases the economic decisions of the users, and its quality is increasingly questioned in the context of an effective corporate governance imposed on companies around the world, as well as in relation to a qualitative financial audit. In this context, companies need to carefully analyse their risk exposure and carefully assess how their financial reporting for the financial year ended 31 December 2019 will be affected by this subsequent event. Both those charged with governance and the financial auditors should give importance to the analysis of the exposure to business risk and the implications for the annual financial statements.

Businesses are suffering an unprecedented disruption. Every corporation is consumed with issues arising out of the CoVid-19 pandemic, which has put their relationships with each of their stakeholders – employees, creditors, suppliers, regulators, shareholders – in stark relief. During this period of turbulence, stakeholders are looking to Boards of Directors to address the impacts of the coronavirus. How Boards *balance and prioritize those stakeholders* has to swing with shifting circumstances, just as Boards are forced to think about the *"long-term sustainability of their business"* (**Idowu et al., 2013**). Recent developments in crisis management increasingly demand that scientific rigor be useful and efficient in practice, through the form, background and considerations embraced by researching the extremely complex concept of effective corporate governance and sustainable development.

The current CoVid-19 pandemic may cause managers to rethink what an "effective sustainable corporate governance" might be. Especially at this moment of pandemic, we argue that main priority finds its correspondent in the sustainability of the corporation. However, at the extreme, the current crisis may cause some corporations that are overleveraged to "hit the wall." Even with the government supports being proposed, long-term sustainability may not be possible. Even here, the Board should give serious consideration to human issues, such as stability of employment for workers. Also, another recommendation would be that those charged with governance should create "social responsibility committees" – much like audit committees and compensation committees that are already in place, to dissect the relationship of their corporations to their stakeholder groups – research suggesting that companies with better performance on corporate social responsibility are also those that weather crises more successfully. Also, Boards will likely have to engage directly with stakeholders to understand their needs and work collaboratively to generate resolutions to trade-offs. In the short term, these committees should enable corporations to be nimble and to move quickly to deal with the volatility generated by the pandemic. At a time of crisis, trust from stakeholders is primordial, being earned over time, since they may prove to be a better lifeline than any government crisis subsidy. These principles and practices would enable Boards, as well as auditors, to see this crisis as an opportunity to explore innovative solutions. In future research on the challenges and prospects of the financial-corporate governance relationship,

we propose a macro-to-micro/international-to-national approach, focusing on the comparative studies to be undertaken (and applied) on the various issues of corporate governance and financial audit.

We assume that – in this first phase of research – an observatory approach was essential for increasing the awareness of the role of the audit within corporate governance, since they can become real lessons of practical applicability of the different aspects of the financial audit, thus having the opportunity to outline good practices of corporate governance in general and audit in particular.

6. References

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