Annual International Scientific Conference
"Competitiveness and Innovation in the Knowledge Economy" September 20-21, 2024
Chisinau, Republic of Moldova

DOI: https://doi.org/10.24818/cike2024.43
UDC: 005.915:[336.71+657.6+614.4](498+73)

TRANSFORMATIONS IN BANK GOVERNANCE AND AUDITING: STRATEGIC RESPONSES TO THE CHALLENGES OF THE COVID-19 PANDEMIC

ALEXANDRINA BRÎNZĂ
Faculty of Economics and Business Administration
"Dunarea de Jos" University of Galati, Romania, Galati
brinza.alexandrina00@gmail.com
ORCID ID: 0009-0002-7885-7365

IOANA LĂZĂRESCU
Faculty of Economics and Business Administration
"Dunarea de Jos" University of Galati, Romania, Galati
ioanalupasc22@yahoo.com
ORCID ID: 0000-0003-3801-4945

Abstract: Currently, at a global level, corporate governance has become an increasingly prevalent concept in economics. It represents a valuable system for investors, as it supports them by providing more advantageous assurance. This assurance entails greater confidence that the funds invested in organizations are being utilized efficiently. Additionally, corporate governance aids companies in implementing mechanisms to easily achieve their objectives.

In Romania, within the banking system, bank auditing and governance are fundamental elements. The crisis triggered by the COVID-19 pandemic is a recent one, and its effects have not been fully quantified. During the period 2020–2022, the crisis significantly impacted various aspects of modern economic and social life. For a thorough analysis, we will evaluate the effects the crisis has had on governance and auditing processes within the five main banks operating in the Romanian market: Banca Transilvania, BCR, BRD, ING Bank, and Raiffeisen Bank.

The primary objective of this research is a comparative analysis of the economic and financial situation and the governance and auditing practices within the financial systems of Romania and the United States of America. The analysis of banking institutions revealed significant financial difficulties. The level of banking profit, both in Romania and the USA, decreased significantly in 2020 compared to 2019. To address the challenges and emerging risks in the market, banks implemented governance and auditing systems, which they strengthened during the COVID-19 pandemic.

Keywords: audit, governance, COVID-19, crisis, financial, digitalization and risk management

JEL Classification: B26, G15

1 Introduction

The COVID-19 pandemic triggered one of the most severe economic crises in recent history. The banking sector was not spared from its devastating effects. As a result, corporate governance and bank auditing became the main pillars of stability. These mechanisms were implemented to maintain the stability of financial institutions and ensure transparency for investors and regulatory authorities. The global health crisis underscored the importance of robust auditing mechanisms and highlighted the vulnerabilities of governance systems. In this way, banking institutions were able to manage unforeseen risks and provide effective responses during periods of economic turbulence.

The period from 2019 to 2022 was marked by unprecedented uncertainties. The primary challenge faced by banks was the need to quickly reassess risk management strategies and corporate governance structures. Government measures, such as payment deferrals and the relaxation of capital requirements, necessitated significant adjustments to governance policies and directly impacted the profitability of financial institutions. Consequently, digitalization accelerated banking processes, leading to increased adoption of fintech and regtech technologies. This fundamentally transformed bank auditing, which progressed rapidly to address new economic challenges and stricter international regulations. The Romanian banking system is vastly different from its American counterpart, yet the impact of the COVID-19 pandemic on banking governance and auditing was drastic on a global scale, with similar consequences. This study focuses on a five-year period (2018–2022), emphasizing how the crisis influenced banks' ability to adapt their governance and auditing mechanisms to cope with the heightened risks brought about by the pandemic.

Through comparative analysis, we highlight the similarities and differences between the governance practices of Romanian and American banks, evaluating how these institutions managed the pandemic's impact on their profitability and financial sustainability. Furthermore, we investigate how digital technologies, such as artificial intelligence, blockchain, and regtech solutions, have been adopted by banks to enhance auditing processes and mitigate risks associated with non-compliance and fraud.

The pandemic forced banks to swiftly rethink their strategies, and some financial institutions demonstrated a high capacity for adaptation by implementing robust governance and auditing mechanisms capable of absorbing external shocks and managing risks in real-time. In contrast, other banks faced severe financial difficulties, requiring a complete revaluation of internal processes to respond to new economic realities.

2 Literature review

In the academic literature, corporate governance and bank auditing are recognized as fundamental elements for the functioning and stability of the financial sector, especially during periods of economic crisis and digital transformations. Since the 2008 global financial crisis, interest in improving governance and audit practices has grown exponentially. A series of recent works, published after 2020, explore the impact of the COVID-19 pandemic on these areas, as well as the role of digital technologies in transforming how banks manage risks and ensure compliance.

Corporate governance is considered a central pillar for ensuring transparency and protecting investors' interests. According to the studies of Francesco Fiordelisi and David Marques-Ibanez in their book Banking Governance, Performance, and Risk-Taking (2021), corporate governance in banks directly influences financial performance and risk-taking behaviour. They show that financial institutions with strong governance structures are more resilient in the face of crises and better manage systemic risks. The academic literature emphasizes that effective governance is essential for ensuring the continuity of banking operations in the face of global economic uncertainties, a relevant aspect in the context of the pandemic. Similarly, bank auditing plays a crucial role in monitoring risks and ensuring compliance with international regulations. Margherita Pagani (2020) explores how digitalization is fundamentally changing bank auditing. As banks digitize their operations, internal and external audit processes are becoming increasingly automated, thereby improving efficiency and accuracy in risk management. The use of emerging technologies such as artificial intelligence and blockchain enables banks to track transactions more efficiently and quickly identify irregularities, thus reducing exposure to fraud. The COVID-19 pandemic has been a turning point for banking governance and auditing, accelerating the adoption of digital technologies. John Zysman (2021) emphasizes that the global health crisis forced banks to rethink their governance models. Additionally, there has been a surge in the use of fintech and reteach solutions, which have enabled banks to automate their audit processes and enhance their governance systems, particularly regarding compliance with international requirements. Reteach technologies represent another key aspect of the digitalization of auditing and financial compliance. Michele Finck and João Pedro Quintais (2022) examine international banks and highlight the impact of blockchain and automated regulatory solutions. The authors note in the specialized literature that these technologies enhance transparency and reduce risks associated with non-compliance, thereby streamlining both external and internal auditing processes. Additionally, these technologies enable banks to integrate more rapidly with international regulations, such as IFRS and Basel III, which impose stringent requirements for governance and financial reporting.

Chris A. Mallin (2021) emphasizes that corporate governance plays a crucial role in adapting to the demands of the global financial market. He demonstrates how banks investing in digital auditing processes and improving governance can successfully address global economic challenges, such as those triggered by the COVID-19 crisis.

3 Bank Profitability During the Period 2018-2022

In the dynamic context of the financial sector, bank profitability is a key indicator for assessing their economic performance. Figure 1 illustrates the evolution of net profit recorded by a sample of major banks in Romania and the United States during the period 2018-2022. This period was marked by significant economic events, such as the crisis caused by the COVID-19 pandemic, which directly impacted banking activity and the ability of financial institutions to generate profits. The chart highlights significant variations between banks in terms of annual net profit, indicating both the resilience of certain financial institutions and the vulnerability of others in the face of economic challenges. These differences can be attributed to various risk management strategies, loan portfolio compositions, and the degree of adaptation to market transformations.

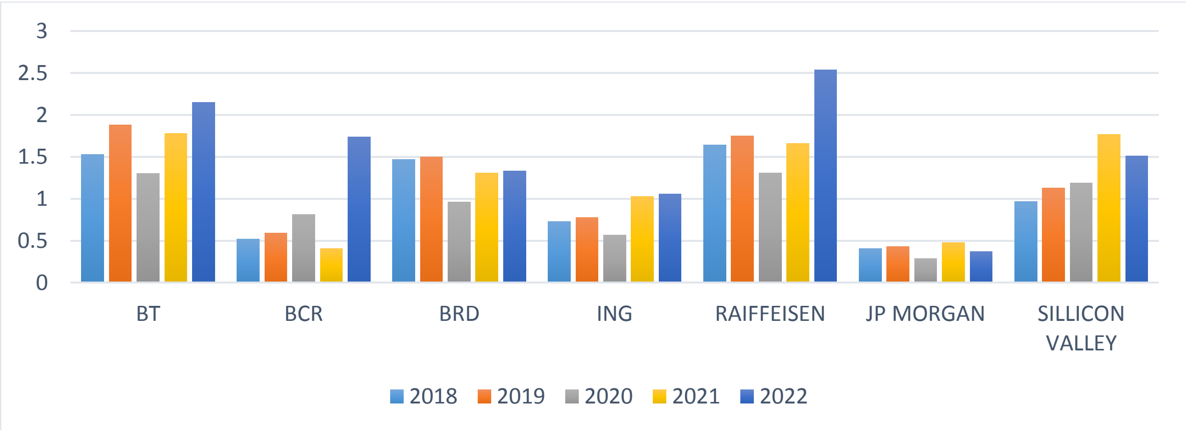

Figure 1. Net Profit in the Period 2018-2022

Source: Created by the author based on information published in the annual reports of the analysed banks

The COVID-19 outbreak greatly influenced the world banking field, as shown in Figure 1. This shows shifts in profit for big banks in Romania and the United States from 2018 to 2022. Changes in earnings

during this time show how good banks were at changing to the strange problems caused by health and money issues. Rules that govern companies and bank checks had a key part in these changes
The big sickness put a lot of pressure on bank rules systems. Control groups took fast steps, like delaying payments, loosening cash needs, and changing risk rules; these all had a direct impact on banks' rule plans. A close look at net gain trends shows that many banks saw big drops in 2020, showing the hard times in putting good steps to fix the problem. These declines were driven by rising financial risks and the necessity to redirect resources to assist clients facing economic hardship. As a result, banks had to quickly reassess their internal governance strategies, adjusting risk management policies and introducing financial protection measures.
Auditing—both internal and external—played a critical role in ensuring compliance with these new regulations and in addressing heightened risks. The pandemic underscored the importance of audits in assessing banks' financial stability, particularly amid volatile markets and an increase in non-performing loans. Institutions like Raiffeisen and JP Morgan demonstrated resilience, maintaining relatively strong profitability even during the pandemic. This performance can be attributed to robust governance frameworks and effective auditing systems, which allowed these banks to identify and address risks proactively.
On the other hand, banks such as BCR and Silicon Valley Bank, which experienced sharper profit declines, faced governance and auditing challenges that left them more vulnerable. Their slower response to the rapidly shifting economic landscape led to considerable losses, exacerbated by risky exposures and limited risk mitigation capabilities. These cases highlight the critical need for enhanced audit oversight and more agile risk management strategies.
By 2021 and 2022, most banks began recovering their profitability, signalling their adaptation to new economic realities. This recovery was supported by improved governance practices, stricter audits, and the adoption of more cautious risk management approaches. Transparency in financial reporting, strengthened internal controls, and closer collaboration between bank management and auditing teams were essential in restoring financial performance.
The pandemic underscored the critical role of governance and auditing in helping banks navigate economic crises. Banks with well-established governance structures and efficient auditing processes were better equipped to mitigate the pandemic's economic impact and recover more quickly. Conversely, those with weaker systems faced greater difficulties, marked by sharper profit declines and slower recoveries. These challenges emphasized the need for adaptable governance processes and proactive auditing practices capable of responding swiftly to unforeseen economic disruptions.

Table 1: Indicators of Globalization and Banking Auditing at the International Level (2018 - 2022)

Indicator	2018	2019	2020	2021	2022	Observations
Number of international banks	320	330	315	318	325	Temporary decline in 2020 due to the COVID-19 pandemic
Global bank assets value (tril. USD)	120	125	118	128	133	Post-pandemic growth, reflecting global financial integration
Foreign direct investment in the banking sector (bil. USD)	520	545	450	505	520	Decline in 2020, followed by gradual recovery

Indicator	2018	2019	2020	2021	2022	Observations
Implementation of international auditing standards	85%	88%	90%	92%	95%	Increase in compliance with international auditing standards
Cross-border mergers and acquisitions in the banking sector	85	90	70	95	100	Post-pandemic growth, consolidation of the banking sector
Use of fintech and regtech technologies (bil. USD)	150	165	180	195	210	Increase in banking digitalization and the use of technologies for auditing and regulation

Source: Data collected from reports by the International Monetary Fund (IMF), World Bank, and KPMG Global Financial Services

Table 1 presents the evolution of key indicators regarding globalization and banking auditing from 2018 to 2022. The number of international banks increased steadily, indicating the continuous expansion of banks operating across multiple markets. However, there was a temporary decline in 2020 due to the COVID-19 pandemic, which affected capital flows and cross-border mobility. This decrease was short-lived, as banks returned to an upward trend in the following years, with the reopening of economies and the recovery of financial markets.

The value of global bank assets followed a similar trajectory. After a decline in 2020, when economic uncertainties led to a reduction in global financial activities, the value of assets grew rapidly in 2021 and 2022. This reflects the resilience and ability of global financial institutions to absorb external shocks and quickly adapt to new economic conditions. Foreign direct investment in the banking sector experienced a significant drop in 2020 due to economic uncertainties and the global health crisis. However, as economic recovery became apparent in 2021, these investments returned to near pre-pandemic levels, reflecting investor interest in expanding capital in the global banking sector. Another relevant indicator is the increase in the implementation of international auditing standards. In a globalized world, compliance with international financial reporting and auditing standards, such as IFRS and Basel III, has become crucial for maintaining the integrity and transparency of global banking institutions. Between 2018 and 2022, a steady increase in the implementation of these standards was observed, reaching 95% in 2022, signalling a clear effort by banks to comply with global auditing requirements. Cross-border mergers and acquisitions in the banking sector also reflected the impact of globalization and the pandemic crisis. After a decline in 2020, caused by economic uncertainties and mobility restrictions, they recovered in 2021 and 2022, reaching a peak of 100 operations as banks began consolidating and optimizing their portfolios. This consolidation process was essential for strengthening the global banking system and more effectively managing cross-border economic risks.

Finally, the use of fintech and regtech technologies saw continuous growth, becoming a crucial element for auditing and regulation in the banking sector. During the pandemic, these technologies became indispensable for the digitalization of banking operations and for monitoring compliance with international regulations, supporting internal audit and control processes in the face of global economic challenges. The growth of this sector to USD 210 billion in 2022 clearly reflects the importance of technology in transforming the global banking industry.

Table 2: The Impact of Digitalization on Globalization and Banking Auditing (2018-2022)

Indicator	**2018**	**2019**	**2020**	**2021**	**2022**	**Observations**
Value of fintech investments (bil. USD)	55	65	75	90	110	Significant growth due to the pandemic and demand for digital solutions
Banks using digital auditing (%)	35%	40%	60%	75%	85%	Accelerated adoption of digital auditing due to globalization and digitalization
Adoption of regtech solutions (bil. USD)	15	18	25	35	45	Regtech solutions have become more popular for compliance management
Banks using blockchain technologies (%)	10%	12%	25%	35%	40%	Blockchain provides new solutions for audit and transparency in the banking system
Banks adopting AI for fraud detection (%)	25%	30%	50%	65%	80%	Significant increase in the use of AI to combat financial fraud
Growth in demand for digitalized external audits (%)	20%	25%	40%	55%	65%	External audits have adapted to the digital needs of global banks

Source: Data collected from reports by the International Monetary Fund (IMF), World Bank, and KPMG Global Financial Services.

In recent years, digitalization has had a significant impact on globalization and bank audits, and the data in the table reflects this shift. Between 2018 and 2022, the value of fintech investments grew rapidly due to the need for digital banking solutions to meet the needs of a globalized economy. In 2020, the pandemic accelerated the adoption of fintech, a trend that persisted and reached $110 billion in 2022. This surge has prompted banks to adopt digital technologies to streamline their global operations.

Another important indicator is the increasing use of digital checks by banks. In 2020, against the backdrop of accelerated globalization and digitalization, banks accelerated their transition to digital audit solutions. By 2022, there was a significant shift in digital audit solutions, with 85% of banks adopting these tools. This shift highlights the growing importance of creating efficient, transparent processes to meet global regulatory requirements and manage the risks associated with cross-border business. At the same time, investment in RegTech solutions (technologies designed specifically to comply with evolving regulations) has skyrocketed, from $15 billion in 2018 to $45 billion in 2022. These advances are critical to helping banks meet increasingly stringent international standards for compliance and auditing. The increase in adoption reflects a clear need for greater automation and operational efficiency in global banking operations. Another important trend during this period was the rapid rise of blockchain technology in the banking industry. In 2018, only 10% of banks reported using blockchain in their operations, but by 2022, that number had increased to 40%. The appeal of blockchain lies in its ability to increase transparency and security of banking transactions while providing innovative risk management solutions. In addition, the use of artificial intelligence (AI) in fraud detection has also grown significantly: by 2022, 80% of banks will use AI tools. AI has proven to be invaluable in monitoring financial activities, strengthening supervision, and reducing the risks associated with fraud and financial crime.

The demand for external audits using digital solutions is also growing steadily to meet the changing needs of international financial markets. By 2022, nearly two-thirds (65%) of banks are actively pursuing digital external audits, highlighting the industry's rapid transformation in the face of globalization and technological advances. These changes highlight how banking institutions are using digital tools to not only improve compliance, but also adapt to an increasingly interconnected and rapidly evolving global economy. Overall, these trends demonstrate the transformative role that digitalization is playing in reshaping the global banking and audit landscape. The widespread adoption of technologies such as Reteach, blockchain, and artificial intelligence has significantly improved compliance, transparency, and efficiency, enabling financial institutions to navigate the complexities of a rapidly evolving global economy.

4 Conclusions

The study that was performed on the issues of banking governance and auditing as influenced by the COVID-19 pandemic shows how serious that crisis was on the whole financial system in both Romania and the United States. Pandemic has triggered the weaknesses of the set global banking systems but at the same time fast tracked the processes of digitalization and enhanced the mechanisms of governance and audit. With the effect of the global financial crisis overarching during the period under study, the graph detailing the trends in profitability of the banks analyed depicts a strong slump in 2020 for most of the financial institutions. It is evident that the pandemic period was tough for the majority of banks, with the profitability low as a result of structural challenges faced globally including payment deferral measures, increased provisions for non-performing loans, and the slowdown of global economic activity. However, it is notable that by 2021, many members had started demonstrating their appetite to harness pandemics lessons, confirming their readiness to adjust to changing economic environments. It recovery obviously step up the need for effective risk management and sound governance mechanisms. For instance, Banca Transylvania and Raiffeisen Bank managed to increase their profitability, which was a clear indication of the capacity of their internal governance and auditing structures.

The pandemic has been another driver of the processes of the banking sector's digitalization. The tables presented on the analysis on the cost and impact of such digitalization, such as the adoption of fintech and reteach, have already become a normal part of the effort to cope with the compliance and auditing expectations in a more digitized world. The greater use of blockchain, digital tools for auditing, artificial intelligence in the Management of Fraud detection system set the foundation for greater openness as well as stability in operation. These developments helped the banks to manage their business exposure in a better way and also achieve the required international norms in operational standards despite the increased demand.

During this period, corporate governance, and the practice of auditing also experienced several changes. Table 1 depicts how during the crisis, banks developed more stringent internal control mechanisms and governance arrangements. The original aim of fortifying these mechanisms was not only to assist banks to emerge out of the difficult conditions during the pandemic, but to strengthen their ability to cope with and prepare for new crises in the future. In 2022, 5% of banks did not apply international auditing standards around the world showing their determination azimuth to enhance integrity and win trust among investors and consumers in their operations.

In conclusion, while the COVID-19 pandemic brought significant challenges for banks in Romania and the United States, it also served as a catalyst for innovation and improvement. Financial institutions succeeded in strengthening their corporate governance and audit processes, accelerating digitalization, and better managing financial risks, thus ensuring post-crisis stability and growth. The lessons learned and measures adopted during the pandemic will play a crucial role in preparing the banking system for future economic and financial crises.

References

1. Aebi, V., Sabato, G., & Schmid, M. 2012. *Risk Management, Corporate Governance, and Bank Performance in the Financial Crisis.* Journal of Banking & Finance, 36(12), 3213-3226.
2. Brown, R., & Melville, S. 2021. *COVID-19 and Banking: The Impact of the Pandemic on Bank Governance and Audit Practices*. Journal of Banking & Finance.
3. Cikaliuk, M., Erakovic, L., Jackson, B., Noonan, C., Watson, S., 2022. *Responsible Leadership in Corporate Governance: An Integrative Approach*, Editura Taylor & Francis, pp. 11-17
4. Cikaliuk, M., Erakovic, L., Jackson, B., Noonan, C., Watson, S., 2022. *Responsible Leadership in Corporate Governance: An Integrative Approach*, Editura Taylor & Francis, pp. 11-17
5. Feleaga, N., Feleaga, L., Dragomir, V., Bigioi, A., 2011. *Corporate Governance in Emerging Economies: The Case of Romania*, Theoretical and Applied Economics, vol. XVIII, no. 9, pp. 562
6. Finck, M., & Quintais, J. P. 2022. *RegTech, Blockchain, and the Future of Financial Regulation and Compliance*. Oxford University Press.
7. Fiordelisi, F., & Marques-Ibanez, D. 2021. *Banking Governance, Performance and Risk-Taking.* Springer.
8. Goodhart, C. A. E., & Tsomocos, D. P. 2020. *Pandemic Crises and Financial Stability*. Financial Stability Review.
9. Mallin, C. A. 2021. *Corporate Governance and Financial Performance*. Oxford University Press.
10. Nitescu, D., Boitan, I., 2017. *Governance and Internal Audit in the Banking Sector*, ASE Publishing House, Bucharest
11. Pagani, M., & Sharda, R. 2020. *The Digital Transformation of Auditing and the Evolution of the Internal Audit*. Emerald Publishing.
12. Zysman, J. 2021. *Corporate Governance in the Digital Age: Challenges and Opportunities for Banks*. Cambridge University Press.