INTERNAL AUDIT'S ROLE IN APPLYING THE PRINCIPLES OF CORPORATE GOVERNANCE

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Abstract
Corporate governance is a very actual subject. After the financial world has faced during the 2000s several financial scandals, developing principles of corporate governance became necessary at international level. The 2008 financial crisis has highlighted the need for the existence of effective codes of corporate governance, which is why the OECD principles of corporate governance suffer changes, as well as national codes. The paper aims to highlight the application of corporate governance but also the role of internal audit in the company's activity. We appreciate that an effective, high-quality internal audit is the thing that, applying the rules of International Standards on Auditing, manages to detect the risks which may be subjected to the work of the Organization, to take action to reduce them so that the value of the company would not diminish.
Keywords: Corporate governance, Internal audit, Corporate governance code, Agency theory.

1. INTRODUCTION

Years between 1990-2000 were characterized by two important elements: on the one hand the development of stock exchanges and markets and on the other hand the financial scandals that marked the financial world.

In the context of the implications these scandals over global finance (Enron and Worldcom in USA, 2001; Parmalat in Italy, 2003; Vivendi Universal, 2002, in France,) the need to improve the control systems at the level of the firm emerged, as well as the development of internal control and internal audit, as well as applying the principles of corporate governance.

The corporate governance was not a new concept, but the earthquake registered by the financial world through the bankruptcy of some large companies has led to the taking of measures internationally in the field of corporate governance in an attempt to curb the occurrence of such other future events.

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Corporate governance has emerged from an attempt to reconcile the interests of several interested parties, more often than not contrary to each other, which occurs most often between shareholders and management, this concept being based on theories of economy organization, i.e. contract theory or competence-based theories.

2. PRINCIPLES OF CORPORATE GOVERNANCE AND THEIR IMPACT IN THE ECONOMIC DEVELOPMENT OF THE ORGANIZATION

Starting from the fundamental financial concept according to which maximizing value is a central goal of finance, corporate governance grew increasingly more, both from shareholders and from management of the company concerned.

It can be said that the concept of corporate governance is based on the idea that negative consequences on the activity of the company may exhibit when the functions of ownership and control are separated (Berle and Means, 1932). They asserted that this separation can affect the wealth of small shareholders (in the sense of shrinking) by those who want to have control of the company.

Corporate governance does not have a simple definition. Because of its importance, this concept has many interpretations, as presented in table 1:

TABLE 1. VARIOUS DEFINITIONS OF THE CONCEPT OF CORPORATE GOVERNANCE

Organisation/authors	Definition
Raportul Cadbury (1992)	Guvernanta corporative este un ansamblu de reguli dupa care este condusa si controlata o companie Corporate governance is a set of rules by which a company is run and controlled.
Organisation for Economic Co-operation and Development (OECD, 1999)	Governance refers to the relations between enterprise management, Board of Directors, shareholders and other parties concerned;
Institute of Internal Auditors (2016)	Corporate governance is a combination of processes and structures implemented by management with the aim of driving information, managing and monitoring the activity of the Organization, in such way that it will achieve the proposed objectives.
Charreaux (1997)	Corporate governance is a set of organizational mechanisms that may result in distribution of power and influence on company management.
Du Plessis J.J. et al.(2011)	Corporate governance refers in particular to power, responsibility, relationships between all participants to a company's management and control

From the above mentioned definitions, you must note and mention that, from the economic and financial point of view, corporate governance systems were developed based on two theories: the agency theory (Jensen and Meckling, 1976) and the transaction cost theory (Coase, 1937), both having as starting point the principle of effectiveness.

After 2000, the debates at the international level with respect to corporate governance are becoming increasingly frequent, which led to changes within the principles of the inclusive governance of corporate Organisation for Economic Cooperation and Development (OECD), as follows (Figure 1):

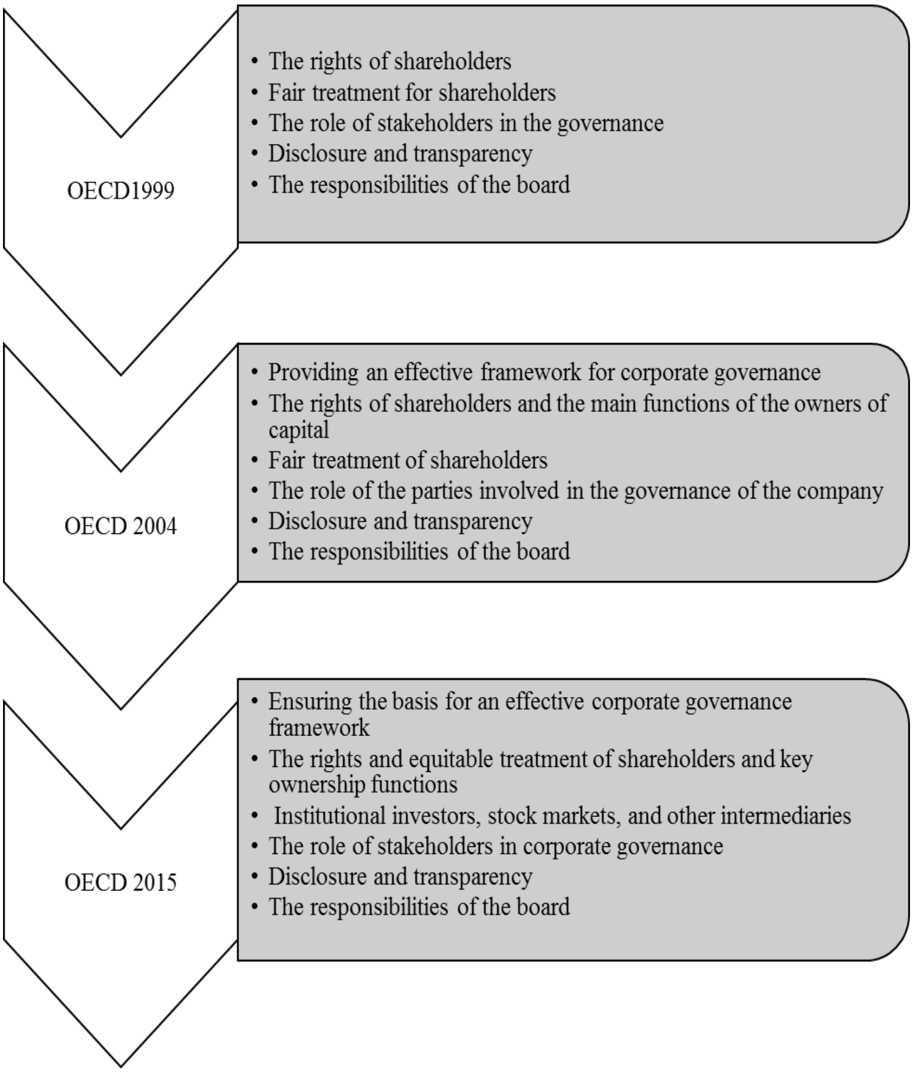

FIGURE 1 OECD PRINCIPLES OF CORPORATE GOVERNANCE (1999, 2004,2015)
Source: www.oecd.org

From the above mentioned facts, we can see changes in the elements that corporate governance has in mind, namely to establish a growing importance of not just shareholders in the company but also other parties involved (customers, suppliers, governmental institutions, non-governmental organizations, etc.) but also the involvement, in a greater measure of the Boards of Administration in the strategic approach for the development of the company. This resettlement and expansion of the requirements ensuing from the principles was also due to the fact that governance, on the one hand, determines the principles of management and on the other hand, those of control, with the aim of achieving strategic objectives but also to adapt to changing economic and social environment (Andrieux, 2013).

3. THE ROLE OF INTERNAL AUDIT IN CORPORATE GOVERNANCE

World States took these principles of governance of the OECD and have created their own codes of corporate governance. Their application is either voluntary (France, Italy, Spain) or mandatory (Belgium, Germany, United Kingdom, Sweden), according to a study conducted in Europe (Autorité des marchés financiers, 2016).

Changes in national governance codes are made whenever it is considered necessary for national institutions, as it results from table 2.

TABLE 2. EVOLUTION OF CODES OF CORPORATE GOVERNANCE

Country	Year of emergence of the first corporate governance code	Latest change of the corporate governance code	Number of alterations from the first code to day	Code contents
Austria	2002	2012	6	Rules Recommendations
Belgium	1998	2009	7	Principles Provisions Behaviour guidelines
Bulgaria	2007	2012	1	Rules Provisions
France	1995	2016	13	Recommendations
Germany	1998	2015	13	Recommendations Suggestions
Great Britain	1992	2014	30	Principles Provisions
USA	1997	2013	14	Principles
Japan	1997	2015	19	Principles
Romania	2001	2015	2	Principles Recommendations

Source: http://www.ecgi.org/codes/all_codes.php, accessed on 1 March 2017

We can see that in the wake of financial scandals which have shown the fragility of corporate governance systems, starting from the transmission of inaccurate, incomplete or truncated financial information and reaching to the certification by external auditors of inaccurate financial situations, countries have either modified the principles and provisions of the codes of governance, either they created for the first time these codes (Romania, Bulgaria, 2007, 2001, Austria 2002, Czech Republic 2001).

For example, the fact that it has not been complied with one of the OECD principles relating to the disclosure and transparency, shows the way in which internal control and internal audit have fulfilled their tasks but also the fact that the external auditor (Arthur Andersen in the Enron and WorldCom cases, and PWC in the cases of Tyco and Kanebo, etc.) have not fulfilled their duties in accordance with international Audit Standards (Lessambo, 2014).

The problem of controlling management structures gets increasingly more value, which is also explainable by the fact that investors are directly interested in decisions of decision factors because in the case of mismanagement frauds can occur which may lower the value of shares resulting in so considerable losses.

We believe that the responsibilities of the board principle (OECD, 2015) according to which the Board of Administration must ensure the integrity of accounting systems and financial communication, as well as the existence within the organization of systems of risk management and control, internal audit, taking a step forward in diminishing the appearance of fraud which could put the organization in danger.

Therefore, we believe that internal audit has multiple roles in applying the principles of governance, the ultimate role being to find efficient solutions for the development of techniques and tools that lead not only to identifying the risks but also to minimizing the adverse effects that may be manifested.

Internal audit is an independent, objective activity, of assurance and consulting with the purpose of creation of value at the company level, and proposes the improvement of operations carried out by the Organization (Figure 2).

FIGURE 2 INTERNAL AUDIT AND GOVERNANCE
Source: processing of standard 2110-governance (IIA, 2016)

Relationships established between the internal auditor, the Audit Committee and Board of Directors are double-way (Figure 3).

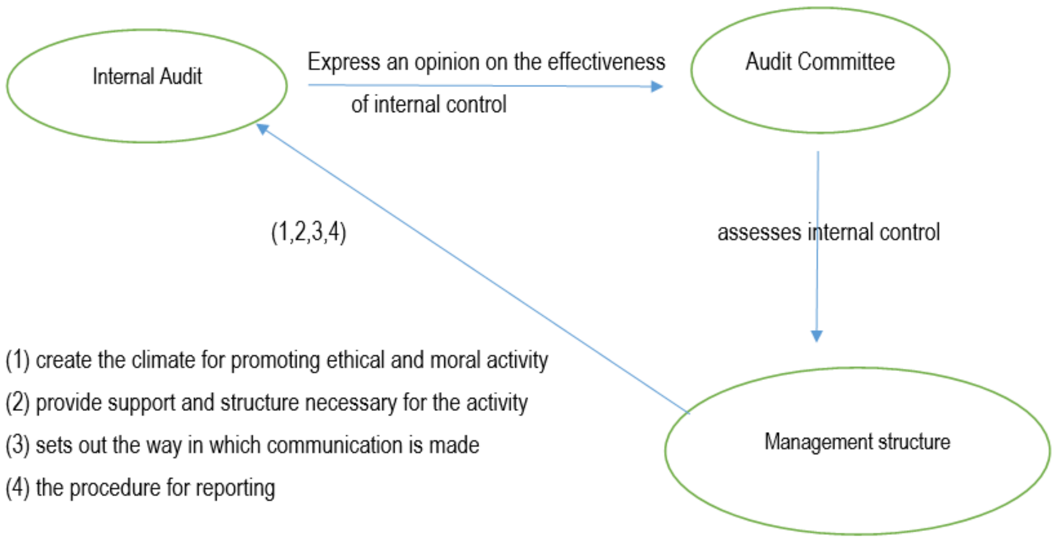

FIGURE 3 THE RELATIONSHIP BETWEEN INTERNAL AUDIT, THE AUDIT COMMITTEE AND MANAGEMENT STRUCTURES

Internal audit has means to lessen the risk of fraud, for example:

- to establish if the Organization environment favors the appearance of fraud;
- which are the risks;
- to establish if the procedures and policies are followed;
- to make recommendations for improving control activities so that risks to reduce fraud.

According to one study, at the international level, about 55% of the fraud cases reported were due to prevention and detection devices (internal audit, internal security policy, rotation of staff, company culture) and not some accident or hazard (PWC, 2014).

4.CONCLUSIONS

Corporate governance aims to be a way of helping, on the one hand companies in attracting investors in order to increase performance (economic, financial, social, etc.) through the dissemination of correct and real information, and on the other hand it wants to highlight the need for collaboration between the structures of leadership and shareholders.

Internal audit can have beneficial effects on activity, as long as it complies with international standards. We would like to mention that, in the current scandal from Toshiba, the structure of governance considered internal audit as a consultancy service and not an insurance service, which was also advocated by the staff rotation policy. And yet, internal audit has identified certain problems that have been reported but have not been taken into consideration by the management structure, being considered as insignificant.

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