INTERNAL AUDIT IN CORPORATE GOVERNANCE

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Abstract

Internal Audit, compared with verification of transactions and compliance with established procedures, **identify risks and assess the effectiveness of risk management**.

Internal audit based on risk analysis assesses the adequacy and effectiveness of internal control in all areas of activity, helps management in its task by analyzing the causes and consequences, with recommendations concerning the activities examined, whereas both shareholders and existing and potential investors are interested in how the entity is governed.

Keywords: internal audit, management, corporate governance, control, economic efficiency.

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Internal audit has formed over the years as a profession, always trying to meet the changing needs of their entities. Internal audit is based on a reference framework recognized worldwide, even because the environments varieties in which is practiced, it must be adapted to account the laws and regulations of each country's specific rules governing different sectors, respectively the size and cultural entities. Internal audit, focused on accounting principles since its inception, has now become a powerful tool to detect the main risks of the entities.

Knowing the definition of internal audit function, as regulated by law, as **"independent and objective functional activity, which gives security and management advice for the proper administration of revenue**" [1] and details the rules on internal audit work, the which shows that **"must evaluate and make appropriate recommendations for improving governance"** [2] consider that the internal audit activity maintains the entity to achieve its objectives through a systematic approach that brings added value input management processes.

The overall objective of internal audit activity is to obtain reasonable assurance that management and control system of the entity operating effectively, as required by regulations and that operations are correct and have no material errors.

The auditor must know and understand, in my view, very good management system and internal control the entity so as to identify and assess their risks and specific risks of the establishment activity.

Since those statements are situations/ actions that could affect achievement of goals and could also give rise to damages, establishing audit objectives and associated risks are support for risk analysis.

Risk analysis is performed by a method of selective research. It identifies both the dangers of entity and existence of internal controls and procedures. It also assesses the internal control structure.

The internal audit should ensure that the entity's activities are selected for audit based on the analysis, taking into account all risk factors identified as internal controls and auditors on professional reasoning. Prioritizing activities under scrutiny will be based on a representative sample selected risk criteria with different weight.

Internal Audit was created relatively recently, in our country, **initially on the structure of existing internal financial control departments** in the entities.

Subsequently, the legislature has referred to this activity in Emergency Regulations 75/1999 on financial audit, republished and updated, when art. 3 (2) stating that "auditors, whether natural or legal persons who have acquired this quality and are members of the Chamber of Auditors of Romania, the independent exercise of their profession may perform internal audit work." [3]

Internal audit has a historical past, where big companies, multinationals, given the experience of the group, the awareness that an efficient internal audit will provide credible entity, which is a win in the competition for attracting investors.

International standards of professional practice of internal audit, occurred international, and that are recommended for internal auditors, regardless of where they operate and on which they must create their own standards for the implementation of internal audit.

Internal audit activities based on partnership manager auditor, based on professionalism and objectivity of the auditors began to be increasingly interesting for both management and the boards - in view of **increasing importance given corporate governance** - key element to improving economic efficiency of any entity. **Corporate governance** is a key issue not only for economic entities, but also for society as a whole. How the entities are managed, decisions and values they have sent clear signals about the role and functions in society.

"**Corporate governance** refers to promoting fairness, transparency and accountability at the company level" [4] and can be defined as a branch that studies how companies can become more efficient through the use of institutional structures such as articles, organization charts and legislative framework through the corporate governance activities carried out to examine how shareholders can ensure and motivate managers of companies, because they want to obtain benefits from their investments.

We can define **corporate governance** as a set of actions, habits, policies, procedures and other regulations with which it is administered and / or controlled entity.

Corporate governance also includes relations between several parties, interested in how the entity is governed. The main stakeholders are the shareholders, management and board. Importance of corporate governance plays a major role in presenting and reporting financial statements to make decisions effectively, the management entity in order to increase investor profits, shareholders' welfare.

The concept of corporate governance is to achieve a management structure based on participatory management, allowing a large degree of freedom, the legal limits, and includes changes in principle in accordance with international standards of transparency. Provide accurate financial statement to creditors and investors an easy way to compare potential investments.

Consistent application of policies accounting principles, the organization of internal control and audit, revealing interdependence contributes to an interdisciplinary system of accounting, with management, shareholders, financial institutions, regulatory authorities and not least with the public. Other interested parties are employees, customers, creditors, suppliers.

Boards are able to exert more and more influence, investors become more demanding, and managers wishing to better understand the real issues within their entity. Are trends resulting from increased emphasis placed on corporate governance in the business world?

In the desire of investors in mind that "shareholders are those who provide the funds manager does not have, and shareholders need specialized human capital by individual managers who will use the funds effectively and to generate profits through work." [5] Shareholders should be advised, in our opinion on the entity's management actions and their results so they can take informed decisions, which lead to positive performance.

Performance evaluation of leadership is the foundation on which dialogue takes place between managers and shareholders, the decisions concerning more than the sale, storage or purchase of shares, more strategic and tactical decisions aimed at business. Shareholders in their capacity as owners are responsible for use of resources and the effects achieved in business, so it is necessary to monitor and control what happens in the entity.

Mainly, ***the shareholders' rights*** refers to freedom of trade and capital market rights, the right to obtain regular information about the entity and relevant documents, free access to general meetings and the right to ask questions of management the opportunity to include items on the agenda of general meeting and make proposals for decisions on items on the agenda, the right to vote, right to elect and replace members of the board, effective control exercised by shareholders right to participate in the profits of the entity.

Law no. 31/1990 republished and updated on companies governing those rights. Law no. 297/2004 update refers to the capital market. Legal provisions protecting the rights of shareholders against potential abuses by the Board members and management, by setting conditions for the exercise of certain rights of shareholders.

Disclosure sufficient information help to attract capital and maintain confidence in the capital market can regain public confidence and investor governance practices of entities. Inadequate or misleading disclosures adversely affect both the entity and its shareholders and the economy as a whole, increasing the cost of capital with negative effects on resource allocation.

Board has an important role, being in the center of the corporate governance of public entities representing the relationship between shareholders (investors) and management entity (CEOs). Corporate governance structures determine the functions of the Management Board and executive management, and skills and responsibilities. It is responsible for business administration and act in the interest entity protecting financial interests of their shareholders to maximize profit. Function as a collective body, based on comprehensive and correct information.

Board monitors and controls the entity's actions to avoid situations in which members or employees could be in a conflict of interest situation that would undermine confidence in the entity. ***Responsibilities*** of the Management Board is, inter alia, examine and approve the strategic plan, operational and financial entity, assessing the suitability of the organizational structure, administrative and accounting entity with strategic relevance of its work, the entity's overall performance assessment, verification and approval of contracts completed by the entity with significant impact on profitability, assets and liabilities or financial position of company structure and performance assessment of Board for the purposes of maintaining a balance between executive members and the independent non-executive.

Board structure is balanced, to make well-founded decision, because it is jointly responsible for all decisions taken in exercising its powers. Number of Board members must be sufficient - to ensure the effectiveness of its ability to monitor, analyze and evaluate the work of directors as well as fair treatment of shareholders.

Members of the Board, after consultation with members of the internal audit department, must to develop approval and implementation procedures for transactions of the entity.

As board responsibilities grow, they become stronger and show their interest for competent managers, the highest qualities, which are harder and more expensive to recruit.

In this context, managers considered that governance procedures have a positive impact on the ability of entities to form partnerships because they are more transparent in providing information. Neglect of high quality management, generates a great deal of trouble and failures entities. Lack of structure functions and powers with clear, defined, and comprehensive internal procedures can lead to disruption, which could have adverse consequences for the entity.

Corporate governance system is able to avoid any conflict of interest between personal and business management entity, removing any doubt that might be posed to it and establishes the basic relationship between management and shareholders, transparency and trust.

Because entrepreneurial culture in our country is low and the laws are applicable in each case, it is advisable, in my view to focus on advice for the proper management of revenue administration through reports and audits, to achieve financial transparency.

Audit Committee is tasked to assist the Board of Directors in matters of internal control and financial reporting, analyzing and preparing annual financial statements and proposed how to share the profit. Also, the Audit Committee oversees the company's risk management strategy and financial results, monitoring reports of internal auditors.

Conclusion

Internal audit findings provide independent and objective advisory services to help mid-level management of the entity to improve risk management, control and governance. Entities use internal audit policies and procedures used to evaluate the objectives, through the recommendations of auditors.

Internal audit has become a part of risk management, near those dealing with monitoring activities. Audit goal is to prevent major risks. Such a risk may be unstable according to managers. Management requires the ability to act as business administration. Periodic changes lead to major disruptions in business, management policies affecting consistency. Performance of an entity is based on the concept of continuity and stability for the effectiveness of managers with responsibility.

Stability of the managers in function ensures the current business continuity. Forecasting activities, organization, leadership, coordination and supervision shall be accomplished in order to manage the entity.

We can say that the system of corporate governance improves economic efficiency of the entity, by expanding the responsibilities of internal audit and the establishment of audit committees, organizing control internal understanding the significance of transparency and quality financial information, management improvement.

Good governance within an entity reduces risk, increase performance, open access to financial markets, increase the ability of marketing goods and services, and improve management, transparency and social responsibility presents.

Test the effectiveness of the governance model is the extent to which investors made profit maximization.

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