SHORT ANALYSIS OF CONVENTION BETWEEN CORPORATE GOVERNANCE AND INTERNAL AUDIT

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Abstract
The objective of this paper is to highlight the relationship between internal audit and corporate governance, of the improving communication of auditors with the management and governance of a company.
The importance of internal audit activity is increasingly contributing to adding value to companies through recommendations made during audit engagements and these recommendations determine the audited structures to improve their activities and improve their internal control system.

Key words: *internal audit; corporate governance; management; communication.*

JEL Classification: *G30; M40*

I. INTRODUCTION

This paper analyzes this relationship between corporate governance and internal auditing from a national and international perspective, underlining the fact that a large number of countries are facing serious problems in implementing and maintaining these internal and internal communication relationships corporate governance is adopted.

At the same time, it should be stressed that at international level there are many models for internal audit and that it is necessary to take into account the different local customs and the different institutional capacities when it is intended to implement measures to strengthen the internal audit function in developing economies.

II. CONCILIATION BETWEEN INTERNAL AUDIT AND CORPORATE GOVERNANCE

Governance helps companies to attract investment and increase their economic performance and competitiveness in the long run. This aid is mainly driven by the fact that corporate governance imposes transparency on all transactions and the adoption of standards of transparency in relation to investors and creditors. In addition, it improves the company's management by limiting the abuse of power from the inside of the company's resources, and provides the means to monitor the behaviour of managers to ensure the company's responsibility (Socoliuc & Grosu, 2015).

In recent years, we have witnessed a significant increase in interest in what the business governance process is or should represent. The main explanation could be that of responding to the increasing number of errors and even financial accounting frauds. Many of these are caused by lack of management integrity. We can talk about accounting with irrational and optional or alternative policies, excessive concern about the earnings to be paid to managers or fraudulent financial reporting to manipulate the price of shares or to obtain various financial benefits. All this leads to an increase in concern for the way managers are checked and by whom. Thus, it has become almost universally accepted that the role of supervisory committees in companies and, within them, audit committees is essential.

Internal audit is an activity that takes place in the control and management processes of economic entities by checking the accounting procedures and not only within the internal control assessment process and seems to be practiced for the first time in the US in 1929. The establishment of the Institute of Internal Auditors (IIA) and the development of internal audit perspectives as a function of management takes place in 1941, so in 1950 they are issued by the first internal audit norms and in 1970 the first internal audit standards.

At the moment, the internal audit function has become of key importance in management counseling, and the emphasis on the essential characteristics of the audit at the organization level, and the skills required for internal auditors, is analyzed by several authors (Moller, 2009).

The corporate governance concept has taken shape since the 1990s based on the influences of famous bankruptcies (Boghean, 2014) as well as the financial crisis of that period, which we can add to other factors such as bank capital, company investors and financial scandals (Fülöp, 2015).

Good corporate governance has been brought into discussion for the first time in the development of the theory of equality (Berle & Means, 1932). Over time, various authors, as well as different institutions, have formulated definitions of corporate governance through which certain aspects of this concept are clarified and highlighted (Bostan & Grosu, 2010).

The Organization for Economic Cooperation and Development (OECD) provides a more balanced and comprehensive definition of corporate governance "*is one of the key elements for improving efficiency and growth and for expanding investor confidence. Corporate governance involves a set of relationships established between the company's management, its board of directors and its shareholders. Corporate governance also provides a structure through which the company's objectives are established, and the means to achieve them and to monitor performance are determined* (OECD, 2004). "

In a company, the manager, the controlling shareholders or both play a leading and decisive role in achieving the goals. Minority shareholders are a category that needs concrete protection in the form of customized laws and an active and efficient mechanism of justice. At the level of the economic entity, the magnitude of agent problems is directly proportional to the corporate governance mechanisms and their peculiarities.

In Romania, corporate governance is specific to listed companies (BVB) where even a Corporate Governance Code developed by the Corporate Governance Institute of the Bucharest Stock Exchange exists. The full or partial implementation of this Code rests with the companies listed on the Bucharest Stock Exchange who will send to the institution the "Declaration" - compliance or non-compliance with the CGC provisions drafted according to the requirements of the BSE. The statement will be supplemented by information on the actual implementation of CGC recommendations by the reporting company and how they have been implemented. This form is completed annually and has been introduced since 2009. Adoption of the Code principles can also be achieved by other companies or issuers, although they are intended for companies present on the BSE regulated financial market. In recent years, a set of principles and regulations have been developed, both internationally and nationally, to highlight the importance and necessity of the concept in the context of the current economy. However, their implementation has proved to be difficult and the lack of a legal framework whereby the adoption of the concept of corporate governance by all entities is mandatory and has said its word.

Several events are responsible for increased interest in corporate governance. During the 1998 financial crisis in Russia, Asia and Brazil, corporate sector behaviour has affected the whole economy, and corporate governance weaknesses have jeopardized the stability of the global financial system. Only three years later, corporate governance confidence has been plagued by corporate and corporate governance scandals in the United States and Europe that have triggered major insolvencies in history. The latest financial crisis has seen its share of failures in corporate governance in financial institutions and corporations, leading to serious damage to the global economy, among other systemic consequences. As a result of these events, economists, the corporate sector and decision-makers around the world recognize the potential macroeconomic, distributive and long-term consequences of weak corporate governance systems.

In the explanatory dictionary of the Romanian language, the term governance is defined as administration, management or management process and involves the management activities of the economic entity. "The corporate governance framework must ensure timely and accurate disclosure of company-related information, including its financial condition, performance, ownership and governance" (OECD, 2004, Section V, p. 22).

The literature offers some terminological clarifications on the concept of corporate governance for which there is no fully recognized definition. The widely used definition of corporate governance is "the system by which companies are run and controlled (Cadbury Report, 1992).According to the OECD, "corporate governance is one of the key elements for improving efficiency and growth, and for expanding investor confidence. Corporate governance involves a set of relationships established between the company's management, its board of directors and its shareholders. Corporate governance also provides a structure through which the company's objectives are set, and the means to achieve them as well as to monitor performance are determined (OECD, 1996).

On the other hand, the concept of internal audit and its understanding becomes concomitantly with the subject of corporative governance an increasing concern for the academic environment and not only (Yaqoob, 2016; Bostan & Grosu, 2009; Ramamoorti, 2003; Flemming, 2003); It highlights examples of the application of the audit function and of a basic approach to it. Moreover, they highlight the importance of internal auditing at the company level and the need for the auditors to have internal audit expertise.

Also, a good corporate governance, at macroeconomic level, helps to improve economic efficiency and fosters the development of an interactive investment climate. This also adds to efficient use of resources, lowering the costs of attracting capital, greater investor confidence and lowering corruption levels. On the other hand, poor corporate governance affects the efficient allocation of capital to the economy, considerably reduces foreign investment, as well as the confidence of the capital holders and favors corruption (Fülöp, 2015).

The underlying principles of corporate governance, considered pillars of good governance by the Cadbury Report * are: integrity, transparency and accountability (Pascu, 2011; Bostan, Grosu & Iancu, 2009). Integrity is required in the process of reporting the financial situation of an entity, namely honesty in providing economic information and not only. Transparency in an entity's business is perceived as a key element in attracting investors, adding value to its credibility through the real and timely information provided. The ultimate responsibility, but perhaps the most important, is perhaps the least understood and respected within an organization. Respect for corporate governance principles undoubtedly ensures sustainable and healthy development as well as the prosperity of an economic entity.

The year 2000 is the year in which the concept of corporate governance is emerging for the first time in the context of a regulatory framework for its implementation, improved in 2001 by the recommendations of the OECD. Seven years later, the Bucharest Stock Exchange (BVB) publishes the Corporate Governance Code on the basis of the recommendations of the World Bank.

The implementation of governance in Romania is hampered by the cultural and economic differences, respectively, the Romanian entities are not aware of and understand the benefits of governance and refuse to implement the concept, highlighting the high cost. Also, the refusal to provide strategic information within the entity on the grounds of loss of competitive advantage and lack of transparency in respecting personal interests in the management process are other obstacles to the implementation of corporate governance principles (Turcanu et al., 2008; Firescu & Brânză, 2013).

Corporate Governance as a management system in Romania is found only in the large state or private companies, especially those listed on the BVB, due to the lack of information and training of managers, as well as of the legislative incoherence and the economic- financial. That is why the processes of implementation and improvement of corporate governance must be comprehensive and complex, with qualitative and quantitative involvement both on the part of the state and on the economic entities.

Lately, notable progress has been made in reaching a consensus on the requirements that should be met by internal audit standards. Both the International Organisation of Supreme Audit Institutions (INTOSAI) and the Institute of Internal Auditors (IIA) have issued audit standards to guide auditors and accountants. Although these standards are not binding, they are generally viewed as reflecting best practices in the field.

Thus, although each country can create its own internal audit standards, it is expected that these national standards will be in line with the INTOSAI and / or IIA recommendations. This is all the more appropriate for economies in transition or in developing countries, because they tend (or should do) convert their institutions to get closer to those found in OECD countries.However, these new international standards of internal audit have raised some fundamental questions. First of all, there are concerns about their relevance in many developing countries or transition economies. The international experience in the area of strengthening and building internal audit systems revealed a number of common problems in several countries that are not entirely resolved by the new standards that are in line with the role of internal audit in developed countries and even a certain group of them , who have modelled their public internal audit following best practices in the private sector.

Secondly, even if this approach were to be accepted, the question of the efficiency of implementing those models in most countries with less solid economies is questionable.

Thus, we see that it is not easy to find a model that can be applied on a large scale, especially in countries that have inherited institutions and operate with completely different financial systems. A comprehensive analysis of the international models of internal audit reveals a wide variety of systems that apply more or less constraints to the internal audit function and which raises questions about the applicability of a valid internal audit model.

III. CONCLUSIONS

In the last period, internal audit has become a very discussed subject, which has led to its rapid evolution and the awareness of the managers of the entities of the importance of implementing this function. In addition, internal audit becomes an important factor that can influence the added value of the entity, as it can provide information to address the problems faced by managers.

Also, due to the ever-changing economic environment, businesses are increasingly interested in increasing their performance. Thus, the role of internal audit intervenes in the organization that identifies the potential risks, errors to find the best solutions to solve them. Therefore, there is a direct relationship between the internal audit function and the entity's performance as it ensures the good practice of the auditors and the credibility of the actions taken. The role of internal audit has been strengthened more and more in assisting the manager in the practical approaches developed, and by analyzing them significantly contributing to the improvement of the internal control system and of the work in safety and efficiency.

In conclusion, the existence of an audit function in the entity generates a wide range of benefits such as improving risk management, providing an effective control environment, improving enterprise performance, and providing a broad picture of the entity's situation at a given time.

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