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The valences of the internal audit in relationship with the internal control – corporate governance

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Abstract

In a market which is competitive and affected by systemic risks that endanger the good, secure and continuous functioning of activities, the entities generate behaviours which mark rights and obligations that highlight the necessity of adequate leadership and control systems, through which a rigorous management of the risks that could affect the targeted objectives is insured. Actually, these objectives are facilitated by the existence of an independent function that evaluates the processes of governance, internal control and risk management. From this perspective, the internal audit, which is an objective and independent function, through its formulated opinions and recommendations, it supplies reasonable insurances to the management, which gives it an essential role in the frame of the analysed relationship. This study proposes testing this hypothesis, so that the carried research has focused on the identification of new valences through which the internal audit could contribute to the improvement of the corporate governance.

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1. Introduction

Under the influence of the economic, juridical and cultural environments, as well as of the inherent risks that could affect the actual independence of this function, through the view of its relative characteristic, the internal audit

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could supply only reasonable insurance in regard to the adequacy or inadequacy of the governing, internal control and risk management systems.

However, if the activities of independent identification and evaluation of the inherent risks that could affect the objectives of an entity of founding risk and control strategies for insuring its continuity, of implementing mechanisms for diminishing or eliminating these type of events etc. are achieved in conformity with specific principles, standards and procedures, it could be stated that through its formulated opinions and recommendations the internal audit could contribute to the improvement and perfecting of the analyzed systems and processes and implicitly to the corporate governance practices.

Besides the aspects that regard the independence and the insurance of the conformity with the applicable norms, achieving these objectives requires a permanent monitoring of the quality of internal audit activity, aspects that could be accomplished only through an adequate internal control both at the entity level as well as in the frame of this function. Hence, in the relationship between the corporate governance and the internal control, the internal audit could have a determining role.

2. Literature Review – internal audit, internal control and corporate governance

The conceptual and empirical approach of the corporate governance, internal control and internal audit are some of the most mediatized subjects that occupy large spaces in the literature review and in the norms specific to these fields. Also, there are some empirical studies and researches that regard the implementing, functioning and developing of the systems, processes and modes through which the analyzed concepts have been transposed in the practice of some entities.

In time, there have been drafted several valences for the analyzed concepts which are specific to certain evolution, development and consolidation periods, through the approach of several dimensions or treated from certain perspectives.

The most frequent connotations attributed to the concept of corporate governance define the actions and operations specific to the system or process that insures the leading and controlling of an entity with the objective of protecting all the interested parties, others describe it as the system through which the necessary conditions for achieving the objectives of an entity are insured (Cadbury Report), in other optics the governance is assimilated with a system of rules and approaches through which it is insured the leading and the controlling of the corporations through which the risks that could generate inadequate behaviors are diminished (Sifuna et al 2012), or that regard the system as well as the assembly of rules and methods through which the entities are led and controlled for achieving the targeted objectives (Danescu, Prozan, 2014).

In essence, by applying the principles, rules and practices of corporate governance the increase of the credibility of the entities reported to the investors, the reducing of the cost of capital, the identifying of competitive opportunities, the implementing of a managing control through which the efficient use of the more and more limited resources of an entity, the implementation of an adequate internal control that could supply reasonable insurances regarding the durable development and sustainability of entities etc. is targeted. Through this last aspect it could be noticed that a good corporate governance determines the existence of an adequate internal control that in turn could influence the quality of this system (Danescu, Prozan, 2014).

Hence, corporate governance targets both the leading and controlling systems of an entity in its whole, as well as the assembly of rules and methods applied for the achievement of the targeted objectives while the internal control is the process that supplies to the management reasonable insurances in what regards accomplishing the targeted objectives.

By being an intrinsic component of an entity, through the carried researches there have been drafted also a series of contributions of the internal control to the increase of value of an entity (Kratz, 2008), to the sustainability of the management provisions (Feng et al 2009), to the credibility of the accounting and fiscal reports (DanescuT, ProzanM 2012) or to the insuring of utility of accounting information which has an effect over the business environment. Also, through the carried research there have been highlighted some relations such as the one among the accounting, corporate governance and internal control (Danescu et al 2014).

Compared to these, internal audit defines one of the activities or functions of insuring and counseling, which through its targeted objectives regards the evaluation of these processes or systems, and through the formulated opinions and recommendations could supply to the management added certainty that the operations and activities

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