

The Relation Between Culture, Corporate Governance and the Role of the Internal Auditor

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Abstract

Internal Audit is an independent, objective assurance and consulting activity designed to create value and to improve the operations of an organization in achieving its objectives by implementing a systematic approach to assessing and improving the effectiveness of risk management, control and governance processes. One can approach the true value of internal audit and its role within the organization only after studying organizational culture, corporate governance, risk management, and internal control. The internal audit adds value - through its activities- both by evaluating the system internal control and risk analysis related to auditable activities, as well as through recommendations to the management of the organization in order to ensure the achievement of the objectives of the organization. The objective of this study is to understand the role of the internal auditor who must know and understand the culture of the organization so that he can identify and assess the risks.

Key words: culture, corporate governance, internal auditor, risks, objectives

J.E.L. classification: M15

1. Introduction

Good corporate governance ensures the improvement of economic efficiency and the establishment of an interactive investment climate. Among the most important benefits of implementing high corporate governance standards are: efficient use of resources, increasing investor confidence, lowering the cost of capital due to the sensitive diminishing of managers' discretionary attitude and lowering corruption levels.

Corporate governance describes the methods and systems used to manage all types and sizes organizations, whether public or non-profit ones, companies in the private sector and those built as partnerships.

Corporate governance also refers to how the rights and responsibilities between the categories of business participant - such as the board of directors, managers, shareholders, and other interest groups- are shared, while also focusing on how business decisions are made, how strategic objectives are defined, how they are reached and how financial performance are monitored.

The concept of corporate governance is seen as having two facets: the behavioral one, which refers to how the managers of a company, shareholders, employees, creditors, customers and suppliers interact, the state and other interest groups within the company's overall strategy and the normative one, which refers to the set of regulation in which the relationships and behaviors, described above fall, namely the law of commercial companies, the law of securities and capital markets, the law of bankruptcy, the requirements of the stock exchange quotation, etc (Tabără *et al.*, 2007).

Considering the organizational culture, any organization intends to implement these three ideals, namely corporate governance, risk management and internal control, while internal audit is the key component of their monitoring (Dascălu *et al.*, 2016).

Furthermore, internal audit has an important role in educating management leadership, finding effective solutions, and assisting in the process of implementing and developing the techniques and tools needed in this area. Therefore, the internal auditor needs to have a profound understanding of corporate governance, is best placed to assume this major role in the organization in order to support management, and to ensure the success of the organization (Tabără *et al.*, 2007).

Organizational culture affects the way in which decisions are made in an organization, and thus the concrete way in which it evolves, in the context of a strategy. Specialist studies demonstrate that the organizational culture is at the heart of the entire decision-making process, though it does not appear in the visible spectrum of the organization, rather than indirectly, through inertial consequences. Organizational culture integrates these values, beliefs and behavioral norms that have proven to be of benefit to the organization in its past. In other words, organizational culture preserves all past values that have historically been validated in favor of the organization and its employees (Dumitru and Burtescu, 2015).

If we refer to the top management of an organization, we must consider the fact that it has the major responsibility for ensuring the correct and efficient functioning of the systems within the organization. There is unanimous recognition that there is no universal way of organizing management leadership and, moreover, we have to keep in mind that the term management (leadership) is not synonymous with management (the science or art of leadership). Internal audit has been adopted as a fashionable term in the field of financial control, and there is currently a problem with the understanding of the internal control system which, being the object of internal audit, includes all the internal control activities carried out within an entity and the associated risks (Dumitrescu, 2015).

Internal auditors and the manager should be seen as partners, not adversaries, with the same objectives as the effectiveness of the management act and the achievement of the proposed targets. Internal auditors assess any department, function, activity within the entity for which they report to general management. The relationship between internal and audited should be a professional one, namely systems evaluation and the detection of any problems faced by employees. The support provided by the internal auditor must materialize in finding solutions, together with the auditees, to eliminate the dysfunctions, irregularities or even irregularities encountered by them in the context of the organizational culture (Dănescu, 2007).

2. Specialty literature

The interest for organizational culture has begun in the 7th decade. The main indirect cause was the performance of the Japanese companies explained to an appreciable extent by their specific culture. A major contribution to the rapid and broad dissemination of the organizational culture approach were Peters and Watermann (1982), through their best-seller "*In Search of Excellence*", in which they paid great attention - illustrating through numerous examples the correlation of the characteristics of organizational culture and the performance of some of the most competitive companies in the world.

The use of the term audit in the current sense is relatively recent and is in place during the 1929 economic crisis in the United States when organizations affected by the economic recession had to pay important sums to external auditors who certified the accounts of all listed companies (Fülöp and Szekely, 2017).

The role and need of internal auditors has been steadily increasing and has been universally accepted, which is why they felt the need to organize and standardize their practical activities. Thus, in 1941, the Institute of Internal Auditors-I.I.A was established in Orlando, Florida and it was internationally recognized. Subsequently, the United Kingdom joined, and also Sweden, Norway, Denmark and other states in 1951. At present, over 100 national institutes of internal auditors and members from over 120 countries have been affiliated with this institute as a result of obtaining the quality of a C.I.A. Internal Certified Auditor, awarded by IAA, based on professional exams (Fülöp and Szekely, 2017).

The internal audit function was established in England and France in the early 1960s, being strongly marked by its origins in financial and accounting control. It was only after the 1980s and 1990s that the internal audit function began to take shape in the activity of the entities, and its evolution continues at present (Fülöp and Szekely, 2017).

Starting with 1999, Romania has initiated a process of drafting the primary legislation, defining the concept of internal control, setting general objectives and specific objectives.

Completion of the secondary legislation was achieved under the new approach of the internal control concept in order to organize the internal management and control system as a support for the increase of the quality and efficiency of the managerial act. Management supervises the state of implementation of the managerial control system through the internal audit function and observes the deviations from the established objectives, analyzes the causes that have determined them and provides the necessary corrective or preventive measures (Dumitrescu, 2015).

In addition to this internal control system, the internal audit function has been organized within the public entities since 2003. The purpose of internal audit is to evaluate the functionality of the internal control system and to provide advice to the general manager for making the most effective decisions (Dumitrescu, 2012).

3. Research and methods

The purpose of the method is to establish the role of the internal auditor so that he can identify and evaluate his own risks for the efficient functioning of the organization.

Corporate governance is a multi-level approach in the system of relations between interest groups (employees, shareholders, managers, all business partners, regulators, the general public and the media), and includes relations established between the Council administration and internal or external interested parts.

Governance is a very broad concept that includes sound and effective supervision of how something is done, conducted, controlled, or managed to protect the interests of the components, area, organization, or institution.

Corporate Governance is an attempt to implement risk analysis, verification, assessment control systems to help achieve efficient management for their operation. The Corporate Governance Concept is supported by internal auditing, which has an important role in assisting reorganizing the internal control system and advising general management.

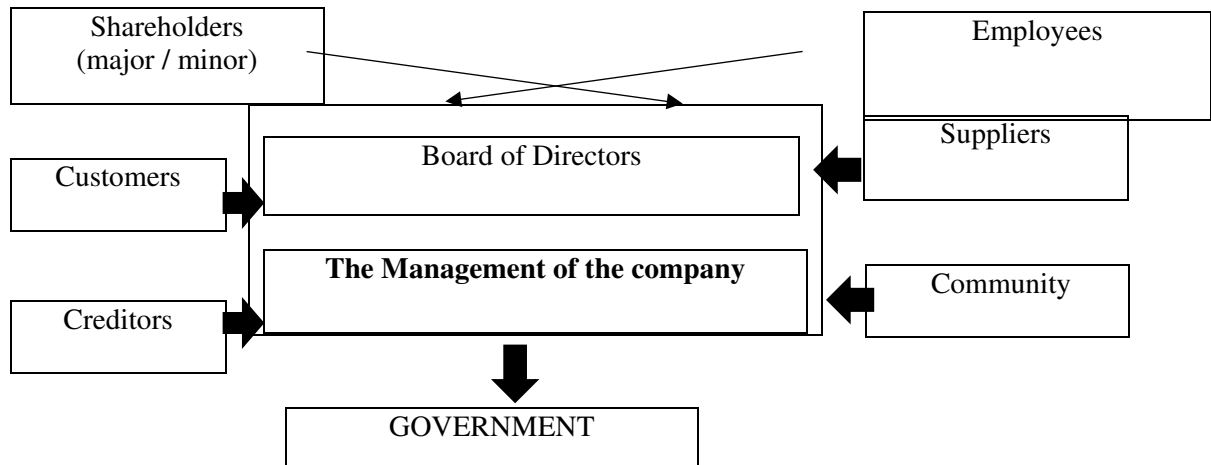
The corporate governance concept refers to the transparency of transactions and the need to monitor the internal control system to ensure its capability of assessing possible risks that adds to the safety of organization management.

In order to avoid inadequate governance, top management must be interested in policy making, and organizing the internal control system in order to master and assess the organization's risks.

Effective governance will also ensure the establishment of long-term strategic objectives and plans, as well as the existence of leadership and leadership structures to meet these objectives, ensuring the functionality of the structure in order to maintain the organization's integrity, reputation and responsibility to the public.

The factors that influence the activity of an organization, which are part of the structure of the corporate governance concept are outlined in figure no.1. Interaction of the internal and external environment with the organization and factors of interest.

Figure no.1 Interaction of the internal and external environment with the organization and factors of interest

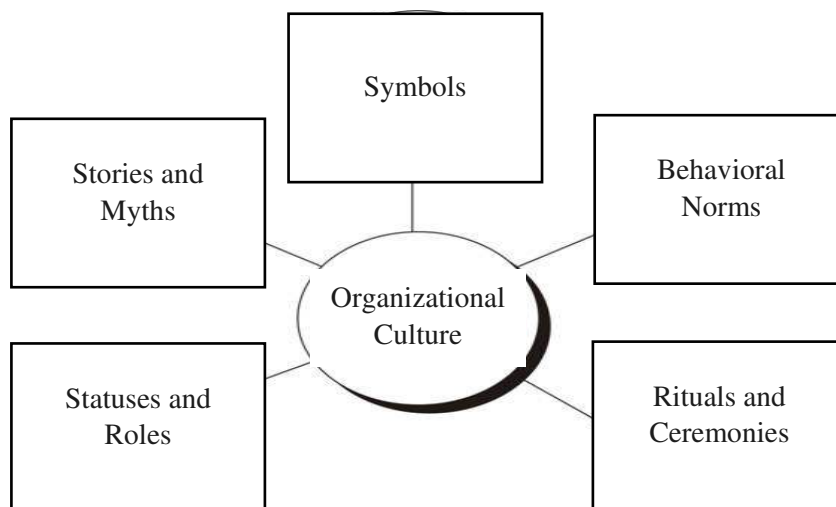


No.	Influence factor	Interests
1.	SHAREHOLDERS	decision control, net profits, investment recovery, notoriety and recognition, etc.
2.	AEMPLOYEES	secure jobs, attractive wages, motivation of work (bonuses, promotions), good working conditions, health insurance, etc.
3.	CREDITORS	timely payment of loans, interest, commissions, profitability, creditworthiness
4.	CUSTOMERS	quality, low prices, accurate and timely information, etc
5.	SUPPLIERS	orders and contracts, timely payment of bills, trust, loyal competition, etc.
6.	GOVERNMENT	Investments, compliance with legislation, environmental protection, taxes and fees, etc.
7.	COMMUNITY	jobs, local market development, healthy environment, sponsorships, etc.

Source: Developed by author through adaptation and processing after Fülöp and Szekely, 2017

The forms of manifestation of the organizational culture are largely intangible, less visible, which explains why the specialists themselves often perceive them partially differently (figure no.2).

Figure no.2 Organizational culture manifestations



Source: Developed by author through adaptation and processing after Fülöp and Szekely, 2017

4. Conclusions

I believe that following the results of the research method, internal audit should provide independent and objective advice services to help the entity's management at an average level to improve risk management, control and governance.

Organizations use internal audit to assess policies and procedures used to achieve the objectives by capitalizing on auditors' recommendations. Internal audit has become a part of risk management, close to those involved in monitoring activities. The purpose of the audit is to prevent major risks. Periodic changes lead to major malfunctions in activity, affecting the consistency of managerial policies. The performance of an entity is based on the concept of continuity and stability of managers with responsibility for the efficiency of the activity.

We can say that the corporate governance system leads to the improvement of the organization's economic efficiency by expanding the internal audit capabilities and setting up audit committees, organizing internal control, understanding the significance of transparency and the quality of financial information, improving management. Good governance within an organization reduces risks, increases performance, paves the way for financial markets, develops marketing ability for goods and services, improves management, and shows transparency and social responsibility.

The very essence of organizational culture is given by people who, in their essence, are good, capable of performance, self-control and self-control. Considering their performance, organizational cultures are positive or negative, but transformable at any time. Organizational culture is the way in which work is done and where people are treated. The culture of an organization determines its personality, that is how it works.

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