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Internal Control in Corporate Governance

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Abstract

Regarding corporate governance internal control is seen as a process at the disposal of management, it is a dynamic process that constantly adapts its devices and techniques to changes in the culture of the organization, adapted to the competence of managers; the goal of internal control is to confirm management expectations by using specific processes, techniques and devices. Managers see technology, data and analytics as a transformative force in business. Therefore, many organizations implement business intelligence and analytical technologies to support reporting and decision-making as well as management control activities, given that, traditionally, management accounting is the main support for decision-making and control in a organization. The management accounting responsibility is to evolve from simply reporting the aggregate historical value to also including the measurement of organizational performance and providing management with the information necessary for decision-making.

Under the present work I will look at the conceptual framework on internal control in corporate governance.

Key words: corporate governance, internal control, internal audit, auditors, organization
J.E.L. classification: G30, M40, M41, M42.

1. Introduction

Also in corporate governance internal control should be a process carried out by staff at all levels of the organization, i.e. be carried out both by top management, but also by line management, by department managers, and by all other employees, so that each member of the entity is responsible for its internal control. The internal control system operates in an ever-changing control environment, which requires adapting control at the level of each activity, differentiated and interactive, built in accordance with the interests of the organization.

2. Literature review

Internal control, together with governance and risk management, is the third major component of corporate governance. (Ghiţă, 2008, p.105)

Thus, in the author's opinion, good corporate governance is dependent, firstly, on risk management, for understanding the problems encountered in the organization and, secondly, for internal control, for achieving its objectives. In this respect, internal auditors, must support the organization in identifying and monitoring the risks it faces, as also to understand and supervise the functionality of the internal control system, which I also believe can be considered as a fundamental element for the implementation of the corporate governance principles. At the same time, it must be accepted that, in view of the improvement of economic relations and the permanent evolution of the market economy, internal control has evolved and evolves continuously through the emergence of other control typologies, as a result of the environment in which it works and in which it is located.

3. Research methodology

In this paper I set out to analyze the conceptual framework on internal control in corporate governance, and as research methods I will use data collection, processing and interpretation.

4. Findings

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In close connection with the above, with regard to the corporate governance of information technology, for example, according to the authors Wilkin *et al* (2016), it aims to maximize IT investments in order to achieve business objectives and value. However, as the authors argue, there is little empirical evidence about the attitude and use of organizations, in corporate governance, of information technology to provide such value or the role of related policies, practices, frameworks and methodologies. Following the study conducted, regardless of the organizational dimension, the authors' findings demonstrate substantially the same benefits, influences and challenges; in addition to the widely recognized importance of strategic alignment of business and IT, risk management has proven to be significant both to influence the decision to adopt corporate governance of information technology and to a perceived key capacity for the provision of improved organizational performance and resource-based value.

The increasing integration of IT technology for the processing of commercial transactions and the increasing amount of financially relevant data in organizations, according to author Werner (2017), creates new challenges for auditors, and as a result the availability of digital data opens up new opportunities for innovative audit procedures.

In other words, continuous audit technology has been analyzed in different circumstances, but usually within large entities, which have their own integrated IT systems and internal audit functions. Although several providers of continuous audit technologies have identified implementations in small entities, according to the authors Rikhardsson & Dull (2016), little is known about the application and impact of this technology in this type of organization. The results of the authors' analyzes show that technology is usually established to increase resource efficiency, but is often understood as a tool to clarify data quality issues - rather than a strategically aligned technology. Implementation is not led by an internal audit department, but by either an IT department or a finance department. The use of technology means primarily a verification of transactions because process control applications appear later. According to the authors, the main result involves a change from corrective checks to preventive and detective checks; an increase in the value perception of the finance department; and an increase in data management confidence, respectively. However, as the authors argue, the study also shows possible negative effects of this technology, such as alert adaptation and waste of users' critical thinking.

As the authors Haislip *et al* (2016), mentioned, weaknesses in internal controls related to information technology (IT) are unique threats to organizations. In this context, by investigating whether the relevant internal control entities are using a dissociation strategy with their current auditor, the authors point out that previous evidence of dissociation strategies is valid in both IT and non-IT contexts; particular emphasis being placed on documenting a positive association between entities reporting IT weaknesses and subsequent auditors' revocations or changing. At the same time, by investigating the potential benefits of internal control of switching to auditors with greater expertise in environments that underline the importance of IT, the authors argue that greater IT expertise of audit entities promotes improved internal controls for their clients, especially those controls that depend on IT. The authors also note that clients who switch to auditors with higher IT expertise than their former auditor are more likely to remedy "material weakness" within one year of reporting control weaknesses, as well as that audit IT expertise is negatively associated with both non-IT "material weaknesses" and information technology in an ex ante reporting framework.

In these circumstances, as Ghiţă said (2008, p.105), the internal control system, existing in each entity, must be developed and perfected to that level that allows management to have the best control over the functioning of the entity as a whole, as well as of each activity, in order to achieve the objectives set, thus resulting in a number of characteristics of internal control, those being:

-processuality;
-relativity;
-universality.

a) processuality of internal control

Internal control is a process and not a function; all management functions, including the internal audit function, include control activities that contribute to the evaluation of the management process. So that in corporate governance internal control is seen as a process at the disposal of management, it is a dynamic process that constantly adapts its tools and techniques to changes in the culture of the organization, determined by the degree of competence of managers; the goal of internal control is to confirm management expectations by using specific processes, techniques and tools. In the same way, as Rikhardsson & Yigitbasioglu (2018) said, managers consider technology, data and analysis as a transformative, creative force in business. Therefore, many organizations establish business intelligence and analytical technologies (BI&A) to support reporting and decision-making as well as management control activities, as Peters *et al* (2018), given that, normally, management accounting is the main basis for decision-making and control in an organization.

Thus, as the authors Appelbaum *et al* (2017) the nature of the responsibility of accountants working in management accounting evolves from simply reporting the aggregate historical value to also including measuring the performance of an organization and transmitting to management the information needed to make decisions. Corporate information systems, such as Enterprise Resource Planning (ERP), have provided accountants working in managerial accounting with both the expanded data storage benefit and improved computing benefit and the ability to use comprehensive business analysis to perform performance measurement and provide decision-related information. In relation to the above, I believe that it should be mentioned, as the authors Baader & Krcmar (2018) said, that fraud detection often includes the analysis of large data sets of company resource planning systems in order to identify and locate various irregularities. But, as the authors said, it should also be taken into consideration that data set analysis often leads to a large number of so-called "positive fakes", i.e. entries wrongly identified as fraud.

Returning, the authors Kim *et al* (2017) claim that accountants have formed and developed accounting information systems (AIS) through the organization charts of the system, which have also been used to analyze internal controls. However, when accounting information systems are large, complex and distributed, their system diagrams are more difficult to understand, more difficult to use and are not sufficient to support decision-making in system design and implementation.

Considering the above, according to the authors Richardson *et al* (2018) the chief information officer (CIO) has a particularly important role, namely, is responsible for bridging the gap between two critical areas - technology and business, making the CIO function uniquely different from that of other managers. In this context, as digital technologies become increasingly important to the competitive success of entities, boards and top managers seek to align the purpose of the CIO with the overall objectives of the entity. Thus, according to the authors, entities can use compensation policies to capitalize on the purpose of the CIO to enhance the overall performance of the business.

On the other hand, examining the relationships of the national legal system, the size of the entity and the quality of corporate governance with the help of the Internal Audit Function (IAF) with the implementation of eXtensible Business Reporting Language (XBRL - is a standard software that has been developed to improve the way financial data is communicated, facilitating the compilation and sharing of this data) in public companies, this time, the authors Abdolmhammadi *et al* (2017) have come to the conclusion that the quality of corporate governance is positively associated with the involvement of the internal audit function in the implementation of standard XBRL software.

b) relativity of internal control

As Ghiţă mentions (2008, p.118), an opinion with which I agree, however well planned and executed, internal control can only ensure relative certainty, because an internal control aimed at achieving all the proposed objectives, in conditions of efficiency, and in corporate governance, would be quite costly; therefore, as the author argues, internal control is not designed to guarantee the success of the organization, but its objective is relative and reasonable.

c) universality of internal control

Also in corporate governance internal control is a process carried out by staff at all levels of the organization, it is carried out both by top management, but also by line management, by the compartment managers, and by all other employees, so that as Ghiţă said (2008, p.119) each member of the entity is responsible for its internal control. I am of the same opinion that the internal control system operates in an ever-changing control environment, which requires adapting control at the level of each activity, differentiated and interactive, built in relation to the interests of the organization. But it should be taken into consideration that this structure, which we discussed above, will have to take into account the organizational structure of the entity, the management style of the managers, the influence of environmental factors and implicitly the risks that may affect the organization. Under the same line, I mention that excess norms, rules, procedures can also prevent effective internal control, which is why I also believe that it is necessary to find an optimal balance in order to establish them.

At the same time, as the authors Müller-Stewens *et al* (2020) the diagnosis and interactivity used in/control are indirectly linked to innovation by their influence on the formalization perception of coordination routines. That is, interactive diagnosis and control provides an input, a beginning for an effective coordination process; information provided allowing the coordination of activities towards the correct decision-making. In this respect, in the opinion of the authors the direct effect of controls on innovation depends on the degree of technological turbulence.

Investigating the influence of the training/professionalism of employees from internal control on its quality, the authors Liu *et al* (2017) notes that the training/professionalism At the same time, analyzing the effect of monitoring on this result, the authors note that the effect is more pronounced for entities with strict monitoring environments and for those with greater institutional ownership or attach greater importance to internal control activity. In these circumstances, in the opinion of the authors, the training/professionalism of employees in internal control plays an important role in the design and implementation of internal control systems, and as a result, I also believe that this topic should be of great interest to top managers who want to improve internal corporate control through quality control as well as for regulators who want to understand the mechanisms and monitoring of internal control.

With the intention of measuring corporate integrity, the authors Shu *et al* (2018) examined the connection between corporate integrity and the quality of internal control and the results showed that corporate integrity is significant and negatively associated with weaknesses in internal control. At the same time, the authors identified a substitution effect between informal and formal institutions to increase the quality of internal control. In other words, according to the authors, the negative link between corporate integrity and weaknesses in internal control is more significant when legal development or market competition are weaker. Furthermore, the authors note that more effective corporate governance can strengthen the relationship between corporate integrity and quality of internal control; therefore, what the authors found shows that corporate integrity can increase the quality of internal control.

Also, as the authors Wang *et al* (2018) the internal control system can also be a useful method for protecting the value of an entity from political shocks.

In the study conducted, in another context, the authors López & Rich (2017) argue that there are also positive associations between the disclosure of internal control exceptions and the distance of driving, for example; suggesting that the rigor of the audit is greater for geographically distant clients.

Thus, internal control systems within organizations are made up of all specific arrangements, control activities and routine processes, which, in terms of risk management, ensure the achievement of its objectives. (Ghiţă, 2008, p.242)

In conclusion, it can be said that the implementation of the internal control activity, without taking into account the uncertainties that exist and the nature of the internal or external risks of the organization, contributes to maintaining the risks to an acceptable level.

5. Conclusions

In corporate governance, the internal control system operates in an ever-changing control environment, which requires adapting control at the level of each activity, differentiated and interactive, made in relation to the interests of the organization. However, the organizational structure of the entity must be taken into account, the management style of the managers, the influence of environmental factors and implicitly the risks that may affect the organization. I also mention that excess rules, rules and procedures can also prevent effective internal control, which is why I believe that it is for us to find an optimal balance in order to establish them.

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