Turkish Journal of Computer and Mathematics Education Vol.12 No.14 (2021), 2540- 2547
Research Article

The Impact of Corporate Governance on The Effectiveness of Internal Audit Exploratory Study

Aldurrah Waleed Khalid [1, a]

[1]PhDStudent, University of Craiova.
a)Corresponding author email: w.aldurra@yahoo.com

Article History: Received: 19 August 2021; Revised:20 August 2021; Accepted: 21 August 2021; Published online: 28 August 2021

Abstract: In order to achieve the objectives of the research and arrive at the best methods and methods for detecting the impact of corporate governance and knowing the extent of its impact on the effectiveness of internal audit as a treatment for the research problem, the researcher will adopt the descriptive analytical approach and this approach is applied in many research and studies, especially those that deal with social and administrative phenomena related to daily practices and The data that is collected, analyzed, discussed and presented in a scientific and interconnected manner in a manner that serves the objectives of the research.

Keywords: Corporate Governance, Internal Audit, Effectiveness**.**

1. Introduction

The issue of corporate governance is one of the modern topics that academics, practitioners, centers, organizations and governments began to turn attention to as the means by which many economic units reach safety from crises and failures that have led many of them in recent years. Interest in the concept of corporate governance has increased. On the basis that governance brings benefit to all parties related to the economic unit, and good governance can play an effective role in the areas of financial and administrative reform of the various economic units and increase investor confidence in the financial statements and stimulate investment by attracting foreign investments and supporting and increasing the capacity of the agency Banking and activating the stock market and thus contribute to pushing the wheel of economic development strongly.

Corporate governance aims to protect and preserve the rights of shareholders by imposing the necessary oversight on the management and defining the responsibilities of the board of directors towards the shareholders, which led to the necessity of activating the internal control in the various economic units.

Also, one of the goals pursued by the principles and applications of corporate governance is to reach companies to the highest levels of effectiveness and efficiency, and therefore every country must adopt the initiative to activate the principles and applications of corporate governance because it is an important and necessary step, not only to combat administrative corruption, but To develop the economic system and ensure a secure transition to a free economy system through privatization and the establishment of markets and financial institutions

Based on the importance of corporate governance and the need to transfer it into practice, internal control is one of the pillars of this application, as the role of internal control in economic units and companies should rise to directing operations towards success by examining and evaluating financial, administrative and operational activities, and providing information to management at all levels in implementing its strategy correctly, as well as activating the role of internal control in reviewing this strategy and giving it the possibility of auditing its implementation and the extent to which the desired objectives are achieved, as well as identifying the risks facing the economic unit and following up how to treat them.

Research Methodology

1- Research problem:

In view of the many troubles that many economic units have experienced as a result of the formal role of their boards of directors and the consequent weakness of control procedures and the increase in risk severity, there has been increased interest in the concept of corporate governance and its role in managing, reducing and directing risks in a way that enhances the effectiveness of oversight. The role played by internal control in light of the principles of corporate governance and its ability to apply these principles in accounting disclosure, transparency, justice, responsibility and discipline in each economic unit as a necessary input to increase the effectiveness of internal control in its accounting and control dimensions, by being guided by the principles of corporate governance announced in support of the performance of economic units to achieve the best use For the resources of economic activities, the research problem can be formulated through the following question:

• Does the weakness of the concept and principles of corporate governance result in the ineffectiveness of internal control?

2- Research Hypothesis

The research is based on the following main hypothesis:

The application of corporate governance mechanisms will improve the effectiveness of internal control in economic units.

3- The purpose of the research

The research seeks to achieve the following objectives:

1. Identifying the advantages of corporate governance and how to take advantage of them in increasing the effectiveness of internal auditing.

2. A statement on the extent of the development of internal auditing as a result of the emergence of the concept of corporate governance.

3. A statement of the ability of the internal audit to protect all stakeholders and the assets and property of the economic unit.

4- The importance of research

The importance of the research stems from the importance of corporate governance at the present time and the importance of internal audit being one of the foundations on which corporate governance is based in terms of the separation between management and ownership, as internal audit helps in examining and evaluating financial and non-financial activities as well as verifying the validity of trends management strategy as well as the correctness of its application. The importance of the research lies in:

1. Achieving the protection of the rights of stakeholders in a way that leads to an increase in performance efficiency, maximizing profitability and providing new job opportunities.

2. Within the framework of corporate governance, the internal audit unit comes to form one of the elements of corporate governance as a department that works to control the work within companies, especially when the shareholder base expands and the purpose of separating ownership and management, and the necessity of adopting international standards for corporate governance of all kinds and areas of activities.

3. Governance is a sufficient tool to reduce the risks and damages that prevail in the business environment at the present time and to increase the efficiency of performance in the internal control system.

conceptual framework :

1- The idea of governance and its definitions

Many studies have emphasized the importance of adhering to the principles of corporate governance and its impact on increasing investors' confidence in the members of the companies' boards of directors, and thus the ability of countries to attract new investors, local or foreign, and the consequent development of the economies of those countries. This was accompanied by the interest of many countries in the world and international organizations with the concept of corporate governance, through the issuance of a set of regulations, laws, reports and rules by scientific bodies and legislative bodies that emphasize the importance of companies' commitment to the application of these principles. In 1987, the National Committee for the Protection of Administrative Regulations affiliated with the American Institute of Certified Public Accountants (AICPA) issued its report on fraudulent financial reports called the Tradeway Committee Report, which included eleven recommendations related to the application of corporate governance rules, and the related prevention of fraud and manipulation in Preparing the financial statements by paying attention to the concept of the internal control system, and preparing rules regulating the work of audit committees in companies to strengthen the profession of external audit before their boards of directors.

In the United Kingdom, many reports have emerged that emphasize the importance of adhering to the principles and rules of corporate governance, as the London Stock Exchange had a prominent role in this area. The Cadbury report was issued to emphasize the importance of corporate governance in order to increase investor confidence in the process of preparing and auditing financial statements. The following are the most important reports at the international level (Charkhan, 2003).

It is worth noting that there is no single definition agreed upon by all economists, jurists and analysts at the global level for the term corporate governance, and this may be due to its overlap in many organizational, economic, financial and social matters of companies, which affects society and the economy as a whole.

Before delving in depth into this vital contemporary topic, the researcher had to take a scientific stand to introduce corporate governance through different axes and points of view, as it relates to a group of interested parties. Relationships between employees, members of the board of directors, shareholders, stakeholders, governmental organizations, and how all these parties interact in supervising the company's business. Corporate governance also provides the structure through which the goals of the company can be set and the means to achieve these goals can be determined and performance is monitored.

Good governance should provide appropriate and sound incentives for the board of directors and the management of the company to strive to achieve the goals that are in the interest of the company and its shareholders. It should also facilitate the effective control process (Millstein, 1999).

It is also known as a set of systems, procedures and mechanisms that are designed and applied for the sake of governing institutions and joint stock companies in particular. In other words, the concept of corporate governance comes as a qualitative shift in the concept of control and control over companies away from individualism, moodiness, randomness and indifference (Al-Mashhadani, 2007).

It is also defined as a self-direction, management, control and auditing system for companies or institutions for the purpose of achieving the goals and objectives of the company or institution by itself without any influence or influence from any party, in a manner that provides fair dealing with all parties with interests with the company (kurtpany, 2004). .

It is also known as the framework in which companies exercise their existence and focus on the relationships between employees and members of the board of directors, shareholders, stakeholders, and governmental regulators, and how all these parties interact in supervising the company's operations.

It is also known as that system that, through its components, directs and monitors the work at the highest levels in order to achieve the objectives set for it and to meet the necessary standards of responsibility, accountability, integrity and transparency (Marshall, 2003).

Going to the report of the (Cadbury) Committee, we see that it is that system by which the company is managed and monitored according to a specific mechanism based on the distribution of powers and responsibilities among the participants in its management, and drawing up the rules and procedures related to making decisions related to the affairs of the company (1992: Cadbury). .

The American Institute of Internal Auditors (IIA) defines it as processes that take place through procedures mediated by representatives of stakeholders to provide oversight and management of risks through management and control of the risks of the organization and to ensure the adequacy of control controls to avoid these risks, which leads to a direct contribution to the achievement of the goals of preserving the values of the organization Taking into account that the performance of governance activities is the responsibility of its stakeholders, to achieve the effectiveness of stewardship (Al-Tamimi, 2008).

Based on the above definitions, the researcher believes that for the purpose of activating the principles of governance, there must be effective supervisory bodies that monitor the work of the economic unit and study ways to evaluate its performance according to the accepted standards.

2- Concepts of corporate governance

Corporate governance as a controversial topic, led with it several controversial concepts by specialized international organizations and researchers in the field of corporate governance, and it focused towards clarifying the concepts associated with it, which in its entirety constitute the conceptual framework, which is used to address the problems faced by companies in the field of work, as follows: -

1- Justice and fairness

Focusing on equity in corporate governance, it has been defined as mutual respect and recognition of the rights of all stakeholders on an equal footing, including the interests of minority shareholders of corporate shareholders (Khoury, 2003). As for fairness, it refers to impartiality and integrity in the treatment of parties with a common interest.

2 - Transparency

Transparency is one of the important concepts in corporate governance that it seeks to achieve, and it means in a broader concept how to establish a structure that allows a great deal of freedom under the authority of law and international standards Transparency, clarity and accuracy of information so that the beneficiaries can easily make decisions, and all facts must be presented for research accountability and debate

3- Responsibility and accountability

The first principle of the Organization for Economic Cooperation and Development (OECD) principles on corporate governance refers to the following:

The corporate governance framework should encourage transparency and efficient markets, be consistent with respect for the law, and clearly define the division of responsibilities among the various supervisory, regulatory and enforcement agencies.

The sixth principle on the responsibilities of the board of directors went as follows:

The framework of corporate governance should include the strategic direction and guidance of the company and the accountability of the board of directors to their responsibilities before the company and the shareholders.

The concept of responsibility is linked to another concept, which is accountability, which requires those responsible or those who make decisions, as well as those who carry out business in the company, to be held accountable for the consequences of their actions and the results of their decisions (Khoury, 2003).

Accountability has been defined by many researchers as a mechanism designed to ensure that the work of various organizations is directed towards achieving their goals defined in advance, taking into account the interests of those who are interested in these works.

4 - Independence

Independence can be defined as the freedom to express the opinion that is reached as a result of a conscious study in the light of scientific rules and principles, which means the necessity of liberation from all restrictions that limit the possibility of expressing a sound opinion and thus a sound result.

Cadbury's report has adopted that the board of directors should establish an audit committee of at least three non-executive directors and they must be independent from management, and accordingly, the audit committee gave the strength of independence to auditors by giving them a strong relationship with the board of directors (Cadbury, 1992).

5- The importance of corporate governance

Interest in corporate governance has increased in recent years by researchers and those interested in international organizations, where many conferences, seminars and workshops have been held in developed countries, unlike developing countries, where there is still a clear shortcoming in this direction. Research and studies carried out by the Organization for Economic Cooperation and Development (OECD) () on the importance of local corporate governance for productivity growth in the developing world, and the quality of local corporate governance is very important for the success of long-term development efforts in various parts of the developing world today.

The recent financial crises triggered by corruption and mismanagement have made it difficult to attract sufficient levels of capital in particular, and are characterized by a great deal of challenges. Investment institutions and their founders clearly say that they are not willing to bear the consequences of corruption and mismanagement, and before committing any amount of funding, investors are asking for evidence and proof that companies are being managed in accordance with sound business practices that reduce the possibilities of corruption and mismanagement to the least possible extent. It is important in the public sector companies and the private sector. In the public sector, instilling the rules of corporate governance is critical to eliminating administrative corruption. Thus, sound corporate governance helps ensure that the public receives a fair return on national funds. Corporate governance is important because of its organization of certain ways to help companies and economies Nationality attracts investment and thus supports long-term economic performance competitive ability

To clarify the concept of governance and its importance in administrative reform, whether in a partial or broad sense, this concept ranges between organizing the administrative apparatus in countries on sound scientific bases that ensure the achievement of the desired goals, that is, it means organizing this apparatus in terms of working methods and methods as well as regulating the affairs of its employees. As for the broad meaning, it goes to the entrance that looks at the government or society for a system that consists of different structures that perform various functions and that these structures are interconnected and coordinated among themselves. Thus, any defect in one of them leads to the disruption of the other structures, which means that the comprehensive concept revolves around the introduction of new organizational patterns so that the new types of activity are compatible with the introduction of systems, rules and procedures to work within these new patterns, in addition to achieving supervisory, administrative and advisory relations between these organizations and The new and old organizations on the other hand, as well as providing active and aware leaders who believe in these policies, as well as focusing on the importance of human resources as the decisive element in their implementation and bringing about the required change and intense focus on that the outputs of the organizations of the administrative body are of quality and quality in order to achieve economic prosperity with an effective contribution to prosperity and social, since we can conclude from the previous meaning that the main goal of the administrative reform process is the success of the economic unit in achieving its goals with high efficiency.

The importance of governance is reflected in the following: (Al-Tamimi, 2008)

1. Fighting financial and administrative corruption in companies and not allowing its existence or its return again.

2. Achieving integrity, impartiality and integrity for all employees of the company, starting from the board of directors and executive directors to the lowest level of its employees.

3. Avoiding intentional errors or deviation, whether intentional or unintentional, and preventing its continuation or working to reduce it to the minimum possible by using advanced control systems.

4. Achieving the maximum benefit from the accounting and internal control systems, achieving the effectiveness of spending and linking spending with production.

5. Achieving sufficient disclosure and transparency in the financial statements.

6. Ensuring the highest degree of effectiveness of the external auditors and ensuring that they have a high degree of independence and are not subject to any pressure from the Board of Directors or executive managers.

4- The importance of internal auditing in the framework of corporate governance

Accordingly, the internal audit aims to assist management and rationalize its decisions by giving independent and objective confirmations, in addition to the consulting activity that aims to increase and improve the value of operations through independent review and evaluation of the effectiveness of operations and control, and providing management with objective analysis and constructive suggestions.

The basis on which audit services depend is the guarantee they provide for the safety of operations through auditing and review aimed at evaluating the effectiveness of risk management and controls in addition to the integrity and quality of the administrative and internal organization.

The internal audit program is the general framework for the units and departments that must be reviewed and audited, in addition to the financial and administrative systems, the design of accounts, the principles of their maintenance, operations, financial data, the information system and the users system, in order to indicate the extent of compliance with the regulations and laws, the implementation of the tasks assigned to each unit or department, and to provide the necessary suggestions to address the changes that It appears during the audit process in order to improve and develop performance and systems in general.

The internal audit unit, which constitutes one of the elements of corporate governance, comes as a department that works to control the work within the companies, especially when the shareholder base expands and the imposition of separation between ownership and management and the necessity of adopting international standards for corporate governance of all types and fields of activities (commercial, industrial and service companies, banks and financial institutions).

These standards have been set to develop the business of these companies, and they are of a scientific and not theoretical nature, as the companies that adopt them have proven a unique ability to develop their continuous business and their success in achieving their goals that depend in one way or another on oversight and auditing, including internal audit (Talal, 2008).

1- Internal audit and its role in institutional control

The modern definition of the Institute of Internal Auditors (IIA) requires the internal audit profession around the world to resort to significant re-engineering, which includes rebuilding the audit functions fully and focusing on support processes and basic work to help companies achieve their business goals, which include re-engineering Basic principles within the internal audit function, which are as follows: (Cohen: 2004)

1- Reconstructing the basic idea of the internal audit function in the company, as it participates in building the strategy and adding value to the company by helping the management to achieve the company’s goals.

2- Re-establishing the Internal Audit Center in light of its recent role.

3- Re-designing the internal audit processes to suit the modern role.

4- Redesigning the structure of the internal audit department based on its modern role.

As a result of the foregoing, it is noted that the fundamental change of the internal audit function in the services it performs and its modern position at the highest levels, which subsequently led to the change in its objectives so that it became represented by the following:

a. Increase company value and improve its operations.

NS. Evaluate and improve the effectiveness of risk management in the company.

T. Evaluate and improve the effectiveness of control in the company.

NS. Evaluate and improve the effectiveness of institutional control in the company.

Note that the cost is no longer a constraint on the performance of the modern internal audit function. The services provided by the internal audit function are several that can be grouped into two basic groups: objective assurance services and advisory services, which are considered among the modern objectives of internal auditing (Archanbeault, 2002).

Conclusions

1- The existence of corporate governance is necessary to create a tight control system that can contribute to improving the performance of economic units through the process of risk management by defining the parties and distributing responsibilities and powers among the various parties involved in reducing these risks.

2- The presence of an efficient internal auditing body and the audit committee contribute to protecting shareholders' rights, preserving funds and providing reliable information, which requires the need for constructive cooperation between them on the one hand, and between them and the external auditor on the other hand, and this is one of the mainstays of corporate governance.

3- The control tools within the economic units differ, but they share with each other the importance of the internal audit function and their role as a supportive function for the administration, the audit committee and the external auditors. Therefore, it is necessary to re-engineer this function in accordance with modern international standards, provide it with efficient cadres and enhance its independence in order to assume its role in increasing the effectiveness of internal control.

4- Governance concepts such as fairness, equity, responsibility, accountability, independence and transparency include the rules and practices that determine how banks and companies take their decisions transparently.

5- Governance is one of the anti-corruption elements through mechanisms that limit the opportunism of senior management and the development of transparency strategies. The establishment of the institutional framework necessary to establish the roots of governance requires reforming many laws and regulations in force in banks and companies, which helps to provide a good environment to attract investments.

References

1. charkhan ,jonathan , Guide lines for the directors of banks CBE / 2003
2. Report of blue ribbon committee on improving the effectiveness of corporate Audit committees whitehead – Millstein committees .1999
3. Principles of Auditing and other Assurance services o.raywhitting Ton , kurtpany 2004 .
4. Accounting information systems .marshall B . Romny- paul John Steinbart2003 .
5. A Guid to corporate Governance.Talal Abu Gazala.
6. Internal audit an enhanced TAGI Service 2000. Talal Abu Gazala.
7. Cohen, Jeffry et.al., The Corporate Governance, Mosaic and Financial Reporting Quality, Jornal of Accounting Literature, 2004.
8. Archanbeault Debora S., The Relation Between Corporarte Governance Strength and Fraudulent Financial Reporting: Evidence from SEC Enforcement Cases, November 2002.
9. Ball, Ian, Good Corporate Governance, presented before the association of accountancy bodice in west Africa, April 2004.
10. Solomon, Jill & Solomon, Aris, 2004 Corporate Governance and Accountability
11. Iscander, M and N, Chamlou, 2002, Corporate Governance a Framework for Implementation. Published in Globalizaton and Firm Compititiveness in the Middle East and north Africa Region, edited by S Fawzy, Washington World Bank.
12. Al-Mashhadani, BushraNajm Abdullah - The proposed framework for the governance of joint stock companies - An applied study of a sample of companies listed in the Iraqi Stock Exchange - a thesis submitted to the Board of the College of Administration and Economics, University of Baghdad as part of the requirements for a Ph.D. degree in Philosophy in Accounting.
13. Al-Tamimi, Abbas Hamid Yahya - The effect of agency theory on accounting applications and governance in state-owned companies - a field study in a sample of Iraqi companies - a thesis submitted to the Board of the

College of Administration and Economics at the University of Baghdad, as part of the requirements for a PhD in Accounting 2008.
14. Khoury, NaimSaba: The accounting profession between financial stumbling and institutional control 2006.