BOOK REVIEW

THE INTERNAL AUDIT IN THE CORPORATE GOVERNANCE CONTEXT

Viorel Avram¹

¹University of Economic Studies, Bucharest, Romania

Please cite this article as:

DOI: 10.24818/EA/2023/63/643

“He loses who knows what he will do when he wins. He wins who knows what he will do when he loses” - Nicolo Machiavelli, The Prince

Thus, the author of this paper has as a provocative approach the presentation of the aspects regarding the internal audit, its organization and functioning in the structure of an organization, in the context of corporate governance. This book is addressed to all those who want to know how the application and promotion of good principles of company governance have the effect of improving and improving performance at the level of each organizational entity, regardless of legal form or field of activity. An essential component of corporate governance is internal audit, which is the driver of identifying, assessing and mitigating those risks that can significantly affect the proper functioning of an entity, as well as the achievement of the objectives within the management plan.

¹ Corresponding author, Viorel Avram – e-mail: viorel.avram@cig.ase.ro

This is an Open Access article distributed under the terms of the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited. © 2023 The Author(s).
The paper presents in a logical sequence, within the 9 chapters, aspects related to corporate governance starting from definitions, elements of normalization, ethics, internal control, its connections with internal audit, respectively risk management, to the way in which an internal audit mission is completed.

A first chapter captures introductory notions that confirm the concept of internal audit both in terms of definition and from the historical perspective and its evolution with the changes that intervene in the management and management of an entity. I note and appreciate the author's “insistence” on confirming the essential role of internal audit in achieving the objectives set by each organization. At the same time, it is highlighted that a good internal audit can identify in due time, for the managerial decision, those risks that could affect the activities or any kind of initiatives necessary to achieve the proposed objectives.

The typology of the conceptual internal audit, as well as of the services provided by the internal auditors, also related to the external financial audit highlights the major differences regarding the recipients and the credibility of an audit report.

The next step in the logical sequence of addressing the relationship between internal audit and corporate governance addresses significant elements of the normalization and standardization of internal audit. Internal audit standards are presented both at national and international level, which coordinate the activities of the public sector, banking and companies. The structured approach and the professionalism of the author confirm, once again, with great clarity all that is necessary to acquire the quality of internal auditors.

Aristotle once said, "We are what we repeatedly do, therefore excellence is not an action but a habit." From this perspective, everything that involves internal audit missions is carried out in compliance with the requirements of ethics and professional deontological behavior that ensure the credibility and objectivity of the expressions in the audit report addressed to those who decide the smooth running of an organization's activities. Thus, a third chapter of the paper addresses the issue of professional ethics, behavioral issues, as well as the fundamental principles found in the different corporate governance models in our country. A code of ethics, according to European regulations, must include the means of commercial communication depending on the specifics of the regulated professions, as well as the rules on the ways of exercising the activity of professionals, basic conditions that guarantee, in particular, independence, impartiality and professional secrecy. The fundamental principles of ethics are presented in a professional and well harmonized manner, with reference to the national Internal Audit standards in our country.

Not coincidentally, Chapter 3 addresses the issue of professional ethics of internal auditors, as a link is made to the next chapter in which are presented the different concepts of corporate governance, corporate governance models in Romania, the role of intentional auditing in corporate governance. Starting from the delimitation of decision-making functions and ownership within organizations, corporate governance is presented as a necessary and essential process to achieve the proposed objectives, identify the associated risks, eliminate and mitigate their effects on an entity's performance. The author presents the evolution and perspectives of corporate governance, in the view of different regulations and concerns in the literature, focusing her professional approach on the main pillars of business management, without neglecting the impact of the binomial decision-property approach and delimitation on other stakeholders, such as employees, customers, suppliers and communities. What I found interesting in this chapter, in addition to other information
Amfiteatru Economic recommends

Amfiteatru Economic recommends elements, is the presentation of corporate governance principles from an OECD perspective. They focus mainly on companies that trade their shares on regulated markets, without neglecting those companies that have a sizeable shareholding but whose securities are not listed on financial markets.

Significant is also the way in which the author presents the OECD perspective with influences on the Governance Code of the Bucharest Stock Exchange. The dimensions of the corporate governance concept refer both to the behavior of the interested parties and to the normative part that regulates this behavior and the relationships between employees, managers, shareholders, creditors, other partners in the business environment. This chapter is also relevant in terms of the presentation of corporate governance models in Romania that confirm the relationship with internal audit, the topic approached with much professionalism by the author.

The transition to the next chapter is logical and natural in terms of the role of internal audit, its mission in a functional interdependence with the board of directors of an organization. In chapter 5, the author presents the advantages of applying corporate governance principles, insisting on the relationship between the board of directors and the internal audit committee. Their role, responsibilities and composition are very well punctuated by reference to the different corporate governance models that will be found in a model internal regulation for the Internal Audit Committee. In principle, this model has as coordinates:

- general provisions;
- the mission and objectives of the audit committee;
- the authority of the audit committee;
- the composition of the audit committee;
- the duties and responsibilities of the internal audit committee;
- the functioning of the audit committee.

Starting from this model, we will understand very well the existence within each organization of internal control and its importance in relation to internal audit in the context of the application of corporate governance principles. Chapter 6 is developed in this respect, the author focusing her attention on the concept of internal audit from different perspectives that include studies, books, national and international regulations. I appreciate, in addition to other informational elements presented in this chapter, the analysis of the most important models of internal control recognized internationally, in terms of similarities and differences between them, essential for a better understanding of the topic addressed:

- the US COSO model, which is derived from the name of the Committee of Sponsorship of Treadway Commission Organizations;
- the Canadian COCO model, which was developed by the Canadian Institute of Chartered Accountants (CICA) in 1995.

Beyond any differences regarding these two representative models for understanding the role of internal control, a unitary conclusion emerges from the fact that both models
confirm the need for a solid internal control system that, on the one hand, supports the management team in achieving the proposed objectives, and, on the other hand, also contributes to the protection of shareholders’ interests.

Once all aspects of internal control have been clarified, the different identified connections between internal audit, internal control and risk management are addressed coherently and concisely in Chapter 7. In practice, internal controls contribute to ensuring all the conditions of compliance with the legislative framework and normalization in the field, ensuring coherence at the level of internal policies. The author presents systematically what has been written in the internal and international literature in the context of the relations between the three major components: internal audit, internal control, risk management. The latter can be a significant support for those who lead an organization, in order to achieve the proposed objectives by applying appropriate policies, procedures to control the possible risks associated with carrying out different activities. As a major conclusion of this chapter, I note the connection made by the author between internal control and internal audit, pointing out the importance of internal audit as a function at the discretion of management and management as support for the internal audit activity.

The transition to the next chapter that addresses the internal audit function falls within the logical sequence approached by the author in the realization of this work, analyzing the internal audit function both in terms of concepts, developments in recent years, and in terms of the specific features identified and assigned to this function, a basic component in the organization and operation of an entity:

- universality;
- Periodicity
- Independence.

Chapter 8 is essential for understanding the importance of internal audit within an organization as a regular function carried out on the basis of an audit plan, without neglecting the different work programs established, communicated in advance and approved in advance. The corporate governance internal audit engagement is represented and defined in a document called the internal audit charter, which needs to be reviewed periodically by the manager, then submitted to the internal audit committee for approval and subsequently approved by the board of directors.

I recommend studying this chapter carefully, especially, because the Internal Audit Charter is considered as the “constitutive act” of the internal audit function. Reference shall be made to the audit plan whose characteristics insist on:

- its role within an organization;
- its flexibility to be modified, modified, updated, revised, taking into account all the circumstances that may occur;
- its analytical content;
- how to assess internal audit activities.

After the responsibilities of the internal audit department manager are presented, the final chapter addresses the conceptual and procedural internal audit mission. Successful
performance of an audit engagement involves appropriate training of the team members, an optimal allocation of the necessary resources, as well as the completion of at least the stages established by the professional standards related to internal audit. These steps concern:

- planning the internal audit mission Standard 2200;
- accomplishment of the mission Standard 2300;
- communication of results Standard 2400;
- monitoring of progress Standard 2500.

This last chapter also presents the need for internal control assessment (testing), calculating the control score as the difference between the inherent risk value and the residual risk value, of major importance in expressing opinions in the internal audit report.

Regarding the audit report, namely its elaboration and the communication of the results, I note that the author of the paper paid special attention to the way internal auditors express their opinion according to the levels of appreciation and the degree of accomplishment of the audited activities.

A sub-chapter is assigned to the structure and organization of internal audit files, which depend on the professional judgement of the auditors.

Offering a professional perspective of the internal audit mission in the context of corporate governance, in an intelligent approach supported by the qualities of excellence of Mrs. Mariana Bunea, teacher and practitioner alike, I recommend this book to all those interested in understanding and deepening the aspects associated with internal audit.

About author

Mariana Bunea is a graduate of A.S.E. class of 1995, Faculty of Finance and Accounting, being head of promotion. PhD in Accounting – the title obtained in 2015 at the Academy of Economic Studies in Bucharest, Mrs. Mariana Bunea is currently University Lecturer at the Department of Accounting and Auditing within the Accounting and Management Informatics Faculty. Between 2014 and 2022, Mariana Bunea was a member of the Superior Council of the Body of Expert and Licensed Accountants of Romania and CECCAR Vice-President - member of the Permanent Bureau. At the same time, he represented the Romanian accounting profession at the level of Accountancy Europe, actively participating, as a member, in the meetings of the committees of 3 Working Groups, namely Corporate Reporting Policies, Ethics and Professional Skills, as well as Reporting Small and Medium Enterprises (SMEs). Main areas: Accounting, Internal Audit, Financial Audit, Risk Management, Banking, Corporate Governance.