Corporate governance and internal audit in Greek public firms of ATHEX

Pertsinidou Dimitra

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Student Name: Dimitra Pertsinidou
SID: 1107150031
Supervisor: Prof. Stergios Leventis

I hereby declare that the work submitted is mine and that where I have made use of another’s work, I have attributed the source(s) according to the Regulations set in the Student’s Handbook.

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Abstract

This dissertation was written as part of the MSc in International Accounting, Auditing and Financial Management at the International Hellenic University.

This present study aims to analyze the relations interconnecting corporate governance and internal audit functions in Greek public firms. It is generally accepted, that the correlation between internal auditing and corporate governance affects all kinds of economic activities. The need for internal auditing and corporate governance has already become a significant matter of public interest.

The dissertation is about Greek public companies of the Athens stock exchange, studying the degree of implementation of internal auditing structures from the companies and suggesting good practices about corporate governance. It also investigates to which extent the Greek companies espouse the modern principles of corporate governance. Moreover, the degree of correlation between financial performance and internal auditing structures is also examined.

The dissertation results demonstrate that there are deficiencies in the degree of maturity in internal auditing structures and corporate governance.

Keywords: Corporate Governance, Internal auditing, Audit Committee, Board of Directors

Pertsinidou Dimitra
14/11/2017
Preface

As I have already mentioned, this dissertation was written as part of the MSc in International Accounting, Auditing and Financial Management at the International Hellenic University. I also, hold a bachelor’s degree in Accounting and Finance. All the knowledge I gained during the six years that I am not only studying, but also working in the accounting department, motivated me to write my dissertation.

There are many people who had significant role in the completion of my studies, each one with a unique way and for this reason I am grateful. For the guidance, the support and the acknowledge to this effort, I would like to thank my head supervisor Professor Stergios Leventis and Mr.Antonios Chantziaras, Ph.D. student in Accounting in International Hellenic University, for his contribution to the data analysis.

Last but not least, I would like to thank my family for encouraging me in every decision of my life and never stop believing in my potential.
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4. DEVELOPMENT OF RESEARCH HYPOTHESIS
INTRODUCTION

The collapse of giant companies has sparked investor relations, as investors seem to be - more than ever before - wary of showing lower confidence in companies, entrepreneurship and financial markets than before the financial crisis emerged. Inspired by the successive collapse of large and small companies in the last few decades, with the simultaneous disclosure of scandals that led to this end, investors highlighted the importance of corporate governance.

This paper is aimed to critically analyze and discuss to what extent the internal audit characteristic of a listed firm or a listed business enterprise may additionally play a role in combating effective corporate governance. Corporate governance is described by way of Cadbury Committee (1992) as “the system by which companies are directed and controlled”, consisting internal and external mechanisms.

The need to strengthen the application of corporate governance rules to companies is now imperative in order to enhance transparency in their operation, to re-create a sense of security and trust in the investing public and thus to lay the foundations for the sustainable development of companies . In all countries, laws have been in place for several decades defining the basic principles of corporate governance.

Through agency theory and the principal-agent problem, the significance of corporate governance for an organization is even more emphasized. Corporate governance refers to the context that defines the relationship between the three pillars of the modern enterprise, namely the shareholders of the management and the BoD. The regulation of the obligations and rights of these three sides is now the subject of systematic consideration in all developed economies (Baysinger and Hoskisson, 1990). Additionally, it refers to a set of principles on the basis of which the responsible organization, operation, management and control of an enterprise with the long-term aim of maximizing value and preserving the legitimate interests of those associated with it (Logan et al. 2005). The necessity to emphasize on improving corporate governance has been expanded in many evolved and developing economies over the past decades, especially in the mild of economic crumble and financial crises (Brown and Caylor, 2006). A very important part of corporate governance is that it will ensure that the financiers of the various companies get their return on the investments they have made (Shleifer and Vishny, 1997).

Generally speaking, corporate governance can specify the conformation of rights and responsibilities between the distinctive individuals in a company including the Board of Directors, senior executives, shareholders and other involved internal and external individuals of the organization (stakeholders) (Xanthakis et al., 2003).
1.2 Research Questions

In this study we want to contribute how the internal audit enables the listed companies of ATHEX to achieve their strategic goals. In summary,

• How can internal audit help the company to achieve its goals?
• Could internal control be used as a tool to make an organization more effective?
• Is internal audit a mechanism for an organization to achieve its goals?

These questions are going to constitute a research hypothesis for our work. The main hypothesis although is still the following: “Internal Audit plays a role in achieving corporate goals”.

1.2.1 Research methodology

The main purpose of this thesis is to investigate how auditing contributes to the fulfillment of corporate ambitions. To make this conceivable we must comprehend the impact of the audit. This research intents to further analyze the position of the internal audit functions regarding corporate governance of the indexed companies of Athens stock exchange. The paper focuses on comparing the association between each element of corporate governance and internal audit. This will be achieved through the evaluation of a literature review in order to expand hypotheses that underscore the degree to which the quality of the internal audit function influences the quality of corporate governance.

By using a qualitative approach of open ended questions we will collect our data. The empirical approach is primarily based on observation, documentation and interviews. The qualitative procedure with theoretical investigation will guide us, answering our questions and reaching our purpose. The questionnaire survey is one of the most common techniques utilized for data collection and generating knowledge by responding precisely to the objectives and questions that are examined.

1.2.2 Data collection

At first, we study a full cross-section of all listed Greek firms, both large and small. Furthermore, we use a broad corporate governance index that is based on responses to objective questions. To rate the compliance with the overlapping provisions, the total sample of the listed in Athens Stock Exchange companies was used; however, those with no sufficient data were excluded. The final sample of 209 listed companies was categorized, based on their capitalization, to the FTSE Large Cap, the FTSE Mid Cap, the FTSE Small Cap and the Rest category, while the evaluation data were provided through a prior study.
LITERATURE REVIEW

2.1 Literature development

With the outbreak of monetary collapse and the economic crisis, the necessity for improving corporate governance become more and more intense and has been increased in many developing economies (Brown & Caylor, 2006). The establishment of corporate governance took advantage for defended a minority of shareholders from the expropriation by managers or controlling shareholders. The elements of corporate governance include the audit committee, external auditor, internal audit, and the Board of Directors. Although, the existence of agency problems is due to asymmetric information behavior of the agent that cannot be detected, agency problems exist between principal and agent because of the differences of goal to achieve (Jensen and Meckling, 1976). For this reason, audit committee and audit quality can minimize agency cost. For the audit committee to be fully independent and an effective committee, the majority of the members must be independent directors or non-executive directors (SEC Code, 2011). Studies reported that a large audit committee inclines to improve the audit committee’s status and power within an organization (Kalbers& Fogarty, 1993).

2.2 Significance of the Study

For several years now, a large body of research experts has been emphasizing the need to strengthen Corporate Governance (Gamal, 2015). On the contrary, only limited research on the relationship between internal audit and corporate governance has been conducted. In view of the limited internal audit research in Greece, this study attempts to provide insights into the crucial factors that lead to effective corporate governance. The paper adds to the existing literature on corporate governance by documenting the association between corporate governance and internal auditors’ role.

Internal audit is an independent management tool of a business that offers its services by examining and evaluating the latter's activities. Its objective is to contribute to the efficient performance of the duties of members of the respective business, offering them analysis, assessments, proposals, consultancy services and information related to the controlled objects (Filos, 2004).

Internal audit is encouraged to set up an Audit Committee consisting of non-executive members of the Board whose powers and duties are clearly described against their appointment by the General Meeting of Shareholders. Finally, for the more efficient management of the company the establishment of an audit committee is recommended among other things,
The concept of internal control marks a new entrepreneurial concept that creates a strategic advantage in the modern and competitive environment (Papastathis, 2003). In conclusion, the necessity of internal control gives simplicity by a classic example, the French Pierre A. Dussaulx, in 1970, who states among other things: "... every living organism, every machine, is gifted either by their nature or by their manufacturer, with regulatory arrangements, designed to discipline their movements and to maintain coherence in its structures".

2.3 The consulting role of Internal Audit

Internal control plays an important role in implementing the principles of corporate governance. These principles are safeguarded by internal control as they form an integral part of the internal control system. Transparency, consistency and accountability are elements that govern the objectives of internal control, which evaluates and records internal procedures in practice, identifies weaknesses and deviations of the system and provides advice and proposes adjustments (Papastathis, 2003).

Internal control assures management that everything works the way it is intended and extends beyond accounting and financial functions covering the full breadth of the company as it covers all the organization's activities. Additionally, the provision of a high level of service to management through scientific analyzes to evaluate its system and reduce operational risks (Karagiorgos et al., 2008).

The purpose of internal control is to provide, as much as possible, specialized and high-level services to management. Through the internal control system's assessment, internal control assists all the members of the company in the effort of internal control to provide specialized and high-level (Papastathis, 2003).

Finally, internal control aims not only in compliance with rules and regulations, but also in the creation of principles, standards and values for the individuals of the company, resulting in security for both the owners of the economic unit and the wider business environment (Dittenhofer, 2001).
THEORETICAL BACKGROUND

3.1 Definition of corporate governance

Corporate governance, which is reflected over its origins, is the modern company having certainly received increased attention and control over the past two decades (Kim and Nofsinger, 2007). With the passing of time, we can clearly notice the importance of corporate governance which has not only been mentioned in academic literature, but in public policy debates as well. Corporate governance issues in general have received greater attention as a result of growing recognition; corporate governance affects both its financial performance and its ability to access long-term and low capital investment (Mordelet, 2009). Moreover, it is widely known in all countries and businesses. A higher quality of corporate governance allows businesses to gain access to capital markets easily, which is an important asset for business, since it enables them to boost their capital. Corporate governance is defined as the entire body of operations and controls of the organization (Fama and Jensen, 1983) or a comprehensive structured authority system (Dey committee, 1994), according to which an enterprise operates, is organized, managed and controlled Corporate governance in the academic field was virtually absent before the 1970s, but has since come to the forefront and undoubtedly become one of the main theories (Daily et al., 2003).

In general, corporate governance refers to procedures by which organizations are instructed, controlled and managed. It includes the authority, responsibility, management, leadership, direction and control exercised in the organization.

Definitions of corporate governance vary greatly. They tend to be divided into two categories:
The first set of definitions deals with a number of patterns of behavior: that is the actual behavior of firms in terms of measures, such as performance, returns, growth, financial structure and treatment of shareholders and other stakeholders.
The second group deals with the regulatory framework: that is the rules deriving from the operations that operate with rules derived from sources such as the legal system, the judicial system, the financial markets, and the factor (labor) markets.

For studies of individual countries or businesses in one country, the first type of definition is the most reasonable option. It takes under consideration issues such as the management boards, the role of executive compensation for determining fixed performance, the relationship between labor market policies and stable performance, and the role of multiple shareholders. In the case of comparative studies the second type of definition is chosen, since it is considered as the most reasonable of the two. The definition also investigates the differences in the regulatory framework and how they affect the behavior models of businesses and other investors (ECIIA, 2012). This definition is close to one of the advanced definitions by economists Shleifer and
Vishny. In the United Kingdom, the scandals of several companies led to the establishment of the Cadbury Commission, which in 1992 formulated a voluntary code of corporate governance.

A wider definition would be to describe corporate governance as a set of mechanisms through which businesses operate when ownership is separated from management. This definition is similar to the definition used by Sir Adrian Cadbury, Head of the Committee on Financial Aspects of UK Corporate Governance: "Corporate Governance is the system by which companies are directed and controlled" (Cadbury, 1992).

Corporate governance is at the top of the business defining the relationships, the BoD, the senior executives, and the shareholders. The three above members are mechanisms that have power, can influence, regulate and control the decisions taken in the business, if they are at the top of it (Roe, 2004). The above definition of corporate governance shows motivation, monitoring and control (Staciokas and Rupsys, 2005). From the above, it is clear that corporate governance is the government’s effort to ensure that the company seeks to protect the interests of its owners (Chang et al., 2006).

Corporate governance is also defined as a system of principles on the basis of which an SA operates and is managed in order to preserve and satisfy the legitimate interests of all those related to the company in the context of the corporate interest (BSE, 2001). "Corporate Governance is the set of legal, institutional and customary arrangements, which must characterize activity primarily on listed companies but not just on those. Answering also, the questions of whom and how controlling the activities of the companies, as well as to whom the benefits are distributed, as well as the risks that arise from the corporate activity "(Traylos, 2004).

3.2 Purpose of corporate governance

The objective of corporate governance is therefore the efficiency and transparency of business operations and the protection of investors, small shareholders and creditors. However, it is an issue that has recently become ever larger in Greece and abroad, both in the private and public sector. The purpose of corporate governance is to strengthen the supervisory role of the board, to ensure adequate independence of the Board of Directors, decision-making, the adoption of transparency and valid information, as well as the protection of small shareholders. In the context of sound, corporate governance’s equal treatment of shareholders and their systematic updating foster their confidence in business and the capital market.

Of course, the information published should be true and complete and, where necessary, audited by (independent) external and internal auditors. Moreover, this information should be prepared on the basis of internationally recognized principles and practices (such as financial statements). Corporate Governance aims to satisfy three basic principles, in terms of business activities and the Board of Directors: transparency, consistency and accountability. The role that corporate governance should play is balancing economic and social goals, as well as personal, individual and
wider business goals and interests. Therefore, there is a need for close cooperation between the company, shareholders and stakeholders (creditors, financial analysts, supervisors, etc.). It needs mutual trust and transparency (Doukas, 2002).

In order to understand the corporate governance mission, it must be taken into account that it is a concept with "Anglo-Saxon payments". The Anglo-Saxon model is characterized by a large and well-developed stock market, in which listed companies have a particularly scattered shareholding. Therefore, corporate governance demand(s) that the dysfunctions that arose in the governance of these companies are resolved and attributed to the "passive shareholder" phenomenon, on the one hand, to the "passive or decorative" of the BoD, to the other (Athanasiou, 2003).

Given the absence of relevant legislation, there has been a need for corporate governance principles. In particular, the Cadbury report, which contained non-binding guidelines on corporate governance and was based on comply or explain system, was published in 1992. In line with the US model of company organization approach, corporate governance principles should help create, maintain and maximize the value of shareholders' equity.

Furthermore, a distinction can be made between internal corporate governance and external corporate governance. This is the disciplinary power of the market.

### 3.3 Functioning of corporate governance

Corporate governance elements include the audit committee, the external auditor, internal control systems, and the Board of Directors. In addition, shareholders, professional organizations and stakeholders can also be included (Staciokas and Rupsys, 2005).

Corporate governance is of interest to every SA or not. It is especially recommended to the listed companies on the Athens Stock Exchange. Corporate governance seeks complete transparency in the company's overall management so that all vital information is provided to all stakeholders in order to enable them to play an active role in the company's activity based on legislation, to protect and promote their interests fairly within the long-term and balanced development of the company. The principles and procedures of corporate governance are disseminated throughout the structure and operation of the company and concern the management bodies of the company (the Board of Directors and the general meeting) and the manner in which they are operated as well as the general relations of communication between various stakeholders.

Management regulates the available funds, decides and executes, while the shareholders / investors of an enterprise provide the necessary funds. However, the following question arises: How can shareholders be assured that the administration seeks to maximize the market value of the business rather than its own personal
goals? This question is based on the existing bibliography as well as incidents from everyday life, which have actually been recorded in cases where the management's objectives did not fully harmonize with those of the owners / shareholders. In these cases, there is a conflict of interest between the management and the shareholders, as the management holds a smaller percentage of 100% of the company's capital.

However, the following question emerges: how can shareholders be assured that the administration seeks to maximize the market value of the business rather than its own personal goals? There is a conflict of interest between the management and the shareholders if the management owns less of the company's capital. The likelihood of a conflict interest is further increasing in large stock listed companies where there is large stock dispersal. The dispersion of shares results in the existence of many shareholders who cannot agree with each other in order to perform effective control over the management. The only case in which management acts 100% in the interest of shareholders is when it is a family business. Based on the aforementioned, corporate governance is defined as the relationships and the division between shareholders, management and stakeholders of an enterprise.

3.4 Fraud: Poor corporate governance and lack of internal control

There has been a renewed interest in corporate governance practices since 2001, mainly due to the high profile collapse of a number of large companies, most of which involved accounting frauds. A common trend that ran through these monumental failures was poor corporate governance. Cases such as the famous Enron, Baring Bank, Parmalat, HIH, One, and the economic crisis in the countries of Southeast Asia as well as a number of other incidents testify that the importance of using governance in the private and public sector is considered to be necessary. The existence of bad corporate governance confirms maladministration, fraud, misuse of confidential information by management and members of the Board of Directors as well as the poor regulation of the company (Babalola, 2010).

The effectiveness of internal corporate governance in controlling management incentives depends on non-trivial rules of external governance, such as legal provisions that limit the export of the private benefits of control, and those that enhance the reliability of the information reported by managers. According to the forecasts, revaluation gains, the incidence of accounting fraud and the gains of manipulation are less frequent in firms of audit committees, including an independent manager with financial knowledge (Klein, 2002). On the contrary, the manager's incentive to declare falsely that it comes from a building empire and equity benefits is based and mitigated by managerial fraud.

This is because, based on equity and fees, they are adjusted to the final value of the stocks and not to the short-term share price where managers can handle and focus on how the investor tracking activity varies according to the duration of the business cycle (Goldman and Slezak, 2006).
3.5 The evolution of corporate governance legislation in Greece

In Greece Law 2190/1920 introduces for the first time the basic corporate governance rules. However, until the early 1990s, both in Greece and internationally, there were no regulations that would effectively bind companies to how to exercise this administration and control and at the same time be linked to their viability over time.

In 1999, the Capital Market Commission, aiming at the development of best corporate governance practices in the Greek market, in addition to the requirements of the legislation, adopted the "Principles of Corporate Governance in Greece - Guidelines for its Competitive Transformation", modeled on the OECD Principles. A similar initiative was undertaken by SEV a few years later, in 2001, when it drew up general principles of corporate governance. In response to market requirements, the State has developed a corporate governance framework through the adoption of mandatory rules such as Law 3016/2002, Law 3693/2008, Law 3884/2010, and Law 3873/2010, which incorporated into the Greek legal Directive 2006/46 / EC of the European Union.

Law 3873/2010 was the "foundation stone" of the CODE developed by SEV, which applies the "compliance or explanation" approach and establishes standards of best governance practices for Greek companies. The CODE of SEV was developed to meet the need for a widely accepted and applied code that Greek companies could adopt or use as a model.

In 2012, HELEX and SEV, as a demonstration of their commitment to promoting good corporate governance principles, set up the Greek Corporate Governance Council, which undertook to study and implement actions, to draft proposals and to organize consultations on the promotion of the principles of corporate governance, by any appropriate means (SEV, 2012).

The CODE of SEV has been able to contribute to the improvement of the corporate governance practices adopted by the BoDs of Greek companies and therefore whether they are ready to adopt best corporate governance practices and/or to follow the directions that are expected to emerge both by the efforts of the European Commission, the ATE and the Capital Market Commission (OECD, 2004).

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1 The Greek Code of Corporate Governance was written by SEV. Hellenic Code of Corporate Governance is called the "Code").

The Code aims at the continuous improvement of the Greek corporate institutional framework and a broader business environment, as well as enhancing investor confidence for both listed companies as well as for each of them, and broadens the horizons of attracting investment chapters.
3.6 The Board of Directors

The Role of the Board in a business is of high significance, as it oversees and controls the executives, but also adjusts the long-term strategy of the company. The increasing efficiency of the Board of Directors results from the adoption and implementation of a set of mechanisms and practices within the company. These mechanisms and practices concern the size of the Board, the frequency of its meetings, its evaluation procedures, the operation of special committees, the participation of non-executive and independent members in the BoD, the determination of their remuneration and the separate sessions, as well as the separation of the chairman from the position of CEO.

The size of the Board should be such that there will not emerge problems of coordination between neither the members, nor any signs of lack of proposals and ideas. The size of the Board should be analyzed in detail by the companies so that they meet their needs and aspirations over time.

Another important issue is the frequency of meetings of the Board of Directors. The number of meetings varies from company to company. It is a good corporate governance practice that the Board of Directors consists of a majority of non-executive directors and has a significant number of independent members.

This practice is considered fundamental for the effective operation of the Board of Directors. Independent members are considered more capable of following the decisions of the Board (Bebchuck and Spamann, 2010).

The participation of non-executive and independent members in the Board of Directors is recommended by virtually all corporate governance codes. The OECD Code states that Board of Directors should consider the possibility of selecting a sufficient number of non-executive members capable of performing their duties independently when conflicts of interest arise (OECD, 2004).

Furthermore, according to the Law on Corporate Governance (L.3016 / 2002) non-executive members of the Board of Directors of listed companies should not be less than 1/3 of the total number of the members. Among the non-executive members the law provides for at least two independent members. The presence of independent members is not obligatory when the Board of Directors is explicitly appointed and a minority of shareholders participates as members.
3.7 Audit Committee

The Audit Committee is set up to support the Board of Directors. Its duties are on financial reporting, internal control and supervision of regular audit. The audit committee should be composed exclusively of non-executive members, most of them independently. The Audit Committee is at least three members and at least one (1) independent member has proven adequate knowledge of accounting and auditing. The committee should be promoted by an independent non-executive member.

The corporate governance statement should describe the work of the committee in the performance of its tasks and the number of its meetings during the year. Moreover, the Audit Committee may use the services of external consultants and should therefore be allocated sufficient funds for this purpose (Cadbury, 1992).

3.8 Separation of Chairman from the position of Managing Director

Another important issue related to the Board is the separation of the Chairman’s position from that of the CEO. The role of the president is to control the operation of the Board of Directors and to monitor the executive directors. When the Managing Director also holds the position of Chairman, he or she has the power to control all the information available to the members of the Board, thereby reducing the possibility of effective supervision. Therefore, the effective separation of the executive decisions from the control decisions requires the Chairman of the Board to be a different person from the Managing Director (Kirkbride and Letza, 2002).

DEVELOPMENT OF RESEARCH HYPOTHESIS

4.1 Sample and Questionnaire

Several studies have shown that the role of internal control in governance should be given priority over other activities (Audrey et al., 2004). Internal control plays an important role in improving corporate governance in organizations and businesses. A company focuses particularly on the function of internal control and on the cornerstones of corporate governance so as to achieve quality in governance in general. It assesses the commitment to the ethics of the organization and its objectives, programs and activities (Okafor and Ibadin, 2009). The internal audit function is to control and maintain the quality of corporate governance (Prawitt, et al., 2009).

The target population for this study was internal auditors from Greek listed companies who are responsible for internal audits. The collection of primary data was
accomplished through the use of a questionnaire. Structured questionnaire was used because of its ability to collect high quality data within shortest possible time (Gbadago, 2015). Descriptive and inferential analyses are used in this study in order to determine the critical factors for the effectiveness of corporate governance in Greek organizations, while multiple regressions were used to test the hypotheses.

4.2 Correlation of corporate governance and internal control

It is now generally accepted that the correlation between internal control and corporate governance affects all types of economic activity and that the effects and consequences of this interaction have changed significantly in recent years. Internal control and corporate governance have become an issue of major public interest. The contribution of internal control to corporate governance is illustrated by delineating the relationship between internal control and the core elements of corporate governance. In the current business environment, internal auditors provide much wider management information on the organization of economic functions and compliance activities to improve the efficiency and performance of management and activities (Rezaee, 1996).

Internal control continually develops new approaches, devises new products and control services, and contributes to the realization of increasingly complex requirements. In this regard, internal control may be expected to increasingly be oriented towards management consulting through effective corporate governance. Corporate Governance is the system by which companies are directed and controlled (Karagiorgos et al., 2010).

In many surveys, the relationship between corporate governance and internal control has been captured. And it has been argued that if there is successful internal control then it also has a positive impact on the business performance of the enterprise (Holm and Laursen, 2007). Corporate governance is the process by which organizations manage and control (Gao et al., 2008). Furthermore, the non-executive directors should be independent, by underlining the important role that non-executive directors play in contributing to strengthen corporate governance. It has been widely recognized that the role of the internal auditor is becoming more important in terms of creating good corporate governance (Allegrini et al., 2006). It is documented that internal auditors can also help organizations respond to corporate governance expectations (Crawford and Stein, 2002).

H1: The Internal Audit is positively associated with effective Corporate Governance

H2: The Internal Auditor is positively associated with effective Corporate Governance

H3: The Audit Committee is positively associated with effective Corporate Governance
According to the Institute Internal Auditors (2002), the long-term strategic goals and plans are interwoven with the effectiveness of corporate governance. Additionally, the structure of operation ensures “integrity, reputation and accountability”. Corporate governance and internal control are deeply connected, while audit committees could guarantee the necessary confidence in corporate governance for the directors and independence for internal auditors.

4.3 Corporate Governance Risks

Over the last few years, the need for risk management has been recognized as an essential part of good corporate governance. This fact has put organizations under increasing pressure to identify every business risk they encounter.

Potential danger for a business is portrayed in the chances of failing to achieve all kinds of goals - opportunities placed by management or the likelihood of threats being reached. In fact, activities involved in risk management have been recognized as playing a central and essential role in maintaining a sound internal control system. Governance, Risk Management and Compliance (GRC) is the general term covering an organization's approach to these three areas: Governance, Risk Management and Compliance (Silveira et al., 2011). It also reflects a new way in which organizations have embraced an integrated approach to these aspects of their business. Business organizations in their activities face a series of risks on a daily basis. These risks may be strategic, financial, operational, accidents, etc. Information on raising and analyzing risks is drawn from reports, internal and external auditors, consultant reports and business plans. Business risks, for better valuation and management analysis, can be intensified in various categories, such as: high, medium, low.

4.4 Internal control necessity

The information provided from the reporting, allows management to control and direct the business. It also keeps the administration informed whether the policy, determined by the company is implemented, if government regulation is taken into account, if the financial position is sound, if the functions are efficient and the relationships between the different parts are harmonious.

The internal audit confirms that the financial statements prepared and the accounting records are accurate, reliable and present the real image of the company. The Internal Audit Institution defines internal control as a system that "helps an organization to achieve its objectives by providing a systematic and disciplined approach to assessing and improving the effectiveness of risk management, control and corporate governance processes "(ECIIA, 2012)
Moreover, it is a system of functions and procedures with proper organization and correct operating rules applied by the management of an economic unit in order to safeguard the interests of the organization (Chi and Chen, 1997).

The internal control system is the company’s plan and all the methods and procedures followed by the management in order to ensure a more efficient co-operation with the management of the company, the safeguarding of capital, the prevention and detection of fraud and the errors, accuracy and completeness of accounting records, and the timely preparation of all useful financial information (Meigs et al., 1984).

Furthermore, "an enterprise’s internal control system resembles the human nervous system that is branched throughout the enterprise by transferring commands and responses to and from the management" (Cook and Wincle, 1976). The aforementioned phrase is directly related to the organizational structure and general business rules of the company (Cai, 1997).
RESEARCH METHODOLOGY

Every research has as its ultimate purpose the investigation of some situations and it needs to be placed in a specific methodological framework, which will set the frameworks and limits of its development and will ensure the validity of its results.

The fifth chapter presents the methodological approach from the study and the way the research is carried out. The survey was conducted to determine whether there was a lack of maturity of internal control and corporate governance structures and to depict that listed companies have on average affected internal control systems.

It was decided it would be appropriate to create a questionnaire to be able to group the responses from the data we extracted from the company's annual financial statements for the export of results through a statistical program.

For the empirical tests, we have used data obtain from yearly financial information reports of 209 listed companies of ATHEX from 2012 to 2016, available on Amadeus database and Thomson Reuters, along with each company’s official website where much information can be found regarding corporate governance legislation, board of directors, audit committee and internal control.

5.1 Model

Taking into consideration the above literature review, four variables are selected to be examined in the present research. The first is “Corporate Governance” which is the dependent variable, and three independent variables which are “Internal Audit”, “Internal Auditor” and “Audit Committee”.

\[ CG = a + b1 \text{ConIA} + b2 \text{IAQ} + b3 \text{AC} + e \]  
(1)

The variables are defined below:

\[ CG = \text{Corporate Governance} \]

\[ \text{ConIA} = \text{Consulting role of Internal Audit} \]

\[ IAQ = \text{Internal Audit Quality} \]

\[ AC = \text{Audit Committee} \]

\[ a = \text{constant} \]

\[ e = \text{error term} \]

\[ CG = BODIND+ BODMET+ BODMEM- CEODUAL \]  
(2)
## 5.2 General Information

### Definitions of Variables

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<th>Variables</th>
<th>Definitions</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACMEET</td>
<td>how many times the audit committee meet</td>
</tr>
<tr>
<td>EXPACC</td>
<td>what is the expertise of internal auditors (accounting, reporting and auditing)</td>
</tr>
<tr>
<td>EXPFIN</td>
<td>what is the expertise of internal auditors (financial)</td>
</tr>
<tr>
<td>EXPEC</td>
<td>what is the expertise of internal auditors (economics and accounting)</td>
</tr>
<tr>
<td>EXPLAW</td>
<td>what is the expertise of internal auditors (law and economics)</td>
</tr>
<tr>
<td>EXPPOL</td>
<td>what is the expertise of internal auditors (political sciences)</td>
</tr>
<tr>
<td>ACMEMB</td>
<td>how many are the members of the audit committee</td>
</tr>
<tr>
<td>PREMANAG</td>
<td>the President of the company and the Managing Director are the same person</td>
</tr>
<tr>
<td>BODMET</td>
<td>board of directors meetings</td>
</tr>
<tr>
<td>BODMEM</td>
<td>board of directors members</td>
</tr>
<tr>
<td>BODIND</td>
<td>board of directors independence</td>
</tr>
<tr>
<td>CEO DUAL</td>
<td>CEO duality. The CEO and Chairman of each company should be a different person</td>
</tr>
<tr>
<td>INDMEMB</td>
<td>are there any independent members in the audit committee</td>
</tr>
<tr>
<td>ASSIZE</td>
<td>asset size dummy</td>
</tr>
<tr>
<td>ROA</td>
<td>the net income before extraordinary items divided by the total assets</td>
</tr>
<tr>
<td>TALN</td>
<td>total assets (Ln)</td>
</tr>
<tr>
<td>GOV</td>
<td>corporate governance</td>
</tr>
</tbody>
</table>
5.3 Corporate Governance Index: Elements and Summary Statistics

Description, including source and applicable legal requirement, if any, and summary statistics included within our overall Corporate Governance Index.

A. Board of Directors

<table>
<thead>
<tr>
<th>Variable</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1. Board of directors meetings</td>
<td>144</td>
</tr>
<tr>
<td>A2. Board of directors’ members</td>
<td>144</td>
</tr>
<tr>
<td>A3. Board of directors’ independence</td>
<td>144</td>
</tr>
<tr>
<td>A4. Firm holds four or more regular board meetings per year</td>
<td>144</td>
</tr>
<tr>
<td>A5. Corporate governance legislation for every listed company</td>
<td>124</td>
</tr>
</tbody>
</table>

B. Audit Committee and Internal Auditor

<table>
<thead>
<tr>
<th>Variable</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>B1. Audit committee meetings</td>
<td>145</td>
</tr>
<tr>
<td>B2. Audit committee includes someone with expertise in accounting</td>
<td>70</td>
</tr>
<tr>
<td>B3. Audit committee members attended at least 75% of meetings, on average</td>
<td>145</td>
</tr>
<tr>
<td>B4. Audit committee meets two or more times per year</td>
<td>93</td>
</tr>
<tr>
<td>B5. Audit committee consisting of at 2/3 outside directors</td>
<td>114</td>
</tr>
<tr>
<td>B6. Independence in the audit committee members</td>
<td>108</td>
</tr>
</tbody>
</table>

Measures of Board Governance

Identify several observable structural indicators of board strength such as boards’ size, the number of independent directors, the expertise of directors and the board’s diversity. A board’s governance strength is assessed either by individual structural variables used separately or aggregates of the structural variables to distinguish between strong and weak corporate governance (Larker et. al 2007).

Our first index aggregates the following indicators for board effectiveness: board independence, board members and board diligence (measured as the number of meetings held).
Internal control and Audit Program Effectiveness

Internal control is defined as a process, affected by the actions of board of directors and other organizational structure levels in the firm, designed to provide reasonable assurance toward achieving firm’s objectives, plans and strategies under related rules, polices and regulations (Domnisoru & Vinatoru, 2008; Li & Wei, 2008).

RESULTS OF THE INVESTIGATION

In this section, we describe a number of checks on the robustness of our results and the reliability of our asset size dummy as an instrument of corporate governance. In order to provide robust coefficients and standard errors, our cross-section data models have been estimated with the OLS regression, so even in the case of heteroscedasticity or contemporaneous correlations in the errors term of the models, our results will be robust. Also, all continuous variables are winsorized in the 1st and 99th percentile to mitigate any effects from outliers.

Descriptive statistics

<table>
<thead>
<tr>
<th>variable</th>
<th>min</th>
<th>p25</th>
<th>p50</th>
<th>mean</th>
<th>p75</th>
<th>max</th>
<th>sd</th>
</tr>
</thead>
<tbody>
<tr>
<td>GOV</td>
<td>.3517895</td>
<td>.7316685</td>
<td>.9242714</td>
<td>1.07858</td>
<td>1.21194</td>
<td>23.37714</td>
<td>1.253769</td>
</tr>
<tr>
<td>ROA</td>
<td>-.8847</td>
<td>-.0554</td>
<td>-.0062</td>
<td>-.0161786</td>
<td>.029</td>
<td>1.66</td>
<td>.1235312</td>
</tr>
<tr>
<td>LnTA</td>
<td>4.839214</td>
<td>15.92771</td>
<td>17.56762</td>
<td>16.93869</td>
<td>18.93894</td>
<td>21.21595</td>
<td>2.910637</td>
</tr>
<tr>
<td>ACMEMEET</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>.4875</td>
<td>1</td>
<td>1</td>
<td>.5001912</td>
</tr>
<tr>
<td>EXPACC</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>.4958333</td>
<td>1</td>
<td>1</td>
<td>.5003302</td>
</tr>
<tr>
<td>ACMEMB</td>
<td>0</td>
<td>3</td>
<td>3</td>
<td>2.388889</td>
<td>3</td>
<td>4</td>
<td>1.225092</td>
</tr>
<tr>
<td>INDMEMB</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>.4875</td>
<td>1</td>
<td>1</td>
<td>.5001912</td>
</tr>
</tbody>
</table>

TABLE 1

Notes: the TABLE 1 includes the descriptive statistics of the sample which consists of 128 companies for the period 2012-2016. The control variables are Return on Asset, the firm size (total assets) and its natural logarithm, the audit committee meetings, the expertise of the auditors, the audit committee members and the independence of its members.
Pearson correlation matrix

<table>
<thead>
<tr>
<th></th>
<th>GOV</th>
<th>ROA</th>
<th>LnTA</th>
<th>ACMEET</th>
<th>EXPACC</th>
<th>ACMEMB</th>
<th>INDMEMB</th>
</tr>
</thead>
<tbody>
<tr>
<td>GOV</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROA</td>
<td>0.0097</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.8187</td>
<td>0.557</td>
<td>0.557</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LnTA</td>
<td>0.0287</td>
<td>-0.1372*</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.5000</td>
<td>0.0012</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>553</td>
<td>551</td>
<td>553</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACMEET</td>
<td>0.0472</td>
<td>0.1137*</td>
<td>0.0294</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.2057</td>
<td>0.0073</td>
<td>0.4896</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>720</td>
<td>557</td>
<td>553</td>
<td>720</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EXPACC</td>
<td>0.1091*</td>
<td>0.1262*</td>
<td>0.1920*</td>
<td>0.4444*</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.0034</td>
<td>0.0028</td>
<td>0.0000</td>
<td>0.0000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>720</td>
<td>557</td>
<td>553</td>
<td>720</td>
<td>720</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACMEMB</td>
<td>0.0289</td>
<td>0.1385*</td>
<td>0.0974*</td>
<td>0.3234*</td>
<td>0.2817*</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.4392</td>
<td>0.0011</td>
<td>0.0220</td>
<td>0.0000</td>
<td>0.0000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>720</td>
<td>557</td>
<td>553</td>
<td>720</td>
<td>720</td>
<td>720</td>
<td></td>
</tr>
<tr>
<td>INDMEMB</td>
<td>0.0359</td>
<td>0.1131*</td>
<td>-0.0591</td>
<td>0.1606*</td>
<td>0.1387*</td>
<td>0.1101*</td>
<td>1.00</td>
</tr>
<tr>
<td></td>
<td>0.3355</td>
<td>0.0076</td>
<td>0.1651</td>
<td>0.0000</td>
<td>0.0002</td>
<td>0.0031</td>
<td>0.0031</td>
</tr>
<tr>
<td></td>
<td>720</td>
<td>557</td>
<td>553</td>
<td>720</td>
<td>720</td>
<td>720</td>
<td>720</td>
</tr>
</tbody>
</table>

Notes: The absolute value of the Pearson correlation coefficient is less than or equal to 1. Correlations equal to 1 or -1 correspond to data points lying exactly on the line whether the value of 0 in the Pearson correlation coefficient indicates no relationship between the two variables. As the sign of the Pearson correlation coefficient is positive, you can conclude that there is a positive correlation. The level of statistical significance (i.e., the p-value), and if the test is statistically significant, a star (*) next to the Pearson's correlation coefficient: This is shown in the second row. The sample size is shown in the third row.

Pearson correlation matrix is provided for dependent and independent variables in Table 2. On the Table, it is depicted that there is a positive correlation between “Corporate Governance” and “Audit Committee Meetings”, a significant and positive correlation between “Corporate Governance” and “Expertise of Audit Committee members with accounting knowledge” and a positive correlation between “Corporate Governance” and “Audit Committee Members”.

Notes: ROA ratio for public companies can vary substantially and been highly dependent on the industry. Table 9 reports the results of the regression using corporate governance as the dependent variable for firm-year observations from the years 2012-2016. The sample consists of 551 observations.

6.1 Asset size dummies and Corporate Governance

In order to address any possible endogeneity, there has to be no influence by the dependent variable of interest (firm value, measured by Tobin’s q), but correlation with the independent variable of interest (corporate governance). To address endogeneity, we use an asset size dummy variable. Once we control for the direct effect of asset size on Tobin’s q through a control variable for ln(assets), it seems likely that the asset size dummy predicts firm value primarily indirectly, through its effect on corporate governance.

Asset size dummy 1= 1 if ln(assets) >1.000.000 (assets) ; 0 otherwise
Asset size dummy 2= 1 if ln(assets) >100.000.000 (assets) ; 0 otherwise
Asset size dummy 3= 1 if ln(assets) >1.000.000.000 (assets) ; 0 otherwise
Included (-1.49) ASSIZE2 (2.17) ASSIZE3 LnTA 549

Year effects 0.0431 ROA 0.0089 549 ASSIZE1 0.109

Variables

Dependent variable = ACMEET

0.030 0.064 Included

0.064 0.003

(1.86) (0.92)

ASSIZE1 0.087 ASSIZE2 0.356 ASSIZE3 0.003

(1.71) (2.17) (2.98)

ASSIZE2 0.008 ASSIZE3 0.000

0.087 0.008

(1.23) (2.98)

ASSIZE3 0.087

(2.98)

LnTA 0.109 LnTA 0.138 LnTA 0.001

0.109 0.138 0.001

(-1.61) (-1.49) (-3.41)

ROA 0.768 ROA 0.003 ROA 0.002

0.768 0.003

(2.97) (2.97) (3.12)

Year effects Included Year effects Included Year effects Included

R² 0.0089 R² 0.0431 R² 0.0568

0.0089 0.0431 0.0568

Observations 549 Observations 549 Observations 549

549 549 549

TABLE 4

Notes: to test the reliability we run selected regressions using the asset size dummy variables. There is a relationship between corporate governance and asset size due to general relationship between firm size and corporate governance.
6.2 Corporate Governance and Firm Performance

We use Tobin’s Q as our proxy for firm valuation and ROA (return on assets) as measure. For Tobin’s Q, the representative specification is based on Mehran (1995), which applies the log of total assets as the measure of firm size. Table 7 reports the results when we use Tobin’s Q as the dependent variable. We observe high $R^2$ because market capitalization is in the nominator of Tobin’s Q.

In most companies the Tobin's Q is between 0 and 0.95, which means that stocks are underestimated and companies in this situation would be willing to sell a part of their capital or leave the market. However, there are companies where the index is equal to 1, where the ideal situation is and shows us that the company is in equilibrium, while in companies whose index is greater than 1, 10 means that the company generates profit for its shareholders.

---

2 Generally speaking, total assets measure total firm resources; market capitalization involves firm growth opportunities and equity market condition.
We also find that for Tobin’s Q, the sign of business risk (measured by the standard deviation of percentage change in operating income) is sensitive to different firm size measures. ROA as the dependent variable (Table 9) also applies the log of total assets as the measure of firm size. $R^2$ increases for OLS regression.

Regarding the results of the present research, participants’ responses showed that all of the four variables of the model are evaluated positively. More specifically, the respondents evaluated positively the majority of the determinant factors used in order to assess the four variables. Our findings reveal that corporate governance is significantly and positively correlated to all three independent variables.

Board structure is an important topic of corporate governance; the existing literature covers three prominent board characteristics: independence, meetings and members. We also use the market value of equity as the firm size measure.

Firms with high market values choose better governance structures because they believe that there might be a further increase in firm value, or the high Tobin’s q measure will improve the governance structures.

There is evidence of endogeneity in corporate governance studies. For example, Bhagat and Black (2002) report evidence from OLS regressions of negative correlation between board independence and measures of firm performance. Although, evidence was found claiming that firms with poor performance, increase the independence of their board directors.
Furthermore, separation of position ensures that the chairman will exercise his / her responsibilities independently, serving the interests of the shareholders. In addition, segregation of position in an enterprise reduces the cost of the assignor-agent problem. More specifically, the issue of this problem consists in redefining the way of management and control of the company by redistributing the powers on the one hand between the shareholders and the management of the company and the members of the management among them in order to absorb the risks of the mandate, case provided by SA’s financiers, namely the shareholders of the listed company in the administration for the good and efficient management of their funds ("principal-agent conflicts").

Studies have shown that the role of internal control in governance should take advantage over other activities. Internal control plays an important role in improving corporate governance in organizations and businesses. In order to achieve the quality of governance, the company should focus on all parameters of corporate governance, and in particular the functioning of internal control. In the place of the internal controller there must be placed persons who are appropriately distinguished for their education, experience and morals; otherwise, as it is natural, they cannot perform the duties of the controller in the manner prescribed.

Validity of financial reporting and the increasing quality of financial information can be accomplished through the internal audit function, which is considered as the most valuable tool. As was already mentioned, in order to develop strong corporate governance structure according to the agency theory, it is important to mitigate any possible conflicts of interest between management and company’s shareholders. The asymmetry of financial information between these two parties could be handled with the contribution of an effective and independent internal audit department which is going to provide both managers and shareholders with the necessary financial information in order to improve the level of confidence.

As it is additionally stated in the Sarbanes-Oxley Act (2002), by enhancing the role of internal audit in corporate governance matters and make it an important factor in developing a strong governance structure.

Moreover, this positive association between corporate governance and audit committee is confirmed by previous research (Sarens and Abdolmohammadi, 2011, Knapp, 1987, Abbott et al., 2000, Regoliosi and d’Eri, 2012). On the other hand there are studies which have shown no straightforward association between these two variables (Cohen et al., 2002, Turley and Zaman, 2004). Regarding the relationship between internal audit quality and corporate governance, most of the previous academic research (Sarens and Abdolmohammadi, 2011, Krishnan, 2001, Suyono and Haryando, 2012, Cohen et al., 2002) is in line with the results of our study as well.

The last years big companies started including in their annual corporate reports, detailed management reports regarding the effectiveness and efficiency of internal control systems as an indicator to good corporate governance practice (Leng & Li, 2011; Saha & Arifuzzaman, 2011).
CONCLUSIONS AND RECOMMENDATIONS

The continuous collapses of large and small companies in recent decades, with the simultaneous disclosure of scandals that have led to this result have highlighted the importance of corporate governance. Corporate governance is of interest to any company limited or not. In all countries, laws have been in place for several decades defining the basic principles of corporate governance. Corporate governance is the system by which businesses are directed and controlled.

The internal control system is the company's plan and all the methods and procedures followed by the management to ensure as efficiently as possible, a more fruitful co-operation with the company's management, capital assurance, fraud prevention and detection, and error, accuracy and integration of accounting records, and the timely preparation of all useful financial information.

The first part of the survey concerns all the listed companies of the ATHEX. The sample was taken from 145 companies for years 2012-2016. We find that the auditing activities on the listed companies in the Athens Exchange need to be significantly improved. The internal audit services of listed companies should be strengthened in terms of mission, organization, human resources, methodology, audit reports and ways of publishing the results of their work so that they can add value and be able to cover the audit risks that characterize the firm or the organization.

However, by analyzing more carefully the results of the research, it is quite remarkable whether the members of the audit committees have the necessary resources to fulfill their role. If they have the necessary information from the internal audit units on the methodology and content of the international standards for the professional implementation of internal control, but moreover whether the internal control units are able to rely on their compliance with international standards for the professional implementation of internal control.

The purpose of corporate governance is to strengthen the supervisory role of the board, ensure adequate management board independence, transparency and valid information, as well as the protection of small shareholders. Several studies have shown that the role of internal control in governance should be prioritized over others, because internal control plays an important role in improving corporate governance in organizations and businesses.

Internal audit plays a crucial role in ensuring the success and sustainability of any organization, providing reliable and unbiased services to the management, the Board of Directors and the audit committee (Ljubisavljevic and Jovanovic, 2011).
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Appendix

Descriptive statistics for a sample comprising of 128 companies, translated into 551 observations

<table>
<thead>
<tr>
<th>Variable</th>
<th>Min</th>
<th>25th</th>
<th>Median</th>
<th>Mean</th>
<th>75th</th>
<th>Max</th>
<th>StDev</th>
</tr>
</thead>
<tbody>
<tr>
<td>GOV</td>
<td>0.480</td>
<td>0.736</td>
<td>0.927</td>
<td>1.114</td>
<td>1.218</td>
<td>23.377</td>
<td>1.421</td>
</tr>
<tr>
<td>ROA</td>
<td>-0.885</td>
<td>-0.055</td>
<td>-0.006</td>
<td>-0.015</td>
<td>0.030</td>
<td>1.660</td>
<td>0.124</td>
</tr>
<tr>
<td>ACMEET</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.499</td>
<td>1.000</td>
<td>1.000</td>
<td>0.500</td>
</tr>
<tr>
<td>EXPACC</td>
<td>0.000</td>
<td>0.000</td>
<td>1.000</td>
<td>0.544</td>
<td>1.000</td>
<td>1.000</td>
<td>0.498</td>
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<tr>
<td>ACMEMB</td>
<td>0.000</td>
<td>3.000</td>
<td>3.000</td>
<td>2.407</td>
<td>3.000</td>
<td>4.000</td>
<td>1.220</td>
</tr>
<tr>
<td>INDMEMB</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.479</td>
<td>1.000</td>
<td>1.000</td>
<td>0.500</td>
</tr>
</tbody>
</table>

Note: All numbers are rounded up to third decimal place.

TABLE 8
We use Pearson correlation matrix it in order to measure the strength and direction of the association that exists between our variables. The Pearson correlation generates a coefficient which is referred as Pearson correlation coefficient and is commonly represented as r. A Pearson's correlation draws a line that tries to best fit the data of the variables. In this case the Pearson correlation coefficient, r, indicates how far away all data points are from the line of best fit. The absolute value of the Pearson correlation coefficient is less than or equal to 1. Correlations equal to 1 or −1 correspond to data points lying exactly on the line. A value of 0 in the Pearson correlation coefficient indicates no relationship between the two variables.

**Dependent variable = ROA), OLS analysis**

<table>
<thead>
<tr>
<th>Variables</th>
<th>(1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GOV</td>
<td>0.730</td>
</tr>
<tr>
<td></td>
<td>(-0.35)</td>
</tr>
<tr>
<td>LnTA</td>
<td>0.241</td>
</tr>
<tr>
<td></td>
<td>(1.18)</td>
</tr>
<tr>
<td>TOBIN'S Q</td>
<td>0.004</td>
</tr>
<tr>
<td></td>
<td>(2.95)</td>
</tr>
<tr>
<td>(intercept)</td>
<td>0.683</td>
</tr>
<tr>
<td></td>
<td>(-0.41)</td>
</tr>
<tr>
<td>Year effects</td>
<td>Included</td>
</tr>
<tr>
<td>R²</td>
<td>0.3074</td>
</tr>
<tr>
<td>Observations</td>
<td>68</td>
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</table>

TABLE 9
Statements Regarding Corporate Governance

1. Indicate in what extent is the connection of top management and the board of Directors close
2. Well managed companies develop financial statements in conformity with generally accepted accounting principles
3. Corporate governance promotes compliance with legal requirements and rules

Statements Regarding Internal Audit Quality

4. Internal audit provides recommendation for improvements in areas where opportunities and deficiencies are identified
5. Internal Auditors are sufficiently educated and qualified
6. Internal Audit operation and actions comply with accounting and auditing standards
7. Internal Auditors act in a high level of independence
8. The size of internal audit department within the company is important
9. The experience of the internal audit team affects the decisions on internal control system

Statements Regarding Audit Committee

10. Audit committee contributes to the communication between auditors and the board of directors
11. The members of the audit committee acquire financial knowledge
12. The audit committee’s meetings are often