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SUMMARY OF THE PHD THESIS

Audit in corporate governance

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Keywords

Corporate governance, effective corporate governance, audit function, internal audit, external audit, audit committees, internal control, board of directors, risk management, financial reporting, non-financial reporting, corporate governance code, transparency, internal audit organization, organization of the audit committee, the preference of the entitiz to be azudited by the Big Four.

Introduction

The corporate governance as environment/framework in which it evolves the audit function, was analyzed from the conceptual point of view starting from the unanimous definition that was found in the OECD principles and continuing with the corporate governments attributes which define it.

As follows, we have thorough the theories that are at the base of the corporate governance. After words, we will present the famous financial fails that state at the base of the corporate governance evolution and also constitute a permission of the new corporate governance era.

After the conceptual delimitation and the deepening of the theories that underline the base of the corporate governance, we had analyzed the adoption of the practical codes, regulation that we have grouped due to the country origins. Moreover, we had analyzed the adoption of the corporate governance codes at the European Union level. In addition to the theoretical studies, we had analyzed the similarities level and the dissimilarities of the Romanian- German corporate governance codes.

Therefore, we believe that efficiency may be a defining attribute for corporate governance on condition that all recommendations and principles of OECD issued in this regard are strictly followed. Our purpose has been to deal at great length with the principle of transparency, as it is closely related to the topic being researched. To this effect, we studied the manner in which the principle of transparency has been incorporated into the recommendations and regulations of the BVB. In order to conclude our theoretical study we analyzed the manner in which this principle is applied by the Romanian companies listed with BVB in tier I.

In addition to this, in order to be able to compare the good practices and the way this transparency principle is respected, we realized a study of the German entities listed on DAX and presented the conformation or nonconformation way with the recommendations of the corporate government's code.

The third chapter is dedicated to analyze the audit function in the corporate governance. In this way, we had focused at the importance of the audit corporate governance, approaching the three audit functions. In order to underline the importance of the audit function we consider necessary to approach the sphere that covers the audit function. In this sense, we realized a conceptual delimitation of the three elements: financial/nonfinancial report, internal control and the risk management and also their relation with the audit function.

Furthermore, we had study the way in which the external audit relates with the internal audit and audit committees, developing one audit function idea at an entity level that will incorporate the three of them.

The central element in the present chapter targets the role of the audit approach in the corporate governance of the Romanian science. The foundations of this study is realized through the synthesis of the current knowledge act due the audit role in the corporate governance also through a quantitative research but also through a qualitative research from which we had extract the direct principles of the research: international development related to the corporate governance, the development of the Romanian corporate governance, internal audit in corporate governance, the audit committee in corporate governance, external audit corporate governance, the internal audit – audit committee – external audit in corporate governance context and in other aspects related to the corporate governance.

In the fourth chapter we clarify the relationship between the internal audit and corporate governance and the role that the internal audit occupies in order to realize good corporate governance. Due to the importance that the internal audit has in the corporate governance, a first step in the scientific process is the conceptual delimitation of the internal audit, followed by the internal audit position in the corporate governance sphere in the point of view of the International Audit Standards. Following whitening the scopes of our concern and being strictly related to the scope of our research, we had analyzed the organizational way of the audit activity in Romania and Germany.

The fifth chapter enlightens the role and importance of the audit committees of the corporate governance. In this sense we had considered necessary to analyze the literature in order to highlight the importance and necessity of the audit committees within an entity in consideration of the financial controls.

After determining the role and the importance of the audit committees in the entity framework we had considered necessary the approach towards the audit committees from the perspective of the European directives.

In order to consolidate the theoretical study, we had organized to analyze the audit committees form Germany and Romania. The data that had been analyzed in this case, had been extracted from the annual reports that were public posted in the first two categories (DAX, TecDAX) of the Stock Exchange from Frankfurt and the declaration “ Apply and Explain” for the I category from the Bucharest Stock Exchange.

In the sixth chapter, we clarify the relation between the external audit and corporate governance and the role that comes to the external audit in order to obtain efficient corporate governance, stringent condition in the actual context, for the survival, continue and the development of entity activities.

The corporate governance theme is relatively new on the national plan and the approach of the external audit in the corporate governance has an extremely practical importance. Due to the above mentioned, in the present chapter, we had established firstly the research pillars: external audit and corporate governance and then we had determined the link between these two pillars and the way

in which this link could be improved, so the external audit to contribute active in the efficiency of the corporate governance.

A first step in our scientific evolution consists in the conceptual delimitation of the external audit, with the detailing of its forms, depending in which sectors performs, through a three levels approach: international, European and national. Highly topical at an international level is the debate related to the unification of the international audit standards sets in the public and private sectors, the debate that we had analyzed and we had exposed our point of view through arguments.

At a European level since 1996 are special efforts undertaken for the achieving of one regulation set regarding the audit annual financial statements, which should be adopted in the national regulations of all the member states. Being updated with this complex step we had developed a study related to the development of the statutory audit in the European Union, for the following defining lines: the effort of the regulation organisms of the statutory audit at the European Union level; the steps realized related to the concept classification of the statutory audit and the way of taking the regulation of the VIII-th Directive of the state members.

Continuing the research also to a national bearings we analyzed the practice of the corporate governance efficiency of the companies that are listed at BVB in 2009, through a comparative study which approached on a side, a sample of 101 entities of Ist, IInd, IIIrd and RASDAQ analyzed by the Canadian Businessman Association which presents medium results for the whole sample, and on another side of the sample that is formed of I BVB category entities. The results of the study confirms the presumed hypothesis according to which I BVB category entities are more receptive when it comes to take over the recommendation regarding the transparency, one of the elements that contributes in the realization of efficient corporate governance.

The central element of our study concerns the active role that external audit needs to hold in corporate governance that is to become effective. The basis of this study is done by synthesizing the current state of knowledge on the role of external audit in effective corporate governance as a theoretical approach - conceptual in terms of motivational theories, the Agency and stakeholders to ensure and a practical approach - empirical literature based on where we extract the defining elements of audit quality: reputation, skills of the audit team, the independence of auditors and costs reduce.

One of the prevalent ideas in the literature supports the preference of the large entities to be audited by the big audit firms, and the most common argument to support this preference is the quality of their audit services (Moizer 1997, Francis 2004, and Barton 2005).

Starting from this hypothesis we wanted to study its validity on the Romanian capital market and we studied whether this preference also applies to the entities listed on the I-st category of the BSE, knowing the fact that Romania is an emerging country and its market capital is being developed. According to the analysis we can conclude that Romanian entities listed on the BSE follow the same preference as the companies listed on international markets.

Based on evidence found during our research contributes to the knowledge domain through a proposed conceptual model to mark the role of the audit function in achieving effective corporate governance.

In conclusion of our scientific approach we present the main conclusions and results of conducted research and the future research.

Research methodology

The made research approaches interdisciplinary “The Audit in the corporate governance” through the treatment regarding the following aspects: the entities management in the context of the corporate governance; the relationship between the different forms and the internal and external of the audit entities, as also the role of the audit function in the corporate governance efficiency, by the growth of the users trust in the set of the financial statements.

Taking into consideration the achievement of the proposed objectives in the research, our scientific step is counting on a deductive approach from general to practical that combines the quantitative studies with the qualitative ones. The starting point of the research is counting on the current stage of the conceptual key knowledge: the audit function and the corporate governance.

In order to be able to absorb the current stage of knowledge, we realized a conceptual delimitation of the corporate governance term, through the study of the literature and the regulations from which we had gathered the information’s needed for the following processing.

In order to highlight the principal reasons that stay at the base of the evolution of a good practice of corporate governance we had used the presentation of the famous financial scandals.

In our analysis we chose the corporate governance codes. Following the detailed analysis of the corporate governance codes we turned to a case study which examined the degree of comparison of the codes of corporate governance in Romania and Germany with those developed by OECD.

Analysis of codes, regulations and rules on corporate governance were made by browsing the selected literature and codes studies. Comparative method was used to study different approaches to concepts specific to the chosen research area, various theories of corporate governance and various codes of international corporate governance. Non-participating observation, which requires the researcher’s location outside the observed system (*Chelcea, 2007: 400*), was used to analyze the evolution of the codes of corporate governance at national, international and european level.

We used the comparative method in order to study a sufficient number of theories and accounting practices from different countries. Comparative studies are used in fixing the type of the project and aim to discover similarities and differences that arise between the main systems of corporate governance in Romania, Germany and the OECD's.

The concept of governance has been approached in terms of the Principles of Corporate Governance issued by OECD as well as the degree to which these principles have been incorporated at national level and the role they play in developing efficient corporate governance. Going from synthesis to analysis, we continued by stressing the importance of observing the principle of transparency and conducted a case study about the observance of the said principle by the Romanian entities.

In conducting our case study on the practices of efficient corporate governance adopted by the entities listed with the Bucharest Stock Exchange, we made use of the non-participant observation method which, according to Krüger (1988), gives a series of advantages because the information can be obtained easily and at little expense when the respondents are not willing to impart it. Thus, we were able to obtain in-depth, direct information which has not been processed or interpreted.

Furthermore in the scientific step we had highlighted the current stage of the knowledge related to the concept of audit and corporate governance, through the help of the literature.

In what is concerned the approach of the audit role in the corporate governance in the Romanian literature, in which the objective is the delimitation of the current status of the knowledge in the field of the audit in corporate governance, we had used as a research method the content analyze. This has been obtained in three stages: the pre-analyze stage, the material exploitation stage-the processing and the interpretation of the results.

In order to deepen the current stage of the knowledge related to the internal audit in corporate governance we had analyzed the literature and the regulations at an international level followed by the analyze of the regulation bodies of the audit activity at a national level, Romania and Germany, in a comparison approach of the two regulation systems.

The term of audit committee was approached through the study of the references studies formed by the scientific articles and regulations at the European Union level from where we had gathered the necessary information's for the upcoming processing which stay at the base of relevant conclusions formulation.

After the conceptual delimitation of the audit committee we realized a case study in order to determine the organizational way of the audit committees of the German entities. At the base of this case study was the non-participation observation in order to collect the data. After the data collection, these were put under a detailed analyze in order to prepare the data and for the process of them. As follows, we process the data and after these we used the obtained data.

To deepen the role and the importance of the audit committees we continued with the research with an empirical study on the audit committees. In these sense we appealed at the correlation method. The correlation method is used in the study of the stochastic type of causal relationship between the economical phenomenon and its factors.

In order to be able to realize a comparison on the audit committee organization we proceeded with analyzing the situation in the Romanian entities. Thereby, after detailing of the obtained results, we approach the audit committee organization through a comparative perspective of the organization way in the Romanian and German entities.

For deepen the current state of knowledge concerning the external audit we realized a conceptual delimitation of the external audit terms and corporate governance, by studying the references consisting by regulations of professional organisms and scientific articles form the literature from which we had gathered the necessary data for the further processing. The processing consisted in the establishment of the connection between the data, there correlation, synthetizing of the obtained results, there interpretation and the formulation of the conclusions.

In establishing the concept of external audit, we had taken into consideration firstly the financial delimitation- in terms of statutory definition of professional bodies. We realized a comparative study for which, initially on the base of the literature we determined criteria's on which we made the comparison: action, the audit objective, who audits, how they audits, what results and the mandatory/voluntary character. Of the two forms of comparative method: *analogical*- which presumes the similarities comparison and *antidictica* – which presumes the comparison of the phenomenon differences, we had used the analogical one because we wanted to highlight the common elements.

To emphasize the key moments of the crystallization of the concept of external audit in Romania, needed in order to understand the current state of the development of the external audit, we had used an evolutionary approach, from the first mentions of the external audit till now by the professional organisms and regulations.

In order to be able to differentiate the external audit according to the sectors public or private we had now resorted to a comparison analyze of the issued texts from the professional bodies and the regularities at an international, european and national level, on the two sectors public and private, on the base of the following criteria: the regulation level, activity sector, the regulation form and the regulation bodies. The scope of this analyze was to be able to determine the similarities and the differences between the external audit made of the two sectors.

The tendency to unify the regulations regarding the external audit between the two sectors is a current issue, so we want to underline its importance through a chronological approach, from the first tendencies till now with the development of the current face of this process.

As follows, we focus only on the area that includes the external audit from the companies' level, on the relationship of the external audit with the internal audit and the audit committee. The research was approached both by the aspects that are presented in the literature but also through the regulations that are concerned with the ongoing of the activity of the audit function.

To be able to present the harmonization tendency of the statutory audit at a European Union level, we realized a longitudinal/chronological study which surprises the main parts that mark the evolution of this process, presentation of the regulation organisms and the reaction of the state members. Another target element was the adoption rate of the regulation of the VIIIth Directive of the state members in the national legislation. Due to this we had applied the transversal method that had been completed through the quantity-quality bilateral approach.

The role of the external audit in order to achieve efficient corporate governance was realized with the help of literature study from the perspective of two bearings: the theoretic- conceptual through the economic theories and practical-empiric that has at the base the literature, that from which we had extracted through a context analyze of the defining elements of the quality of the audit activity: reputation, the competences of the audit team, audit interdependence and cost reduction.

In order to conduct the case study we used a deductive approach, through a content analysis of the audit reports publicly posted on the website of the Stock Exchange, National Securities Commission or on the entity's website. To reach that goal we followed the next steps: we analyzed the regulations concerning the preparation of the audit reports and the financial statements, we selected the necessary data from the audit reports, and we selected the entities to be analyzed. Then we collected the information, we defined the analysis methodology, we made the proper analysis and, at the end, we interpreted the obtained results. The data analysis was made with the statistical program SPSS 16.

In order to underline the importance that the audit function has in corporate governance efficiency we realized a conceptual model. We had chosen this version because through the intermediation of a conceptual model we can reflect the best, the reality of the object of the modeling using concept assembly and combined rules of these. After elaborating the conceptual model we had taken into consideration the three aspects of the modulation analyzed object: first step, the structural analyze, static which let us study the components of the object that is put under the modulation and the static connections between them; in the second stage the behavior analysis (temporary), the dynamic through which we had studied: the states through which the components and the reaction of the connection of the object as it has to face the appearance of some extreme events, but also the effects that were provoked in the transition period from one state to another; in the last faze the functional analyze- with its help we had study the transformations produced by the components and the connections in order to satisfy the demands that determine the operation of the system.

We subscribe to the idea according to which the end of a scientific research it's a new beginning for the next developments or new approaches in the research field. So we had finished this research with a series of conclusions, limitations and the view limits of the research.

Synthesis of research and main conclusions

Taking into consideration the goals in the research framework, our scientific evolution was counting on a deductive approach from general to particular. So the base in our research is the corporate governance from the perspective of different organisms, corporate governance codes and research in the field. We started from the definition given by the Cadbury committee and Tricker, “the Father”, of the corporate governance as Cadbury named him at an international level, and at an European level we had adopted a perspective concept OECD, finishing the conceptual corporate governance approach from the perspective of national regulations from Germany and Romania.

Our research continues with the conceptual delimitations of the corporate governance. After studying the codes of the corporate governance and the literature we observe that this corporate governance concept is not a new one. It was initiated in 1776 by Adam Smith. Lately, this corporate governance concept had become an interesting debate source. The role and the attributes of corporate governance are limited better and better.

After conceptual defining from the international, European and national perspective we had continue with the presentation of the base corporate governance theory, such as: the agenda theory, transactional costs theory, administration theory and interested parts theory.

In recent years, series of failures and financial scandals have attracted world attention. As examples, we can mention Enron, Worldcom, Tyco, Parliament and many other major scandals. Because of the lack of management skills, avoidance, lack of adequate control measures many projects by order of billions have been destroyed. As a result of these failures and financial scandals, investor’s confidence in the financial statements and management reports decreased significantly.

The main role of the corporate governance is to restore market confidence. It is not easy to obtain again the investor’s confidence in the financial markets. Mainly, it is hoped that the effective control and the appropriate leadership within the entities to act in the interest of the shareholders. To achieve results it is important to establish a clear criteria which should meet the corporate governance requirements.

Analyzing the various codes of corporate governance in different countries we found that each of them is adapted, in one way or another, to the national policy. To give value to the work at hand and to determine the starting point of the code of corporate governance in Romania and Germany, we undertook a comparative study of national codes, comparing them with the code of corporate governance developed by OECD. OECD corporate governance code is a starting point for most of the corporate governance codes in Europe.

In our scientific approach, initiated to clarify the comparability of corporate governance codes, we encountered some problems, such as determining the demarcation between the three codes,

the elements taken into consideration and the structure of the European level which is not clearly defined.

The result we reached surprised us because we did not expect that the similarity of the corporate governance code posted on Stock Exchange in Romania and the OECD's was so at that degree, because Romania is a member of the OECD group. We believe that the similarity between the two codes can be caused by the fact that Romania is at the beginning, in terms of corporate governance, and it is inexperienced.

Our research is continued also in the second chapter with the conceptual delimitations of a efficient corporate governance. A efficient corporate governance can be touch through the transposition of the transparency principle which, at its turn, assumes the publication of the account information's of the entities. After the study we made at the consulting cpm[any McKinsey about the institutional investments opinion form the emerging countries (Asia, South-East Europe, Latin America) regarding the corporate governance, proves the fact that the investments give at least the same importance to the information's related to the corporate governance as the financial information when they have to adapt an investment decision.

Our research focused on corporate governance, a topic of intense debate over the last years due to the failure of some famous international companies. One can develop efficient corporate governance only if all OECD principles in this regard are observed. Our research focused mainly on the manner in which the principle of transparency must be put into practice in order to ensure efficient corporate governance. To this effect, we studied the manner in which the principle of transparency has been incorporated into the recommendations and regulations of the BVB. In order to conclude our theoretical study we analyzed the manner in which this principle is applied by the Romanian companies listed with BVB in tier I.

In order to highlight and underline the importance of publishing information regarding the corporate governance we had made a study that is concerned with the practices of the corporate governance in Germany. The results show that the German entities are more predisposed towards information.

Continuing with the same idea of information in the third chapter, we contorted the importance of the audit in the corporate governance. In our phase we started from the literature study which underlines the importance of the audit in the corporate governance context. The international recommendation and the national regulations delimitate the audit function responsibilities through the pillar of three components: internal audit- audit committees- external audit.

After delimiting the three elements which stay at the base of the audit we had approach the audit function from the trilateral perspective. The researchers from the literature in the audit field approach an audit concept from a trilateral perspective, speaking more and more about the tight relationship between the external audit, audit committee and the internal audit.

Analyzing this trilateral approach of the audit we had reached the conclusion that a better relationship between the external audit, audit committee and internal audit takes to a better government and also increases the social responsibilities of the entities, which represents a first step towards a efficient corporate governance. So we also subscribe for the approach of the audit concept from the trilateral perspective, considering this approach is more appropriate and treats the three audit functions recommended by the corporate governance codes.

After delimitating the audit function from the corporate governance we focus our attention over the audit role in the corporate governance in the Romanian scientific literature. As we could have come to conclusion, after the quality study that we made, in which we have taken into consideration the main contributions related to this subject, there are some research areas that have been insufficient analyzed and at a level that felt the need of continuity and deepen the research, as the approach of the tripartite audit.

The start base in our research in the fourth chapter was the delimitation of the key elements of the internal audit. We started with the literature research and the corporate governance codes, following a positioning of the internal audit in the sphere of the corporate governance point of view of the audit International Standards.

After defining the internal audit concept from the perspective of the international regulations we had appeal towards analyzing the quality of the internal audit form the perspective of the corporate governance. In this case we focused on the literature at an international level, concluding that the internal audit had an important role in the efficiency of the corporate governance. So, without a quality activity, transparency and responsibility of the internal audit can't assure good corporate governance.

Our research continues with the study of the audit function in Romania and Germany. After the made studies for the two countries, we had identified a number of differences and similarities between them. A first difference between Romania and Germany targets the regulation way of activity of the internal audit. In Romania the internal audit activity is regulated by two different professional bodies CAFR and AAIR, while in Germany there is only one professional body that takes care of the regulation activities of the internal audit. Another identified element was the fulfilling of the International Standards Audit with the national regulations of the professional body in Germany. Our conclusion is that even though there is a professional body at an international level which regulates the activity of the internal audit, at a national level there are differences between the countries.

The fifth chapter of this paper approaches the role of the audit committee in the corporate governance. In this sense, we realized a delimitation of the role and the importance of the audit committee from the perspective of the literature. The delimitation of the audit committee concept was followed by analyzing the audit committee from the perspective of the European regulations.

The organization of an audit committee within the entity is a central issue of the corporate governance. The contribution made by an audit committee refers to the assessment of the financial statements quality. On the other hand, an audit committee plays an important role in the communication between the internal and the external audit of the company. Audit committee is also responsible for coordinating the financial statements and external audit process, but also for the organization of the internal reports.

The sixth chapter constitutes the definition of the external audit from different perspective bodies. Starting from the definition given by the American Accounting Association and the International Federation of Accounts at an international level, at an European level approaching the concept from the perspective of the European Directives, we finalized with the conceptual approach of the external audit from the perspective of the national regulations.

After the conceptual definition from the international, European, national perspective, then we continued by making a comparison of the seven specifically elements of the professional differential bodies perspective. Thus, we found that there are not major differences between the definitions of professional bodies at international, european and national level, thus resulting that internal audit means the examination made by a competent and independent proffesional in order to expess a motivated opinion over an entity's financial statements.

Analyzing in detail the two concepts of external audit and statutory audit in terms of regulations we found that the financial audit (external) also includes the statutory audit as outlined in the VIIIth Directive and Law no. 26 of 2 March 2010.

The recent research in the field of audit reveals a high interest of the unification of the two audit functions, private external audit and public external audit. The unification of audit standards could take place in one of two forms: two sets of standards harmonization or convergence of those two standards. The unification of the audit activity of the two sectors is the result of major changes that have occurred in the context of the global economy and many activities in which the two sectors overlap.

We continued our research with the developments of statutory audit at european level. Thus strengthening the statutory audit is intended to restore financial market confidence. In order to adopt the VIIIth Directive at national level by the members of the European Union, two regulatory bodies of the audit were established in 2005. The regulatory Committee of the audit who has the role to assist the European Commission in the implementation of the VIIIthe Directive and the European Group of Auditors' Oversight Bodies has the role of efficient coordination of the new surveillance systems of the statutory audit and audit firms in the European Union.

We approached the external audit role in achieving effective corporate governance from two perspectives: a theoretical-conceptual approach in terms of an economic theory and a practical–empirical approach in terms of specific literature. External audit has an undeniable

role on the trust of the stakeholders in the financial information provided by an entity. The auditor is responsible in the issuance of an audit opinion in order to confirm to the interested parties the fidelity/accuracy/reality of the financial statements. The preparation and publication of the standard audit report provides greater confidence in the entity's financial statements and reports.

One of the common ideas in the literature supports the preference of the big entities to be audited by the most important audit firms, as it is considered the superior quality of their audit services. Falling within the scope of our concerns and being strictly related to our research, we investigated whether this preference also applies to the I-st category entities listed on the BSE, knowing the fact that Romania is an emerging country and its capital market is in a continuous development. At the end of the study we can conclude that Romanian entities listed on the BSE show the same preferences as those listed on the international markets. In addition, on the basis of the collected data we were able to draw several conclusions that define the audit market in Romania with examples on the entities listed on Bucharest Stock Exchange.

Following the delimitation of the role and importance of external audit both in terms of theories and literature we have outlined a conceptual model for achieving effective corporate governance. We believe that achieving effective corporate governance is based on two levels and six defining elements. Thus we determine an internal tier that consists of four elements, internal control, board, risk management and financial financial reporting, and the external tier that consists of other three elements: external audit opinion, investments trust and the transparency of information. The interaction of the seven elements and the efficiency of each element contribute to efficient corporate governance.

Future research

Research in an area of interest, as if our audit in corporate governance involves a number of research perspectives such as:

- ✓ analysis of the concept of corporate governance in the banking and public institutions;
- ✓ analyzing the evolution of standardization in the two sectors, the public external audit and private external audit;
- ✓ development of statutory audit harmonization at European level;
- ✓ expanding the sample of case studies to reflect the situation we are in terms of corporate governance and code enforcement entities available for contribution to effective corporate governance;
- ✓ broadening the sample of countries in the comparative study, taking into account other EU countries;
- ✓ broadening the sample of entities chosen for comparative study between Romania and Germany on audit committees, which would give the study much more relevance;
- ✓ expanding the study of preference of listed entities to be audited by the Big Four in Category II;

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