Internal Audit and Audit Committee as Mechanisms of Corporate Governance

C. Siriopoulos¹, E. Magripli² *, T.V. Stamatopoulos³

Abstract

Purpose – The purpose of this paper is to explore theoretically and analyze the role of the audit committee and the internal audit, as mechanisms of corporate governance in order to determine and evaluate their separate and joint contribution in its effectiveness.

Design/methodology/approach – We theoretically approached the topic based on bibliography which refers to the internal audit and the audit committee. We studied the factors that affect their effective function, the particular characteristics that they must have and the existing, interdependent or not relations that are developed.

Findings – We realized that the effective function of the audit committee and the internal audit unbreakably correlates with the high quality and reliability of financial statements, the obliteration of earnings management phenomena, the conduct of external audits with more qualitative characteristics and high independence, the coping with information asymmetric between company owners administration and management, the creation of processes in order to establish a better communication between administration-management and external-internal audit, and the increase of corporate effectiveness. Since all the above are expectations for corporate governance, we realize that both the audit committee and the internal audit, when they function effectively-they have specific structure and characteristics and develop the appropriate communication with each other-are the most important mechanisms in corporate governance. As a result, they contribute in its effective and proper implementation, with its familiar positive consequences in the course of every type of firm.

Research limitations/implications – The bibliography we considered usually referred to large firms listed, in international stock markets and have both audit committees and well-organized internal audit departments. Moreover, we did not manage to find bibliography referring to the function of the audit committee in Hellas. The relation developed between the audit committee and the internal audit must be effective in order to benefit both the corporate administration-management and the audit. It is theoretically proved that in this way they contribute considerably in the implementation of “good” corporate governance.

Originality/value – As far as we know, there is no published study at country level, analyzing articles and connecting in such way this structure relation. Hopefully, the present analysis can constitute the basis for future empirical researches at country level.

¹ Department of Business Administration, University of Patras, T.E.I. of Crete, MSc. Accounting and Auditing. e-mail address: siriopoulos@upatras.gr
² T.E.I. of Crete, MSc. Accounting and Auditing, Postgraduate student.
* Corresponding Author, E. Magripli, e-mail address: emag@her.hcmr.gr
³ T.E.I. of Crete, S.M.E., Dept. of Accounting, MSc Accounting and Auditing, Estavromenos, 71500 Heraklion, Crete, tel. +30-2810-379601, and University of Piraeus, Hellas (Greece), and D.E.F.I., Mediterranean University-Aix-Marseille II, France. Email: stamth@staff.teicrete.gr.
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