Auditing Corporate Governance Statements in Greece: The role of Internal Auditors

Abstract

Purpose - The purpose of this paper is to examine the role of Internal Audit with respect to Auditing Corporate Governance Statements based on a practical approach. Moreover, it examines the application of Internal Control Best Practices in the Athens Publicly listed firms based on a series of related statements.
Design/methodology/approach – The authors conducted all large and medium capitalization publicly listed companies via a research questionnaire which forms a basis of a descriptive research analysis. Our methodology is based on the best worldwide acceptable practices as represented by the COSO Internal Control - Integrated Framework, as well as the relevant laws and regulations and best practices with respect to Corporate Governance Statements.
Findings - The research concludes that Internal Auditors limit their role in verifying compliance with the relevant laws and regulations rather than adopt a consulting role towards the improvement of the content and quality of Corporate Governance statements information. Also, it contributes to the corporate governance research by verifying that the effectiveness of Internal Controls contributes to sound Corporate Governance practices.
Practical implications - Internal Auditors depending on the organization they serve may adopt different roles regarding Corporate Governance Statements preparation, review and audit such as consultative which may add value to the quality of Corporate Governance statements.
Originality/value – It is the first research regarding quality characteristics of the Corporate Governance statements and the role of Internal Audit in Greece and it provides the basis for further research among EU countries.
Paper Type – General Review / Research Paper

Keywords: Corporate Governance Statements, Internal Auditing, Internal Controls Best Practices.

1. Introduction

Corporate Governance is considered as a top priority in most of the publicly and in a certain amount of non publicly listed enterprises as it involves a large number of stakeholders such as Board of Directors, Executives, Non Executives, Investors, Governments and Academics. "Corporate Governance" as a term first appeared in the 1980s (Earl, 1983). Yet, the field of corporate governance has been previously encountered in the prevalent model of Principal-Agent (Agency) theory (Jensen and Meckling, 1976).

OECD Corporate Governance publication (2015) refers to Corporate Governance as a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined (Nerantzidis and Filos, 2014).

The adoption of corporate governance best practices was to guide the operation of the board of directors and ensure that decisions will protect shareholder and other stakeholders' interests (O' Regan *et al.,* 2005; Cullinan *et al.,* 2016). It mainly refers to publicly listed firms, but could be equally applicable to firms that are not publicly listed based on a voluntary approach.

Corporate governance framework in Greece has mainly developed based on State Laws and Regulations. Law 3016/2002 for listed companies includes rules for the composition of Board of Directors, non-executive directors' remuneration, set up of Internal Regulations of operations, operation of internal audit and other control related units and the adoption of specific internal audit procedures (Koutoupis, 2012; Spanos, 2005). Other laws supplemented the relevant Corporate Governance framework such as the Law 3693/2008, which requires the constitution of audit committees as well as important disclosure obligations regarding ownership and governance of a company. Also, the Law 3884/2010 acted as a Shareholder Rights Directive 2007/36/EC, including amendments regarding the preparation of the Annual General Assemblies. Last but not least, Law 3873/2010 adopted the European Union Directive 2006/46/EC on the annual financial reports which expects in addition to financial, other, non financial but important from the Corporate Governance perspective disclosures such as an Annual Corporate Governance Statement based on the adoption of any applicable Corporate Governance Code. The latest law 4449/2017 strengthens the role of the Audit Committee with respect to both monitoring Internal and External Auditors.

In Greece, Corporate Governance codes were introduced in 2011 by the Greek Corporate Governance Council which introduced specific Corporate Governance practices that should be incorporated on a voluntary basis by the publicly listed enterprises. For those companies that avoid to accept Greek Corporate Governance Council recommendations, the relevant laws require the establishment of their own Corporate Governance Code (Law 3873 /2010).

In our analysis we focus on Internal Controls and Internal Audit impact on Corporate Governance and its latest development Corporate Governance Codes and Statements that may improve organizational performance and at the same time protect shareholder interests. Moreover, we examine the role of Internal Auditors in reviewing compliance with the laws 2190/1920 (Government Gazette A/37/30.3.1963) and the relevant updated version (Law 3873/2010) which require a public limited company whose shares or other securities admitted to trading on a regulated market should include Corporate Governance Statement in its Annual Report. If the company deviates from the Corporate Governance Code to which it refers to, or applies, the Corporate Governance Statement should include a description of the deviation with reference to the relevant parts of the Corporate Governance Code and justification of this discrepancy. If the company does not apply some of the provisions of the Corporate Governance Code, to which it refers to, or to which it applies, the Corporate Governance Statement should include a reference to the non-applicable provision and an explanation of the reason for non-application. The Greek paradox is that the law permits companies to either create their own or refer to a well established Corporate Governance Code (either the National Code of Corporate Governance, or any other such as Combined Code, King Report etc.). Therefore, companies that wish to avoid compliance with the Corporate Governance best practices may create their own Corporate Governance Codes with the minimum requirements.

2. Literature review

2.1 COSO

The most important publication regarding Internal Control systems is the COSO Framework which was initially published in 1992 (Franck and Sundgren, 2012), while a later update included the concept of Risk Management name it Enterprise Risk Management (ERM) (COSO, 2014). A slightly updated version of COSO was introduced in 2017 (COSO, 2017). COSO methodology includes the basic principles on how we set up, operate and monitor an adequate and effective system of Internal Controls. COSO framework provides guidance for the Board of Directors and Executive Management on how to implement and evaluate internal controls (control activities) and how to set up an effective Control Environment (Lansiluoto *et al.,* 2016). According to COSO an entity can achieve effective internal control system by applying all related to strategy, operations, compliance and reporting principles (Premuroso and Houmes, 2012; Karim *et al.,* 2018).

COSO Framework influenced Greek relevant laws and regulations with respect to the Control Environment of the publicly listed firms. Specifically, companies should both develop Corporate Governance Statements and explain the reasons why they deviate if such a case exists. Internal Auditors should confirm compliance with the relevant laws and regulations and the reasons for doing so. Such explanations should not be limited to a simple reference to the principle or practice the company does not comply with, but should be: a) Tailor made to the company's position, b) Meaningful, in that it sets the mitigating actions to address specific risks and c) Understandable and persuasive.

The benefits of the adequate system of internal controls are many. It demonstrates whether resources are being used efficiently and effectively. Internal controls also ensure compliance with laws and regulations. Then, the main components of the system of internal controls and the relevant correlation with the Greek environment are presented.

Control environment

Control environment includes but it is not limited to organizational culture, standards, processes and structures that provide the basis for establishing control activities across the organization. Areas such as Tone at the Top, Values, Integrity and Organization are of utmost importance (COSO, 2013).

In the current assessment of the Greek Environment publicly listed enterprises have a unitary Board (i.e. a single Board comprising of a mix of executive and non-executive – independent non-executives). The Corporate Governance Statement should contain information on board members including the identification of the chairman, the vice-chairman (if appointed), the chief executive as well as the chairmen and members of board committees, the identification of the non-executive board members that the board views as independent and, where necessary, the rationale behind this view, short biographies of each board member and the company Secretary, the term of appointment of each board member (and the date the term ends) and other professional commitments of each board member (including significant non-executive engagements in companies and non-profit institutions).

According to Internal Auditors participated in our research they should assure all the above, as well as that Corporate Governance Statement includes a short description of how the board operates including the number of meetings of the board and individual attendance by board member, the number of meetings of board committees and individual attendance by committee members, a short description of the composition, terms of reference and main issues discussed by each board committee and a description of how the performance evaluation of the board and its committees has been conducted.

It must be confirmed that the Board ensures compliance with all relevant laws, regulations and codes of business practice and monitors management in the implementation of plans and strategies approved by the Board.

The auditors should also examine the existence of a remuneration policy for board members as a part of the Corporate Governance Statement.

According to Law 3873/2010, the Statement should provide specific reference to the diversity policy applied by the company in relation to the composition of its board and the percentage of each gender in the composition of the board and senior executive team.

Finally, Internal Auditors should ensure that specific reference to policies is made, ensuring that the board has sufficient information for deciding on related parties' transactions, including transactions of subsidiaries with related parties.

Corporate Governance Statements should mention any Board Committees established by the Board. Each Board Committee has to formal terms of reference, approved by the Board and its terms of reference should be approved by the Board. Each of the Board Committees' terms of reference should describe the extent of its powers, the responsibility delegated to it, its life span, its role and function, procedures for reporting to the full Board and its authority to act.

Each Board Committee (other than any fulfilling an executive function) should be chaired by an independent non-executive director and should be free to take independent outside professional advice as and when necessary.

The Statement should assure that each Board Committee regularly, formally and fully report back on its activities to the Board. The annual report discloses, for each Board Committee, its composition, a brief description of its remit, the number of meetings held and any other relevant information.

Risk assessment

Risk assessment includes a comprehensive identification, assessment and management of enterprise risks as means to achieve organizational objectives (Khongmalai and Distanont, 2017). According to COSO, Risk is defined as "the possibility that an event will occur and adversely affect the achievement of objectives".

Issues that we took into account in our analysis include the identification, evaluation and management of risks, the relevant fraud risk assessment and the impact of changes on Internal controls.

According to the majority of our respondents a complete Corporate Governance Statement should contain specific information on Risk Management. Internal Auditors should confirm that the Statement includes a description of the main features of the company's internal control and risk management systems, a statement that the board has reviewed the corporate strategy, the main risks to the business and the system of internal control and an explanation on how auditor objectivity and independence is safeguarded if the auditor provides non-audit services.

Risk management is an integral part of the organization's culture, language and operations (Pagach and Warr, 2011). Internal Auditors should confirm that the Statement includes a description of the main features of the company's Risk Management. The Board should take the responsibility for the total process of Risk Management in the organization and evaluate periodically the effectiveness of Risk Management process. Risk strategy and policies should be set by the Board in liaison with the executive directors and senior management and be communicated to all employees.

The Board should have determined criteria for acceptable degrees of risk the organization may run in pursuit of its objectives. An effective ongoing process should be implemented by the organization to identify, measure the impact of and proactively manage risk. The Risk Management and internal control model and framework adopted, should provide the Board reasonable assurance on:

- The effectiveness and efficiency of the organization's operations.
- The safeguarding of the organization's assets (including information).
- The organization's compliance with laws, regulations and supervisory requirements.
- The sustainability of the organization's operations under normal and adverse operating conditions.
- The reliability of the organization's reporting.
- The organization's responsible behavior towards all stakeholders.

Moreover, Internal Auditors have to confirm that the Board ensures a systematic, documented risk assessment is undertaken at least once a year and regularly receives and reviews reports on the Risk Management process in the organization. The organization's risk assessment process covers physical and operational risks, human resource risks, technology risks, business continuity and disaster recovery, credit and market risks, compliance risks and other significant business risks. Risk Management and internal controls should be practiced throughout the organization and embedded in the day-to-day activities.

The organization's risk management/internal control framework should evidence at least the following:

- A demonstrable system of dynamic risk identification.
- A commitment by management to the process.
- A demonstrable system of risk mitigation activities.
- A system of documented risk communications.
- A system of documenting the costs of non-compliance and losses.
- A documented system of internal control and risk management.
- An alignment of assurance efforts to the risk profile.
- A register of key risks that could affect shareowner and relevant stakeholder interests.

Control activities

Control Activities constitute systematic or not actions that ensure the achievement of relevant objectives. They may be documented (i.e. regulations, policies, procedures, etc.) or not documented (i.e. based on customs) but equally effective with respect to risk mitigation. INTOSAI (2014) states that Control Activities may be preventive or detective in nature. Specific examples may include authorizations and approvals, verifications, reconciliations, and business performance reviews.

The Board should regularly review processes and procedures to ensure the effectiveness of the internal control systems.

Furthermore, the Board's decision-making capability and the accuracy of its reporting have to be maintained at a high level at all times. The Statement should clarify that management reports to the Board must provide a balanced assessment of significant risks, a balanced assessment of the effectiveness of the system of internal controls in managing those risks and identification of any significant failings/weaknesses, their impact on the organization and actions being taken to rectify them.

The annual report should also be clarified that contains the following disclosures by the Board:

- The Board is accountable for the process of risk management and the system of internal control.
- The process of risk management and the system of internal control are regularly reviewed for effectiveness.
- The Board is accountable for establishing appropriate risk and control policies.
- The Board is accountable for communicating appropriate risk and control policies through the organization.
- A process for identifying/evaluating/managing significant risks was in place throughout the year under review.
- An ongoing process for identifying, evaluating and managing significant risks exists, was in place for the period under review and was in place up to the date of approval of the annual report and financial statements.
- An adequate system of internal control exists to mitigate those significant risks identified to an acceptable level.
- The system of internal control is designed to manage, rather than eliminate, risk of failure or opportunity risk.
- The system of internal control can only provide reasonable, but not absolute assurance.
- A documented and tested business continuity plan exists to ensure continuity of business critical activities.
- Identification of those material joint ventures and associates not covered by the organization's risk management framework.
- Identification of the manner in which risk management and internal control are assured for the activities of such entities.
- Any additional information to assist understanding of risk management processes and system of internal control.
- Statement of the facts and a suitable explanation where the Board cannot make any of the above disclosures.

Information, communication and Monitoring Activities

COSO Model discusses extensively the issue of Information and Communication, as well as Monitoring Activities. The above issues are of critical importance for any Board as it includes the level of Information that flows top down and bottom up and may impair their decision making. Both internal and external sources are used to address the needs for internal and external stakeholders (users of information). Auditors usually place a lot of emphasis on the assessment of company's MIS system as it may impact directly the decision making process and consequently the relevant risks.

Last but not least, we discuss Organization Monitoring Activities over the Entity and operations which include the adequate application of Internal Controls over the entity and the relevant corrective actions as means of improvement. Tools that can be used towards this are Budgets, Training, Supervision, etc.

2.2 Recent Literature Review

Based on an evaluation of the existing corporate governance literature, numerous studies explore corporate governance and internal audit (Breder *et al.,* 2015; Nerantzidis, 2016). Our focus extended to publications between 2014 and 2018, resulting to the study of a total of fourteen (14) relevant articles, which were analyzed with reference to the published year.

At first, El Mahdy and Thiruvadi (2014) provide a comprehensive review on the disclosure of Internal Control Weakness regarding its antecedents, characteristics and consequences. Moreover, the authors point out the possible implications of the 2013 updated Committee of Sponsoring Organizations (COSO) internal control-integrated framework in the U.S. firms related to the discovery, reporting and remediation of ICWs.

In the same period, Rubino and Vitolla (2014) analyze how the Committee of Sponsoring Organizations (COSO) framework impacts on the material weaknesses of internal control over financial reporting, highlighting strengths and weaknesses. The results emphasize the correlation between COBIT (Control Objectives for Information and Related Technology) and COSO model and reveal that the combined use of COBIT and COSO provide valid support regarding the reliability of financial reporting.

Shortly afterwards, Yudianti and Suryandari (2015) conducted an evaluation on the implementation of Internal Control and Risk Management in order to ensure Good University Governance. The collection of the data derived from leaders of all Private Higher Education institutions in Special Province of Yogyakarta. The results depict that internal control system implementation related to internal control environment, risk evaluation, control activities, information & communication, and monitoring has taken place in the majority of the Higher Education Institutions. It has also been shown that Internal Control and Risk Management had a positive influence on the implementation of Good University Governance.

At the same time, Brender *et al.* (2015) analyze management audit as a tool to foster corporate governance. Based on 85 semi-directed interviews, the authors argued that management auditing could be used to improve corporation performance. The results also revealed that the degree of corporate governance maturity affects the integration of management audits into corporate practices.

On a different approach, Habib and Jiang (2015) analyze Corporate governance and financial reporting quality in China. The results reveal that the improvement of financial reporting quality with a view to facilitating efficient resource allocation decisions by corporate managers, is one of the desirable properties of good corporate governance.

Agyei-Mensah's work (2016), increase our understanding on the effect corporate governance factors have on the disclosure of internal control information by means of a data set of 110 firms in Ghana for the year 2013. Most of the sampled firms did not disclose sufficient internal control information in their annual reports. The low level of internal control information disclosure cannot be used by stakeholders to determine the level of corporate governance practices in the sampled companies. Also, the results show that board independence is a significant variable that explains the internal control disclosure. This support is in line with the held view that independent directors help to improve the quality of disclosure and increase the transparency of information.

Lai *et al.* (2017) examine the correlation between internal control weaknesses and firm performance according to the COSO framework. The authors made use of secondary data regarding firms that were active in the U.S. stock market from 2004 to 2007. According to the findings, the control environment, information technology, accounting policies, procedures and documentation, and control design affect negatively and to a great extent the performance of a firm.

From a different standpoint, Rae *et al.* (2017) study the relationship between COSO components and the means by which the monitoring function of organizations is affected by them. They point out an association between control environment and three dimensions of information and communication. In addition, two dimensions of information and communication are associated with risk assessment. Finally, an indirect association between control environment and risk assessment is also indicated through the associations among three dimensions of information and communication

In Lawson *et al.* 's survey (2017), the focus is accounting professionals who primarily operate in large publicly traded firms, to study views on the framework and its impact on key areas of internal controls that follow or have followed the 2013 Framework. According to the study, respondents consider the 2013 Framework as an overall improvement to the 1992 Framework, and the explicit addition of the 17 principles as beneficial. Respondents also consider the 17 principles as a set of rules for achieving effective internal controls but specify that sufficient management judgment over internal control systems is still allowed. In addition, the majority of the respondents have reported some type of change to at least one of the five components of internal control, with Risk Assessment receiving the largest number of changes.

At the same time, Nalukenge *et al.* (2017) examine the relationship between corporate governance and internal controls over financial reporting in Ugandan (2017). Using data from 70 microfinance institutions, the results reveal that board role performance and expertise are substantial in predicting the internal controls over financial reporting. On the contrary, board independence and separation of CEO and chairman roles seem to be insignificant predictors.

The role of internal audit in corporate governance is also analyzed by Mihret and Grant (2017). The researchers use a literature-based analysis regarding the role of internal auditing. The results reveal the crucial role of internal audit in corporate governance as an approach for the management to cope with risk.

Another perspective is given by Wonglimpiyarat (2017) who discusses the implementation of risk management and auditing to technology incubators/science parks. The suggested audit plan centers on the risk assessment using the COSO framework. The findings indicate that due to the COSO application the suggested audit plan and performance analysis can be used as a risk management tool for improving effective operation of the incubator programmes.

In Greece, Nerantzidis and Tsamis (2017) explore the determinants of corporate governance disclosure. Analyzing prior empirical studies, the authors provide a synopsis of the prior literature regarding corporate governance. The empirical findings argue that Greek listed firms disclose corporate governance information both to fulfill task-related requirements and to be considered social and legitimate.

Finally, in their study, Koutoupis and Pappa (2018) estimate the existing corporate governance structure and emphasize its correlation to internal audit function and management practices. Data were collected using questionnaires distributed to listed companies in Athens Stock Exchange (the year 2016 is used). The results reveal that corporate governance is lead to managerial excellence and effective governance.

3. Methodology

Our sample constitutes of all large (twenty) and medium (twenty five) capitalization companies listed in the Athens Stock Market. The reason we focused only on publicly listed firms is the legal obligation to develop Corporate Governance Statements annually and set up an Internal Audit department. Our questions were focused on Corporate Governance and Internal audit. SPSS was also utilized to create hicks which demonstrate views of different stakeholders. The results, with this method, can drive us to come up with specific conclusions. The research took place in Athens, Greece from October to December 2017.

The method used to collect data included a modified version of Koutoupis and Pappa (2018) methodology. Specifically, we adopted a questionnaire approach which was uploaded in a Google Form format for quick responses.

The questionnaire included three sections. The first section of the questionnaire refers to the type of Industry Sector, the size of the company and also the number of internal auditors per company. The second section consists of close-ended statements with respect to Internal Controls Integrated Framework (COSO and COSO ERM). Respondents based their answers in a five-point Likert scale that ranged from “Not at all” (scored as 1) to “Very Much” (scored as 5). A vast majority of researchers use this measurement due to its reliable and accuracy (Halbourni *et al.,* 2016; Drogalas *et al.*, 2017).

The third part of the questionnaire consists of open-ended questions about the role of the Internal Auditors towards the development, review of Corporate Governance Codes, as well as the methods that Internal Auditors use in order to Audit Corporate Governance statements (if applicable). We used open instead of closed ended questions in order to gather qualitative information about the COSO Components from the Auditor perspective and also the specific assurance and / or consulting role that Auditors adopt.

4. Empirical Findings
4.1 Demographics
A total of 45 responses were received, generating a response rate of 78 per cent (25 Large Cap and 20 companies Mid Cap). Most of the participant companies are considered large as they occupy more than 500 employees (49%). It is worth mentioning that 69% of the companies have 1 to 5 auditors, and only 15% have more than 15 auditors. The situation would probably be even worse in the small capitalization index, therefore we decided not to include them in our sample.

4.2 Descriptive Statistics
Table I shows the perceptions of the respondents regarding "Control Environment", "Risk Assessment", "Control Activities", "Monitoring Activities" and "Information and Communication".

Table I: Perceptions of the respondents

Perceptions of the Control Environment	**1**	**2**	**3**	**4**	**5**
Q1. Integrity and Ethical values are considered as High Priority Issues.	0	0	0	29	71
Q2. Board of Directors and the relevant subcommittees of the BoD demonstrate independence and objectivity and establish monitoring procedures over the system of internal controls.	0	0	6	60	34
Q3. Job descriptions and job specifications have been developed	0	6	14	18	62
Q4. Segregation of duties and responsibilities of Management and Employees is adequate.	0	0	23	20	57
Q5. Management establishes adequate and effective system of Internal Controls to achieve the relevant company objectives.	0	0	6	26	68
Q6. The Corporate Governance Statement content is adequate.	0	20	48	12	20
Q7. Internal Audit adds value on the content of Corporate Governance Statement.	11	24	41	24	0
Perceptions of the "Risk Assessment"					
Q8. Company develops strategic and operational objectives based on a comprehensive methodology so that the related risks are identified, assessed and well managed	0	0	8	60	32
Q9. The organization indentifies, analyzes and assesses the risks to determine appropriate actions.	0	0	11	66	23
Q10. The organization assesses the potential for fraud in all related areas and activities.	0	0	6	31	63
Q11. Organizational changes that may impact Internal Controls are identified and assessed in an effective manner.	0	0	6	69	25
Q12. The organization develops comprehensive risk registers and perform relevant risk assessments on a periodic basis.	0	0	14	40	46
Q13. Internal Audit Contributes positively to Corporate Governance Internal Controls related information.	0	43	57	0	0
Q14. Corporate Governance statement includes adequate Internal Controls related information.	0	48	43	9	0
Perceptions of the "Control Activities"					
Q15. The organization develops preventive and detective Internal Controls that mitigate risks and achieve the related objectives based on the relevant risk appetite.	0	0	6	46	48
Q16. The organization develops adequate IT controls to ensure the achievement of objectives.	0	0	6	57	37
Q17. The organization identifies and access changes that could affect the Internal control system.	0	0	9	51	40
Q18. The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action , including senior management of the Board of Directors as appropriate.	0	6	48	46	0
Q19. Internal Audit contributes positively to Corporate Governance Internal Controls related information.	0	0	54	46	0
Perceptions of the "Information and Communication"					
Q20. The organization develops an adequate system of information and communication (MIS) at all levels to enhance the relevant Internal Controls.	0	0	10	34	56
Q21. The organization communicates adequately all Internal Controls related information with internal stakeholders (i.e. regulations, policies, procedures, circulars, etc.)	0	0	7	35	58

Q22. The organization communicates adequately and promptly Internal Control matters with external stakeholders.	0	3	17	66	14
Perceptions of the "Monitoring Activities"					
Q23. The organization adopts on going monitoring procedures to ensure the adequate application of Internal Controls.	0	0	11	43	46
Q24. Senior Management evaluates and communicates internal control deficiencies periodically in order to take corrective actions	0	0	9	43	48

Field Survey: 2017

Regarding the "Control Environment" we conclude that 71% of the respondents strongly claim that the organization considers Integrity an Ethical Values as a High Priority Issue. Also, of the respondents 60% claim that the Board of Directors and the relevant sub-committees demonstrate independence and objectivity and establish monitoring over the system of internal controls. Participants, also confirm that job descriptions and job specifications have been developed and the segregation of duties is clear. The majority of respondents (68%) argue that management establishes adequate and effective Internal Controls to achieve the relevant objectives. Regarding Corporate Governance Statements content the majority of the respondents (48% and 20% respectively) do not agree that the statement contains adequate information. This is due to typically compliance with the relevant laws and regulations which does not emphasize on the quality of information but rather on a checklist approach which does not seem to provide substantial benefits to company stakeholders. Moreover, regarding the value adding role of Internal Audit on the content of Corporate Governance Statements there is a negative perception as most of the Internal Auditors state that this is a compliance rather than consulting exercise. Very few Internal Auditors believe (24%) that they add value on the content of Corporate Governance Statement.

"Risk Assessment" research indicates that the organization develops strategic and operational objectives based on a comprehensive methodology for the identification, assessment and management of risks (60%) and also determined appropriate actions (66%). Respondents, also argue that the organization considers the potential for fraud risk, as well as significant changes are promptly identified and assessed (69%). An interesting issue is that companies seem not to adopt a systematic comprehensive risk register, as well as risk assessment exercise (46%). Those issues are addressed mostly at the Board or other Executive meetings. A large number of participants do not believe that comprehensive information regarding Risk Assessment is contained in the Corporate Governance Statement (43%). Finally, a large number of the participants do not claim that Internal Audit add value to the Risk Assessment information contained in the Corporate Governance statement (48%).

The majority of respondents regarding 'Control Activities' believe that the organizations develop preventive and detective Internal Controls that mitigate the risks and achieve the related objectives. Moreover, 57% of the respondents argue that adequate IT Controls are developed to endure the achievement of the relevant objectives. Similarly, 51% of the participants argue that controls deployed policies and procedures. Fewer participants state that adequate Internal Controls related information published in the Corporate Governance Statement (45.71%), as well as less participants believe that Internal Audit contributes positively to Corporate

Governance Statements Internal Controls related information (46%). Organizations do not really identify and assess changes that could significantly impact the system of Internal Controls. Thus, internal Audit adds moderate value on Corporate Governance statements.

Regarding "Information and Communication" participants state that the organization develops an adequate system of information and communication (MIS) to enhance the relevant internal controls (56%). In addition, both internal stakeholders and external stakeholder communication needs are adequately addressed (58% and 66%, correspondingly).

Finally, regarding the perceptions on "Monitoring", 89% of the respondents claim that the organization adopts on going monitoring activities to ensure the adequate application of internal controls. Similarly, they believe that Senior Management evaluates and communicates internal control deficiencies periodically (91%) in order to take corrective actions. The results prove that the companies make changes that can significantly affect the system of internal control and when they evaluate the situation, they communicate internal controls in a timely manner. Together, they take better decisions so that they rectify the wrong actions, including the management and the board of directors of the companies.

4.3 Discussion of Findings

Regarding potential factors that influence Corporate Governance Statements we have identified the following: Internal Governance mechanisms (i.e. Board of Directors & Audit – Risk Committees effectiveness), Executive Management decisions (which are associated by various relations within the organization), External Pressures (i.e. the Capital Markets Commission as the principal regulator), Quality of External Governance mechanisms (i.e. External Audit Quality) and last but not least the role of Internal Audit as a value adding monitoring activity. For each one of the above factors we created five open ended questions in order to get the feedback of Internal Auditors regarding the effectiveness of Corporate Governance Statements and the role of each and every one of the above factors. All questions emphasize the qualitative characteristics of Corporate Governance Statements such as completeness, accuracy, relevance, understandability, comparability, verifiability and timeliness.

We managed to gather interesting results regarding the qualitative characteristics of Corporate Governance Statements that can be summarized in the following lines:

- Internal Governance mechanisms such as Board of Directors and Audit or Risk Committees do not systematically address issues related to Objectives, Risks and Controls. Moreover, Corporate Governance Statements include only basic information with respect to Risks and Controls. Internal Auditors in most of the cases are not involved in the process as consultants.
- Board and Committees work on Risks and Controls is not explicitly documented in relevant Risk and Control Matrices. Most of the work done is documented in Minutes of Meetings. Interesting to state that many companies never put an Internal Controls item in the BoD Agenda.

- Although constitution and operation of Audit and Risk Committees are more effective than the previous years, they do not play a crucial role in the development of Corporate Governance Statements.
- The latter in some organizations are prepared by the External Auditor which also reviews the Corporate Governance Statements, a clear conflict of interest.
- Executive decisions are not documented in such a way that will enhance identification of relevant risks and control gaps. Very few organizations have developed systems of data gathering and monitoring therefore even if a deviation from standardized practice exist it is difficult to identify and reported through the Corporate Governance statement.
- Most of the organizations adopt the Compliance with the National Corporate Governance Code – only the banks developed their own Corporate Governance Code which results to full compliance for them. One company adopted compliance with the Combined Code of the UK.
- Executives focus on pure compliance with the relevant laws and regulations rather than develop comprehensive information for their stakeholders. Internal Auditors do not focus on the effectiveness and quality of the data included in he Corporate Governance Statements.
- Some of our respondents (Internal Auditors) stated that they are not involved at all in the process of reviewing the content regarding completeness, accuracy, relevance, understandability, comparability, verifiability and timeliness of Corporate Governance statements.
- Those Internal Auditors that involved in the process of reviewing the Corporate Governance statements stated that they apply a pure Compliance with laws and regulations or internal bylaws (such as own Corporate Governance Code).
- It is not favorable for the companies to engage Internal Auditors as Consultants towards the effectiveness improvement of the Corporate Governance statements.
- External Auditors perform a pure compliance role in almost all cases as they limit their involvement in a high level rather than consulting type of review with respect to the improvement of the content of the Corporate Governance statements.
- The regulator (Capital Markets Commission) never performed a Corporate Governance statement related audit. No other body than External Auditor verifies the completeness and accuracy of the Corporate Governance Statement.
- For those companies that they have not developed their own Corporate Governance Code, Corporate Governance statements include only high level information and the majority negative rather than positive statements with respect to Corporate Governance statements.
- Last, but not least no positive or negative statements included with respect to the adequacy and effectiveness of Risk Management and Internal Control systems as a mean to improve stakeholder information.

5. Conclusions

The study makes an important contribution to recent academic research by providing valuable insights into the major aspects of Auditing Corporate Governance Statements as we conclude that Internal Auditors limit their role in verifying the compliance with the relevant laws and regulations rather than play a consulting role towards the improvement of the content and quality of Corporate Governance statements information. In addition, the findings of the study are important from a practical perspective, as enable professionals to better understand the components of internal control systems.

As we have observed there is a positive relationship between Internal Audit and Corporate Governance Statement. Stakeholders believe that the Internal Audit adds value in the Corporate Governance statement and when there is less effective Internal Audit the Corporate Governance Statement is not adequate. In the other side an effective Internal Audit make the Corporate Governance strong.

Regarding Corporate Governance Statements, focus should be driven to develop more rigorous processes on the way they identify, assess, document objectives, risks and controls. More emphasis should be directed in the consulting rather than compliance role of Internal and External Audit bodies towards Corporate Governance statements improvement. Our view is that the relevant laws and regulations may adopt a comply or explain approach based on an integrated National Corporate Governance Code instead of numerous individual enterprise codes, a practice which is permitted according to current laws and regulations.

Executives need to change direction towards an effective presentation of Corporate Governance related statements based on advanced data gathering and presentation that will add value to the various stakeholders instead of pure presentation of mainly negative statements. Also, Capital Markets Commission should play a more audit related role with respect to Corporate Governance Statements. Moreover, External Auditors need to attend training with respect to Corporate Governance statements as a mean to improve their relevant review role. Last, but not least, Internal Auditors should be involved in the process of reviewing the content regarding completeness, accuracy, relevance, understandability, comparability, verifiability and timeliness of Corporate Governance statements.

There are a number of limitations of our study which should be borne in mind when interpreting our findings. The main limitation of this study is that it only examines forty-five (45) companies listed to the Athens Stock Market. Thus, a future study could be undertaken to explore the perceptions of small capitalization listed firms, as well as non-publicly listed enterprises. A second limitation arises from the same methodology which was used, i.e. the method of collecting primary data by using questionnaires. For this reason, in-depth interviews could also contribute into further understanding of corporate governance in different social contexts. Finally, a comparison to the results of similar studies for economies similar to Greece’s would be essential.

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