

Internal Audit and its Role in Corporate Governance¹

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Abstract

One main pillar for the success of corporate governance for any company or organization that is having this career, However, it should be noted that there are major activities of governance are the same activities are essential in this profession.

In the sense that the two essential activities of the governance Crystallizes in the risk control and assurance regarding the existence of Regulatory Control, for that, the audit profession helps to control and manage risks in terms of diagnosis and identify risks on a regular basis.

Ease the evaluation and risk assessment; Assessment of risk management processes Measuring, and monitoring performance, internal communications in order to take corrective action.

As for the assurances of regulatory controls, it is according to the content and the concept of governance, the foundation is to ensure that regulatory controls are in force in any company has been developed to face the major risk of the institution. The management of the company or organization applies supervisory controls. While other participants in the governance (And here is the Internal Auditor) Playing a more role in Supervisory control or evaluation, Where can the Internal Auditor providing assurances about the supervisory controls, and that in terms of assessment of the procedural methods in senior management.

Estimate the regulatory environment on regular basis. Choose examining the effectiveness of supervisory controls. Submissions report of Ratings on the management and audit committees in the company or organization, report should submitted for Evaluations about the management and audit, And Committees in the company or organization. In the researcher, opinion it should not be overlooked the development that took place in the internal auditing standards, which support the effectiveness of corporate governance.

Therefore, internal auditors should be fully prepared to audit the ongoing operations of the company and control systems of accounting, administrative, tactical operational performance in the company, (Ratliff&Reding, 2002, p5. (And showing up extent of compliance in terms of compliance with laws and regulations of the company, So it's a must (in the researcher opinion) internal auditor should possess the skills of analytical

¹ Look at the following value search: Audrey & Dana, What role is your internal audit function planning in corporate governance, Internal Auditing, 21, Nov. 2006, p37-39.

thinking and critical with the need for a full understanding of the threats and risks facing the company's activities, also with the necessity to adherence to the moral career, and the access to take advantage of technological development And knowledge in the performance of his work, In particular under the prevailing world knowledge economy, and the outcomes of all this will be access to the effectiveness unique governance institution in different fields level of local and international.

Introduction

Scandals (J. Cattrysse, 2005, p32-34) that have occurred in the late nineties of the passed twentieth century, to major companies Such as the power company (Enron) and the telecommunications company WorldCom and the other Shook investor confidence and raised questions about how this has allowed large companies to such scandals. Thus, collapses occur so where the boards of directors and senior management executive and the oversight bodies and the internal and external auditors.

And the result was Obtain perhaps the biggest period of accounting fraud in history until then, followed by sweeping regulatory reform.

These serious events have shown critical role played by boards of directors in strengthening effective corporate governance, Especially as they bare the ultimate responsibility for internal control systems in their institutions, where the internal audit function plays a key role in assisting the councils to carry out assignments governance essentially responsible for them, which they should have to answer the following question: are the Board of Directors and the audit Committee emanating from it convinced that the internal audit functions effectively and the efficiently?

What is the Internal Audit?

Internal Audit can be defined as: Independent activity objectively, confirmatory, and consultant determined to add value and improve the organization's operations, and the by helping them to achieve their objectives through a systematic and disciplined Method to evaluate and improve the effectiveness of risk management and control processes and governance.

While the Institute of Internal Auditors (IIA) defined Governance as" Group of operations and structures set up by the Board of Directors to define and guide the management and the follow-up activities of the organization towards achieving its purposes".

Management in ensuring the effectiveness of the internal control framework of the Organization, in both these regards two definitions the function of Internal audit and Corporate governance Council's responsibility to identify, Resulting in that the Internal Auditor shall assist the Council to discharge its responsibilities towards the governance of his organization , This showed the primary role that can Internal audit to performed in helping the Council to ensure the adequacy of internal control therefore becomes an integral part of the framework for corporate governance of the organization.

If you were to look at corporate governance as a system through which the company's management and oversight them through the board of directors, which defines its objectives, tactics and establish a leadership capable of implementing and following the administration of the organization and shareholders of the findings and confirm The contributors to the results and practices, in this subject to the laws and regulations, The role of the Internal Auditor becomes clear, if they were identifying relationships among main employees in corporate governance and Representatives boards of directors and audit committees and senior management, Also apparent in particular critical relationship among the Audit Committee and Internal Auditor, Through the dependency of the initial very closely to one another when reviewing internal controls as required by the rules of governance of the project and its recommendations. For this institution internal auditors make a great effort in guiding its members to be specialists in the governance of the assets of the project and able to help both management and boards of directors together, Time to comment and discussion and training on various aspects of corporate governance in general and especially audit, the institute Internal Auditors (IIA) has

developed ways of Internal organization called: "Professional practices framework", Include ethical standards

(Code of ethics) (IIA,2005,p33)and a group of criteria for professional practice of internal auditing, "The criteria for internal audit as it should be ,they are General standards as they apply to all internal auditors, regardless of the Organization.

However, some standards and consulting practice, recommended by the institution, to deal specifically with aspects of the governance project (IIA, 2005, p1)

However, what are the Implications for Governance Project for the Audit Profession?

While the traditional role of internal auditor is to help the organization to sustain a system of internal controls for financial statements, there is a wide range of opportunities and responsibilities and potential have emerged in the following Governance Project, one of It was the appearance of the ultimate challenge in front of the Internal Auditor representatives to explore ways to provide the necessary level of assurance to be reasonable and expected by all stakeholders in the governance mentioned, A summary of the Internal Auditor has become a need to be "appointed" of Organization in the process project of governance He is one of the most important sources of information to the task of Audit Committee that leads to increase their efficiency.

It is based at the same time the work of double, He follows the direction of the company on the other hand follow every aspect of internal control, Including rules, regulations, laws and expectations, risks and opportunities, and what compounding the burden of auditing, the developments experienced by companies, and queries growing for people with interest, as well as the requirements for confirmation, not only for financial reporting standards, and even non-financial as well.

Thus, the internal auditor becomes an integral part of the process of governance as the project has already been said above, the role of auditors is vital for the governance. And increasing the effectiveness of the Board of Directors and senior management when realizing the importance of the audit process and to take measures to help the development of the independence and hardness of auditors, And investment of the findings of the auditors in an effective and timely addition to ensuring the independence of the Audit Committee related to the Governing Council who should be aware of and acknowledges that the internal and external auditors and agents are the critical and worthies.

Finally, the effective communication is one requirement of proper governance of the project, at the same time it's the key to strengthening the relationship among the internal auditor and external auditor and the Audit Committee.

In this sense, we must look to the Audit Committee and not management as the main customer for the internal auditor.

Job of the internal audit should look to the Audit Committee as a customer, whereas the Committee to consider internal audit function is a vital source of information, It has become clear in recent years that the Internal Auditor and the Audit Committee were developing an unique relationship characterized by special aspects such as "lines of reporting, also "the protection of autonomy." This does not mean in any way, that the internal auditor is working in isolation from the entire administration. (J. Cattrysse, 2005, p36).

So that he can "add value" to the organization, in parallel, he should achieve the proper cooperation among him and management, this can be illustrated by the fact that the internal auditor would take into consideration the annual audit plan. The management will diagnose any risks or matters relating to the control it.

The Nature of the Internal Audit

Specify the nature of the internal audit role to play in strengthening the oversight function of corporate governance.

The importance of this growing trend in recent years, which advocates the need to improve oversight of the performance management and the department itself, it can be attributed the appearance of this trend to three factors, namely: (Sadani 2005, p. 188-190)

1. Increase in cases of failed companies and bankruptcy.
2. Change in ownership patterns of companies.
3. Changes in the regulatory environment in which companies operate.

To that was noted in recent years appearance numerous cases of failures giant companies Especially in the United States of America had drawn the attention of investors, legislators, researchers and others interested in the areas of Business and Economics Which were held several studies and researches that have interpreted the reasons for this collapse Where they found that the main reason is the weakness of supervisory performance of companies, A result of deficiencies in the independence of boards of directors as well as from low quality of the performance of audit committees or the absence of internal audit function in these companies, The other hand, that significant changes occurred in the patterns of ownership of the companies, Especially shareholding companies as a result of the transformation of ownership of shares from individual investors to institutional investors such as investment funds and banks and other, This led to concentration of ownership in the hands of a small number of investors who have become an effective impact on the Board of Directors of companies, These investors began calling for the need to change in the specifications and administrative procedures and oversight methods used by companies to achieve the required protection to their interests.

Developments have led the business environment surrounding the various companies and organizations to the need for regulatory authority intervention and the legitimacy to ensure the protection of the rights of investors in these companies and organizations.

The most prominent manifestations of the changes in the regulatory environment in which companies operate and organizations affect are:

1. Report of the Trade way Commission in 1987 and which has developed several recommendations to reduce the incidence of fraud and manipulation in the financial records of companies, and to improve oversight and performance of control in companies

As well as the need to improve their administrative performance by the presence of independent audit committees and effective with direct supervision and accurate for these committees to ensure the independency of both internal, external auditor.

2. The report of the committee of the National Association of corporate managers in the United States of America for 2000 Which relates to audit committees have been the most important guidelines to clarify the work of these committees in order to achieve continuous improvement in supervisory performance in companies, particularly to the contribute of them, The control and supervision of financial markets in the United States have adopted this guidance and have been working with it, since 2000.
3. Issuance of many recommendations of the institute internal auditors in April of 2002 and presented to the stock markets in New York, which included the need to adhere to the principles of performance supervisory And disclosure on the evaluation of the boards of various companies for internal control systems with the emphasis an important point, namely the need to establish and to maintain the internal audit function independently with the provision of adequate resources ,and qualified people for it.
4. Passage of the Law (the Sarbanes) from the U.S. Congress in mid-2002 and that because of collapse in the giant companies which made several rules that must be committed to the shareholding companies in terms of the need to establish audit committees in all contribution companies With requiring its administrations to issue a report within the annual financial reports emphasize the responsibility of the Governing Council on having an internal control to Be carried out very effectively and efficiently with an emphasis on the need for the independence of these committees in all companies.

5 - In Jordan draft guide has been issued to the rules of corporate governance for listed companies in the Amman Stock Exchange in September of 2006 which showed the functions and responsibilities of boards of directors of those companies with a mission statement and terms of reference for audit committees of public companies. As to strengthen the supervisory of the performance of these companies and protects the interests of investors. (Jordan Securities Commission 2006, p. 5)

The Role of Internal Audit in Improving the Performance Supervisory in Various Corporations and Organizations

Reference to the definition of the American Institute of Internal Auditors (IIA), who identified the Internal Audit That (activity evaluation and an objective and independent advisory is designed to add value and improve business operations. It helps companies to achieve their objectives by providing a regular entrance to assess and improve the effectiveness of risk management and oversight processes involved in supervisory the performance of the company). This definition of internal auditing shows the importance of it, it is the cornerstone of the supervisory performance of a company through assessing and improving the effectiveness of risk management in the company and to provide assurance on the adequacy and effectiveness of supervisory procedures and methods used and adhered to, The efforts of the Internal Auditor is a fundamental pillar had taken advantage of all people who are involved with performance supervisory in the company including the Audit Committee and management.

It is therefore clear that the role played by internal auditors structured as follows:

1. Assessment and risk analysis and follow-up control systems in any company or organization.
2. Test, check, and verify the extent of compliance with policies, procedures, and systems in place in companies.
3. assurances provided by the internal auditor for each of the Board of Directors and the Audit Committee and senior management on the risks faced by companies and the extent to control them, and the statement of the strength and effectiveness of performance supervisory in the companies.
4. Provide recommendations to improve the operations, policies, and procedures when the appropriate opportunity is available to improve performance of supervisory within a company.
5. Provide advisory services related to operational aspects to improve the effectiveness and efficiency of the company's operations.

The concept of internal audit includes aspects of the previous five, but the practice may vary according to the purpose of companies and organizations and their form, structure and size, While interested in companies aims to achieve the profit of the five constituent elements of the concept of internal audit the other hand, we find that some units of government is only interested in aspects related to the extent of compliance with policies, procedures and regulatory systems, It also differs with the use of the concept of internal audit in terms of structures and methods according to control procedures and large size companies, both companies were large companies than in small-scale varies as well as in public shareholding companies than in individual companies.

Development of Concept of the Internal Audit with Appearance of Concept of Corporate Governance

The rapid developments of this profession has already begun since World War II, This profession was related only to matters of financial and accounting, But this profession is now starting to deal with all the operational activities of the companies and their evaluation, This development led to this profession to be concerned with the services and extensive other related advisory services and confirmatory.

Before going to talk about Development of the concept of internal audit as a result of appearance of the concept of governance, we must show that this concept has been developed as a result of the needs of society and the business and management of those companies, We note that the concept of internal audit, first defined as: (independent evaluation activity within the organization primarily concerned with accounting and financial fields, but it is possible to deal with some issues of operational nature), It is understood from this definition that the internal audit function was only limited, mainly on financial and accounting matters, But after that, the American institute of internal auditors to give another definition of it: (independent activity inside the organization to review the accounting operations and all operations of the Organization in order to serve the management), This involved the definition of service management also gave the green light for auditors to review the other operations may be needed to the organization in addition to accounting matters.

But after that we note that ATI has issued a more comprehensive definition of the former definitions, where showed (Internal Audit is an independent activity within the organization to review all their work in order to serve management).

Thus, the need to scroll the job, and dealing with all the operations, whether accounting, financial, or other, So that has become, according to the definition operations and financial accounting part of the Special Activities of control to serve management.

The previous definitions were limited to serve management, however arisen another direction, stressed the need to the inclusion of this profession to serve other parties have a relationship with the company They are the owners of different interests, Therefore, the concept of auditing developed into (Internal Audit: an independent function within the organization aims to serve the organization as a whole by examining and reviewing its various activities)so this occupation became to concentrate not only on the management but on whole organization, With improving the work of the Internal Auditor and services to a new height and to allow the field of internal audit that expands and includes all areas involving the interests of stakeholders in the organization at different levels.

This service may materialize to help all members of the administration, whether in organizations or companies, providing them with all the statements and analytical information and advice for them and all the recommendations for accounting activities it could be reviewed.

This definition has remained up to the collapse of giant American companies (Xerox & Enron) which required the American institution of internal auditors and the especially after the appearance of the concept of corporate governance as a result of these failures to the need for updating the concept and taking into consideration the concept of governance within the definition of internal audit, the concept became as follows (activity affirmative and independent consultant and an objective designed to enrich and develop management processes and to assist them to achieve their goals in a systematic methodology to evaluate and develop effective risk management and its controls and procedures for governance institutional).where this new concept concentrated on governor procedures(governor process) As well as on risk management (Risk Management),and it is considered one of the set of rules and methods that must be followed by the internal auditor to prevent appearance of corporate corruption, as well as the emphasis on the new role of internal auditor in terms of considering him the effective shareholder in confirmation services (assurance) and advisory services (consultant).

Therefore, these services considered a new target for the internal auditor. In addition, setting out the activity is not limited to the examination and analysis in order to detect errors. However, moving to the most comprehensive goal which is the development of management processes and help them to perform their work efficiently and effectively, it means that The nature of any internal audit has become advisory rather than an executive And it is an independent regulatory tool Stretching for the purpose of evaluation of all other control systems adopted by the Department, That is the work of internal auditors, in the field of risk assessment will include Without doubt the risk of financial assessment in companies or organizations, the development of internal auditing standards through the appearance of the concept of corporate governance,

In the Past the Criteria for Internal Audit is divided into Five Key Criteria in the Following Manner: (Kachen, 2002, P. 9)

1. **Neutrality:** This criterion focuses on the independence of the Internal Auditor on the activities of the audited depending on certain conditions set by the institution for it.
2. **The professional competence:** These standards require the management of Internal Audit to the appointment of auditors with professional competencies and rehabilitation, and training and assigning duties according to their competencies.
3. **Scope of work:** These standards require the need for the auditor examine, and assess the adequacy of the scope, and effectiveness of internal control, and the extent of the efficiency of the performance of the tasks, and responsibilities before determining the scope of work In order to verify the availability of safeguards, and checks to guarantee the company or organization achieve its objectives effectively, and efficiently, and also the ability of companies or organizations to apply controls and extent ability to protect its assets, and exploitation available efficient resources , and high effected.
4. **The performance of the audit process:** This includes the standard how to do planning for the audit, examine and evaluate information, the delivery of the results, continue to implement the recommendations.
5. **Internal Audit Department:** Shows the nature of duties and responsibilities of the Department of Internal Audit and their relationship with each of the internal auditors and the Oversight Committee, and the various departments, and identify lines of authority and responsibility.

This is a summary view of the criteria However; this summary was before the major collapse of the giant American companies. In addition, the emergence of the concept corporate governance, which prompted the institute of auditors seriously to consider developing updated framework to audit in line, with changes in the function. In addition, has already been setting new standards in line with these collapses, and the emergence of the concept of governance, where the setting of new standards has been done in regard to what follows: (IIA, 2005, p1-16)

1. **standards of qualities:** interested in the character and qualities of management that is in the process of Internal Audit.
2. **Performance standards,** describing the internal audit activity and how the performance of the audit processes with indication, and how do we measure this performance.
3. **standards of implementation,** these standards to distinguish between two types of internal audit activity (activity affirmative) and(Activity Consultant), where it distinguished between them by placing the letter (A) Assurance affirmative for the activity and crafts(C) (Consulting) consultant for the activity.

Summary of the Development of these Standards could be given as Follows

1. Descriptive criteria (features) include

Goals, responsibilities and powers of internal audit, where dealing with the job description of the Department or the Internal Audit Department in each company or organization Could be given the content of these standards with the numbering of the vocabulary of its own .

In the following chart: ²

Goals and responsibilities and powers of Internal Audit

- | |
|---|
| $\left\{ \begin{array}{l} 1100 \text{ independency and objectivity} \\ 1110 \text{ organizational independency} \\ 1120 \text{ substantive individual} \\ 1130 \text{ threat of independence and objectivity} \end{array} \right\}$ |
|---|

² For further clarification: Amr Yassin, the independence of the internal auditor between theory and application in light of corporate governance, the first Arab Conference on Internal Audit in the context of corporate governance, 2005, p. 316-322

1200 (professional competence)

Should perform the process of internal audit with all efficient and high professional standards, and this includes the following sub-criteria:

- Professional competence
- 1210 professional
 - 1220 care of the necessary professional
 - 1230 Continuing Professional Development
 - 1300 (quality assurance and improvement programs)

This criterion is concerned about the quality of the performance of the internal audit department in the companies through the development of audit programs or follow-up to the performance of auditors and attention to the continued development of the internal audit team. It also includes the following sub-criteria:

- 1310 Assessment quality programs
- 1311 internal auditors to perform
- Quality control in 1312 external evaluation of the performance of auditors
- And program development report for 1320 quality programs
- 1330 to use (the words We have audited in accordance with the standards) any commitment to the standards of auditing
- 1340 disclosure of non-compliance (non-compliance with the standards of Internal Audit)

2. Performance criteria include the following main criteria

2000 (Management activities of Internal Audit), where the interest of this standard for the planning work of the Department of Internal Audit and the necessary cooperation and coordination in the preparation of the plan includes the following sub-criteria:

- 2010 Planning
- Management activities of the 2020 approval of the plan (contact approval)
- Internal Audit 2030 Resources Management
- 2040 Policies and Procedures
- 2050 Coordination and Cooperation
- 2060 report to the Governing Council and senior Management

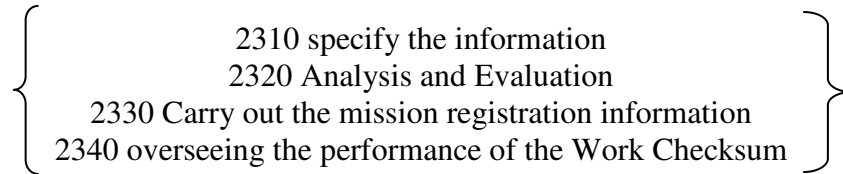
2100 the nature of work, in this standard is to show the role of the audit work to improve the factors that help companies manage their performance effectively and more efficiently and how to develop corporate governance and business standards include the following subparagraph:

- 2110 Risk Management
- 2120 Control the nature of work (controls)
- 2130 Corporate Governance

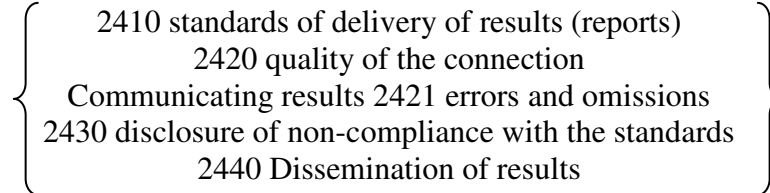
2200 planning the audit process (audit planning mission) These standards deal with the most important considerations that must be taken when planning an Auditor to the task of auditing in terms of defining the objectives and scope of the audit criteria include the following subparagraph:

- 2201 audit considerations
- 2210 auditing mission objectives
- auditing planning process 2220 the scope of work Checksum
- 2230 auditing resource)
- 2240 work program of auditing mission

2300 implementation of the mission (performance work), this standard takes into consideration the things to be taken by Auditor in the performance of work in terms of the Checksum collect and analyze information and evaluate it and includes the following sub-criteria:



2400 delivery of results (report): These standards show how to prepare reports, Transfer the results to the relevant authorities



2500 Monitoring of achievement (the follow-up programs), this criterion is concerned to monitor the implementation of the recommendations contained in the report.

2600 Management satisfied with level of risk (acceptance of risk management), cares about this standard specify the responsibility of management about not taking the recommendations of the auditor and the consequent risks because this and what are the most important actions to be taken by the auditor in this case.

After presentation of the most important developments of the standards, we must clarify the impact on governance, and by debating the most important criteria for the principal or the subsidiary affected.

1. Qualities criteria: the impact of this concept emerged when speaking for the care of the necessary professional (A11220) where the auditor must abide by the professional care necessary to take into consideration the scope and the adequacy and effectiveness of risk management and governance and oversight.

1300 (Emphasis on quality and continuous improvement) the auditors should design Programs that allow improving the internal audit activity and improving corporate governance.

2. Performance Standards: When you talk about planning (C 12010) we note that the standards showed that the internal auditors to look in order to accept suggested consultation based on targeting improvements in risk management and institutional governance.

- submit the report to the Board of Directors and senior management (2060).

Internal auditors to raise their reports and periodically to the Governing Council and senior management, including the goals of internal audit activities, authorities and responsibilities related to plan of work. The report should include as well as the fundamental issues of risk and control issues and issues of institutional control.

- The nature of work (2100)

Activity of internal audit should include assessment of contributing to the improvement of risk management, oversight and control operations using the institutional entrance systematic and disciplined.

- (2120) Oversight

(A 12120) Based on the results of risk assessment should serve the internal audit activity to assess the adequacy and effectiveness of oversight tools, which includes control of the institutional organization and information systems should include:

Reliability and integrity of financial information and operational efficiency and effectiveness of operations, safeguarding of assets, compliance with laws and legislations and contracts signed.

- (2130) institutional governance

Internal audit activity should evaluate and make appropriate recommendations to improve the operations of institutional control to accomplish the following objectives:

Strengthening of appropriate ethics and values within the organization, confirmed the active management of organizational performance and accountability, activate the delivery of information about risks and Oversight in appropriate areas within the organization, activation of the coordination of activities and delivery of information between the Board of Directors and external and internal auditors and management.

- (2210) goals of the mission:

(C 12210) must address goals of strategic mission and risk Oversight tools and processes of institutional control that is the agreement with the client.

- (2440) dissemination of results:

(C 22440) is to identify issues relating to risk management, oversight and institutional control during the mission, advisory and if those issues are of great importance for the organization should delivered to senior management and board of directors.

The researcher finds that this development took place on internal audit standards will no doubt contribute to support the effectiveness of institutional governance, especially we are in the twenty- first century and internal auditors should be ready for the acceptance of a complete audit of all current operations for any company or organization. In addition, must also be aware of and fully understand the control systems of accounting, administrative and strategic and operational performance in the collection of general and specific information to those companies and organizations, In addition to their knowledge of accounting information systems (AIS).

And managerial, and also the need for knowledge of extent of commitment and compliance with laws and regulations relating to its performance, this requires the internal auditor to have the element and an important resource.

It is the intellectual capital which helps this to having the skills of critical thinking, analytical and full understanding of the risks, opportunities and threats related to the activities of the company or organization, and the need to focus on commitment to the ethics of the profession and take advantage of advanced technology in the performance of his Checksum.

Services Provided by the Internal Auditor and the Concept of Institutional Governance and Intellectual Capital ³

Institutional internal auditors of America confirmed that the activities of internal audit conducted in different legal and cultural environments levels. Also that these activities take place within companies and organizations differ in terms of goals, size and structure, Therefore, the development taking place in the environment surrounding this profession in addition to the change and the evolution in the same profession that has led to the need for important amendments in the internal audit function.

In order to reach to a higher goal which adding more value to the audited companies.

In addition, associated with the selection of strategies and evaluate the goals, whether the operational or accounting, optimal use of technology Management of company the size of the risks that could have exposed those com⁴panies or organizations.

Therefore, the institutional has issued a guide to assess the quality of services provided where it was amended several times to match the size of evolution in the Occupation Starting from the first version in 1999 and then the amendment in 2003 and finally the last amendment in 2006 (fifth edition of this guide)where the directory focused on the services provided by the internal auditors and of the following:

³ For further clarification please refer to: Ahmed Helmi collection, the U.S. standards for the Professional Practice of Internal Auditing, Journal of the auditor, No. 62-63, September 2005, Jordan , p. 8-9.

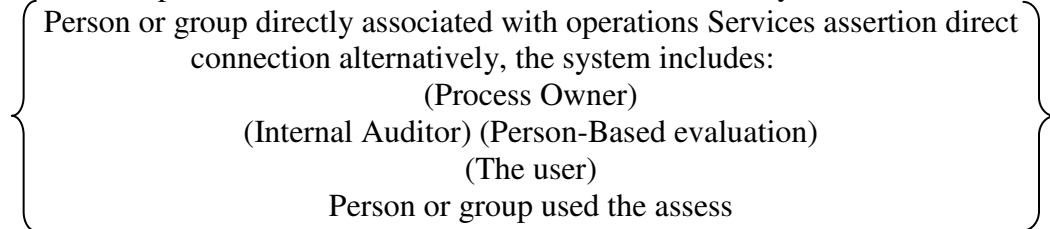
- A An assertion Services (Assurance services)
- B Advisory Services (Consulting services)

However it is important that these services may have influenced the concept of institutional governance must therefore statement this effect by taking each service individually to learn the importance and the impact of this service.

Services Assertion (IIA, 2005, p14)

The definition of services confirmation as an objective assessment of the evidence provided by the Internal Auditor to express an independent opinion to the operations or system, or other topics relevant to the subject audit.

The nature and scope of this service will be no doubt, determined by the Internal Auditor.



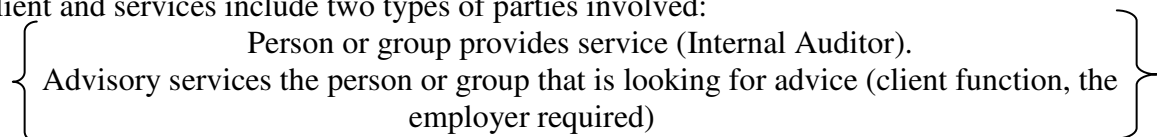
However; the important question is; what is the impact of these services on institutional governance and intellectual capital?

To answer that, we should address the scope of affirmative activity (Scope of Assurance Activity) where we note that the goal of affirmative activity extended to include internal audit and administration to determine the extent of its ability to adjust to standards of internal audit in terms of goals, policies and procedures, and the impact of this service on the concept of governance in terms of:

1. Focus on risk control and carry out on operations of institutional control and planning methods related to the audit In order to make sure that all the activities of Internal Audit will work to add value to companies.
2. Genuine integration between the Occupation and operations of institutional control, which will include the relationship among all various parties associated with control, And focus on the need to organize goals of this Occupation with goals and strategies to all companies and organizations.
3. the need for Employees in the activities of Internal Audit on development of audits operation To add value to the activities of the Audit Here, researcher finds that must focus on increasing element of knowledge and experience, These employees possessing component and an important resource Which is the intellectual capital, which adds value to the activities of the audit.

Advisory services (IIA, 2005, p15)

Institutional internal auditors has defined the client bases advisory services as services on a specific request, when you perform tasks and set targets, advisory services and their nature and in agreement with the client, any sense that the nature and scope of the advisory function is subject to agreement with the client and services include two types of parties involved:



when performing this service, internal auditors must maintain their objectivity because it considered the foundation upon which it depends When the performance of this service.

The question now is what is the impact of this service on corporate governance and intellectual capital?

To answer that we should refer to the list of services identified by the American institution internal auditors, when they are working as employees in companies and include:

1. Establish an effective job for internal audit function by providing best practices for internal audit for each of the Audit Committee and management.
2. Improving the relationship among management and each of the Audit Committee and partners and by developing improved relationship with the internal audit activity with the other parties that have an interest in the company by improving the operations of corporate governance shared by all parties are involved in the operations with the addition of a unique value to companies.
3. Corporate governance and control processes, risks, and through the integration of the internal audit activity as the activity of an active participant in corporate governance, as well as its role in risk assessment, management, and oversight of the company.
4. Design the internal audit profession must provide individuals with knowledge and know risks, and how to do various review by providing a database to provide them with information and plans, ongoing development and this is the researcher element knowledge of intellectual capital for these individuals to take advantage of available databases for them.

The role of Internal Audit in the Creation of Value for the Project

We may consider tactical project is integration between Internal Audit and the concept of value-added organizations that exist in order to create value or benefit for benefit of owners and other stakeholders, clients and customers it provides the concept the purpose of the existence of organizations.

The value provided through the establishment of these organizations to develop products and services using productive resources.

The internal auditors through the collection of information in order to try to understand and assess the risks, by the development of important perceptions for processes and opportunities to make improvements can be greatly beneficial for their organizations.

This valuable information may reformed in advice and tips, and written recommendations, or through other products, to be communicate in appropriate way to management or employees concerned.

The (Added Value) is a main Concept and critical requirement for each organization. The traditional method was to get to it a project that converts inputs. Through the operations of the product to sell in the market values, exceed long-term input costs including the costs of Organizer himself.

We have mentioned earlier that the internal audit includes two main types of activities are:

Assertion (Assurance) and Consulting and (Counseling) are two activities that focus on adding value, Affirmative activity is the core of the internal audit, referring to the three pillars underpinning the last in addition, they are risk management, control, and governance. Confirmation services, the test is objective evidence in the purpose of providing an independent assessment of risk management, control, governance, and operations of the project. The advisory services are services other than non-confirmation services, which provided to assist the Department to achieve its purposes. Therefore, the three criteria of risk management, control and governance criteria closely related to each other, especially between the control and risk management, this makes the internal audit driving through those activities to the results of three: Improve processes, and value adding and achieving the outcomes of the three goals are closely interrelated, Value-based management, from a financial perspective.

The Perspective of Knowledge Management, and Intellectual Capital, and its Relationship with Internal Audit.⁵

Seen from the above the critical importance of value-added for the Internal Audit, Which is related to value-based management. The focus was on the accounting profit as the most important measure of the success of the project, the traditional method for measuring the value of the project, which may become subject to question in addition to the question about the role of internal audit to do so.

Go to the modern theory of the project that the primary objective of the project in all its decisions are to increase the market value of the project, so that this increase in turn raises the value of wealth owners, Here is the next important question is whether the work of the Governing Council on the development of the value of the capital owners and creditors alike (MWKotlarski, 2006, p2-10).

The Goal of Value-Based Management is Concentrated in the Management of Routers Value (Value Drivers) of the following

A period of growth and value growth rate of value, profit margin operations, and additional investment in fixed assets, as well as assets and current income tax rate, and the cost of capital, as well as managing customer loyalty, Joint production and operations management, and financial management and control.

These guidelines differ from one project to another, but the oversight of the project (Corporate Control) is factors affecting the value and are included in the context of financial management that determines the ratio of debt to contribute.

In terms of the perspective of value must be concerned about shareholders and creditors to maintain control measures and appropriate financial controls mean, here are some actions aimed appropriate, Note that the financial control based on financial management And control are the responsibilities of institutional supervising bodies, such as boards of directors and other than that stipulated in laws, Supports this corporate oversight controls carried out by management.

From the perspective of control to be co-managers responsible for overseeing the organization as it was part of their activities from the fields of planning, regulation and incentives, control and represent the activities of audit committees and internal audit part of the foundation of the regulatory environment.

Because the project governance and risk management is one of the pillars of the internal audit, and therefore the motives of the directors or the value of the project, so they fall within the value-based management.

We consider internal audit for a particular project as a work activity on the stability of cash flow from operations and to prevent any sudden event of an adverse impact on the company's position.

The value-based management focused heavily on financial factors affecting the process of creating wealth.

It may be concluded from all this from the perspective of shareholders that the effective exercise of the practice of internal auditing in a specific project must be regarded as an important factor working to stabilize the revenue before interest and taxes.

Therefore must provide the independence of internal audit to maintain the practices of departments and higher value.

It is important from the perspective of managers in the value that internal audit activity should be considered as a very important factor which helps to reduce the cost of capital, which leads to an increase in market value of the project.

⁵ Search values see the following: Todd A. Shawver, Knowledge Management: A Corporate Governance Tool Internal Auditing, July, 20, 2005, p21-25

Finally being now emphasizes importance knowledge management and role intellectual capital when discussing based management value.

There is a tendency now that intangible assets (which are often those that are not counted as elements of the assets in the general budget) Taken to play a critical role in the growing success of the project in the future. It May include such assets, knowledge and qualifications of the investors and the culture of the organization and information systems knowledge or relationships with customers.

There is no generally accepted model on the intellectual capital and knowledge management, there is of the opinion that intellectual capital is something managed through knowledge management. Some of the concepts and tend determine the value of intellectual capital as the difference between the market value of the project on the one hand and total assets of the other.

While this radical idea there is to go to that knowledge is not something can be able to managed, because education is the process of personal or individual.

Therefore, it is difficult to generalize around If two people listened to the same information, they learn to define two different things; Researcher finds that no matter how an understandable doubt concerning the correct understanding for intellectual capital and knowledge are and how to measure value. Internal Audit has a role in that internal auditors have an important stake in promoting a culture of the company, which tend to open communication, and information sharing, and respect for all employees regardless of their rank in the organization, This commitment is very largely the result of the fact that the internal auditors experience in contact with all levels. Experimental controls may need to cooperate with the staff auditors in the reporting and delivery of results, which generally means professional contacts with senior management and auditors should work with each user with the same professional way. This task is very basic, but of course, it is also difficult.

Therefore, we find, after the passage of those standards of modern internal audit in 2003, Accounting thought Checksum has begun changing toward changing the traditional role of the internal audit function So that all activities developed becomes an economic value At the same time imparts new skills on the behavioral and personality of the Internal Auditor.

Bottom line

That all attempts made by the academies and professional organizations and on the work of internal audit designed to support corporate governance, In addition, can demonstrate that the work of the Internal Auditor that lead to support governance and in view of the fundamental axes for the new concept, which summarized in the following:

1. It is activity independent of the executive management of the company or organization Because of the desire to subordinate to the Audit Committee the company or organization it also presented his reports to this Committee and to the shareholders and owners when necessary.
2. It is an objective activity is being carried out by people experienced professionals and highly skilled, whether from inside or outside the company or organization, and allow external parties to provide the Internal Audit Service Emphasizes the quality of the service support on the one hand, On the other hand supports the reliability of financial information, and non-financial and establish the rules of transparency and accepted.
3. Extend the scope of internal audit services to include advisory services, next to the assertion and testing and evaluation in this there is explicit confirmation to serve the shareholders, customers, and that may go beyond the tasks in this context, the traditional, and the intervention of the Department of risk assessment and management and support system of corporate governance.
4. The presence of the internal audit strategy designed to add value to the organization and improve its operations more than add value to the executive management of the company or organization, And a strategy for internal audit designed to add value to the organization and improve its operations more than add value to the executive management of the company or organization.

5. emphasis is traditionally regarded as elements of the internal control system is a necessary input to help business organizations and companies to provide a good system and acceptable to corporate governance and accordingly it has become necessary to the Internal Auditor directly to new tasks and responsibilities in the areas of risk management and control system and governance.
6. separation of the professional competence of auditors entrants, based on the knowledge and skill for their care professional based on their ability to focus on business goals and build strategies explicit and transparent implementation of the activities using the technology of modern information and here the focus may be on the need to provide an important and unique duty was acquired by internal auditors, but a Intellectual Capital
7. expand the circle and the background of internal audit to cover those responsible for the system of corporate governance on the one hand and cover the subject of this system in terms of other.
8. The need to provide a set of attributes and qualities and abilities that would make the process of Internal Audit (intellectual capital), namely:
 - A innovative thinking and critical and analytical
 - B risk assessment and management.
 - C Early contact and the development of the forces of persuasion to the checker.
 - D Focus on the moral qualities in the exercise of the profession.
 - E A clear understanding, adoption, analysis and evaluation of the strategies the company or organization, and full knowledge of modern information technology.
 - F The ability to judge and give a technical opinion neutral.
 - G The ability to understand and connect.
9. the need for the auditor to review the principles of corporate governance relating to the protection of equity and equal treatment for all shareholders and the role of stakeholders and transparency and financial disclosure and the responsibilities of the Governing Council and thus to provide a conviction of acceptable professional about the availability of these rules governance of any company or organization with a focus on identifying weaknesses in the system and structures of any company or organization by the lower elements of each of these principles.

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