

ECONOMIC CRISIS IMPACT ON CORPORATE GOVERNANCE & INTERNAL AUDIT: THE CASE OF GREECE

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Abstract

The 2007 was the year that the global economic crisis broke which resulted in the creation of a recession situation in almost the entire world. During this period, there were significant weaknesses in corporate governance, which refer to the practices followed by the board in risk management and shareholders' activism. The rapid growth in new products and changes in market structure can affect the development of processes and infrastructure of risk management. It is generally accepted that risk management, prevented businesses to fully identify the nature and severity of the recent economic crunch that the market faced. As the financial crisis is increasingly affecting the economic activities, the basic objective of internal audit directors is to find ways to add value to the business. The adoption of ERM should not be panacea for effective risk management, as well as empirical evidence suggests that the application does not indicate the existence of a protective shield. It should be noted that internal audit is a subset of risk management and may not have received the attention it deserved, despite the fact that the ERM is already running. Regarding the role of internal audit in the financial crisis, it needs to assess business activities, strategies, and thus the risk posed to business. Therefore, it should focus on issues such as the evaluation of existing business capabilities, collaboration with other risk and control functions, participation in meetings with major shareholders, assisting in business development for short-term strategies, etc. The purpose of this paper, is to record the current situation regarding the mode of interaction of the economic crisis in corporate governance and risk management. This is achieved by conducting research which underpins the distribution of structured questionnaires in Greeks professionals. In this way, it is presented a substantial imprinting of Greek views on a number of issues arising from the investigation of the above relation. In order to gather as much as possible essential information, it is performed a comparison of these global positions, by surveys carried out by the IIA, which had almost the same content. The conclusion is that the current economic conditions require a more effective form of corporate governance, while the three main weaknesses mentioned above are the areas that more focus should be given. Additionally, the most important factor that could highlight all risks in time is to perform audits on liquidity, capital and balance sheet consolidation. Still, there is a view that the ERM failed to recognize timely the danger of imminent economic crisis. Finally, budgets on internal audit have increased significantly, both in national and international level, while in the future the internal audit itself should have as a priority to consult the board, in order to identify, manage and monitor the key risks.

Keywords: Economic Crisis; Corporate Governance; Internal Audit; Greece

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1. Introduction

The ninth of August 2007 marks the great outbreak of the financial crisis in the U.S.A. when an important part of the population could not meet loan obligations that originated from sub-primes (Poulter and Sims, 2007). The "bubble" in the real estate market in the U.S.A. which "popped" in 2007, caused the destruction of many financial institutions worldwide (Simkovic, 2009). A

significant institution, BNP Paribas, deteriorated the situation due to the fact that that it ceased its activities regarding three hedge funds, specialized in mortgages in the U.S.A. (Elliott, 2011). The inability to collect accounts receivable of U.S.A. banks by borrowers of sub-primes, led to the defaulted obligations in coupons, values of bonds and CDOs in which many European banks had invested. The liquidity problem caused distrust in the payment in case of a bank would borrow from

another, leading to increased interest rates in the interbank market. A possible application in case of a Greek bank borrowing from another one was both difficult and expensive, meanwhile this cost rolled over to customers, along with increases in Euribor (Poulter and Sims, 2007).

The initiate of reaching a solution came a year later when the U.S.A. government allowed the investment bank Lehman Brothers in bankruptcy. After its collapse, the idea that all banks were "quite big to fail" started to fade, as a result each bank was considered dangerous. Within one month, the threat of a domino effect of the global financial system caused the interference of Western governments by granting huge amounts of capital into banks to prevent their collapse. The banks were rescued in the ultimate moment, but it was too late to prevent the free fall that had already begun in the global economy.

Once the IMF and the European Union announced that they would provide financial assistance to Greece, the issue was no longer the solvency of banks but the solvency of governments. The budgets deficit were swelling during the recession, mainly not only as a result of lower tax revenues and rising welfare costs, but also because of the budgetary measures announced in the winter of 2008-09 (Elliott, 2011). Six years after the outbreak of the financial crisis, Greece has to address its own serious economic issues. At the end of 2009 the global economic crisis turned into European and, thus, Greek too; consequently, it intrigued the rating agencies and the markets in Greece's weaknesses and in the imperfections that the structure of the eurozone presents. In 2009 Greece stopped to enjoy low interest rates and high growth and entered the vicious cycle of high interest rates, loan denial and indefinite recession (Hardouvelis and Gortsos, 2011).

According to the literature review the root causes of the financial crisis are (Travlos, 2011): (1)the irrational use of securitized mortgage loans (Securitization), (2)excessive use of loans (Financial Leverage), (3)the incorrect classification of credit risk from relevant organizations (Bond Rating Agencies), (4)the non-effective remuneration system of the executives, (5)inadequate supervision of financial system and lack of transparency in the balance sheets and (6)finally the weak corporate governance in financial institutions.

The global financial crisis has exposed a number of 'concealed' economic conditions which are usually confined to the regulators and investors on Wall Street. These conditions are the basis of the effort to understand and resolve the economic crisis and contain: (1) the systemic risk, (2) the deleveraging, (3) the pre-cyclicity, (4) the preferred equity, (5) the Collateralized Debt bonds

(CDOs) and (6) the credit default exchange (CDS) (Nanto, 2009).

2. The role of corporate governance in financial crisis

The crisis in the market of sub-prime in the U.S.A. and the liquidity constraint had significant impact in many financial and banking institutions around the world. Interest on late payments on mortgage loans with higher than prime rate began to rise in the U.S.A. in 2006, when various consulting organizations began doubting about the future. In mid-2007, credit spreads began to rise and the international credit rating agencies announced the first significant declines as they began to excite the first doubts about the degree of risk in which many investors were exposed because of their investment. It is a fact that the boards of many financial institutions faced competitive conditions and permissive regulatory environment (OCED, 2009).

One of the major causes of the financial crisis, according to Professor Jang, is the failure of corporate governance. Transparency and accountability are the two basic principles of the CG were violated by the investment and commercial banks in the developed world, which resulted to the crisis. All risk management and financing mechanisms are founded without any regulatory mechanism. In fact, the current crisis and the Asian financial crisis of 1997 have a common failure cause of corporate governance. The core of the problem is a crisis of liquidity, not insolvency. All Asian economies have made significant progress in the CG after the crisis. However, this is limited mainly to the introduction of new rules and regulations, without particular attention to their application. For example, on a board of a company there are some independent directors but the critical factor is the influence they exercise (Jang, 2008).

A recent survey (Erkens et al., 2012) provides empirical evidence on how corporate governance affects the performance of financial institutions during the financial crisis. The current economic environment has special importance in the evaluation of corporate governance as well as indicates that business lack an effective corporate governance and mainly in financial institutions that comply with local regulations and corporate governance models as they characterized them as best practices (Moxey and Berendt, 2008). Another significant part of the survey mentioned, is that despite the fact that all businesses have been affected by the crisis, it was found that firms characterized by higher institutional ownership and more independent boards had worse stock performance indicators in relation to other companies. This is because (1) firms with higher institutional ownership took more risk before the crisis, which led to heavy losses for shareholders,

and (2) firms with more independent board members raised more owners' equity during the crisis, which led to a transfer of wealth from existing shareholders to debt-holders. The results show us that corporate governance had a significant impact on business performance during the crisis by taking risks and financing policies (Erkens et al., 2012).

Fundamental role of the board is to provide the necessary guidance and carry out the necessary controls. Since the corporate scandals in the early 00's (Enron, WorldCom), revealed that the non-executive members did not report any significant manager's oversights. The recent economic events indicate that this happened in many financial institutions. This may be due to the complexity of the business. However, the answer to this problem is not the further education and in any case the regulatory provisions should not substitute the business judgment (Moxey and Berendt, 2008).

Therefore, the market today, according to current economic conditions, corporate governance requires to response in an effective way. For example, management should be clear about the strategy followed and its risk appetite, responding on time requiring effective reporting systems. The results of the crisis so far, indicate the existence of a number of weaknesses in factors that make an organization more effective. The way in which the implementation of risk management was decided in many cases was associated with the incentive system that prevailed in many businesses. It seems to have been, in many cases, a mistaken combination among the incentive system, risk management and internal control systems.

3. The management of business risk and the financial crisis

Over the last twenty years, the financial risk management has played an important role for companies and financial institutions. The current financial crisis has revealed significant weaknesses in risk management practices across the financial mainstream. The risk management is now seen as a core activity for all companies. Many of the catastrophic losses of the 1990s, such as the Orange County in 1994 and Barings in 1995 could have been avoided if the risk management practices were implemented (Voinea and Anton, 2009). According to a report conducted by the IIA, risks associated with the financial crisis can be categorized into: credit risks, risks of cost reduction, risks from the exposure to third parts, risks related to the company's reputation and liquidity risks (IIA, 2009).

The ERM triggered some companies, for example Alfac, Wells, Fargo, BB & T, and JP Morgan, while in others it did not function effectively and thus they experienced the effects of

the crisis (Aldhizer and Stone, 2009). In a survey conducted in 2008 by the economic magazine "Economist", 500 senior executives involved in risk management from the largest banks around the world, identified weaknesses in risk management that contributed to the current financial crisis (Voinea and Anton, 2009). Several theoretical and empirical studies showed limitations of risk management practices before and during the current financial crisis. Rene Stulz (2008) argued that there are five ways in which risk management systems cannot function effectively and they are verified by the current crisis. Specifically, these are: fail to use appropriate metrics for risk measurement, mistaken assessment of known risks, failure to take into account the known risks, failure to communicate the risks to the senior management, failure to monitor and manage risk.

The audit committee requires for more effective risk management, risk mitigation and inter-operational risk assessments. It seems that the internal audit is aware of these pressures and should not continue to provide a reasonable assurance for the activities of the board. According to a report conducted by the IIA one of the points of interest for risk management of the internal audit is to assess the skills and competencies of the audit. One of the challenges that the internal audit faces in an effort to broaden the scope of its issues related to risk management, is the perception, according to which risk management is outside the scope of the internal audit and not associated with its features.

As an organization's ability to manage risk increases, there should be a response from the internal audit so that these needs should be met. In today's business environment, internal auditors must be able to recognize and associate risks across all business functions. It is essential to be able to examine complex financial transactions and make presentations to the audit committee and the board. Once the business skills in risk management have reached a sufficient level of maturity, internal audit should be able to provide assurance to the business processes of ERM (IIA, 2009).

4. Quantification of the interaction of the global economic crisis on the internal audit function

As developments in the global economy are growing rapidly, the interest in recording and mapping the role of internal audit in the global economic crisis is becoming more and more intense. This is immediately apparent from a systematic effort for the quantification of this interest with the assistance of a series of surveys carried out. Their main research interest focus on a number of issues that study the existing interaction between the internal audit activity which was affected by the current economic developments.

The IIA in an attempt to capture the impact of the economic crisis in the audit function conducted three different surveys⁴ with different sample periods. These surveys examine some important parameters that fall into five categories which are summarized below.

The number of staff employed by the department of internal audit: The highest rates appear in the category where the firm employs from 3 to 6 employees while there is a proportion of 36% of Fortune 500 companies stating that each of the companies belong to this category, the size of the internal audit department more than 30 people.

The impact of the economic crisis on the budget of internal control: As businesses operate in an uncertain and ever-changing environment, they have to face a number of risks. One of the first moves of companies is to make cutbacks in order to balance losses in a certain degree. There are a few times when the internal audit has been downgraded for his work, while there is the perception that it does not worth any money, or proposing the absorption by some other part of the business that will be responsible and deal with the procedures for internal control.

The majority of respondents say that the budget for the internal audit department remained at the same level, but on the other hand in many companies there were reductions of 10 to over 50%. At the same time the years 2008-2010 there was a stable rate in all companies while there were marked some important percentages of business in which it increased in 2010 even before the crisis defused.

The role of risk management and internal control in the financial crisis: The main reason that shaped the financial situation of business today is the inefficient management practices relating to the risk management. According to the surveys, 33.4% believe that better risk management practices could have been an omen of the global financial crisis for the company. Business risks may increase the risk of counterfeit issues in the financial statements. The 40% of respondents believe that the internal audit is thought to be a crucial in identifying and mapping the risks that arise due to the international economic circumstances. Moreover, according to the results, the risk management practices are still being developed but have received no official status (36%). In addition, participants were asked to identify the level involved in risk management. Despite the fact that the results from two different

questions confirm that the application of the processes of risk management is applied by the upper to the lower hierarchical levels, many companies have no official department in which these processes will be the primary object. Nevertheless, the existence of audit committee in a percentage of 11%, suggests that risk management is a subject of interest for the senior management.

The essential assistance for the internal control seems to be the easiest identification of the major risks and their assessment and they are followed by: the participation in the identification of emerging risks, the provision of reassuring reports regarding the management of significant risks, assisting management on how the risk should be managed, providing assurance that risks are identified and there is a proper evaluation of the management procedures etc.

Participants were also asked on the criteria used in making assessments of risk. It is observed that the top positions with high rates are the impact and probability, followed by other effects such as the index of the effect to the client, the index ROI, the assemblage with other risks etc.

Despite the fact that risk management is a critical factor for both crisis prediction and its treatment, the auditors were asked to answer the question: Which the primary roles and responsibilities should be (beyond traditional standards) in the new continuously changing environment. The most important areas are: research for possible fraud (65%), research on ethics (42%), issues relating to compliance with the provision SOX (39%) and, finally, risk management (33%). An important point arising from these results is that actually, internal audit should strengthen its basic purpose, namely providing assurance and consulting, while at the same time it should apply business knowledge and skills in important audit operational initiatives relating to fraud and risk management.

The barriers that have been created for internal audit: The first survey gives more concrete actions on the obstacles facing the risk management that namely in descending order of frequency are: the view that board thinks that manage the risks effectively, firms characterized as decentralized do not apply effectively risk management across the enterprise, management has not hold anyone responsible for these issues, management ignores the positive cost-benefit ratio (due to different political areas their alignment is prevented), CAE has more limited presence than required, top management does not support adequately the overall design and finally, risk management is not an issue subjected to the internal audit when the latter has to deal with important issues.

⁴ Specifically the surveys are:

- Institute of Internal Auditors (2009): "Internal Auditing and Risk Management", Altamonte Springs
- Institute of Internal Auditors (2009): "The financial crisis and its impact on the Internal Audit Profession", Altamonte Springs
- Institute of Internal Auditors (2010): "Internal Auditing: Shifting Priorities for a Changing Environment", Altamonte Springs

5. Restructuring of Internal Audit in the future

The role of Internal Audit may take several versions going from an independent assurance function in real management consultant. The future of Internal Audit should be based on a balance between these two roles, with respect to the expectations of stakeholders.

This role may increase in the next years as companies, beyond the financial pressures they face, they have to deal with a series of regulatory-normative pressures from governments in the form of regulatory measures against the economic crisis. The challenges the internal audit has to face are summarized as following (Kramer, 2009):

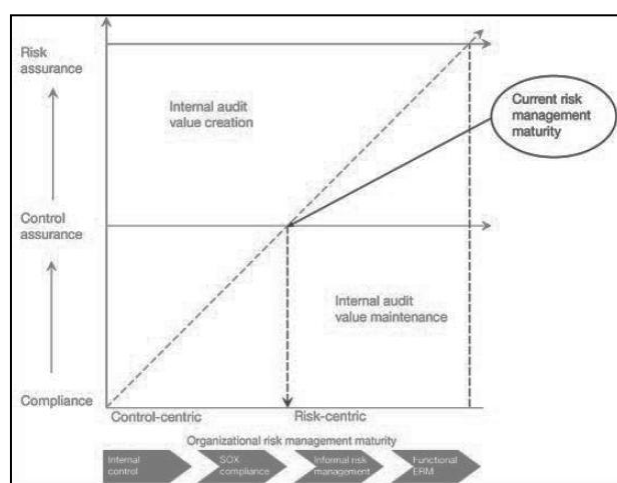
- Focus on internal control as risk-based, not only on trade.
- Curb on the analytical data and use of these data in the planning process in order to built controls which add real value to businesses.
- The internal auditors and firms should be characterized by a high degree of adaptability to the legal-regulatory environment.
- Ensuring that risk management and compliance is an integral part of the methodology used by the company as far as the risk is concerned.
- Another factor is the communication between internal audit and chief advisor and continuous communication between internal control and audit committee (where one exists).
- The existence of stability
- Internal auditors should think and operate more efficiently.

Deloitte conducted a survey on the evolution of internal audit in 2015 (Vandedooren and Bullens, 2010). One of the elements of the research is the size of the internal audit department in 2015. It is obvious that the auditors believe that the future size of the segment will grow significantly in the percentage of 60%, while the size of the audit committee appears to be more sensitive to cost, as 54% believe that the size will remain the same. Nearly 50% of executive management believes that it will remain at the same level meanwhile the other half thinks its size will increase.

In the realm of professionals, research is ongoing to map the internal control in the future. Price Waterhouse Coopers (2007) presented a new proposal on the future of the function of internal audit. The new value proposition should include the provision of assurance on risk management in conjunction with the traditional responsibility to ensure all controls. Increasing the scope of risk management inevitably internal audit function will be aligned on operational risk management functions regardless of their level of maturity. In this way, the traditional method of managing risks is part of the past by giving each position to a more risk-centric philosophy.

This philosophy means that internal auditors should adopt a complete conceptual approach to audit, risk assessment, risk management, and everything that extends beyond a narrow focus on simple tests. With such a philosophy, internal auditors will increase their functional values at a time when the valuation and risk management have become the key concerns of interested parts. Based on the survey results the value of internal control depends on two key factors: the nature of the initial focus of internal control and the degree of maturity of the processes of risk management that it serves. These correlations demonstrated in Figure 1.

Figure 1. The added value model 2012 of internal audit, source: PwC



6. Economic crisis and internal control: Lessons and Opportunities

In a broader effort to understand the financial crisis, it is easy to attribute responsibilities to external financial and economic factors as they are raised and studied more widely. However, the external factors are only the visible part of the failure of internal corporate governance. Therefore, the first

important lesson arising from the financial crisis for internal control is the significant deficiency in corporate governance, risk management processes and internal control many weak companies had to deal with (Millichip, 2010). In summary, the following table presents the main lessons drawn from the financial crisis and the appropriate actions for the internal auditors.

Table 1. Courses for internal auditors arising from the crisis, source IIA

Courses for internal auditors	Actions of Internal Auditors
The businesses failed due to insufficient internal governance	Control whether adequate procedures in corporate governance, risk management and internal controls are in place
Failures in governance is usually unintentional consequence of other activities	Considering unintended consequences as part of the daily operating control
The failures of governance, come from exploitation opportunities that involve large amounts of audit risk	Control in any activity for hidden influences, is there a risk that has not been calculated?
Companies do not learn from the mistakes of other enterprises	Stay Informed of the actions of competitors. Exploiting positive points-Avoid negative ones
Failures in governance are inevitable	The goal is rationality and not absolute assurance
The failures come from people not from the procedures	Control of human recourses, there is adequate control for the work undertaken
Companies are less reactive rather than they should be in identifying failures in governance	Attention to signs of emerging risks and focus on their reactive limitation

An important opportunity that emerges from the financial crisis is creating a world-scale reflection of the internal auditors, as well as an important source of feedback to correct major weaknesses in both corporate governance and risk management system with a view to avoiding such significant failures in the future (Millichip, 2010).

7. Research methodology

Aim of the research: The objective of the survey is recording the Greek reality regarding the interaction of (1) corporate governance, (2) internal control and (3) the risk management to the global economic crisis. Moreover, a discovery of common-place items of professionals at local and international level is pursued. Through analysis of the facts proposals for the future development of the internal audit function are presented.

The research method used is the questionnaire, containing 28 questions. The questions were of three kinds:

- Sealed (Yes / No or increase / decrease)
- Multiple choice questions
- Questions with rating scale of 1 to 5 (Likert scale). According to this scale, 1 indicates the lowest level of satisfaction while 5 the highest.

As far as the analysis of the research is concerned, descriptive statistics was used (eg

frequency tables), tabulation and statistical techniques based on the chi-squared control.

The Sample

For the formulation of safer and effective results, it was crucial that the sample consists of professionals subject to audit. Given the difficulty in finding such a qualified sample, two tactics were followed. Initially, there was an invitation email to staff auditors. But because of limited access to e-mail by many internal auditors and since it has not yielded adequate results, an alternative method was preferred.

The process by which data and most answers were collected involves a widely known professionals networking site. The population of the study was 85 internal auditors who operate in many sectors of the Greek economy. Out of the 85, 40 were successfully updated, while 28 replied. The remaining 5 come from the first procedure. Therefore, the participation rate in the survey was 70%.

Participants were men and women of internal auditors, of all ages. All respondents regardless of gender are above 30 years. The 55% of the sample were men between 30 and 40 years, while women have relatively low participation rate of any age.

The largest part of the sample has professional experience in the field of internal audit at least 6

years. This fact leads to conclude that the answers received are based on people who have a close relationship with matters relating to audit.

Most companies and 42% are active in the Greek economy from 10 to 20 years. Equally important is the percentage of firms operating above 31 years (29%).

The internal auditors, who participated, work in companies belonging to different industries. More specifically, most companies are in the banking industry. This is quite useful, as in many parts of the paper attitudes and reactions of financial institutions were discussed, as it is worth mentioned that they all have internal audit department.

Regarding the size of the internal audit department, the firms that have an internal auditor constitute of 27% of the sample. Firms staffed with 2 to 3 internal auditors are the 18% of the sample. The rate for businesses whose internal audit department consists of 4 to 6 people is identical to that of the companies whose internal audit department has more than 6 people, and is 27%.

Regarding the hierarchical dependence of internal audit director in the business the higher figure represents the audit committee, i.e. the internal auditor is directly referring to it, with 63%, the Board is following with 18%, the CEO with 12% and finally the president with 6 %.

What research learnt us: Corporate governance and financial crisis

Respondents, in a vast majority, agree with the view that the current economic conditions require a more effective form of corporate governance. This view is in complete agreement with the theoretical approach of the correlation between economic crisis and corporate governance. For this reason, from now on, the government should be clear on the strategy followed and determine from the beginning the risk appetite, responding on time, requiring efficient reporting systems. Also, businesses should have as a key concern the supervision of their efficient function and their compatibility with the business targets and the risk appetite.

Moreover, the empirical results on the wrong connection of the three factors leading to ineffective corporate governance seems to fully support the theoretical approach to incorrect connection, i.e. to associate risk management with incentive schemes and systems of internal control. Furthermore, all Asian economies after the crisis of 1997 made significant progress in the CG.

In the banking sector, there were companies that failed to fully identify the severity and nature of the recent pressure accepted by the market. However, there were bank institutions that were able to cope with these pressures. For the respondents, there were four important factors

placed, and they were asked to evaluate the most important factor that would work positively for the business and bring in time all the risks. In the first place of importance was to conduct audits on liquidity-capital consolidation balance sheets. This factor, according to the literature was the one that were applied yielded positive results, and helped the company to develop on time sources of significant hazards. According to recent literature, two of the key areas where corporate governance showed significant weaknesses, so it cannot successfully meet its mission, are the remuneration processes and the behavior of shareholders.

Respondents were asked to give their opinion on the two dimensions. Regarding the procedures and specifically reward bonuses, theoretical approach considers as a failure of corporate governance, because they somehow encouraged pay schemes to take excessive and dangerous levels of risk. Practically, however, this is not imprinted in this research. So, it is observed that there is a common consensus between theory and practice and the degree of significance of this factor from the survey sample was relatively low.

As for the other factor, the fact is that many people who claim that there is no correlation between the size of the shareholders and their behavior during the process of the enactment of important issues, from the beginning of the economic crisis and many companies, a number of important decisions were taken by a few percentages of the shareholders. The sample also moved towards the same direction. This factor was welcomed with neutrality, which suggests that perhaps for them it is not so significant barrier to effective corporate governance behavior of shareholders.

What research learnt us: Internal audit, ERM and global financial crisis

In the second part of the analysis, and more specifically in the relationship between the business risk management and the economic crisis, the theoretical approach supports that the ERM failed to recognize on time the danger of the coming economic crisis citing as an example the companies Fannie Mae & Freddie Mac Failures where the mere existence of a CAE, reassured that management has in place a comprehensive risk management program, and the paradox is that he did not exploit the information that even this sole director gave. The findings regarding this piece indicate an agreement degree on this conception, so we have a certain harmony of views between theory and practice in this area.

Another issue that was raised is whether the effective communication between the audit committee and management could highlight all the dangers on time, so that the company could avoid

the consequences of the economic crisis. The theoretical approach supports the existence of communication in highlighting risks. A typical example is JP Morgan, where the audit committee of the company held regular meetings with the financial director. The company's dedication to addressing the risk, allowed it to acquire Bear Stearns and Washington Mutual. The audit committee of the company believes that most committees in the various businesses have an overrated view of management thinking that has complete knowledge about the business risks. The audit committee should adopt a new view which not only shows the confidence in management but also makes verification activities when assessing the knowledge of the management across the business risks. The results of research, on the other hand, show a neutrality in the field of communication, which makes it hard work to draw reliable conclusions.

There are many suggestions for the role that internal control should have against the ERM. In the literature review we found plenty of suggestions on how we could improve the ERM. Some of them were assisting the management and the audit committee, assuring that management has set the minimum acceptable level of risk, etc. The research results come in complete identification with the theoretical approach, as well as the internal auditors of the sample believe strongly that the internal audit can improve the functioning of ERM.

What research learnt us: Comparative analysis research

The purpose of the next section was the comparative analysis of some studies conducted abroad with the Greek reality in a number of different issues. Initially the expenditure profile of the company was examined with respect to internal control in the period of crisis. An interesting result has come after this comparison. Once in the rest of the world in the last 2 years, the costs related to the internal audit activity grew at 9%, in Greece, those who answered that in recent years the company has increased spending was 25%, almost the double. Deloitte, conducted a survey on the evolution of internal audit in 2015. One of the factors considered by the research is the size of the internal audit department in 2015. This does not seem to be very realistic and in line with the current data that surveys record.

Even a comparison of "domestic" and international opinion is the view that the main reason that determined the economic situation of businesses today are ineffective management practices relating to the operation of risk management. In Greek reality, this view was rated high in level of agreement from respondents. In short, that the percentage of those who share this

view is important. On the other hand, in a study by the Institute, over 50% of respondents said they disagreed with this view and an approximately 20% held a neutral attitude.

When asked for a formal risk management program, the Greek companies had relatively low average of application, with the exception of the banking industry and the service sector that showed a relatively high score. The responses from the surveys in the respective foreign matter are that a significant proportion of firms (36%) had informal risk management program, while firms with a formal program were also somewhere on the same level (31 %).

Regarding the role of internal audit in risk management our research highlighted as important the role of participation in the identification and assessment of critical risks. Instead, the Institute's studies highlighted the most important role of internal audit, the involvement in the effort to highlight the risks.

In the question of which should be the primary role of Internal Audit in the current environment views are diametrically opposed in comparison with the researches. The research of the Institute demonstrates as primary role the investigation of fraud, followed by research on ethical issues, then issues relating to risk management and finally issues related to regulatory compliance. While the research conducted in this paper, marks as primary role issues related to risk management, following by the investigation of fraud, then the research on ethical issues and end on regulatory compliance. The most important area in which Internal Audit should focus, is to assist the authorities in order to identify, manage and monitor the key risks. This view has wide acceptance by both surveys of the Institute and the investigation of this paper.

When asked what type of risk is estimated to be inextricably linked to the economic crisis and control should focus, there were significant differences in the responses. While in this research important category was the liquidity risk, in the research of the institute were the risks arising from exposure of the company to third parts. Nevertheless, the second largest category in both surveys was credit risks.

What research learnt us: The future development of the internal audit

Regarding the future development of the internal audit function, the literature involves much discussion about a strategic focus on risk. Greek internal auditors were also asked to evaluate this variable, and seem to agree to a large extend with this view. Therefore the studies made for the future dimension of the internal control and want it to pass in a risk-centric approach things have an actual base.

Typical example is the proposal of PwC where: The new value proposition should include the provision of assurance on risk management in conjunction with traditional responsibility to ensure all checks. Increasing the scope of risk management inevitably the internal audit function will be aligned with the operational risk management functions regardless of their level of maturity. In this way, the traditional way of managing risks is part of the past by giving its position to a more risk-centric philosophy. This philosophy means that internal auditors should adopt a complete conceptual approach to audit, risk assessment, risk management, and everything that extends beyond a narrow focus on simple tests.

8. Conclusions

The market today, according to current economic conditions, requires corporate governance to perform effectively as much as possible. Besides, one of the major causes of the financial crisis is the failure in corporate governance. Regarding the banking sector, there is a matter of morality for management to ensure that the borrowing or the actions of the mediators will not reduce the value of the business. In this effort, the important role of government is to provide the necessary guidance and carry out the necessary controls. It is argued that nowadays the top management tries to limit as much as possible the impact of the economic crisis within a business.

In recent years, enterprise risk management has played an important role for companies and financial institutions. As the economic crisis is increasingly affecting the economic activities, the main focus of many internal audit directors is to find ways to add value to their businesses.

Despite the fact that financial institutions and the insurance industry had the highest rates of adoption of the framework COSO ERM, these two sectors received the greatest negative impact of the global economic crisis. Inefficiencies of ERM can lead to: recognition and risk assessment, barriers for a full installation, measures to address the risk and the type of reports.

The role of the internal auditor can be enhanced by the economic crisis by promoting the creation of integrated business risk management processes or increasing the existing processes across the enterprise. The data which the internal audit should use that result from the economic crisis include: the assessment of capabilities of the company, collaboration with other risk and control functions, participation in meetings with major shareholders, strengthen the communication, evaluation of controls and meanwhile keep pace with evolving practices.

The current challenges faced by the internal audit concern not only in the scope, but also in the ways that auditors carry out the activities.

In the context of ever increased reductions in their spending in order to survive, there is the perception that internal control is considered as a needless expense. The reductions should be cautious and should be compensated if the cost of the expense is greater than the benefit provided by the internal audit in time.

It is a fact that the main reason that shaped the financial situation of enterprises today is the inefficient management practices related to the risk management. Risk management practices are still being developed without have received an official status in most businesses, meanwhile the companies which have a formal risk management program in place are few.

Auditors have to deal with many challenges such as: the focus on risk-based-internal-audit, the usage of the data in order to construct controls which add real value to businesses, the adoption of a high degree of adaptability to the legal-regulatory environment as an increase regarding the quality of communication.

The added value that the internal control will provide in the future will be determined largely by the influence of the same function in the business, which is reflected in the importance of the presentation of audit results.

It is stated that most businesses consider risk management as a fundamental process for the operational functions. This means that the risk and its control are no longer technical aspects of the internal audit function or other activities. On the other hand, the management has begun to take responsibility for the risks it faces and ensure the effectiveness of the controls to limit them.

The future internal audit model activity should include the provision of assurance on risk management in conjunction with traditional responsibility to ensure all controls.

Given the empirical evidence, current economic conditions require a more effective form of corporate governance. Regarding the internal control the important role in its participation in the effort to predict the economic crisis is the identification and assessment of critical risks. At the same time ERM failed to timely recognize the danger of the coming economic crisis. In addition, effective communication between the audit committee and management could highlight all risks promptly, so that the company could avoid the consequences of the economic crisis.

The primary role of Internal Audit in the current environment is researching for possible frauds and dealing with issues related to risk management. Regarding the future development of the internal audit function, the surveys conducted

lead to the conclusion that internal audit should turn into a risk-centric approach.

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