

Risk Management and Internal Auditing's Role in Providing Assurance on the Effectiveness of Governance in the Moroccan's Organization Context

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Abstract

In recent years, the concept of corporate governance has gained increased attention due to high-profile corporate scandals and financial crises. Therefore, companies must identify, assess, and manage risks effectively to protect their long-term sustainability. A robust risk management framework helps companies anticipate potential threats, implement mitigation strategies, and adapt to changing market conditions. Indeed, organizations need to ensure that they have effective governance structures and risk management in place. The governance structure provides a framework for the activities of those who are responsible on a daily basis for managing the risks inherent according to their organization's business model. These activities need to be monitored to ensure their efficiency and consistency. In fact, internal auditing function has an important role in assuring good corporate governance within an organization. It provides independent and objective assurance and consulting services that contribute to the effectiveness of risk management, control processes, and governance system. Therefore, it is important to highlight the indicators that help define a good level of governance, so they can be assessed, monitored and continuously improved. This research provides an overview on some key theories of corporate governance which are: The shareholder theory and the partnership theory of governance and cognitive theory of governance, and highlights the relationship between the main activities of risk management, internal audit and corporate governance.

Keywords: Governance, risk management, internal control, internal audit, audit committee.

I. Introduction:

Corporate governance is not a new concept. In recent years, the concept of corporate governance has gained increased attention due to high-profile corporate scandals and financial crises. Governments, regulators, and investors have placed greater emphasis on strengthening corporate governance frameworks to prevent such occurrences. Many countries have developed guidelines, codes, and regulations to improve corporate governance practices and ensure greater accountability and transparency. In fact, for many years now, corporate governance has attracted the interest not only of researchers, but also of high-level managers, who are constantly updating organizational models in order to implement within their organization the most effective governance model. It's also worth mentioning that, with the changes brought by internationalization and globalization, as well as technological advances, companies are struggling to establish an effective business model that adds value and ensures long-term success.

Indeed, corporate governance is a system made up of several interrelated processes designed to ensure that laws and regulations are properly respected and applied. It also refers to the framework of rules, practices, and processes by which a company is directed and controlled. It encompasses the relationships between various stakeholders, including shareholders, management, employees, customers, suppliers, and the broader community.

It also regulates relations between the various partners involved, to ensure that the objectives assigned to each party are correctly understood and assimilated. In fact, the approach most commonly used within companies is based on two main theories: **The shareholder theory and the partnership theory of governance**. These theories are mainly concerned with the way in which value is distributed between management and other parties, such as shareholders or stakeholders (employees, suppliers, competitors, etc.). In addition to these two theories, a third has recently emerged, called **the cognitive theory of governance**, which is based on the processes of value creation and distribution, and on the ability of companies to set up monitoring models capable of identifying the most at-risk configurations, in order to provide appropriate responses.

Risk management is another critical aspect of corporate governance. Companies must identify, assess, and manage risks effectively to protect their long-term sustainability. A robust risk management framework helps companies anticipate potential threats, implement mitigation strategies, and adapt to changing market conditions. It also ensures compliance with laws and regulations and minimizes the likelihood of financial losses or reputational damage. In the same context, Internal audit and governance are closely linked and mutually reinforcing concepts within an organization. In fact, internal audit and governance are interconnected disciplines within an organization. Internal audit provides independent assurance, assesses compliance and risk management, evaluates internal controls, monitors governance processes, and drives continuous improvement. By working in tandem, internal audit and governance contribute to the overall effectiveness, transparency, and integrity of an organization's operations.

II. Context of the research:

Risk management and internal audit are both components of the five interdependent elements of an organization's internal control system: risk management, control environment, control activities, information and communication (COSO, 1994). Consequently, the risk management activity falls within the scope of risk assessment, which is described in three processes: risk significance assessment, risk impact and likelihood assessment, and risk management (COSO 1994-Moeller, 2011).

In addition, the internal audit activity is based on the monitoring component, and its objective is the review and assessment of compliance with established internal control elements. Consequently, internal audit and risk management respectively cover different specific objectives within the internal control system (COSO, 1994; Moeller, 2011). Thus, our study examined the elements of the COSO internal control framework and analyzed risk assessment and monitoring in order to clarify the purpose of each. This will highlight the nature of the activities, which should refer to internal audit and risk management.

On the other hand, the COSO internal control framework organizes an integrated relationship between all internal control elements and their activities. (Moeller, 2011)

Consequently, there is an integrated relationship between risk management and internal audit. The study by Vasile and Georgina (2006) demonstrated how internal auditors could help risk managers to fulfil their role as part of an integrating activity. Thus, the definition of internal auditing demonstrates the new role of internal auditing, "Risk-based auditing", in which auditing activities derive from the perception and management of risks in companies. Consequently, their plan must be based on risk and impact assessment (Pickett, 2005). Nevertheless, Kalbers (1995, cited by Spira & Page, 2003) has argued that, with regard to the new definition of internal auditing, organizations should be aware of the roles of the internal auditor and his or her role in risk management, organizations must be aware of the roles of conflict, which may contradict the roles of internal auditing in organizations. In particular, the contemporary concept of internal auditing as risk-based auditing can be confusing for companies when it comes to distinguishing between risk management activities and internal audit activities. For this reason, the study focused on highlighting the dichotomy that may exist between the 2 activities of internal audit and risk management, and the points of intersection that may arise from their overlap.

III. Literature review:

In this section of the article, we will attempt to present and clarify the main concepts related to our research theme. First of all, it's worth presenting the reference frameworks most widely recognized by management, accountants, external auditors and internal audit professionals, which are:

The Integrated Framework for Internal Control, published by COSO in 1992 and updated in 2013, Control Recommendations (often referred to as the Coco Framework), published in 1995 by the Canadian Institute of Chartered Accountants (CICA), Internal Control: Revised Guide for Directors on the Combined Code (known as the Turnbull Report), published by the Financial Reporting Council, which first appeared in 1999 and was updated in 2005, and, in France, the AMF reference framework, published in 2007 under the aegis of the AMF (Authority of financial markets) and updated in 2010.

In Morocco, the book of procedures remains the only reference for internal control within the framework of the statutory auditor's mission.

1- Internal Control

A- Some definitions given to internal control

COSO: “Process implemented by the management, board of directors and employees in order to obtain reasonable assurance regarding the achievement of objectives related to operations, reporting, compliance and regulations, as well as internal rules.”

COCO: “The elements of an organization that support people and provide reasonable assurance regarding the achievement of the organization's objectives in the following categories: effectiveness and efficiency of operations, reliability of internal and external reporting, compliance with laws and regulations, and internal rules.”

Turnbull: “Includes the rules, processes, tasks, behaviors and other aspects of an organization that provide reasonable assurance that they facilitate its effective and efficient operation, enable it to respond appropriately to major business, operational, financial, compliance, etc. risks in order to achieve the organization's objectives relating to safeguarding assets, identifying and managing liabilities, reporting quality, compliance with applicable laws and regulations.”

AMF: “Internal control is a system defined and implemented by the company under its own responsibility. It includes a set of resources, behaviors, procedures and actions adapted to the specific characteristics of each company:

- Contributes to the control of its activities, the effectiveness of its operations and the efficient use of its resources, etc.
- Enables it to take appropriate account of significant operational, financial and compliance risks.

More specifically, the system aims to ensure:

1. Compliance with laws and regulations. Application of instructions and guidelines set by General Management or the Executive Board.
2. The proper functioning of the company's internal processes, particularly those designed to safeguard its assets.
3. The reliability of financial information.

Internal control is therefore not limited to a set of procedures, or to accounting and financial processes alone.

B- Internal control components

According to COSO: "There is a direct link between the objectives the entity seeks to achieve, the internal control components needs to achieve them, and the entity's structure. This link is represented as follows:

- Control environment
- Risk assessment
- Control activities
- Information and communication
- Management

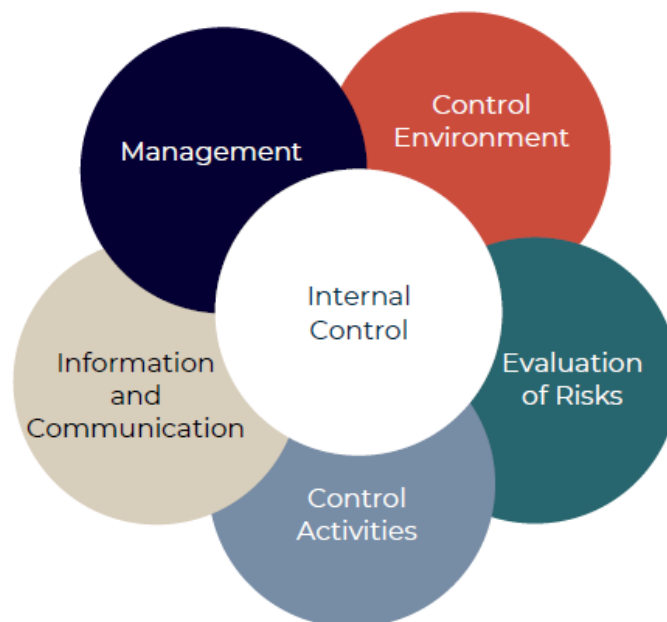


Illustration of the 5 Components of internal control

These components of internal control are applied to the entity as a whole, to its subsidiaries, divisions or business units, functions or any other subdivision. To help you better understand these components, we present definitions for each of them:

a- Control environment

This involves the staff's level of awareness regarding the need for checks and is the basis for all the other elements of the internal control. Factors that have an impact on the control environment include integrity, ethics and competency of employees, philosophy and management style of directors, and the policy on delegation of responsibilities, organization and staff training.

b- Evaluation of risks (risk assessment)

Identification and analysis of external and internal factors that may affect the achievement of objectives.

c- Control activities

Application of standards and procedures that contribute to ensuring the implementation of directions issued by Management. These activities help to ensure that the necessary measures are taken to control risks. Control activities are carried out at all hierarchical and functional levels.

d- Information and communication

Quality information must be communicated appropriately. It is because of the interdependence of these two concepts that COSO groups them together. Relevant, accurate and timely information must be available to those who need it, at all levels of an organization, to run it effectively. Information must be at the service of the users concerned, so that they can assume their responsibilities for operations, reporting and compliance.

In addition, communication must also be extended to other important aspects, such as the expectations and responsibilities of individuals and groups. Communication with third parties is also important, and can provide essential information for the operation of controls. Such third parties include customers, suppliers, service providers, regulators, external auditors and shareholders.

e- Management

To remain reliable, internal control systems must be managed. As stated by COSO, monitoring consists of "continuous assessments, which are integrated into the core business processes at all levels of the entity, and which

provide timely information. The internal control systems should themselves be regularly assessed. Weaknesses in the internal control system should be brought to the attention of Management, with the most serious shortcomings being reported to directors. These elements are closely related, forming an integrated system capable of reacting dynamically to any changes. The internal control system is closely related to the company's operational activities and its existence is essential for their due operation.

2- Internal audit

Auditing is seen as an increasingly recognized function. The demand for talent, at all levels of the function, clearly exceeds the offer, and the heads of internal audit belong to the category of the organization's top executives. In a number of countries, particularly in the English-speaking world, internal auditors report directly to the audit committee.

A- Definition

In 1999, the Institutes of internal auditors adopted the following definition:

"Internal auditing is an independent and objective activity which provides an organization with assurance about the degree of control over its operations, advises on how to improve them, and helps to create added value. It helps the organization achieve its objectives by systematically and methodically evaluating its risk management, control and corporate governance processes, and by making suggestions to enhance their effectiveness".

The key elements of this definition are listed and analyzed below:

- Helping the organization achieve its objectives;
- Assessing and improving the effectiveness of risk management, control and governance processes;
- Assurance and consulting activities designed to create added value and improve the organization's operations;
- Independence and objectivity;
- Systematic and methodical approach (the audit process).

Internal audit work aims to evaluate whether the organization, procedures and risk management systems, as defined by General Management, are adequate and operate to ensure that:

- risks are correctly understood and monitored;
- the main financial and operational information is reliable and communicated in a timely manner;
- actions by staff comply with the procedures in force and fall within the regulatory and legal framework;
- the procedures in place help to optimize the security and effectiveness of operations;
- the organizations' checking processes are continuously monitored in order to ensure their quality and relevance in terms of the nature of risks identified;
- the main legal and regulatory aspects that impact the organization are correctly understood.

Internal Audit therefore contributes to business governance by helping businesses to evaluate their risks, analyze their control and constructively search for corrective solutions.

B- Scope of intervention

Any organization may be subject to an internal audit. These audits are designed to evaluate the security and effectiveness of the internal control system, and its compliance with the benchmarks laid down by the entity. As part of the audit, they have unrestricted access to all documents and information that they may deem useful. In order to conduct their task, they must also be able to meet all the employees, both in the audited entity, and in the central departments that regularly work with the latter.

C- Task implementation

In implementing these tasks, internal auditors shall define the methods to be employed in order to achieve the objectives previously defined, in particular regarding team size and the duration of the intervention.

Serving the organization, the primary aim of these tasks is to provide constructive and positive support to the audited entities. They are schematically organized in line with commonly accepted professional practices:

- Performance of tasks according to set work programs; tests documented and conducted based on sampling, etc.
- Summary and presentation of findings to the managers concerned within the context of a meeting, so that their comments on the items presented can be collected.
- Issuance of a draft report consisting of an Executive Summary, report body (findings, risks, recommendations) and any appendices. This report shall then lead to the establishment of an action plan when required (who, what, when), by the General Management of the entity audited.
- Issuance of a final report including the action plans of the audited entity.
- If required, monitoring of effective action plan implementation by the General Management of the audited entity.

D- Categories of internal audit missions

Internal auditors carry out two types of activity: assurance and consulting. These two types of activities are defined in the glossary of the International Standards for the Professional Practice of Internal Auditing, within the International Framework for the Professional Practice of Internal Auditing (IFPIA), as follows.

- **Assurance activities:** These are objective examinations of evidence, performed to provide the organization with an independent assessment of corporate governance, risk management and control processes. It includes financial performance, compliance, systems security and due diligence audits.
- **Consulting activities:** These involve advice and related services provided to the client, the nature and scope of which are agreed in advance with the client. The purpose of these activities is to create added value and improve an organization's corporate governance, risk management and control processes, without the internal auditor assuming any management responsibility.

3- Corporate governance

A- Definition

Governance is the process, led by the Board, by which the activities of senior management are authorized, directed and monitored to achieve the organization's objectives. The definition given by the Organization for Economic Cooperation and Development (OECD) is widely accepted. "Corporate governance refers to the relationships between a company's management, its board of directors, its shareholders and other stakeholders. It also determines the structure by which a company's objectives are defined, as well as the means of achieving them and monitoring the results obtained."

B- The areas of governance can be presented as follows:

- The first area of governance concerns the entity's strategic direction:

The Board is responsible for setting the strategic direction and guidelines for defining the organization's key objectives, which must be in line with the organization's business model and stakeholder priorities. With their diverse and varied backgrounds, directors are in a position to provide information and guidance that will enable the organization to succeed.

- The second area of governance is supervision.

This concerns the Board's role in managing and steering the organization's activities. This is where risk management and internal audit activities are most relevant. The main points to remember from the definition of governance are as follows:

- The Board and its committees oversee governance for the entire organization. They provide direction to senior management, empower them to take the actions necessary to follow that direction, and oversee the overall results of operations.
- Once the needs of key stakeholders are identified, the Board focuses on their satisfaction. In fact, the Board is accountable to stakeholders.

- On a daily basis, governance is carried out by management.
- Internal and external assurance activities provide senior management and the Board with assurance on the effectiveness of governance activities.

4- Risk Management:

A- Definition

COSO defines corporate risk management as: "A process implemented by the Board of directors, senior management, management and all employees of the organization. It is considered in the development of strategy and in all the organization's activities. It is designed to identify potential events that could affect the organization, and to manage risks within the limits of its risk appetite. It aims to provide reasonable assurance that the organization's objectives will be achieved."

The committee of Sponsoring Organizations of the Treadway Commission (COSO) defines risk as "the possibility that an event will occur which adversely affects the achievement of objectives". The International Organization for Standardization (ISO), based in Switzerland, simply defines risk as "the effect of uncertainty on objectives". A number of key points emerge from the definitions of risk proposed by COSO and ISO.

- Risk is inherent in the formulation of strategy and the setting of objectives. An organization carries out its activities with the aim of implementing strategies and achieving specific objectives, and risks correspond to the obstacles that are likely to affect the achievement of these objectives.
- The notion of risk can refer to the willingness to prevent negative events from happening (risk control), or the ability to make positive things happen (i.e. taking advantage of opportunities).
- Risks are inherent in all aspects of life: wherever there is uncertainty, there is one or more risks. Risks specifically associated with an organization's structure or business activity are generally referred to as operational risks.

B- The components of risk management

The COSO risk management system includes eight elements. They reflect the way in which the organization is managed and are integrated into the management process. These elements are described below:

- The risk culture, which represents a set of shared beliefs and attitudes, characterizes the way in which the organization approaches risk in all its activities.
- Risk appetite, i.e. the overall level of risk an organization is willing to take.
- The Board of Directors, i.e. the organization's main governance body, which contributes to its structure, experience, independence and supervisory role.
- Integrity and ethical values, reflecting choices, value judgments and management styles.
- Commitment to skills, covering the knowledge and skills needed to perform the required tasks.
- Organizational structure, i.e. the infrastructure for planning, executing, controlling and monitoring activities.
- Delegation of authority and responsibility, i.e. the way in which individuals and teams are authorized and encouraged to take the initiative in solving problems, and the limits to their authority.
- Human resources policy, which encompasses activities relating to recruitment, career management, training, individual appraisals, counseling, promotion, compensation and improvement actions.

C- Risk treatment procedures

Risk treatment according to COSO: "Once the risks have been assessed, management determines the treatment to be applied to each of these risks. The various possible solutions are: avoidance, reduction, sharing and acceptance. Depending on the solution chosen, the effect of the different solutions must be considered in terms of probability and impact, as well as costs and benefits. The choice must be made for a solution that reduces the residual risk below the tolerance threshold desired by management. Potential opportunities are also identified. Risks and opportunities are considered transversally or aggregated to determine whether the overall residual risk corresponds to the organization's risk appetite".

The various treatment methods proposed by COSO are as follows:

- **Avoidance:** Ceasing the activities that gave rise to the risk. Risk avoidance may involve discontinuing a product line, slowing down planned expansion into a new geographical market, or selling an activity.
- **Mitigation:** Acting to reduce the probability of occurrence, or the impact of the risk, or both. This usually involves a multitude of daily decisions, such as implementing controls.
- **Sharing:** Reducing the probability or impact of a risk by transferring or sharing the risk. Common techniques include purchasing insurance products, hedging or outsourcing an activity.
- **Acceptance:** Taking no action to alter the probability of risk occurrence or its impact.

IV. Methodology of research:

In this article, we will attempt to examine the relationships between the three concepts mentioned above: internal audit, risk management and corporate governance. Through this study, we will also attempt to cross-reference the theories mobilized to study corporate governance in the current era.

Actually, we believe that there is a close relationship between risk management, internal control assessment and corporate governance. Indeed, all corporate activities are considered a governance issue. Governance is primarily concerned with ensuring that laws and regulations are applied, that the company's overall interests are safeguarded, and that all entity's parties (stakeholders, shareholders, employees, managers...) are pulling in the same direction as the company's objectives. Risk management is therefore a stratum of the corporate governance structure, aimed primarily at:

- a- Identifying and managing risks that could impede the organization's success: This first area of governance concerns the entity's strategic direction. It is the board's of direction role to set the strategic direction and guidelines for defining the organization's key objectives, which must be in line with the organization's business model and the priorities of its stakeholders.
- b- Exploiting opportunities that lead to success: This second area of governance is supervision, which concerns the board's of direction role in managing and steering the organization's activities. This is where risk management and internal audit activities are most relevant.

In order to ensure that each party makes its appropriate contribution to corporate governance, the roles of each party are as follows:

A- Top management: (Risk management)

Once the Board of Directors has identified the company's risk tolerance thresholds and strategic orientations, as well as the objectives to be achieved, Executive Management steps in to give instructions for the implementation of operations and to ensure that risk tolerance thresholds are respected and objectives are met. In order to fulfill its governance responsibilities, General Management is responsible for:

- Ensuring that senior management understands the Board's expectations and delegated responsibilities, the degree of risk appetite not to be exceeded, and the quality and reliability of expected reporting.
- Identify the people, activities and departments involved in implementing the guidelines set.
- Ensure that a crisis or risk management unit is set up, under professional supervision, to map risks and identify the most sensitive areas to be covered, in order to provide clear and relevant information to the Board of Directors.

B- Internal auditors (Assurance)

Independent assurance activities are a component of corporate governance, providing the Board and senior management with an objective assessment of the effectiveness of governance and risk management activities. This activity is generally performed by internal audit, which provides reasonable assurance on the effectiveness of the company's organizational processes. In fact, IIA 2110, Corporate Governance, specifies the role of the internal auditor: "The internal auditor should evaluate the corporate governance process and make appropriate recommendations for improvement. To this end, it determines whether the process meets the following objectives:

- promote appropriate ethics and values within the organization;
- ensure effective and accountable management of the organization's performance;
- communicate information on risks and controls to the relevant departments within the organization;
- provide adequate information to the Board, internal and external auditors and management, and ensure coordination of their activities.”

1- Overview on corporate governance in Moroccan organizations

In this part of the article, we'll do a zoom on the context of governance in Moroccan organizations according to our observation tests and our lectures. In fact, the governance inside Moroccan organizations is typically influenced by several factors, including legal requirements, cultural norms, and organizational structures. Here are some key aspects of governance commonly observed in Moroccan organizations:

- **Legal Framework:** Moroccan organizations operate within the legal framework defined by the country's laws and regulations. The Moroccan legal system sets guidelines for corporate governance, including the establishment and functioning of various types of organizations, such as public limited companies (Société Anonyme - SA), limited liability companies (Société à Responsabilité Limitée - SARL), and others.
- **Board of Directors:** Moroccan organizations usually have a board of directors responsible for overseeing the overall direction and performance of the company. The board typically consists of a group of individuals who are elected or appointed to represent the interests of shareholders and stakeholders. The board's responsibilities include strategic decision-making, financial oversight, and monitoring the performance of senior executives.
- **Shareholder Rights:** Shareholders in Moroccan organizations have certain rights and protections, such as the right to receive dividends, the right to vote on important matters, and the right to access information about the company. These rights are typically defined in the company's bylaws and are subject to legal requirements.
- **Transparency and Disclosure:** Transparency and disclosure are important principles in Moroccan corporate governance. Organizations are expected to provide accurate and timely information to shareholders, regulators, and the public. This includes financial reporting, disclosure of material events, and other relevant information that may impact the organization or its stakeholders.
- **Audit and Internal Controls:** Moroccan organizations are required to maintain proper accounting records and implement internal controls to safeguard assets and ensure the accuracy of financial reporting. Independent audits may be conducted by external auditors to provide an objective assessment of the organization's financial statements and compliance with relevant laws and regulations.
- **Regulatory Oversight:** The governance of Moroccan organizations is subject to regulatory oversight by government agencies such as the Ministry of Economy and Finance and the Capital Market Authority (Autorité Marocaine du Marché des Capitaux - AMMC). These regulatory bodies monitor compliance with laws and regulations and may impose sanctions or penalties for non-compliance.
- **Cultural and Social Factors:** Moroccan organizations are also influenced by cultural and social factors. Traditional values, customs, and hierarchies may impact decision-making processes, leadership styles, and relationships within the organization. It is important to consider these cultural nuances when examining governance practices in Moroccan organizations.

2- Theories of corporate governance

Governance practices are subject to continuous evolution and may be influenced by global trends and best practices in corporate governance. There are various theories and approaches to governance, each emphasizing different aspects and perspectives. Here are the main two theories mobilized by organization:

2.1. Principal-Agent Theory:

The central premise of Principal-Agent Theory is that principals delegate certain tasks or decision-making authority to agents, entrusting them with the responsibility to act in the best interest of the principal. However, agents may not always have the same goals, preferences, or information as the principals, leading to agency problems. These agency problems can arise due to factors such as information asymmetry, risk aversion, divergent incentives, or moral hazard. Here are some considerations regarding Principal-Agent Theory in organizations:

2.1.1. Shareholder-Management Relationship Shleifer & Vishny (1997):

For organizations, the shareholders (principals) delegate decision-making authority to the management team (agents) to run the day-to-day operations of the company. The challenge arises when the shareholders and management may have different objectives and risk preferences. For example, shareholders may prioritize maximizing profits, while managers may prioritize job security or growth of their departments.

- **Board of Directors:** The board of directors acts as an intermediary between shareholders and management. It represents the shareholders' interests and is responsible for overseeing the management's actions. The board's role includes setting strategic direction, monitoring performance, and aligning management actions with shareholder interests.
- **Ownership Structure:** The ownership structure can influence the principal-agent relationship. In family-owned businesses, for instance, family members may serve as both shareholders and managers, potentially creating challenges in separating ownership and control. In contrast, publicly traded companies may have dispersed ownership, leading to a separation between shareholders and management.
- **Incentive Alignment:** Organizations can use various mechanisms to align the interests of principals and agents. This includes designing incentive systems, such as performance-based pay, stock options, or profit-sharing plans, to motivate managers and employees to act in the best interest of shareholders. These incentives can help reduce agency problems by aligning the financial interests of agents with the long-term success of the organization.
- **Monitoring and Control:** Organizations need to establish monitoring and control mechanisms to ensure that agents perform their duties effectively and efficiently. This may involve regular financial reporting, internal audits, external audits, and oversight by the board of directors.
- **Legal and Regulatory Framework:** The legal and regulatory framework plays a crucial role in shaping the principal-agent relationship. Companies are required to comply with laws and regulations related to corporate governance, financial reporting, and transparency. These regulations aim to protect the interests of shareholders, promote accountability, and reduce agency problems.

Overall, Principal-Agent Theory provides a framework to analyze and address the potential conflicts of interest and agency problems that may arise within organizations. By understanding these dynamics, organizations can implement appropriate governance mechanisms to align the interests of principals and agents, enhance accountability, and improve overall organizational performance.

2.2. Stakeholder Theory Clarkson (1995):

Stakeholder Theory is a framework that recognizes the importance of considering the interests of various stakeholders beyond just shareholders in organizational decision-making and governance. It emphasizes the idea that organizations have a responsibility to manage and balance the needs and expectations of different stakeholders to achieve long-term success. Here are some considerations regarding Stakeholder Theory:

- **Stakeholder Identification:** Organizations need to identify and understand their stakeholders. Stakeholders can include employees, customers, suppliers, local communities, government agencies, non-governmental organizations (NGOs), and other groups or individuals who are affected by or can affect the organization's activities. Recognizing and mapping stakeholders is essential for effective stakeholder management.
- **Stakeholder Engagement:** Organizations should actively engage with stakeholders to understand their needs, concerns, and expectations. This can be done through dialogue, consultations, surveys, focus groups, or other forms of communication. Engaging stakeholders allows organizations to incorporate their perspectives into decision-making processes and build relationships based on trust and mutual understanding.
- **Balancing Stakeholder Interests:** Stakeholder Theory emphasizes the need to balance the interests of different stakeholders. This could involve considering the interests of employees in terms of fair wages

and working conditions, meeting customer expectations for quality products or services, addressing environmental concerns raised by local communities, and complying with regulatory requirements set by government agencies.

- **Social Responsibility:** Stakeholder Theory aligns with the idea of corporate social responsibility (CSR). Organizations are increasingly expected to demonstrate their commitment to social and environmental concerns. This can include initiatives related to sustainability, community development, employee well-being, ethical business practices, and philanthropy. By addressing social and environmental issues, organizations can build trust, enhance their reputation, and contribute to the development of Moroccan society.
- **Long-Term Value Creation:** Stakeholder Theory argues that by considering and managing the interests of stakeholders, organizations can create long-term value and sustainable success. This perspective aligns with the idea that meeting stakeholder expectations and maintaining positive relationships can lead to improved financial performance and competitive advantage.
- **Legal and Regulatory Considerations:** Organizations must also consider legal and regulatory requirements related to stakeholder interests. Laws and regulations concerning labor rights, consumer protection, environmental protection, and other areas impact how organizations engage with and respond to stakeholders.

By applying Stakeholder Theory, organizations can move beyond a sole focus on shareholder value and consider the broader impact of their actions on all relevant stakeholders. This approach can lead to more inclusive and sustainable decision-making, stronger stakeholder relationships, and ultimately, enhanced organizational performance and reputation.

3- Cognitive theory of governance (Charreaux 2005; Witz 2005):

Cognitive theory represents critical thinking that carries with it a literature focused on value creation, in contrast to the disciplinary approach which focuses on the distribution of value. Cognitive theory emphasizes the function of skills, solid knowledge skills, and learning in order to innovate the competitive advantage which is a fundamental element in the creation process. Thus, for Penrose 1959; Wernerfelt 1984; Barney 1986; Teece, Pisano and Shuen 1997, “the cognitive approach mobilizes the theory based on organizational resources and organizational capabilities”.

Indeed, after examining the various theories involved in corporate governance, we need to consider a key question: **What are the indicators that determine whether a company has a good level of governance or not?**

According to the Moroccan code of good corporate governance practices (CGEM- March 2008) there are some key points that determine a good corporate governance which are presented as follows:

1- Functions of governing body:

- A relevant reviewing and guiding of the strategy of the company, its action plans, its risk policy, and its annual budgets and activity programs;
- Focusing on recruiting the principal executives;
- Overseeing and managing the conflicts of interest that may arise between management, the members of the governing body, and the shareholders or partners;
- Ensuring the liability of the accounting and financial and non-financial reporting systems of the enterprise;
- Maintaining a good level of communication and information;
- Ensuring the proper conduct of General Meetings, the implementation of the decisions taken by shareholders, and monitoring corporate governance in all its forms;
- Ensuring compliance with laws and regulations;
- Continuously improving corporate governance.

2- Responsibilities of the members of the governing body

- **Having the capacity to take decisions in the interest of all shareholders or partners:** The governing body must have the ability to take the appropriate decisions to preserve the interest of the shareholders by fulfilling the assigned objectives;

- **Having independence of judgment, decision-making, and action:** While making decisions governing body must preserve its independence by the separation of powers in the corporation by separating the functions of Chairman and Chief Executive (companies with Boards of Directors) or by the adoption of a dual structure (Supervisory Board and Management Board) promotes the independence of decision-making and actions.
- **Fulfilling the duty of control:** The governing must ensure a good level of internal control by following-up the implementations of rules and procedures.
- **Fulfilling the financial reporting obligation:** The liability of financial reporting is a key point of transparency toward stakeholders and shareholders.

3- Structures for the efficient functioning of the governing body

4.1. Independence:

Independence is crucial for a governance body because it ensures that the body can perform its duties and responsibilities without undue influence or bias. Here are several reasons why independence is important for a governance body:

- Objectivity and Impartiality
- Accountability
- Avoiding Conflicts of Interest
- Transparency and Public Confidence
- Mitigating Corruption and Fraud
- Long-Term Stability and Sustainability

4.2. Ethics:

Ethics are essential for a governance body because they provide a moral foundation and guide the behavior and decision-making of individuals within the body. Here are several reasons why ethics are important for a governance body:

- **Integrity and Trust:** Ethics promote integrity within the governance body.
- **Accountability and Responsibility:** Members of a governance body are responsible for their actions and decisions, and ethical guidelines provide a framework for ensuring that these actions are aligned with the best interests of the organization and stakeholders.
- **Stakeholder Consideration:** By adopting an ethical approach, the body ensures that it acts in a manner that respects the diverse needs and concerns of all stakeholders.
- **Compliance with Laws and Regulations:** The governance body must operate within the legal framework and comply with relevant laws, regulations, and industry standards.
- **Decision-Making Process:** Ethics guide the decision-making process of a governance body.
- **Organizational Culture:** Ethics contribute to fostering a positive organizational culture within the governance body. This promotes an environment of trust, respect, collaboration, and professionalism, which in turn enhances the effectiveness and performance of the governance body.

4.3. Specialization

Specialization is important for a governance body because it allows individuals to develop expertise and focus on specific areas of governance. Here are several reasons why specialization is important:

- **In-Depth Knowledge:** Specialization allows individuals within the governance body to acquire in-depth knowledge and expertise in specific areas relevant to their roles.
- **Effective Decision-Making:** Specialized knowledge enhances the quality of decision-making within the governance body.

- **Efficient Resource Allocation:** Specialization enables the governance body to allocate resources efficiently.
- **Enhanced Problem-Solving:** When faced with complex issues or challenges, specialists can apply their expertise and experience to identify viable solutions, evaluate alternatives, and assess potential outcomes more effectively.
- **Risk Mitigation:** Specialists can recognize potential risks and vulnerabilities specific to their areas of expertise, develop appropriate risk management strategies, and implement controls to minimize the impact of risks on the organization.
- **Stakeholder Confidence:** When stakeholders perceive that the governance body has specialized knowledge and expertise, they are more likely to trust its decisions and recommendations.

4.4. Audit committee

The audit committee plays a vital role within the governance body of an organization. Its primary responsibility is to provide independent oversight of financial reporting, internal control systems, risk management, and the audit process. Here are some key roles and responsibilities of the audit committee:

- **Financial Reporting and Disclosure:** The audit committee ensures the accuracy, integrity, and transparency of financial reporting.
- **Internal Controls and Risk Management:** The audit committee assesses the effectiveness of internal control systems and risk management processes.
- **External Audit Oversight:** The audit committee oversees the relationship with the external auditors. It selects and appoints external auditors, evaluates their independence, objectivity, and performance, and approves their remuneration.
- **Compliance and Legal Matters:** The audit committee monitors compliance with legal and regulatory requirements.
- **Ethics and Whistleblower Protection:** The audit committee oversees the organization's ethics programs and whistleblower protection mechanisms.
- **Communication and Reporting:** The audit committee communicates with the board of directors, management, internal auditors, external auditors, and other relevant stakeholders.

V. Results

In this results parts, we have tried to summarize the key theories discussed in this article by doing a kind of comparative analysis represented in the following table:

Table n°1:

Theories of governance	Contractual		Cognitive
	Partnership	Shareholders	
Definition	Partnership theory of governance is a conceptual approach that emphasizes collaboration and cooperation between stakeholders in an organization's governance process. It recognizes that governance is not limited to the relationship between shareholders and management, but encompasses a complex relationship between various stakeholders, such as	Shareholder governance theory is an approach to corporate governance that focuses on maximizing shareholder value. According to this theory, the managers of a company act as agents of the shareholders and are responsible for managing the company in such a way to maximize shareholder wealth.	Cognitive governance theory is an approach that focuses on the cognitive processes, beliefs, perceptions and decisions of the individuals involved in an organization's governance mechanisms. It seeks to understand how governance managers interpret information, make decisions and influence the way the company operates.

	employees, customers, suppliers, the local community and investors.		
Value creation approach	By adopting the partnership theory of governance, organizations seek to build relationships of trust and cooperation with their stakeholders, recognize their rights and legitimate interests, and work together to achieve common goals of performance and sustainability.	The shareholder theory of governance includes environmental analyzing, setting financial objectives, strategy development, efficient resource allocation, performance monitoring, performance-based rewards and transparent communication with shareholders.	The cognitive theory of governance focuses more on the cognitive processes and behaviors of the individuals involved in governance.
Principles	<ul style="list-style-type: none"> - Dialogue and collaboration - Multiple interests - Shared responsibility - Transparency and accountability - Shared value 	<ul style="list-style-type: none"> - Maximizing shareholder wealth - The role of shareholders - Management accountability - Alignment of interests - Transparency and disclosure - Board oversight - Efficient capital market 	<ul style="list-style-type: none"> - Subjective perception of reality - Cognitive biases - Role of beliefs and values - Role of communication and collaboration
Management system definition	A set of mechanisms for securing financial investments	Mechanism packages to perpetuate the contract knot or optimize managerial latitude	A set of mechanisms to maximize the potential for value creation through learning and innovation.
Governance mechanisms	<ul style="list-style-type: none"> - Dialogue and consultation - Disclosure of information - Conflict resolution mechanisms - Accountability mechanisms 	<ul style="list-style-type: none"> - Board of Directors - General Meeting of Shareholders - Performance-based rewards - Disclosure of information - External audit - Efficient Capital market 	<ul style="list-style-type: none"> - General Meeting of Shareholders - Board of Directors - Board committees - Financial transparency - Executive compensation - Shareholder voting - Investor relations

Management objectifs	<ul style="list-style-type: none"> - Collaboration and partnership - Creating shared value - Sustainability and social responsibility - Risk management - Transparency and communication - Innovation and continuous improvement 	<ul style="list-style-type: none"> - Maximizing shareholder value - Profitability and financial performance - Business growth - Risk management - Long-term value creation - Transparency and communication 	<ul style="list-style-type: none"> - Understanding stakeholder needs - Informed decision-making - Alignment of values and objectives - Organizational learning - Promoting innovation and creativity - Social and environmental responsibility
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Table no2:

We suggest a quick summary of the three main concepts presented in the article which are risk management, internal audit and governance, their definition, principles, objectives and their interconnection.

Concepts	Internal audit	Risk management	Governance
Definition	Internal auditing can be defined as an independent and objective activity within an organization, aimed at evaluating and improving the effectiveness of governance, risk management and internal control processes. It is an essential function which aims to provide assurance and advice to the organization's management and stakeholders.	Risk management is the systematic process of identifying, assessing and taking action to manage the risks to which an organization is exposed. It is a proactive approach that enables an organization to understand potential risks, make appropriate decisions and implement strategies to mitigate, prevent or manage these risks.	Governance refers to the set of processes, rules, standards and practices that govern how an organization is directed, controlled and makes decisions. It covers the way in which stakeholders influence and participate in an organization's strategic decision-making, performance monitoring and risk management.
Objectifs	Evaluating the effectiveness of internal controls Fraud detection and prevention Compliance assessment Improving processes and operations Advice and assistance to management	Protecting organizational value Informed decision-making Improved operational performance Compliance with legal and regulatory requirements Proactive crisis management Risk management culture	Creating shareholder value Protection of stakeholder interests Informed decision-making Transparency and communication Risk management Responsibility and ethics Performance and sustainability

Principles	<p>The Principles of Internal Auditing are guidelines established by the Institute of Internal Auditors (IIA) that define the standards and expectations for this activity. The principles of internal auditing are as follows:</p> <p>Integrity Objectivity Expertise Confidentiality Independence Planning Execution Communication Monitoring Continuous improvement</p>	<p>Integration into organizational governance Systematic, structured approach Consideration of stakeholders Organizational context Informed decision-making Inclusion of uncertainties Continuous improvement Efficient use of resources Communication and consultation</p>	<p>Transparency Accountability Equity Board accountability Informed decision-making Stakeholder participation Integrity and ethics Sustainable performance</p>
Linking the three concepts	<p>Internal audit contributes to good governance by providing an independent assessment of the effectiveness of governance and risk management processes. Internal audit helps to identify gaps, weaknesses and potential risks in governance practices, enabling the organization to take remedial action and improve overall performance. In addition, risk management supports good governance by identifying and managing risks that may affect the organization's strategic objectives, while promoting informed decision-making based on risk analysis. In a nutshell, internal audit, risk management and good governance are interconnected and mutually reinforced. Together, they help to provide effective, transparent and accountable management of the organization, by safeguarding its assets, minimizing risks and maximizing long-term value creation for all stakeholders.</p>		

VI. Conclusion

Governance refers to the relationship between an organization's top management, its Board of directors and its stakeholders. The Board "supervises" governance. The Board must understand the needs and expectations of the various stakeholders, and strive to meet them. It must therefore be clear about its orientations, provide guidance in setting the organization's objectives, set limits on the way the organization is run, and encourage senior management to put its vision into practice. Executive management carries out risk management activities in line with the Board's direction. These activities may be carried out by risk owners at a lower level of the organization, but senior management is ultimately responsible for the effectiveness of risk management activities.

Indeed, after examining the notion of governance through the various definitions attributed to it, and through an analysis of the main theories of governance, namely shareholder theory, stakeholder theory and the cognitive theory of governance. We can conclude that corporate governance is the responsibility of all parties involved. In other words, it's everyone's contribution to the assimilation of their responsibilities and the tasks and challenges they face on a daily basis, with an attitude of adherence and commitment. Good corporate governance can only be achieved if a certain number of favorable criteria and indicators are met:

- Stakeholder commitment and involvement
- Management specialization and expertise
- A well-defined risk appetite

- A strong risk assessment system
- Shareholder confidence
- Compliance with laws and regulations
- Social and corporate responsibility

Finally, it is important to elucidate all the indicators contributing to good corporate governance, in order to understand, evaluate and continuously improve them. Good governance means that the company is socially responsible, respects the requirements of its stakeholders, contributes to the creation of an added value and maintains its existence on the market through the application of good practices. For this reason, internal auditing remains an important activity for risk assessment and prevention. It provides assurance on the degree of control of activities, provides continuous support and contributes to the creation of added value. Nevertheless, internal auditing as an activity cannot be the only factor responsible for maintaining a good governance. In fact, good governance is the result of a state of mind and a global commitment from all those who are directly concerned: senior management, the audit committee, risk managers, employees and so on. In other words, the involvement of all parties is the key to good governance, and the governance equation is made up of a large number of explanatory variables, including a good audit committee, visionary managers, experienced and specialized employees, and shareholders who are aware of the ongoing challenges.

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