

EVIDENCE OF INTERNAL AUDITING IN ITALIAN LISTED COMPANIES

Maurizio Rija*, Paolo Tenuta*

*Department of Business Science and Law, University of Calabria - Ponte P. Bucci 87036 Arcavacata Rende CS (Italy)

Abstract

This paper aims to provide an overview of how internal auditing has been adopted by companies listed in the STAR segment of the Italian Stock Exchange, and of the choice on its organizational position. After a review of the existing literature, the research aims to analyze the information emerging from corporate governance reports in 2015, in reference to the year 2014, which the companies prepare as part of information provided annually to the market. The sample for analysis is the group of companies (n. 71) belonging to the FTSE ITALY STAR Italian Stock Exchange. The research has shown, as the first element in the survey, that nearly all of the companies have created a dedicated function or outsourced the internal audit activity. The second major finding from the analysis is that in most companies the function depends hierarchically on the board. The third point analysed concerns the figure of responsible for Internal Auditing, as established by the Code of Conduct, it replaces the person responsible for internal control and risk management. The analysis showed that almost all the companies have attributed the tasks and responsibilities of the person responsible for internal control to the Head of the Internal Audit Department, due to the coincidence of the operating environments of the two figures and the strong synergies between the two roles. The last point analyzed covers the case where the internal auditing department is decentralized or, on the contrary, remains within the company. The results showed a substantial range of companies chose not to outsource the function.

Keywords: Internal Auditing, FTSE Italia Auditing, Corporate Governance, Control

For academic reasons Sections 2, 3.3, 4 are to be attributed to Maurizio Rija and Sections 1, 3, 3.1, 3.2 are to be attributed to Paolo Tenuta.

1. INTRODUCTION

In a context in which companies need to manage an ever-growing range of risks and where corporate governance has a growing importance for the credibility and reputation of market operators, the adequacy of the structure and organization becomes an essential variable to facilitate management costs.

The internal audit function and, more generally, corporate control, as a function of support for choices and management operations, in recent decades has undergone a significant revolution, especially with regard to large corporations.

The development of internal auditing has brought with it a new culture of corporate control that does not solely rely on on-the-spot inspection but interprets auditing as an essential support for managerial activity.

The internal audit is, therefore, the pivot around which the company's whole system of internal controls rotates. Unlike that in Anglo-Saxon countries, in Italy the debate on the function, nature and systematic position of internal auditing has only begun to be the subject of discussions in a much more recent period.

For about twenty years, business management doctrine, noted the centrality of this process in the field of corporate governance, and it has extensively discussed the issues of internal auditing providing

an important contribution to economic units for the creation of this function within the corporate environment (D'onza, 2013, p. 3).

The regulatory and internal assurance mechanisms to support top management in the delicate process of selection of information, evaluation of alternatives and identification of strategic and operational processes were adopted by the main Italian companies in order to meet business and government goals entrusted to them.

There is an increased need for top management to form a staff equipped with specific methodological tools aimed at ensuring compliance with operational objectives compared to strategic objectives, the correct conduction of management processes of business risks that could compromise the attainment of such objectives and the adequacy of surveillance systems that were built and which have been upgraded to support company management.

It is precisely in this context that internal audit activity has taken hold in countries such as Italy, where the internal audit system is presented culturally as inspection following processes rather than constituting a moment of corporate support. Large enterprises in Italy have thus opted for the establishment of ad hoc internal auditing, responsible for guaranteeing the existence, compliance and adequacy of control systems and

corporate risk management processes (Regoliosi et al, 2011, p. 767).

This paper seeks to provide an overview of how, as part of the companies listed in the STAR segment of the Italian Stock Exchange (companies belonging to the FTSE ITALY STAR), the choice relating to the organizational position of internal auditing was adopted and what the essential elements are constituting the basis for the construction of an ideal model.

The observation on listed companies is a useful reference point for the analysis of this function, as well as of the relationship with other corporate governance organs.

It is obvious that the typical size of listed companies is the most appropriate to establish a system of governance, complete with internal auditing and additional bodies established by international best practices and codes of conduct; also, in recent years in listed companies there has been an unprecedented attempt to detail auditing functions.

In this work, investigations will be conducted to verify the presence of internal auditing within the companies in the sample; the hierarchical dependence of the function in question; the main lines of dependence; the attribution of duties and responsibilities typical of the body responsible for internal control to the manager of the internal auditing; the relationship between this figure and other corporate governance organs; the coincidence of the post of head of the internal audit (in relation to legislative decree n. 231/2001) with a standing member of the supervisory board and cases of centralization or decentralization of the function in question.

2. INTERNAL AUDITING: INDEPENDENCE AND REGULATION

Regarding the objectives pursued by the internal audit, it is important to remember that the "internal" attribute has the task of qualifying the objective for which this revisional type has been implemented. In other words, the internal audit is conducted for internal purposes; these purposes are to inform and document top management systematically on the status and operation of activated control systems, to address the specific risks of the company, all which are required to enable a systematic approach to analysis. Evaluation and control are essential in guiding the management of the enterprise system towards the goal of creating value (Troina, 2005, pp. 20-21).

The internal auditing must not necessarily be carried out by a body within the company. The results of some research (Oppedisano, 2009, pp. 334-335; D'onza, 2013, pp. 65-67) have shown that there is less inclination to externalise activity, or rather to externalise a minimum part of the activity. The reasons for this choice are multi-faceted, such as the fear of revealing sensitive information to external parties, or the perception that the presence of a subject within the organisation can develop a more in-depth knowledge of management processes and mechanisms that govern functioning of the organisation; or that an external body due to a less close link with the top management, could create the risk of being more subject to pressure from peripheral structures, endangering their own independence.

Reliability and integrity of information; compliance with policies, plans, procedures laws and regulations; protection of the business, the effective and efficient use of resources, the reaching of objectives and goals established by operative activities and programmes are among the primary objectives of internal auditing (Mauro et al, 1989, p.16).

The activity of the internal auditor is, therefore, one aimed at improving the effectiveness and efficiency of the organization. Thus, the activity does not consist exclusively of the exercising of mere inspections but rather the execution of real organizational consulting.

In order that internal auditing is able to fulfil the objectives assigned to it with professional competence, it is essential to maintain the requirements of independence and objectivity as much as possible. Therefore, for its position as support staff to senior management, internal auditing is limited to assessing and reporting, without interfering in any way with the operating line, safeguarding the requirement of independence. The objectivity refers to the attitude of the internal auditor who must operate impartially and free from prejudice (D'onza, 2013, pp. 62-63). To preserve their independence, it is worth examining what is provided for by international standards for professional practice drafted by IIA. The preferable solution is, unanimously held to be that of positioning internal auditing in staff at the highest governing body, establishing a functional relation with the internal auditing committee, the board or other appropriate corporate governance bodies and a hierarchical relationship with the board of directors. This means that the governing body must approve the internal auditing mandate, evaluate risks and the relative audit plan, receive communication on the results of activities conducted, and approve decisions relative to the appointment or removal of the manager as well as his remuneration and relative adjustment. In addition, the apical organ must perform appropriate inquiries with management and with the head of internal auditing in order to verify whether there are budget limitations that may prevent it from fully implementing its responsibilities (D'onza, 2013, p. 61).

Although the IIIA considers that the ideal approach is functional dependence of the committee for internal control and hierarchical dependence on the board of directors, the organization provides other alternatives that can be effective such as that of placing it in staff on the control and risks committee, where present, and with a composition that reflects the requirements of the best practices in corporate governance, or the choice of a hierarchical relationship with a single subject, be it the chairman, the CEO or the president (Oppedisano, 2009, pp. 339-340).

In recent years, the Italian legal system has witnessed the introduction of some important changes in corporate governance and internal control and risk management systems, innovations that are included in a regulatory framework that, for some time, has been subject to profound change.

In particular, it is necessary to draw attention to the regulation, adopted on a voluntary basis, of the new Corporate Governance Code for listed companies issued by the Corporate Governance Committee, set up by the Italian Stock Exchange and

subsequently revised, outlining the structure of internal control and risk management systems, the relationships that supervise such a system and the coordination between the various subjects involved in control processes in a clearer and more organic way.

The 2011 version of the code, and subsequent updates, include a recommendation for listed companies to set up internal auditing. In the new document, the head of internal auditing replaces the person responsible for internal control, with recognition of a strong independence expressed both through the assignment of independent powers of initiative in the preparation of the audit plan and through rules established for the appointment, removal and remuneration of its manager. In this context, the powers reserved to the board denote the existence of a genuine hierarchical relationship of the head of internal auditing.

The code also provides for the possibility of entrusting internal auditing, either as a whole or by business segments, to external parties provided they have adequate requisites of professionalism, independence and organization.

It is important to remember that the company's subscription to the code is voluntary and is not a source of any legal obligation. However, it does constitute a model of organizational and functional reference on which companies are entitled to draw on to pursue efficient, fair and transparent management.

According international standards for the professional practice drawn up by the Institute of Internal Auditors to these standards, the head of the function must depend on an organizational level able to permit the internal audit activity to meet its responsibilities. In order to maintain the necessary distance, the manager should refer functionally to the control and risk committee, to the board or to other appropriate corporate governance bodies.

The functional dependence of internal auditing constitutes its primary source of independence and authority. In fact, effective organizational independence is achieved when the chief audit executive reports functionally to the governing body. The latter (the control and risk committee, the board, or another governing body) has to approve the appointment/removal of the head of internal auditing and also the audit plan based on risk assessment; it will receive communications from the audit manager on the results of the plan and other relevant issues, perform appropriate checks with management and the head of internal auditing to see if there are budget limitations that may prevent it from operating effectively.

3. EMPIRICAL ANALYSIS: OBJECTIVES AND RESEARCH METHODS

The analysis was based mainly on information emerging from the 2015 corporate governance reports, in reference to 2014, which the companies prepare annually as part of information for the market. The research aims to verify the organizational position of internal auditing as part of some major Italian companies.

The reference companies, at the time of this study, belong to the FTSE ITALIA STAR index (Segment of High Requirement Shares) of the MTA Borsa Italiana market which is dedicated to medium-sized listed companies with capitalization of between 40 million and 1 billion euro, that undertake to meet standards of excellence in terms of high transparency and high communication purpose, high liquidity (35% minimum free float) and corporate governance in line with international standards.

The index is formed by 71 companies belonging to different sectors, as shown in table 1.

Table 1. List of companies in FTSE ITALIA STAR divided by sector

SECTOR	COMPANY
Industrial	Aeffe, Amplifon, Ansaldo Sts, Astaldi, B&C Speakers, Biesse, Bolzoni, Brembo, Cembre, Cementir Holding, Centrale del Latte di Torino, Dada, Datalogic, El.En., Elica, Emak, Esprinet, Eurotech, Fidia, Fila, Gefran, Ima, Interpump Group, Irce, Isagro Group, La Doria, Landi Renzo, Massimo Zanetti Beverage, Moleskine, Nice, Panariagroup Industrie Ceramiche, Prima Industrie, Reno De Medici, Sabaf, Saes Group, Sogefi, Tesmec, Zignago Vetro.
Banking	Banca Finnat, Banca Ifis, Banca Sistema
Insurance	Mutuonline, Vittoria Assicurazioni
Services/Utilities	Acotel Group, Ascopiave, Aeroporto Guglielmo Marconi di Bologna, Banzai, Be, Cad It, Cairo Communication, D'Amico, Digital Bros, Ei Towers, Engineering, Exprivia, Falck Renewables, Fiera Milano, Igd-Siiq, It Way, Marr, Mondo Tv, Openjobmetis, Poligrafica S. Faustino, Reply, Servizi Italia, Sesa, Ternienergia, Txt
Investment	Bb Biotech, Dea Capital, Tamburi Investment Partners.

Source: own elaboration of data

The first important element to highlight is that almost all the companies in the sample have either instituted or externalized internal auditing. There are several studies in the literature that have aimed to verify its presence within the company. This trend manifested itself mainly in Italy, where in the last twenty years, the implementation of this feature in the enterprise, corresponds to two thirds of the total number (Arena et al, 2006, p. 41-44). In a comparative study between Italy and the United Kingdom, Tettamanzi has shown that the internal audit function was instituted fairly recently in Italy; only less than half of the companies have had an internal auditing function for over fifteen years (Tettamanzi, 2000, pp. 1-18). In a study based on

365 Italian companies with the aim of verifying the existence and properties of internal auditing, Arena, Azzone, Casati and Mello, have shown that 74% of the companies implemented this function (Arena et al, 2004).

Arena, Arnaboldi and Azzone identified three categories of companies: non internal auditing adopters (companies without their own internal auditing department), institutional internal auditing adopters (companies in which there is a formal internal auditing department, with a well defined role within the organization and whose constitution is due to pressure arising from legislative requirements) and the non-institutional internal auditing adopters (companies that have

implemented an internal auditing department for reasons that differ from legal requirements) (Arena et al, 2006, pp. 275-292).

Shifting focus away from the national context, it is possible to find analyses on the existence of internal auditing in different countries such as Holland (Swinkels, 2012, pp. 133-152), Australia (Goodwin et al, 2004, pag. 1-34), the United States of America (Carcello et al, 2005, pp. 117-127) and Belgium (Abdolmohammadi et al, 2011, pp. 1-20).

All the studies examined have had the search for a logical and credible explanation that can adequately explain the presence of the internal auditing function in the various enterprises of the country under study as the objective at the base of their research.

From the analysis of companies in our sample survey, it emerges that the only cases where such provision is not made concern three industrial companies, a service company and an investment company. In general, the absence of the internal auditing function is justified affirming that for the structure and size of companies the internal control system can be regarded, on the whole, as able to ensure the objectives of good management and monitoring purposes and reporting provided for by internal auditing. However, in some cases, it was not mentioned in corporate governance reports.

3.1. The placement of the organizational structure

In general, in order to pursue objectives of independence and autonomy, the internal auditing body is placed in a position of functional dependence on the board of directors or on the Audit Committee and in a position of hierarchical dependence with the top management body with executive power (Giansante, 2009, pp. 119-122). Functional dependence allows an immediate support and contact with the recipient of activities while the position of subordination to the CEO allows for direct monitoring of the activity undertaken by internal auditors and on results obtained (European Confederation Of Institutes Of Internal Auditing (ECIIA), 2007, pp. 23-24). Consequently, the observation made that the internal audit body covers the position of *staff* (Iodice et al, 2013, p. 93) compared with the highest level of company organization (Pilati, 1999, p. 125).

Internal auditing is a function that, by explicit definition of activities by IIA, must be characterized by independence, objectivity and autonomy. The position of the body within the corporate

organization must be well-defined and inserted in a higher position compared to levels and areas of the business subject to control (Arena et al, 2009, pp. 43-60). The positioning of internal auditing within the shareholder structure is a topic of fundamental importance for adequacy of the task of revision. In fact, over time, in the literature, numerous studies have addressed this topic (Goodwin et al, 2001, pp. 107-125 (Raghunandan et al, 2001, pp. 105-118).

However, internal auditing could also be outsourced; in fact, the company, in an attempt to pursue greater independence has the faculty to entrust internal auditing to an external company (Hermanson et al, 2003, pp. 58-59).

The framework outlined clearly illustrates the need to place the internal auditing body in a prominent position within the organization of the company, at an intermediate level between the executive body with the power and decision-making organs of control and administration.

In literature, the positioning of this function within the company has been much discussed. Some scholars have conducted research in order to collect data and information that could highlight a prevailing *trend*. Allegrini and D'onza, in an empirical investigation in 2003 highlighted that of the 70 companies forming their sample, almost half depend directly on the CEO, manifesting a clear strategy (Allegrini et al, 2003, pp. 7-8). In 2004, Gramling, Maletta, Schneider and Church examined the relationship between the internal auditing body and other corporate bodies (Gramling et al, 2004, pp. 194-244). Others demonstrated how the position of internal auditing in company organization is mainly dependent on interactions with the board of directors and the audit committee (Anderson, 2003, pp. 97-110; Sarens et al, 2011, pp. 191-204). From an analysis conducted by the American Accounting Association it emerged that subordination of internal auditing to the board of directors consents greater pursuance of the objectives of independence and objectivity (American Accounting Association, 2015, pp. 12-13).

Table 2 presents the results from an analysis of sampled companies in our study regarding hierarchical dependence. In particular, table 2 reports the percentages of observation of hierarchical dependence towards a particular body within the sample, stating that in some cases it was possible to observe how there is not an explicit reference to hierarchical dependence, instead, it was found that the function of Internal Auditing refers to more company bodies.

Table 2. Hierarchical dependence

Administrative Board	71,83%
Audit and Risk Committee	11,27%
CEO	4,23%
Director appointed by the internal control system	5,63%
Executive director appointed to oversee the functionality of the internal control and risk management system	1,41%
Management of general services	1,41 %
Board of Auditors/Management committee	8,45%
Supervisory Board	1,41%

Source: own elaboration of data from 2015 corporate governance reports

The results show a trend in compliance with the choices of corporate governance for companies with professional standards and guidelines recommended by the Code of Conduct in order to

ensure the highest degree of independence of internal auditing, requiring, among other things, that the head of internal auditing does not hold

responsibility for any operational area and depends hierarchically on the board.

In this case, referring to a body without operational authority, such as the board of directors, shields the internal auditing staff from influence and from any pressure exercised by the executive management, which not only will not have authority to intervene directly on them, but will have to comply with the decisions taken by the board in relation to that emerging from auditing activity.

Moreover, this independence is more reliable if the recipient of the audit findings is a committee within the board of directors, such as the control and risk committee (Reboa, 2007, p. 26).

In detail, analyzing 38 companies in the FTSE ITALY STAR industrial/utilities sector, adopting the traditional governance system, it was possible to verify that approximately 69% of them refer to the board (26 of 38), while the remaining 31% relate to positions with management mandates (12 of 38). Such data is in line with that encountered in the services/utilities sector: in 57% of companies adopting a traditional model (14 out of 24), the internal auditing function hierarchically depends on the Board of Directors, compared to 43% where it refers to other bodies (10 out of 24). The only company in the service sector that adopted a monistic system, also opted for a hierarchical dependence of the function on the Board of Directors.

The increase of the percentage of dependency from the management board is justified by the presence of the committee as a body of support and connection directed by the collegiate body, by virtue of the responsibilities assigned to it in relation to the internal control and corporate risk management system. For this reason, the choice of some companies in the sample is worthy of attention; they opted to balance the direct dependency line to the collegial body, adding a line of functional dependence from the controls and risks committee.

This conclusion is evident to a greater extent if only banking sector companies (3) are taken into account, also in light of the specific reference standards, where all are hierarchically dependent on board of directors. Worthy of indication is a bank that placed the function of Internal Auditing in staff on the Board of Directors so as to ensure the level of independence required compared to other bodies, in line with indications from the Banca d'Italia.

In reference to the case of insurance sector companies (2), reports on corporate governance

indicate the function of internal auditing that depends hierarchically on the Board of Directors in just one case; in particular, an insurance company provided for direct hierarchical dependence on the Audit and Risk committee and a functional dependence on the CEO.

As for companies in the services sector (6), the function depends hierarchically on the board of directors. In particular, in three cases, internal auditing depends directly on the supervisory board while in the remaining cases it depends on the control and risk committee and on the non-executive chairperson.

Finally, in companies in the investment sector, (2), it emerged that in two cases, the function depends hierarchically on the board of directors, while in the other, the company sought to balance lines of direct dependence from the top executives, with a functional type dependence line from the control and risk committee. In particular, in one case also the functional dependence regarding the Audit and Risk committee is specified. In another case, which refers to an overseas investment company, no mention is made of the Internal Auditing function, which is, however, indicated in the annual report of the parent group and entrusted, via outsourcing, to an audit company.

It is necessary to highlight how in two companies the function does not depend hierarchically on any body and in one case in which it is entrusted to an independent director covering more roles within the internal audit system, including the task of Lead Independent Director.

However, regarding results for the reporting lines, we note that the head of the internal audit reports periodically to the control and risk committee and the supervisory board, i.e. the bodies to which a supervisory role and monitoring the system of internal control and risk management is assigned, as well as to the administrator in charge of the internal control system and risk management, as the figure responsible for operation of the internal control system and the Board of Directors. Specifically, the addressees of the periodic reports provided for by the function, are often the Presidents of such bodies, which have very high percentages of reception of periodic reports, in line with that provided for by the Corporate Governance Code (Codice Di Autodisciplina, 2015 Principio 7.C.5. punto d) (Table 3).

Table 3. Reporting lines

Board of Directors	66,20%
Audit and Risk Committee	87,32%
Audit and operations committee with connected parts	1,41%
Administrator appointed by the audit system	66,20%
Board of Auditors/Management committee	78,87%
Supervisory body	11,27%
Director responsible for accounting and corporate documents	2,82%
Auditing and Risk management manager	1,41%
Audit committee	1,41%
CEO	2,82%
Company management	1,41%
Top management	2,82%
General management	2,82%
Auditing company	1,41%

Source: own elaboration of data from 2015 corporate governance reports

3.2. The head of internal auditing

The head of internal auditing function continuously verifies the operation and suitability of the internal control and risk management system in accordance with international standards, through an audit plan based on a structured analysis and identification of key business risks approved by the board of directors.

The Code of Conduct for Listed Companies (Preda Code), in contemplating the internal control system, states that the company should avail itself of at least one *person in charge of internal control*. It is identified with the head of the internal auditing function, who has the task of checking that the internal control system is always operational and functional, reporting on its operations to the audit committee and the statutory auditors (Francone, 2011, pp. 170-186). In his 2004 research, Melis showed that 16.5% of Italian listed companies, representing approximately 50% of the market capitalization, appointed a person in charge of internal control following publication of the Preda code (Melis, 2004, pp. 74-84; Spira, 1998, pp. 29-38).

The person responsible for internal auditing verifies both continuously and in relation to specific needs, respecting international standards, the operability and suitability of the internal audit and risk management system, by means of an *audit* plan, approved by the board of directors, based on a structured process of analysis and prioritising of main risks. (Codice Di Autodisciplina, 2015 Principio 7.C.5, point a)

Since 2011, reference has no longer been made to the person responsible for internal auditing, a locution with far too nuanced contours that created many difficulties in rebuilding the system; however, reference is now made to the head of the internal audit function.

In this regard, additional aspects to be investigated with the following analysis, concern whether the figure of the head of internal auditing has also been given the tasks and responsibilities of the person responsible for internal control and on the relationship between the figure responsible for internal auditing and for other supervisory bodies of the company.

In relation to the first point, the analysis showed that in 87% of the companies analyzed, the head of the internal audit function was assigned the duties and responsibilities of the person responsible for internal control, primarily or as support for other units of the internal audit system. The Corporate Governance Code, in the latest version of July 2015 in fact foresees that the person responsible for the Internal Audit function verifies that the internal control and risk management system is functioning and adequate. (Codice Di Autodisciplina, 2015 Principio 7.P.3 punto b).

As for the relationship between the figure of the head of internal auditing and other control bodies, in many of the corporate governance reports analyzed it was recognized how corporate governance is entailed essentially in an advisory and periodic informative report.

The head of internal auditing tends to relate to all the bodies representing the system of internal control and risk management.

In the specific case of the companies analyzed, there is close cooperation between the head of internal auditing and the executive person in charge, supporting him in his activities of monitoring the system. Also, it is possible to notice additional and important relations of cooperation and coordination between the head of internal auditing and the supervisory body. The latter has the main task of supervising the functioning and observance of an organization and management model capable of preventing corporate crimes.

The internal auditing facilitates integration between corporate bodies responsible for governance and control favoring the coordination and exchange of relevant information flows (Associazione Italiana Internal Auditors, 2008, p. 601).

3.3. The administrative liability of legal companies

Legislative decree N. 231/2001 on the *administrative liability of legal persons, companies and associations also without legal persons* has implemented a series of rules designed to strengthen, on behalf of the companies, the ability to obtain the adoption of correct and transparent behaviors, together with the supply of instruments and procedures aimed at preventing possible risky situations (De Vivo, 2012; Giacoma et al, 2010; Valensise, 2009, pp. 355-382). In other words, this model allows the prevention of crime by implementing suitable defence mechanisms and the provision of certain forms of organization, management and control (Gandini et al, 2008, pp. 12). The decree provides for the company's establishment of a supervisory body assigned to the control of the effective adoption of the model contained in the legislative document and its adequacy. The composition of such a body is not provided for by the discipline under examination and, therefore, can have both a monocratic and collegial form with both internal and external members, at the complete discretion of the company (Gruppo Di Studio 231 - Odcec Torino, 2011, pp. 22-35). In this regard, one of the bodies accredited to cover the role of supervisory body is that of the internal auditing of the company, since it has the task of supervising the overall control system within the institution and of ensuring, therefore, that risk management effectively meets the actual business needs (Petrillo, 2010). Furthermore, very interesting results were obtained from research on the composition of the supervisory body in a sample of 88 unlisted companies conducted by the Associazione Italiana Internal Auditors with Confindustria, in January 2007; in more than half of the companies (55%) the head of internal auditing fulfils the role as an effective member of the body (Osservatorio D.Lgs. 231, 2007, pp. 7-18). In 2008, Gandini and Gennari studied the body provided for by legislative decree 231/2001 in a group of banking companies listed on the Italian stock exchange, highlighting that in 70% of the cases the supervisory body coincides with the internal auditing body or with another internal control body (Gandini et al, 2008, pp. 17-24). In 2009, Previtali conducted another analysis of the structure of the supervisory body of 146 companies listed on the Milan stock exchange, noting that 94% have a supervisory form and 60% showed the presence inside of the person

responsible for internal auditing (Previtali, 2009, pp. 35-52).

The trend manifested in the various studies is that, in most of the companies that chose to create an internal supervisory body, the latter includes the head of auditing or coincides directly with the internal auditing body.

The adoption of the organizational and management model referred to in legislative decree 231/2001 is among the requisites required of the company to be part of the STAR segment. The head of the internal audit should adopt various measures

to ensure effective implementation of the model, and especially in medium sized companies they are appointed as part of the supervisory body in the majority of cases.

For this reason, in the companies considered, the majority chose a member of the supervisory body as the head of the internal audit.

The results of the company divided according to business segment are shown in the following table.

Table 4. Cases of appointment of the internal auditing manager as member of the supervisory board

SECTOR	Number of COMPANIES
Industrial sector	21
Banking sector	2
Insurance sector	2
Services/utilities sector	10
Investment sector	1
TOTAL	36

Source: own elaboration of data from 2015 corporate governance reports

It should be noted that, ultimately, the sampled companies used this provision, as from a total of 66 companies that implemented the Internal Auditing function in its own Internal Audit System, 36 provided for the appointment of the person responsible for internal auditing as a component of the Supervisory body, thus in 55% of the cases, it is in line with previous studies on this matter. In some cases, due to the size of the company, it was possible to verify that the body in charge of internal auditing is the only one responsible for the supervisory body.

The Code of Conduct confirms the possibility of entrusting internal auditing, as a whole or by business segments, to a party that is external to the issuer, provided it is equipped with adequate professionalism, independence and organization.

Also, within groups of companies, the internal auditing can be organised differently. Internal auditing can, in fact, be conducted through the use of a *centralized structure* (the internal auditing function of the holding is responsible for conducting the activity for all the companies within the group, or for setting up an ad hoc company subject to the holding company focusing exclusively on auditing all the subsidiaries) or a *decentralized structure* (internal auditing is an activity and is implemented in each of the companies in the group) (Faldetta et al, 2008, pp. 342-345). In 2000, in a comparative analysis between Italy and the United Kingdom

Tettamanzi found that the majority of Italian cases preferred a centralized model (73%), while the groups choosing a decentralized model were a distinct minority (20%). Instead, in the United Kingdom, the choice of delegating internal auditing to a body of the holding was adopted by just over half the groups (56%), with a number of companies adopting a consistent decentralized structure (38%) (Tettamanzi, 2000, pp. 16-17). In a 2003 study, Allegrini and D'Onza found that within the listed companies on the Italian market, those using a centralized model accounted for 46%, in close proximity to the companies preferring a decentralized structure (42%), with the remaining 12% choosing to create a new company to deal with the group's internal auditing (Tettamanzi, 2000, pp. 16-17).

In this context, is necessary to understand whether it is possible to entrust such an important activity outright to a third party.

The issue is addressed differently within the discipline, with preference for both forms. Therefore, within the companies studied, a further object of the analysis conducted is the verification of whether, internal auditing remains within the company or whether it is outsourced.

The following table shows the results regarding the number of companies in the sample divided according to business sector:

Table 5. Centralisation and decentralisation of internal audit activities

Sector	Centralisation	Decentralisation
Industrial/utilities	23	12
Banking	3	0
Insurance	2	0
Services/utilities	18	6
Investment	1	1
TOTAL	47	19

Source: own elaboration of data from 2014 corporate governance reports

The sample companies tend not to outsource internal auditing as, from 66 companies, only 19 tend to entrust, either entirely or partially, the

activity to outsourcing; therefore, the companies that externalise Internal Auditing constitute only 29% of the sample.

This result is justified by the fact that a centralized system ensures, on the one hand, a more unitary government, and homogeneous activity that competes, and on the other hand, it could avoid the risk of inefficiencies due to the presence of business large sized businesses.

The choice of outsourcing model, compared to that which provides defence within the corporate

structure, obviously presents both positive and negative aspects (Reboa, 2007, pp. 27-28).

The following table summarizes the main advantages and disadvantages arising from the centralization or decentralization of the internal auditing department.

Table 6. Advantages and disadvantages of centralisation and decentralisation of internal auditing activities

	<i>Advantages</i>	<i>Disadvantages</i>
<i>Centralisation</i>	Unitary governing and homogenous development of internal auditing activities	Danger of internal structural rigidity and phenomena of bureaucratization in the presence of large dimensions
<i>Decentralisation</i>	High degree of flexibility in interventions	Issues deriving from the lack of unity of direction and from the possibility of instrumentalization by peripheral functions, with damaging consequences on the auditor's independence

Source: Regoliosi, 2009, pp. 249-250

Ultimately, whatever the organizational model, the internal auditing function will execute its task, above all in the presence of fruitful relationships with other control bodies and with all levels of the corporate structure (Regoliosi, 2009, pp. 249-250).

4. CONCLUSIONS

The introduction the internal auditing and its development have had a taxing route, above all in Italy. The considerable delay with which the Italian professional and business worlds came to conclusions, which had long since been made overseas, is intuitively perceptible if one looks back to when the first internal audit staff appeared in the late '70s.

The role of Internal Auditing has greatly changed and evolved over the years in response to the changes that have taken place in the regulatory environment and market; it has become an essential tool for evaluation and improvement of control processes, gaining a higher organization ranking.

According to the current definition, "internal auditing is an independent and objective of "assurance" and counseling, aimed at improving the effectiveness and efficiency of the organization. It helps the organization to achieve its goals through a systematic professional approach, which creates value since it is aimed at evaluating and improving control processes, risk management and corporate governance" (IIA, 1999).

The research carried out on the companies belonging to the STAR segment, highlighted, as the first element of the survey, that nearly all of the companies either created a dedicated function or outsourced the internal audit activity.

This result confirms the importance of the function in discussion, as an activity that generates additional value in order to evaluate processes of auditing, risk management and corporate governance.

The second point of that analysis sought to verify the hierarchical dependence on the function of internal auditing; it emerged that in the greater part of the companies, the function has a hierarchical dependence on the board of directors.

Such a solution has the aim of guaranteeing internal auditors the maximum degree of independence possible.

The situation of independence is also ensured by the presence of the audit and risks committee, within the board of directors, which supports the governing body in choices through adequate instructions.

This model may nevertheless present some drawbacks linked, above all, to the difficulties connected with the relationship with a supervisory body (Cattaneo, 2007, p. 99).

The third point analyzed by the research concerns the role of the internal audit manager who, as established by the Corporate Governance Code, replaces the person responsible for internal control in the internal control and risk management system.

The points analyzed regarded whether the manager of internal auditing has also been entrusted with the tasks and duties of the person in charge, and regarded the relationship between the head of internal auditing and other corporate control organs.

The analysis has shown that almost all the companies attributed the tasks and responsibilities of the person to the head of the internal auditing department, in relation to the current connection of the operating environments of the two figures and the strong synergies between the two roles.

The legislative changes that revolutionized the field of corporate controls have had a significant impact on internal auditing.

It is necessary to manage internal auditing activities in an integrated way, through close cooperation with other corporate governance supervisory bodies. On this point, the analysis showed that the head of internal auditing tends to relate to all components of the internal control system, but in particular, there is a commonality of the head of internal auditing with the control and risk committee and with the supervisory board (Cattaneo, 2007, pp. 98-99).

Research has found that the head of internal auditing is found within the supervisory board of the majority of companies analysed.

This is a favored solution, both because it is an internal body of the company, and because it is believed that a composition consisting only of persons external to the company, would ignore the business reality in all its minimum details and the emergence of possible corporate crime, cases that can be known only to those involved in management and company auditing.

Furthermore, the results have shown a substantial selection of companies that do not externalise the function as a centralised government within the company can avoid the risk that an external subject, with a less close link with top management, could be more subject to pressure from peripheral structures, considering its own independence to be in danger, moreover, it is necessary to maintain common lines of intent regarding the monitoring of risks within the Internal Auditing system. In the presence of outsourcing, this element could be threatened by external pressures or by different analysis methodologies, far removed from the company reality.

Internal auditing should, therefore, have its own organization that is able to interact with all operation and audit systems within the company.

The theme of corporate governance is complex and, at present, still widely the object of studies, analyses and discussion (D'onza, 2013, pp. 65-67).

REFERENCES

1. "An independent appraisal activity within an organization for the review of operations as a service to management. It is a managerial control which functions by measuring and evaluating the effectiveness of other controls". INSTITUTE OF INTERNAL AUDITORS (IIA), 1971.
2. "An independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. INSTITUTE OF INTERNAL AUDITORS (IIA), 1999.
3. ABDOLMOHAMMADI M.J., SARENS G., *Monitoring effects of the internal audit function: agency theory versus other explanatory variables*, International Journal of Auditing, vol. 15, no. 1, 2011.
4. ALLEGRINI M., D'ONZA G., *Internal Auditing and Risk Assessment in Large Italian Companies: an Empirical Survey*, International Journal of Auditing, Vol. 7, No. 3, 2003.
5. ALLEGRINI M., D'ONZA G., *Internal auditing e risk assessment: un'indagine empirica*, Auditing, n. 45, 2003.
6. AMERICAN ACCOUNTING ASSOCIATION, *The organization of the internal audit function and its relationship to other governance players. Best practices of organization, self-perception and internal governance structures*, 7 January 2015.
7. ANDERSON U., *Assurance and consulting services*, BAILEY A. D., GRAMLING A. A., RAMAMOORTI S., *Research Opportunities in Internal Auditing*, Altamonte Springs, Florida, Institute of Internal Auditors Research Foundation, 2003.
8. ARENA M., ARNABOLDI M., AZZONE G., *Internal audit in Italian organizations*, Managerial Auditing Journal, Vol. 21, No. 3, 2006.
9. ARENA M., AZZONE G., CASATI P., *L'irresistibile ascesa dell'Internal Auditing in Italia*, Internal Audit. Corporate Governance, Risk Management e Controllo Interno. Mag-Ago 2006.
10. ARENA M., AZZONE G., CASATI P., MELLO F., *Rapporto di ricerca*, Italian Institute of Internal Auditors, 2004.
11. ARENA M., AZZONE G., *Identifying Organizational Drivers of Internal Audit Effectiveness*, Blackwell Publishing, Internal Journal of Auditing, Vol. 13, No. 1, 2009.
12. ATKISSON C. T., *Significant Contributions of Modern Internal Auditing to Management*, The Accounting Review, Vol. 21, No. 2, Aprile 1946.
13. BRINK V. Z., *Internal Auditing. Its nature and function and methods of procedure*, New York, The Ronal Press Co., 1941.
14. BRINK V.Z., CASHIN J.A., *Internal Auditing*, New York, Ronald Press, 1958.
15. BRUNI G., *La revisione aziendale*, Utet, Torino, 1996.
16. CARCELLO J. V., HERMANSON D. R., RAGHUNANDAN, K., *Changes in Internal Auditing During the Time of the Major US Accounting Scandals*, International Journal of Auditing, Vol. 9 No. 2, 2005.
17. CARCELLO J. V., HERMANSON D. R., RAGHUNANDAN, K., *Factors Associated With U.S. Public Companies' Investment in Internal Audit*, Accounting Horizons, Vol. 19, No. 2, 2005.
18. CASSANDRO P. E., *Sulle origini e sul contenuto dell'auditing*, Saggi di Ragioneria e di Economia Aziendale, Scritti in onore di Domenico Amodeo, Padova, Cedam, 1987.
19. CATTANEO M., intervento alla tavola rotonda *Organismi di controllo: il parere dei protagonisti*, in «Rivista dei dottori commercialisti», A. LVIII, supplemento al n. 3/2007.
20. CHAPMAN C., ANDERSON U., *Implementing the Professional Practices Framework*, Altamonte Springs, Florida, The Institute of Internal Auditors, 2002; D'ONZA G., *L'internal auditing: Profili organizzativi, dinamica di funzionamento e creazione del valore*, Torino, Giappichelli, 2013.
21. CORTESI A., TETTAMANZI P., *Corporate governance e controlli societari in Italia. I risultati di una ricerca empirica*, in «Rivista dei dottori commercialisti», A.LVIII, N.2, 2007.
22. D'ONZA G., *L'internal auditing: profili organizzativi, dinamica di funzionamento e creazione del valore*, Giappichelli, 2013.
23. DE VIVO A., *Il professionista e il D.Lgs. 231/2001. Il modello esimente tra strumenti operativi e corporate governance*, II ediz., Milano, IPSOA, 2012.
24. EUROPEAN CONFEDERATION OF INSTITUTES OF INTERNAL AUDITING (ECIIA), *The Role of Internal Audit in Corporate Governance in Europe: Current Status, Necessary Improvements, Future Tasks*, Berlin, Erich Schmidt Verlag, 2007.
25. FALDETTA G., SORCI C., *I gruppi come strumenti di governo delle aziende*, Milano, Giuffrè Editore, 2008.
26. FRANCONI B., *Osservatorio sulla corporate governance*, in RDS. Rivista di diritto societario interno, internazionale comunitario e comparato, Vol. 1, Torino, Giappichelli, 2011.
27. GANDINI G., GENNARI F., *Funzione di compliance e responsabilità di governance*, Paper numero 86, Università degli Studi di Brescia, Dicembre 2008.
28. GIACOMA G., CAPPARELLI O., PROCOPIO C., *D.Lgs. 231/2001: ambito di applicazione e modelli di controllo interno. Reati, linee guida, giurisprudenza*, Milano, IPSOA, 2010.
29. GIANSANTE P., *Internal auditing. Contenuto, struttura e processo*, Roma, Edizioni Universitarie Romane, 2009.
30. GOODWIN J., KENT P., *Factors affecting the voluntary use of internal audit*, Queensland University of Technology, Working Paper, 2004.
31. GOODWIN J., YEO T. Y., *Two factors affecting internal audit independence and objectivity: Evidence from Singapore*, International Journal of Auditing, Vol. 5, No. 2, 2001.

32. GRAMLING A.A., MALETTA M.J., SCHNEIDER A., CHURCH B.K., *The role of the internal audit function in corporate governance: a synthesis of the extant internal auditing literature and directions for future research*, Journal of Accounting Literature, Vol. 23, 2004.
33. GRUPPO DI STUDIO 231 - ODCEC TORINO, *L'organismo di vigilanza: linee guida*, Torino, MAP Servizi, 2011.
34. HALD A. E., 1944, citato in FLESHER D. L., *Internal Auditing: Standards and Practices*, Altomonte Springs, Florida, The Institute of Internal Auditors, 1996.
35. HERMANSON D. R., RITTENBERG L. E., *Internal audit and organizational governance*, chapter 2, in BAILEY A. D., GRAMLING A. A., RAMAMOORTI S., *Research Opportunities in Internal Auditing*, Altamonte Springs, Florida, Institute of Internal Auditors Research Foundation, 2003.
36. IODICE C., NONINO O., *Compendio di Economia Aziendale e Ragioneria Generale*, Santarcangelo di Romagna, Maggioli Editore, 2013.
37. MASCIOCCHI M., *Manuale di revisione delle aziende*, Etas, 1974.
38. MAURO F., STOPPA S., *Internal auditing. Cosa, come, perché*, Milano, FrancoAngeli, 1989.
39. MELIS A., *On the Role of the Board of Statutory Auditors in Italian Listed Companies*, International Journal of Auditing, Vol. 12, No. 1, January 2004.
40. OPPEDISANO F., *Il posizionamento organizzativo dell'internal audit*, in Riv. dott. comm. 2, 2009.
41. OSSERVATORIO D.LGS.231, *La Responsabilità Amministrativa delle Società. Un'indagine sull'adozione del modello organizzativo previsto dal D.Lgs.231/01 nelle società non quotate*, Milano, Associazione Italiana Internal Auditors (AIIA), Confindustria, gennaio 2007.
42. PETRILLO F., *L'organismo di vigilanza ex D. Lgs. n. 231/2001 e la corporate governance*, Bologna, Filodiritto: la legge, il diritto, le risposte, 2 febbraio 2010.
43. PILATI M., in CORBELLA S., PECCHIARI N., *Internal Auditing. Aspetti di struttura e di processo*, Milano, Egea, 1999.
44. PREVITALI P., *Modelli organizzativi e compliance aziendale. L'applicazione del D.Lgs. 231/2001 nelle imprese italiane*, Milano, Giuffrè Editore, 2009.
45. RAGHUNANDAN K., READ W. J., RAMA D. V., *Audit committee composition, "gray directors", and interaction with internal auditing*, Accounting Horizons, Vol. 15, No. 2, 2001.
46. RAMAMOORTI S., *Internal Auditing: History, Evolution, and Prospects*, chapter 1, in BAILEY A. D., GRAMLING A. A., RAMAMOORTI S., *Research Opportunities in Internal Auditing*, Altamonte Springs, Florida, Institute of Internal Auditors Research Foundation, 2003.
47. Reboa M., *Le regole del buon governo societario a tutela del risparmio*, in «Rivista dei dottori commercialisti», A. LVIII, supplemento al N°3/2007.
48. REEVE J. T., *Internal auditing*, in CASHIN J. A., NEUWIRTH P. D., LEVY J. F., *Cashin's Handbook for Auditors*, second edition, Englewood Cliffs, Prentice Hall, 1986.
49. REGOLIOSI C., *Corporate governance e organismi di controllo nelle imprese quotate italiane. Alcune riflessioni*, Rivista dei Dottori Commercialisti, 1/2009.
50. REGOLIOSI C., D'ERI A., *La qualità della revisione interna in Italia. Primi risultati di un'indagine*, in «Rivista dei dottori commercialisti», A.LXII, N.4, ottobre-dicembre 2011.
51. SARENS G., ABDOLMOHAMMADI M. J., LENZ R., *Factors associated with the internal audit functions role in corporate governance*, Journal of Applied Accounting Research, Vol. 13, No. 2, 2011.
52. SPIRA L. F., *An Evolutionary Perspective on Audit Committee Effectiveness*, Corporate Governance - An International Review, Vol. 6, No. 1, 1998.
53. SWINKELS W., *Exploration of a Theory of Internal Audit. A study on the theoretical foundations of internal audit in relation to the nature and the control systems of Dutch public listed firms*, Delft, Eburon, 2012.
54. TETTAMANZI P., *Internal auditing. Evoluzione storica, stato dell'arte e tendenze di sviluppo*, Milano, Egea, 2003.
55. TROINA G., *Le revisioni aziendali*, Milano, FrancoAngeli, 2010.
56. VALENSISE P., *L'organismo di vigilanza ex d.lgs. n. 231/01: considerazioni su poteri, composizione e responsabilità*, Analisi Giuridica dell'Economia, Il Mulino, dicembre 2/2009.
57. VINTEN G., *Internal auditing and management auditing*, in KENT D., SHERER M., THURLEY S., *Current Issues in Auditing*, London, Harper and Row, 1985.