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# THE MODERN INTERNAL AUDIT IN THE MODERN COMPANY

*The mission of the modern internal audit is to support the development of the company and to contribute to the achievement of its objectives. In this context, the need for the internal audit to meet the expectations of stakeholders is becoming increasingly important. Moreover, it requires a proactive role, which includes to provoke needs, provide advice, and to offer opportunities. The modern internal audit must go beyond its traditional role of observer, finder and corrective, and become the engine that inspires changes in the company. In order for this transformation to take place, it is necessary to change the objects and subjects of the internal audit. Corporate culture, corporate social responsibility, ethics, cybersecurity, risk-culture, innovation, strategies, etc. are joined of the objects of internal auditing. All this implies new competences, attitudes and skills of internal auditors.*
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## 1. Characteristics of modern internal auditing stemming from the conceptual framework for internal auditing

The characteristics of modern internal auditing are determined by the nature of internal auditing, its principles, mission and objectives. The International Professional Practices Framework (IPPF) for internal auditing containing definition, principles, standards and guidelines, sets specific requirements for internal auditing, which will be discussed below. Internal auditing is an activity designed to contribute to adding value, improving the organization's performance, and helping to achieve its goals. The mission of internal audit is to support the strengthening and protection of the organization, which is achieved through the provision of risk-based and objective assurance and through advice based on in-depth knowledge of the activity. Among the basic principles defined in the conceptual framework, we should distinguish those relevant to this study, namely, the principles that demonstrate the relationship and interaction of the internal audit with the company. In particular, these are the principles that require that the internal audit should be aligned the organization's strategies, goals, and risks, and should be penetrating, proactive, and forward-looking; it should promote improvements in the organization, demonstrate quality of work and continuous improvement.

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## 2. Interaction and interrelation between the subject and the object of the internal audit

The manifestations of the characteristics of the internal audit and its definition as modern or obsolete depend to a large extent on the environment in which it is located and on its object and subject.

The subjects of the internal audit are the audit structures, the auditors, the head of the internal audit, and all who plan, conduct and analyze the audit process. The objects of the internal audit may be the organization, its structural units, separate functions and activities, certain systems, specific processes. The object and the subject have, on the one hand, a relatively independent development and, on the other hand, they develop as a result of their interrelation and interaction. For example, the above-mentioned objects are under the influence of other subjects other than the internal audit, such as senior and operational management; external auditors, regulatory and other bodies as well as clients. These versatile effects change the object by bringing it to a new quality level. Any change to the object create new requirements for the internal audit subjects, requiring a change in both quantitative and qualitative aspect. It can be said that internal auditing and its subjects depend on the maturity level of the company and on the maturity level of the internal audit function itself. In the development of the object and the subject, as well as in the interaction between them, different hypotheses can be outlined. For example, the object (the company) may have advanced role compared to the subject (internal auditors), i.e. the object may excel the subject in qualitative aspect. In this hypothesis the company is dynamic and innovative and it introduces new technologies, its corporate social responsibility is integrated into its business and management, and it has to manage many inherent risks. At the same time, internal auditors have no understanding of the business, no knowledge of new technologies, do not understand their role in innovation and related processes, have no capacity and potential to innovate in their own field, are not familiar with CSR standards, do not know cyber-risks, etc. The audit plan includes traditional accounting audits, audits of certain operations, compliance audits, and other conventional audits. The opposite hypothesis is when the internal audit has a more advanced role. Internal auditors have individual and group competencies that surpasses the company's needs. Under this hypothesis, the internal audit could be the engine to promote the development of the company, to provoke needs, and to inspire change. For these purposes and their implementation, it is necessary to have interaction and synchronization with the other subjects of the company, in particular the support and the actions of the internal stakeholders (the management, the Board, etc., the managerial bodies of the company). Undoubtedly, the best hypothesis is when the modern company has a modern internal audit. Under this hypothesis, the object (the company) changes dynamically. The change can be quantitative, which is expressed in new activities, products, technologies, as well as qualitative as a consequence of the quantitative changes or improvements of the existing activities, products, technologies, etc. All this necessitates a change in the subject (internal auditors). New skills are needed, such as knowledge, innovativeness, etc.

### 3. Challenges to internal auditing stemming from society's needs and the requirements of the business environment

The modern business environment is characterized by complexity and dynamism. It is necessary to take into account not only the economic stakeholders but also the non-economic stakeholders. The social element is seeking its wider space in management and is imposed as a need for the business. The expectations for a "social image" of today's companies are growing, and, in response to these expectations, they seek to change. " The most fundamental change has already happened in most global companies, namely the explicit recognition that social issues are business issues and that business issues are social issues." (Amos and Sullivan, 2015, p. 4).

In their resolutions on corporate social responsibility of 6 February 2013: "Corporate social responsibility: accountable, transparent and responsible business behavior and sustainable growth" (P7_TA (2013) 0049) and "Corporate Social Responsibility: promoting society's interests and a route to a sustainable and inclusive recovery "(P7_TA (2013) 0050), the European Parliament "acknowledged the importance of businesses divulging information on sustainability such as social and environmental factors, with a view to identifying sustainability risks and increasing investor and consumer trust." (ECIIA2015, Non-Financial Reporting: Building trust with internal audit p. 5).

A study (PWC, 2017) on the state of internal audit outlines future likelihood of disruptive events for the next three years, namely: new regulations, cybersecurity, technology advances, digital innovation, change in business model/strategy, changes in customer preferences, financial challenges, changes in human capital, culture and compensation change, operational changes. It is logical that modern internal auditing should go towards these areas in order to be useful to the company.

A study (European Institutes of Internal auditors 2018) conducted in 2017 identifies 10 hotspots for internal auditing in 2018. In comparison to the study said above, several areas coincide, namely innovation, corporate culture, cybersecurity, and regulations.

A study (KPMG, 2016) on the internal audit risk areas also identifies regulations, corporate culture and behavior, and cybersecurity.

Based on the studies above, some interesting areas relevant to the scope of internal auditing can be summarized.

*Regulations* are associated with many risks for the company. It is no accident that they fall into the problematic areas. Regulations are a traditional area for the internal auditing. A study by the Institute of Internal Auditors Research Foundation (IIARF) shows that compliance audits are one of the most common audits performed by internal auditors (76%).

*Cybersecurity* is an area of major importance for the companies. This importance will remain in the future. The threat of cyber-attacks is significant and steadily increasing. One estimate suggests that cybercrime could cost businesses over $2 trillion by 2019, nearly four times the estimated 2015 expense (Deloitte, 2017, p.1). Obviously this is and will be a key area on which internal auditing should focus.

With regard to *innovation*, including digital innovation, internal audit could play a significant role. "Internal auditors are ideally positioned to play a leading role in the success of their organizations with their unique understanding of business goals and strategic objectives, and their ability to see the impact of risks across the entire enterprise. In addition, internal audit opinions can contribute to innovation and performance improvement" (Harrington, 2015, p. 26). In order to fulfill this role, internal auditors also need to be innovative. In this sense, innovation can be seen as an object and at the same time as a tool of the internal audit (Dineva, 2015, p. 669-676).

Regarding *corporate social responsibility*, it can be said that it should be durable within the scope of internal auditing. Internal auditing has a good position to know the processes and systems in the organization. This gives an opportunity to provide in-depth assessments and implement an integrated CSR approach as part of the management system and in synergy with other activities. However, a number of studies show that audits on CSR or concepts close to CSR are poorly covered in internal auditing. According to a study by the Institute of Internal Auditors Research Foundation (IIARF), social audits and sustainability audits (corporate social responsibility, environment, etc.) were included in the scope of internal auditors at just 20%. This type of audits is among the least practiced, ranking among the last five positions in the list of types of audit engagements, far from operational audits (89%) and compliance audits (76%). Data from a study conducted in Bulgaria (Peycheva, Miteva, Harizanova-Bartos, 2017, p. 81-91) show that internal auditors are not familiar with the standards of social responsibility and its individual aspects, and this applies to both the public and the private sector. In all responses regarding all standards related to social responsibility, all internal auditors, i.e. 100% of the respondents, respond that they are not familiar with the standards. At the same time, they are firmly convinced (100% of all respondents) that internal auditors should audit social responsibility. The analysis of these results outlines a gap in internal auditors' knowledge and thus a need for training on this subject.

The importance of corporate culture for modern enterprises is undeniable. Looking at the essence of corporate culture, Yanitza Dimitrova emphasizes that "its overall conceptual framework includes the whole body of traditions passed down in time, values, business style, and a public image created by a company during its existence." She further states that the culture of an organization is determined by its senior management." The general conclusion that "Corporate culture is much more than a system that solves internal and external problems. It is a shared scheme that serves as the primary function of overcoming cognitive uncertainty" (Dimitrova, 2015, p. 65, p. 70-71) is also interesting. The essential characteristics of corporate culture naturally include it in the scope of internal auditing either in the form of a stand-alone engagement or as part of another engagement.

## 4. Conclusions and recommendations

On the basis of the studies conducted, the following conclusions and recommendations can be drawn and made:

- The modern enterprise needs modern internal auditing;

- The modern internal auditing is proactive, business-oriented, and risk-based;

- The modern internal auditing goes beyond its traditional role of observer, finder and corrective and becomes an engine that inspires changes in the company;

- In order to meet the modern requirements and challenges, internal auditing should expand its scope and include important and problematic business areas, potential sources of irregularities, such as cybersecurity, innovation, corporate social responsibility, corporate culture, etc.;

- The modern internal auditors need to be innovative, insightful and visionary;

- There is a need for continuous improvement of the competence of internal auditors, both at individual and group level;

- Essential to internal auditing is the presence, development, retention and attraction of talents that will make it modern and keep it at the level and height of the modern enterprise. It's no coincidence that "Recruitment and Retaining Talents" was among the top 10 risk areas for internal audit in 2016, according to a KPMG survey (KPMG, 2016). "In this regard, the Internal Audit Unit should expand its perimeter of recruitment by attracting, retaining and motivating the best members of their team who are able to anticipate rapid changes and thus understand the activities and functions of the organization" (Harrington, 2015, p. 23).

In conclusion, it can be summed up that the requirements and challenges to internal audit place and set its modern characteristics as discussed above. They all matter for both the internal audit and the modern business. The overall transformation towards modern internal auditing is unthinkable and impossible without strong leadership in the internal audit, which can be determined by the explanation "We lead our profession in the use of technology and will continue to update our audit approach for changes the global business environment so that we can provide the corporation with quality audits. We create a participative environment that challenges our staff and allows it to fully utilize of their talents" (Sawyer, 2003, p. 868).

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