

Volodymyr Panteleiev*Doctor of Economics, Professor,**National Academy of Statistics, Accounting and Auditing**Kyiv, Ukraine**ResearcherID:J-1868-2018,**ORCID: <https://orcid.org/0000-0002-6079-8861>***ANALYTICAL REVIEW OF THE DEVELOPMENT OF INTERNAL AUDIT
OF COMPANIES IN A MARKET ECONOMY**

Abstract. *The review of the development of internal audit of companies by scientific works of authors of market economies for the years 2003-2019 provides a quantitative analysis of studies in the field of internal audit, ways of solving topical issues of development of internal audit of companies, regulation of internal audit and profession of internal auditor in foreign countries States and professional associations of the audit community, implementation of the best practices of the organization and methodology of internal audit, solving the problems of professional training of internal auditors, organization and methodology of internal audit. At times there are questions about improving the effectiveness (efficiency) of internal audit. Internal audit is able to support the entity in achieving profitability and performance indicators, preventing the loss of resources, avoiding fraud, facilitating the acquisition of sound financial information and compliance with relevant laws and regulations. Audit activity serves as a mechanism for ensuring compliance with the goals, and in this sense, the implementation of self-assessment and quality assurance processes are procedures aimed at ensuring compliance with the organization's goals.*

Introduction.

The Scientific and Methodological Basis of Internal Audit, formed since the early 1940s after its establishment in the United States and the active rise of the International Institute of Internal Auditors (IIIA)[1]. Internal audit is an independent, objective assurance and consulting activity that should add value to the organization and improve its performance. Internal audit helps an organization achieve its goals through a systematic, consistent approach to assessing and enhancing risk management, control and corporate governance processes [1]. The value of internal audit is steadily increasing, despite the fact that it does not have the status of a mandatory management measure, and the owners of the company independently decide the validity of the internal audit unit. Modern business practices improve as identified and resolved management issues and internal audit issues.

The relevance of the study of internal audit topics and their functioning in the late 20th and early 21st centuries is conditioned by the search for ways to restore confidence in the reliability of financial reporting and audit, to provide the financial system of the national economy with the necessary stability and the ability to avoid future crises after big scandals involving fraud, fraud and the distortion of financial statements in the early 21st century and after the financial crisis [2]. Scientific studies using modern methodology have outlined the directions of internal audit development: changing the internal audit paradigm, professional training of internal auditors and organization of internal auditors.

1. Content of internal audit research

1.1. Grouping of internal audit materials using scientific tools. In the work of internal audit researchers, the use of modern scientific tools, which has a probative basis, is increasing. In 12 publications, modern mathematical methods have been used, including 3 papers in the period 2003-2006 and 9 papers in the period 2013-2018.

The study of the content of papers by the criterion of using in the study of data of real economic entities or economic systems based on the survey of the essence of the paper in the American Economic Review [3, p. 32-33] allowed to establish the ability of researchers. Characteristics of scientific papers in relation: from theory to empiricism indicated that in recent years, based on the use of statistical methodology, begins to dominate the empirical analysis based on published data and decreases the share of research based on questionnaires, table. 1.

Table 1 Characteristics of Internal Audit papers for the years 2003-2018, using scientific tools, %

	Contents of papers	2003-2006	2013-2018
1	Number of publications, units	3	9
2	Application of statistical methodologies, units	3 (100 %)	9 (100 %)
3	Conducting empirical analysis based on questionnaires	3 (100%)	3 (27 %)
4	Conducting empirical analysis based on published data	-	6 (67 %)
5	Together	3 (100 %)	9 (100 %)

Source: Created by the author in [8, p. 32-33].

The most significant phenomenon was the emergence of statistical methodology-based material, based on official statistics sample data, and financial statements of companies that form internal audit units as an objective source of knowledge. When using questionnaires from business entities and auditors, a combination of continuous questionnaires and selective in-depth studies of individual sampling groups is used.

The subject of current research has been the study of the determinants of internal audit, depending on ownership structure and corporate governance, the relationship between corporate governance, internal audit and audit committee, impact on the quality of profit, risk assessment, global assessment of internal audit competence, internal audit and financial information deficiencies, external auditor's trust in internal auditors, incentives for dishonesty: internal auditor behaviour, factors affecting voluntary internal audit, and the taxonomic proposition of the internal audit model [4].

1.2. Changing the internal audit paradigm. In the early 1990s, there was a shift in industrial countries from a system-oriented audit to a risk-oriented audit, which developed on the basis of consulting theory related to company's performance. Researchers say that in addition to evolutionary (the development of financial statements), development can acquire the features of a radical (revolutionary) movement. The factors of this group can be attributed to the emergence of new individual objects, their groups and classes, which lead to changes in the commodity and financial markets [5, p. 127]. Continuous internal audit is considered by the authors as a new internal audit paradigm, and its materialization is achieved through the inclusion of models and methodologies in the implementation of the internal audit function. A taxonomic proposal for continuous internal audit models has been presented, for which a structural analysis of 30 models distributed in the professional and scientific fields during 1989-2014 has been conducted, resulting in a taxonomic proposal based on 3 categories and 8 typologies and an analysis of the orientation of continuous internal audit models [6].

1.3. Problems of internal audit methodology. An important area of development of modern internal audit is its unification, that is, the submission of internal audit to recognized by the audit community rules. Depending on approaches to understanding management in search of better options, scientists use, in particular, the theory of comparative institutional analysis, which is based on the identification of universal provisions of corporate governance systems in conducting inter-state comparisons.

Internal audit and its functions at the end of the 20th century were investigated by examining the relationship between internal audit and influential factors that emerged from company-specific (internal) and market-related (external) events and a description of today's internal audit perspective resulting from the above factors of influence.

To achieve these goals, the authors reviewed the literature, the results of which were grouped into six streams divided into internal (corporate governance, organization, and management) and external (information technology, regulatory, and external auditors). The variety of changes has increased the requirements for internal audit and increased its role. Since internal auditors cannot keep up with world events, the internal audit function will adapt accordingly in the future [7].

The internal control guarantee of the effectiveness of the risk management system has an important influence on the quality of financial statements. This was proven by research in Lithuania in 2004 about the existence of an effective superior quality control of the reliability of financial statements in companies. Also, in 2004, the American Association of Certified Fraud Examiners examined 508 fraud cases in companies, 57% of which had internal control functions, and proved that the losses incurred as a result of fraud were lower in a company with an internal audit function [8].

Internal audit has assumed a transcendental role in regulating corporate governance. In this sense, he is given a fundamental role as financial information as the head of its reliability [9]. Internal audit is seen as a cognitive process - associated with consciousness, with thinking; cognitive psychology - a direction in psychology that emerged in the US in the 50's - early 60's in contrast to behaviourism, according to which each person perceives the outside world through the prism created by her cognitive system. Audit is a process of controlling accounting and managing a company. The research team has created a category that can help formulate professional goals. There are 3 areas of competence: cognitive: mental (knowledge); affective: emotional" growth "(views) and psychomotor: manual, physical competences. For each professional field, certain competences (knowledge, skills and attitudes) are defined [10].

Study of external auditor confidence in internal auditors based on comparison of 2 countries: Greece and Sweden. The results for Greece showed that Greek auditors avoid uncertainty to a very high degree, expressing their need for further rules and regulations, being emotionally interested in overtime, and being constantly employed. Therefore, Greece's (external) auditors were also doubtful about the information provided by the internal audit and showed a willingness to investigate further and verify. Swedish auditors need additional rules to use overtime and should consult with a supervisor when making professional judgments. Swedish organizations can generally be more relaxed (less cohesive) and more confident in other people and organizations. The Swedish auditors presented medium confidence in the information provided, and they found a lower willingness to continue to perform overlapping functions to accomplish a task that was prepared to perform the internal audit function. The results can be explained by the profession based on the rules that audit firms must follow because of the complexity that characterizes their work environment. Ultimately, cultural measurement, while avoiding uncertainty, played an important role in the additional activities that external auditors are willing to undertake to study the work of internal audit [2].

An empirical study of the two companies has shown that a set of audit work should focus on several areas in the context of risk management, management and effectiveness. An audit task will require a multidisciplinary approach.

Knowledge management is the centre of active organizations, and research has shown that an organization's competitive advantage directly affects its ability to create, define, share, and apply knowledge. While there is no denying that companies knowledge management systems will play and play a significant role in ensuring the company productivity and competitiveness, it can be a source of some risk with varying likelihood and impact. Internal audit can address these risks and review the effectiveness of knowledge management in a company. The main results can be the quality of data, elimination of theft of knowledge, support, trust and experience of users in the knowledge base [11].

2. Professional training of internal auditors

2.1. Confirmation of the level of training of internal auditors. According to a global research study conducted by IIA in 2010, internal auditors typically have the following specialist qualifications:

- Certified Internal Auditor (CIA) - 30.3% of respondents;
- Certified Public Accountant (CPA), belong to the Associated Chartered Certified Accountants Association (ACCA), Certified Management Accountants (CMA) - 26.8% of respondents;
- Qualified professionals in the field of information systems audit, such as Certified Information Systems Auditor CiSA - 9.7% of respondents;
- Certified Fraud Examiner (CFA) Certification Specialist - 5.3% of respondents;
- other internal audit credentials, including a Diploma in Internal Audit Practice (PIIA), IIA Advanced Diploma in Internal Auditing and Management (MIIA) - 4.2% of respondents;
- other certificates - (23,6)% [12].

The internal auditor's specialty cannot be regarded as an independent profession since there are no relevant training programs and a link between the internal auditor qualification systems; there is no clear "jurisdiction", that is, the area of competence, does not take into account that the main role and responsibility of auditors is to influence the management of the organization [12].

The professionalism of the internal auditor is not only important for the internal auditors themselves. This is also important from the perspective of a wide range of internal audit recipients. Internal audit improves the operational performance of companies, especially in the area of corporate governance and control. The professionalism of this function should therefore be useful in terms of the proper functioning of the company. This applies to the management and supervisory bodies of companies that hire auditors as well as investors and other entities outside the company (such as regulators) that are interested in the company. The dynamic growth in the number of internal auditors in companies that can also be observed in Poland has been demonstrated [13].

The overall competencies of the internal auditor have been examined through the assessment of experts from the United Kingdom & Ireland, Australia and South Africa. Comparative analysis indicated that significant differences were related to higher levels of management, leadership, judgment, and influence, while insignificant differences were related to the rest of skills. Based on an average ranking similar to general competence, all 18 technical skills sought to gain greater importance from South Africa's respondents than in other regions regarding internal auditors' perceptions of the importance of the workplace. The similarity of respondents' perceptions from all four regions in terms of their main competences and skills was noted. However, statistically significant differences existed in terms of levels of importance between at least two of the four regions [4]. Internal auditors are required to abide by the code of professional ethics [1].

2.2. Professional competence and ability. Internal audit resources, in terms of the number of certified internal auditors, are limited; concern to keep recruiting professionals high; known studies that identify the knowledge and abilities required by the internal auditor. As a result, specific skills and knowledge requirements that were relevant directly to the professional profile were established, as well as an expanded set of skills relevant to the skills, relationships, and communications that are extremely important to the internal auditor.

Among the abilities required of internal auditors are oratory, time (useful in the institution in planning the internal audit and managing missions) to organize the work, built internal audit relationships with members of the Audit Committee, executive management and external contacts, the ability to meet high pressure, a leader, strategic thinking, and more. Researchers emphasize that the main knowledge, abilities and competencies required of internal auditors are:

- critical thinking;
- communication skills (high level of communication);
- accounting;
- providing risk management;
- information technology (general knowledge);
- industry specific features [14].

Responses to the questionnaire placed critical thinking first. The work of the internal auditor is based on his critical thinking, beginning with the identification of critical areas that have been verified as a result of risk assessment, selection of control procedures and ending with the expression of opinions and recommendations. Communication (second place) is essential in helping internal auditors identify the expectations of intermediaries in order to build strong relationships with internal audit committee members and managers, gaining their trust and supporting them in solving problems.

Communication is also needed during the mission, when auditors gather the necessary information based on questionnaires or interviews. In third place is the knowledge of accounting and reporting, which, in most cases, represents the professional background of internal auditors. Knowledge of IT plays an important role as a result of the IT-based environment in which the company operates [14].

The profile of the professional auditor is formed in a constant dynamic as a result of the evolution of the basic accountant's profession as a general structure, and changes in the business and regulatory environment. Researchers emphasize the close link between business processes and IT. Require an increase in the ability of internal auditors to relate to the specificity of control missions to information systems and computerized data processing and transmission, as well as to the assessment of specific risks.

Researchers consider incentives that lead to the misreading of information about the performance of others, which not only counteracts, but provides strategic over-reporting of equitable performance, depending on the prevailing incentive scheme. The study was conducted through a survey of professional internal auditors of the German Institute of Internal Auditors. Two main outcomes were measured, namely, the effectiveness of the participants in the simple task of validating real efforts, and their evaluation (report) of the effectiveness of another, randomly selected participant. Distinguished between individual, competitive and collective, or collective payment scheme. Detected when the fee is determined on the basis of mutual evaluation and competitive incentives, there is a significant proportion of insufficient information regarding the performance of the respective partner: on average, registered points are 22% lower than actual points. On the contrary, in the presence of team incentives, significant over-reporting was found: performance indicators were on average 16% higher.

These findings suggest that misrepresentation of the results of other participants is a relatively broad phenomenon and systematically responds to incentives. Most participants submit credible reports, but there are those who systematically report bugs (to others) to increase their own monetary reward. Only 11 participants work in a state-owned or non-profit company, while most work in financial or non-financial private sector companies. The formed pool of participants found primarily certified internal auditors, Certification in Risk Management Assurance CRMAs, and Certified Public Accountants CPA. Most participants hold senior-level positions (such as the Head of internal audit), which is also reflected in the reported number of staff working for them (36.17% have at least one person hierarchically below them).

The sample is indeed characterized by a very high prevalence of remuneration options: more than 75% report having a variable pay component in addition to a fixed wage. This characteristic is not significantly different from the treatment.

It does not include a variable component of pay, the most common indicators for this component are the personal effectiveness of the auditor (62.1% of responses) and the success of the company they work for (60% of responses). In addition, a significant proportion of participants (30.8%) report that they are part of a training management system, which means that they are implicitly competing with other internal auditors within their organization.

In view of the incentive remuneration, another survey of 450 internal auditors in Germany, Austria and Switzerland shows that more than half of the respondents had a variable part of their pay. This variable depends primarily on the success of the firm (in 43% of cases) and the achievement of individual goals (in 45% of cases) and to a lesser extent (in 8% of cases) on the results of unit testing [15].

The community is increasingly aware of the problem of fraud: in 2003, it was revealed that 53% of companies surveyed internationally had an Internal Disciplinary Code, and 68% had already applied the Code of Ethics; we are talking about 33% of E&Y's 2000 surveys. Only 45% of the same companies believe that the adopted fraud policies are fully understood by staff.

The development of the principle of governance in Europe and around the world highlights the close relationship that exists between internal control, leadership and business continuity.

It has also been found that the absence of internal control, the most opportunistic and insightful instrument of the system of control, could have been the main factors causing the loss from recent bankruptcies [16].

3. Methodology, organization of activity of internal auditors.

3.1. Internal audit methodology. With regard to banking and the financial industry, (KPMG, 2016), internal auditors' attention is focused on:

- increasing regulatory expectations;
- culture and behaviour;
- message from the regulator;
- stress tests;
- cybersecurity;
- involvement of a third party relationship management (as a result of outsourcing of certain activities and IT support systems);
- continuous risk assessment;
- data analysis / continuous audit;
- hiring and retaining experienced professionals [17].

Emphasizing the need to focus internal auditors on IT risks, these reviews confirm the priorities for internal audit:

- social media in the open access, applications, use of mobile devices, cloud technologies, information security;
- use of Computer Assisted Audit Techniques (CAATs) and data analysis tools;
- technology based fraud prevention and avoidance.

It is emphasized that cybersecurity risk is an integral part of internal audit planning and important priorities are highlighted with regard to mobile device usage, cloud computing, IT standards and the Internet of Things. For data mining tools, registered human moderate views are elevated; most of the defendant ads use them mostly. Data mining can be successfully used to identify fraud and anomalies in commercial activity, data / data mismatch, risk control, and the like. It is important to emphasize that data mining and data analysis processes are partially performed in the internal audit department. In Europe, for example, 18% of these processes are performed outside of internal audit departments. Including analysis of data in specific internal audit workflows will guarantee the increase in efficiency and effectiveness of their work, one of the vectors that have been a continuous risk assessment process has been performed in this context [14].

3.2. Experience in the relationship between the Audit Committee and internal auditors. Authors of empirical data from Spanish companies argue that a good relationship between the Audit Committee and internal auditors is needed for the effectiveness of internal control mechanisms and for improving the quality of financial reporting. It is concluded that 31% of respondents said that internal auditors do not have face-to-face meetings with the Audit Committee throughout the year; that 24% of companies with an internal control function did not have access to the Audit Committee. Some sources have argued that the quality of the internal control function was increased when the internal control department reported directly to the Audit Committee. All of the above confirms that if there is a sound working relationship between the Audit Committee and the internal auditors then they have been able to perform their duties.

The best practices of the relationship between the Audit Committee and internal auditors are:

1. The Audit Committee does not have the powers and powers of the executive bodies and submits its proposals and recommendations to the Board of Directors.
2. Full access to internal audit, reporting during the process of selection, appointment, renewal and removal of its director (manager), as well as establishment of remuneration and information on the budget of this internal audit department shall be ensured.
3. To familiarize and offer the selection, appointment, updating and refusal of a specific external auditor, as well as the conditions for their recruitment. These powers may not be delegated to management or any other body of the company.

4. Prepare an annual activity report to the Audit Committee for Control, which should be included in the Management Report. The necessary measures are considered - to familiarize the director of the internal audit department with the statutes, plans, measures, staffing and organizational structural functions of the internal audit (this guarantees the independence and objectivity of the internal audit, while maintaining no unreasonable restrictions or restrictions on the performance of its work), testing and hiring, replacing or dismissing the director of internal audit, evaluating the effectiveness of the internal audit and ensuring compliance with internal audit standards and norms set by IIA, verification of the attitude and professional qualification of internal auditors, regular meetings with the Director of Department to discuss issues that require confidential consideration, etc.

The dynamics of internal audit need to be highlighted not only for its progressive presence in business, but also for its ongoing review and self-criticism, both aimed at improving its tasks and adapting to the needs of the organization.

Some authors have attempted to link members of the control committee with the internal control function. The survey, which included 114 heads of internal audit services, found that those Audit Committees represented by independent directors and at least one director with knowledge of reporting were more likely to have more meetings with the head of the internal audit department.

A study conducted in Canada by 72 heads of internal audit services found that Audit Committees, consisting solely of independent directors, are more likely to meet with internal auditors and consider their work. The chairman of the internal audit units must report directly to the Audit Committee and have frequent meetings with that committee. It was shown, on the example of 18 heads of internal audit departments, that good communication between internal auditors and Audit committees was able to improve the quality of corporate governance [18].

The increasing importance that internal audit activity has provided in recent years should help to strengthen the business ethics and good corporate governance of Spanish enterprises.

It was determined that in order to enhance the positive value of the audit to ensure the economic security of the state for organizations, it is necessary to use alternative methods of business protection in addition to standard methods of audit [19]; state and business security.

Conclusions.

For nearly 80 years (since 1941), the Institute of Internal Auditors has demonstrated its effectiveness. The components of the internal audit industry as an instrument of the institutional mechanism of financial system development are professional standards of activity, social standards of auditors' behaviour, priority of preventive measures and satisfaction of interests of the society; along with standardized techniques are the search for effective tools - models, philosophical constructions, formation of the auditor's evidence base, establishment of the proper status of the internal audit unit, development of thinking, motivation, competences and abilities of internal auditors and more. There is an assessment of the environment due to the impact on the decisions of users of the financial statements of the companies. Internal audit will help achieve the goals that today's economies need. It is important for Ukraine that the establishment of internal audit systems play an important role in the management and governance of companies, and it should have a significant impact on the legislative changes underway and on measures to improve corporate governance, combined with increased business transparency and governance.

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