

THE PERSPECTIVES OF THE INTERNAL AUDIT ACTIVITY IN THE CONTEXT OF EU GLOBALIZATION

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Abstract

From the perspective of the evolution of scientific research, of the future of globalization at the level of the European Union, implicitly connected to the specific requirements of the internal audit function, the qualitative progress of our activity imposes, at a higher level, an adequate vision and conduct.

At present, the activities carried out by each internal auditor are shaped by the norms and regulations requirements at the level of each Member State, and the demands and situations encountered every day are increasingly pressing. We note that the implications of the profession of internal auditor are mainly focused on different origins, multicriteria, but which are effectively interwoven such as: the economic-financial, informational and communications dimension, political, social-cultural. It is important to know that we cannot differentiate these dimensions, they cannot be strictly delimited from one another. In order to continuously affirm and strengthen the internal audit profession, our attention, of those who work as auditors, must focus on a better definition of audit goals and strategies in the context of the changes that have occurred, an adequate flexibility to all professional challenges and a positive thinking towards the development of society.

Keywords: *internal audit, globalization, macroeconomic balances, digitization*

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1. Introduction

At the level of each E.U. member state, the specific elements identified in the internal audit missions will contribute to maintaining some parallels with those of other states, with an emphasis on the economic-social component. However, the resulting advantages and disadvantages will be influenced by the macroeconomic balances of each country, the resources of each member state and the ability to adapt to market needs. In addition, as an intrinsic need, the nature of the internal audit activity must be constantly increasing in the future and on the environmental protection component, as this will serve the interests of EU citizens effectively and effectively.

From the perspective of the evolution of the scientific research, of the future of globalization at the level of the European Union, connected implicitly to the specific requirements of the internal audit function, the qualitative progress of our activity imposes, at a higher level, an appropriate conduct. Currently, the activities carried out by each internal auditor are shaped by the norms and regulations requirements at the level of each Member state, and the demands and situations encountered every day are increasingly present in the competitive society in which we live. We note that the implications of the profession of internal auditor are mainly focused on different origins, multicriteria, but which are effectively interwoven such as: the economic-financial, informational and communications dimension, political, social-cultural. It is important to know that we cannot differentiate these dimensions, they cannot be strictly delimited from one another.

2. The study of specialized literature

Currently we are dealing with a large volume of information from various fields of activity. They provide various opportunities for auditing the public and private sectors. If the available data and information are used correctly, they will significantly contribute to the development of scientific research in the field of internal control and corporate governance. They will be included in the scope of the audit including those sustainable, credible data characterized by high volume of information, speed and high volatility with a specific perception of digital media.

This very large amount of information must be processed and annotated to the specific rules and requirements of the U.E. in order to be able to generate and use information specific to the different fields of activity with a faster evolution. The management of the data and information thus identified can be

done mainly through the use of the latest technology and a technical analysis with a high degree of knowledge specific to the audited domain (so-called niche areas).

That is why in the dynamic world we are traveling, new internal auditors are facing more and more professional challenges, and we often need feasible goals and benchmarks to share and defend. In order to recognize and respect our present values we need to look at the institutional traditions of the E.U., which have built up over time all principles and values, and then look carefully into the future to find all correspondences with the organizational culture of the our country.

From the very beginning the European Union was created to end the large number of bloody wars waged by neighboring countries, which culminated in World War II. Starting with 1950, European countries are beginning to unite, from an economic and political point of view, within the European Coal and Steel Community, in order to ensure a lasting peace. The six founding countries were Belgium, France, Germany, Italy, Luxembourg and the Pays Bas³. Implicitly within the newly created organization, the notion of globalization had all the conditions necessary for efficient development. It was a dynamic process, very complex, based on clear rules with terms assumed by each member.

Of course, so far there is no unanimously accepted definition for the term globalization. In the specialized literature there are certainly a multitude of combined forms and variants encompassing various fields of society. Globalization is a complex process of integrating a multitude of goods, ideas, intentions, etc. which is reflected in the most diverse forms worldwide. Mainly the continuous development of transport and telecommunications infrastructure were the determining factors in what we generally perceive as "the phenomenon of very large scale integration" together with all the processes of interdependence and pluralism economic, social, cultural, etc.

3. Involvement of internal auditing in a digital environment in the increasingly competitive

It should be borne in mind that under no circumstances can the complex systems represented by artificial intelligence used on a larger scale be able to access and distribute the confidential data that users manage and process

³ https://europa.eu/european-union/about-eu/history_ro

information within internal audit processes. In all areas of financial economics, an increasing emphasis will be placed on the implementation of artificial intelligence. This is unanimously accepted as a modern element for generating higher incomes, automating processes, increasing organizational culture and corporate governance. That is why maintaining their confidentiality will permanently represent a challenge for which each of us, the auditors, will be unconditionally responsible.

EU will require close cooperation of all Member states in the preparation, taking and implementation of specific rules similar to those used in international conventions (examples: protection of certain areas, environmental protection, technology they military, confidential data used by the internal auditors, etc.). Germany should play an important role in drafting these laws, being the largest and most powerful economic state in the E.U.

In the last years in Romania, the companies where the strategic management is balanced have gradually adopted artificial intelligence in financial institutions. Of course the initiators of these changes in our country were only those financial institutions that have achieved a certain maturity and organizational and- have adjusted/folded structure for technical and organizational adopt area of artificial intelligence and digitalization operations of and anal burning.

3.1. Specific research methods

The fastest changes in the structure of the society we live in are characterized by major developments in data and information in the fields of research, education, industry, technology, services, etc. as a continuous process, characterized by the availability of resources, but also of the economic, financial, informational and communications dimension, political, social-cultural in each country.

A reference element is the GDPR⁴ - The general data protection regulation - applies in all member states, starting with May 25, 2018 after a period of more than two years from the date on which within the specialized commissions of the U.E. it was agreed to promote a comprehensive reform in the field of data security and protection. This Regulation supersedes Directive 95/46 / EC of the European Parliament and of the Council of 24 October 1995

⁴ <https://eur-lex.europa.eu/content/news/general-data-protection-regulation-GDPR-applies-from-25-May-2018.html?locale=ro>

on the protection of natural persons with regard to the processing of personal data and the free movement of such data. The aforementioned document will provide citizens of E.U. member states with control over their own personal data. Also, by ensuring data portability, it will directly contribute to better interoperability between consumer needs and offers of products, works, services.

3.2. The complex evolution of artificial intelligence

Today the exponential development of artificial intelligence in all areas is a priority for future E.U. strategies, with considerable funds allocated. Measures have been taken to create appropriate mechanisms for the management of data sets at the level of each Member State. Through all the actions that will be taken within the specialized commissions of the European Union, the central element will be the stimulation of innovation with all that this implies (specific norms, decisions, recommendations). An important role will be represented by the use of AI in priority areas such as robotics, genetics, biotechnologies.

On the other hand, in this development mix of technique and technology, certain trends of proliferation of fake news will obviously appear; this phenomenon is inevitably generated by all means of communication. To prevent this situation at E.U. each level, the STOA (Panel for the Future of Science and Technology⁵) Group was created, which is a platform that will fight against fake news and their political impact. Meetings take place in Strasbourg and can be followed by web streaming; the frequency of these meetings is monthly and it is decided on future projects and activities of the organization.

3.3. A common perspective in the areas of audit and information technology

In 2000 the International Monetary Fund (IMF) identified four basic aspects of globalization: trade and transactions, capital and investment movements, migration and movement of people, and dissemination of knowledge. In addition, environmental challenges, such as climate change, transboundary water and air pollution, and overfishing in the oceans, are linked to globalization. Globalization processes affect and are affected by business and

⁵ <http://www.europarl.europa.eu/stoa/en/about/history-and-mission>

work organization, economy, socio-cultural resources, and the natural environment⁶.

Of particular importance is the Romanian education system, as a part of the European education system is indisputably evolving towards digitalization, and one of the goals of the educational units is also to set up and develop the cloud technology laboratories, to experiment with AI algorithms, various simulations on a variety of AI platforms. Development of business hubs in universities, where all students should be guided to form their teamwork skills, in order to create and develop viable business ways to obtain EU funding.

As a direct consequence at present in the European budgetary year, a multitude of Romanian start-ups are financed. Of course, their rapid and sustainable development depends on the political factor and the negotiations carried out for the direct allocation of resources: granting financing loans with low interest rates and public guarantee, investment funds, pilot projects, collaborations in transnational projects, etc.

They will contribute directly to the development of digital skills of students, students at all levels and teachers. They will permanently offer multiple and unlimited possibilities to continuously research and experience the latest innovations and discoveries in information technology for the development and increase of the competitiveness of Romanian products.

Although the start was not a promising one, the growing use of expert systems and a robot in financial groups has proven to be a real support, well shaped in an increasingly competitive digital environment. The challenges in this regard also began to appear in the internal audit activity. It is expected that in the support of the activity of internal auditors in each EU Member State, professional systems will be used more and more widely. For example, within the UiPath complex financial activities are identified and analysed, which in a few seconds perform synthesis from hundreds of pages reports and present the evolution of all the elements processed in script and video recognition format.

In the activity of internal auditors, it will be of real use for those repetitive, endurance and long-term processes to be automated and executed by software robots. For example, the authenticity of the signatures on the documents can be verified, the identification of the forms that must be

⁶ Sfetcu N., *Corupție – Globalizare – Neocolonialism, Aluzii*, Editura Amazon KDP, București, Ediția I, 2014.

associated with each operation and especially the accuracy of the data entered in them by intrinsically ensuring a high level of responsibility and professionalism; In case of any inconsistencies or deficiencies, the warnings of rigor will be presented in a few seconds, as well as in certain cases, certain error thresholds that the AI cannot yet properly manage will be established. Of course, the results obtained so far are not entirely correct, but where the robots have generated certain "unclears", the reference documents have been directed to a coherent analysis carried out by the audit specialists.

Globally, financial companies and not only are in a complex process of acceptance and interoperation with physical cyber systems (Internet of Things or Internet of People). The tendency of the information systems on the market is to increasingly automate the production, surveillance and control processes (ante and post) to become more efficient in order to increase profitability. The mix of these technologies will generate within the activities of various specialists (financial, banking, supervisors, auditors, etc.) the emergence of industry 4.0.

It can be easily observed that the global trend is to use a robotization - based technology that is accessible to all operators, dedicated specialists, by creating flexible, small-size robots that are easy to use. Especially in industry 4.0, through the gradual shift towards digitization and automation tasks and robotic production facilities can be considered as "perfect allies" for supporting business and control environments. Thus the most monotonous activities and the most tiring tasks can be left to the collaborative robots. In the new digital revolution that is foreshadowing, we can expect the interest in the use of cobots to grow and the "new reality" will belong to those of us who adapt to the new standards as soon as possible with "robot colleagues".

For example, in the internal audit activity, the special advantages they offer refer to the superior interoperability, the total transparency of the information held, the increased ability to provide technical, physical and economic assistance to the users permanently and the accuracy of making very quick decisions in carrying out the tasks autonomously.

At the same time, robotic devices are very easy to use and integrate into the control processes currently used, in the hundreds and thousands of documents checked without the need for the costs incurred in acquiring and maintaining additional workspaces and labour. In addition, the amounts invested are recovered in a short period of time. The use of shingles in specific

control / verification / audit activities may become a sustainable element in covering the shortage of highly skilled workforce in the near future.

Globally, giant companies will continue to develop quantum technology, quantum computer services. These complex networks use quantum bit-based computers that are much stronger than traditional computing units, being several thousand times faster. They offer almost instant cloud access to a multitude of expertise platforms, with high prospects for the future of business competitiveness at EU level.

A potential danger is the fact that in parallel with the development of artificial intelligence and virtual reality, there is a need for new regulations for controlling video and audio content at E.U. level. Easy access of any user to the internet and access to "Deepfakes" and "Artificial neural networks" representing images and videos in which the physical features of a person that are replaced by those of another person can easily generate tax fraud, fake news "Fake news" and farce of all kinds. These extremely dangerous technologies that create vulnerabilities can obviously pose various problems for each state in terms of national security and security, could disrupt social order and stability.

4. The values of globalization of the audit activity in the immediate perspective

In the field of internal audit we can appreciate that globalization is a broad complex of diffusion of rules and norms that have as final objective the production of quality reports. The fields of research are becoming more and more diverse: economic-financial, informational and communications, political, social-cultural, etc. As a result, globalization in audit means at the same time an efficient and effective interweaving of laws, rules and regulations in accordance with the fundamental elements of free trade: internationalization of economic exchanges, international division of labor, continuous liberalization of financial markets, free movement of capital and information.

Currently, in the specialized literature, the limits of internal audit, the process itself, finding, developing and delivering recommendations are exceeded by coaching advice. Therefore, training is a modern method of exercising a new profession, creating or intervening new functions or, as the case may be, new financial functions and non-financial services. The internal coach / auditor is much more than a consultant; capitalize on recommendations, study their actuality and usefulness, classify them in time and space, according to resources, making a point of internal and external balance, imagine strategies,

design projects and programs, establish products / services, define new added value and profits⁷.

At the level of the U.E. - The European Commission and the Member States will promote and develop customized, inclusive and high-quality mechanisms for mobility, education, cultural and linguistic exchanges and scientific cooperation, to enable international collaboration and knowledge exchange, while extending the STIM (science, technology, engineering and mathematics) at STIAM (science, technology, engineering, art and mathematics); calls on the Commission and the Member States to promote continuing education and training as well as funding for research as a means of making globalization more effective and the best means of removing obstacles⁸.

The fundamental similarity of economic phenomena with those of internal control and corporate governance consist in the multicriteria characteristics of financial markets and stock exchanges on trade and implicitly in the human brain's ability to continuously innovate and sustain economic growth.

4.1. The impact of globalization on stability and security

It can manifest itself in the following forms: decisional impact; institutional impact; distributive impact; structural impact⁹.

The decision-making impact refers to the measures that the governments of each EU member state take in the context of globalization and by assuming all social, economic, political, etc. responsibilities.

The institutional impact represents the means by which the government of each country has the alternatives to choose the modes of action regarding the national interest. To some extent, decision makers make one choice or another, taking into account the effects of globalization, the context created by it in one field or another of activity.

The distributive impact concerns the concrete ways of allocating the material and human resources that are required in each stage of development.

⁷ Petrașcu D., Tamaș A., *Internal Audit versus Internal Control and Coaching*, International Economic Conference of Sibiu 2013 Post Crisis Economy: Challenges and Opportunities, Sibiu, 2013.

⁸ Raportul Comisiei Europene din 12.10.2018, *Referitor la valorificarea globalizării: aspecte comerciale (2018/2005(INI))*, Sugestii pct. 11;

⁹ Duțu P., *Fenomene diverse cu impact asupra stabilității și securității locale, regionale și internaționale*, Editura Universității Naționale de Apărare „Carol I” București, 2012, pag. 22.

The structural impact directly influences the organization and functioning of each EU member state. By setting up or developing working structures appropriate to the requirements of economic development, all the economic-financial, informational and communications, political, social-cultural fields are directly influenced.

At E.U. level, the exercise of the internal auditor function is mainly regulated by the International Internal Audit Standards. As it is known, in Romania the exercise of the profession of internal auditor in the public sector is regulated by Law no. 672/2002 regarding the internal public audit and H.G. no. 1086/2013 for the approval of the General Norms regarding the exercise of the internal public audit activity with the subsequent modifications and completions. The minimum conditions that a person must cumulatively meet in order to be an internal auditor in the public system, have been established by law and have been detailed in the Code on ethical conduct of the internal auditor approved by O.M.F.P. no. 252/2004.

In practice, the role of internal audit may also include a varied set of responsibilities: supporting management in establishing auditory mechanisms to combat fraud; facilitating the assessment of fraud and reputational risks at the level of an organization and its business process; assessing the connections between fraud risks and internal controls; fraud auditing; supporting specialists in fraud investigation; supporting efforts to address deficiencies; reporting to the audit committee on issues regarding anti-fraud mechanisms, fraud and reputational risks of evaluation, or cases of fraud and suspicion ... Internal auditors must have a higher level of theoretical knowledge and practical experience in order to successfully perform their role. They need to know the schemes and possible scenarios specific to a year the activity field of the organization (for example, insurance, retail, telecommunications, etc.¹⁰).

In the last years the internal audit and the internal managerial control register one of the most dynamic evolutions. The objective necessity of implementing the internal audit function within each organization has emerged and the internal auditors employed in this function are experienced specialists, usually exceeding the age of 30 years, thus increasing the confidence of the management of the entity in their reports. At the same time, the need for

¹⁰ Petrașcu D., Tîeanu A., *The Role of Internal Audit in Fraud Prevention and Detection*, 21st International Economic Conference, Sibiu, 2014;

continuous professional training of auditors in increasingly diversified fields and the realization of quality auditing at the level of new requirements emerged.

4.2. Quality audit - an intrinsic element increasingly used

Each public entity must periodically carry out internal audit missions to determine whether the internal and external management systems are in line with the requirements of International Standards and with the national legislation of each state; the areas and activities audited are organized in accordance with the legislative framework and the specific procedures developed.

Quality audit is a succession of activities based on written documents consisting of investigations, verifications, examinations of quality plans, programs and systems to determine the extent to which they have been properly developed and implemented, in accordance with the requirements specified in the field¹¹.

In the specialized practice of quality auditing has more and more direct implications on the efficiency and effectiveness of corporate governance in each entity. The purpose of the services is to examine the actions on the financial effects on the account of the public funds or the public patrimony in terms of respecting the set, the principles, the procedural rules and the methodology that are applicable to them.

The information provided is based on several objectives: to verify if there are working procedures and systems that ensure quality achievement; to verify that the working procedures comply with certain standardized requirements in the field; to verify that the working procedures are correctly applied in order to achieve quality; to verify the extent to which the actual achievements correspond to the predetermined measures¹².

The conclusions are formulated on the audit objectives established on the basis of the findings made, on which occasion the internal auditors express their opinion regarding the degree of accomplishment of the audited activities¹³. Equip the audit, based on tests and analyses, assesses management systems and internal control management related activities, usually as follows:

¹¹ E. Maxim, *Managementul calității*, Ed. Universității Al. I. Cuza, Iași, 2003, p. 203;

¹² E. Maxim, *Managementul calității*, Ed. Universității Al. I. Cuza, Iași, 2003, p. 204;

¹³ HG. nr. 1086/2013 pentru aprobarea Normelor generale privind exercitarea activității de audit public intern, pct.3.9.1.5.f),g).

- functional, to be improved and critical.

During the finalization phase of the audit mission, it can be quantified as follows:

- approval, situation in which the team of internal auditors does not identify deficiencies in the quality audit system and considers that all the requirements of the standard are respected; consequently, it is recommended that the certification body be granted the certificate;
- minor non-conformities, but with a certain determined impact, when the majority of the requirements of the quality standards are respected; In this case, the auditing team may recommend that the certification body not grant the certificate;
- major non-compliances, in which case the team of internal auditors finds one or more deficiencies or deviations from the requirements of the quality standard; Of course, in this situation it is not recommended to grant the certificate by the certification body.
- In concrete, well-determined situations, the team of internal auditors can establish together with the audited entity certain deadlines for the correction of deficiencies. In the favorable case, it will be recommended to grant the certificate by the authorized body.
- rejection of the quality certificate, in case the team of internal auditors finds significant deficiencies or deviations from the requirements of the quality standard; consequently the deficiencies will be analyzed in detail on each objective and a concrete plan will be drawn up with responsibilities, deadlines and finally with the commitment of responsibility (administrative, patrimonial, criminal, etc.).

5. Conclusions

In the face of the information challenges, the information centers organized at the level of each EU member state must be able to adapt continuously and be able to respond to changes that will occur in the information field. Thus, the internal audit institutions that provide professional services independent of the management of the entities (regardless of the form of

subordination) will have to use and develop adequate AI systems that keep pace with the innovation. Internal audit reports can systematically contribute to providing information on the development forecast and forecasts on the economic-financial, informational and communications dimension, political, social-cultural, to reduce uncertainty in the economic field.

Digital technology is transforming our lives. Aim of the digital strategy of the U.E. is that this transformation will benefit citizens and businesses and, at the same time, contribute to the creation of a climate-neutral Europe by 2050. Therefore, the EU's artificial intelligence (AI) strategies and data aim to encourage companies to develop these new technologies and work with them, ensuring at the same time that they gain the trust of citizens.

In order to continuously affirm and strengthen the internal audit profession, our attention, of those who work as auditors, must focus on a better definition of audit goals and strategies in the context of the changes that have occurred, an adequate flexibility to all professional challenges and a positive thinking towards the development of society.

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