



THE ROLE OF INTERNAL AUDIT AS A TOOL FOR EFFECTIVE MANAGEMENT OF PUBLIC INSTITUTIONS

PhD Rametulla Ferati & PhD Nedime Sallai

Abstract

Internal audit is an independent evaluation to measure and evaluate the effectiveness of the established internal control system in the entity. Internal audit has the main function of informing senior management about the functioning of management and control systems, gives appropriate recommendations on ways to improve.

The purpose of internal audit is to provide additional assurance to the government, line minister, head and management of the public sector entity that the implementation of management and control mechanisms is appropriate, cost effective and generally accepted. Standards and national legislation. Internal audit provides the head of the unit with the opportunity for analysis, recommendations, advice and information on the revised activities.

The audit opinion / conclusions confirm the reliability of the financial statements as well as the effective functioning of the established management and control system. The responsibility of the management that manages the audited entity should be emphasized, as well as the responsibility of the auditors who perform the audit.

Management responsibilities are in terms of the reliability of the data and information attached to the accounting reports as well as the establishment of an appropriate system of internal controls and the establishment of appropriate internal procedures for the ongoing monitoring of management and control processes and timely delivery. feedback in case of system vulnerabilities.

It is the responsibility of the auditors to provide an independent and competent audit opinion on the reliability of the accounting information attached to the financial statements in terms of the intentional and lawful use of the funds, and to provide an opinion on the effectiveness. the functioning of the established management and control system.

Internal audit should be performed in all organizational units and at all levels of the entity and covers all assets of the business entity.

To maintain a high level of expertise and competence at work, internal auditors must have established a system of continuing education.

Keywords: *Internal audit, management, efficient management*

Introduction

Internal audit is an independent, objective and consulting activity created to add value and improve the performance of the organization.

By organizing and conducting internal audit, it actually directly assists the business entity in achieving its goals by introducing a systematic, disciplined approach to evaluating and improving the efficiency of risk management, control, and the management process.

Based on the above, we can conclude that internal audit is in fact an activity that involves the control and evaluation of controls, performance, risk and management of public and private business entities.

To increase the efficiency of business entities, it is necessary for each organization to have an appropriate system of internal controls, where by defining key controls, internal auditors will be able to provide an independent and objective assessment of the functioning of set internal control system, especially in terms of:

- Are the financial and operational information accurate and confidential;
- Are potential risks identified and minimized;
- Are generally accepted external regulations and procedures and generally accepted domestic policies;
- Are the proper operating criteria met?
- Are resources used efficiently and economically; AND
- Are the goals of the organization being met effectively?

In the past, internal auditors were considered opponents of management in the business entity, but now internal auditors are trying to establish cooperation and productive cooperation with the management in the business entity, because through the audit recommendations given by internal auditors for the management of the business entity, directly assist the responsible persons in relation to their effective fulfillment of managerial responsibilities.

When conducting an external audit, external auditors organize and conduct audit activities in accordance with internationally accepted audit standards for conducting external audit, while in conducting internal audit activities, internal auditors organize and conduct audit in compliance with international standards for professional practice of conducting internal audit accepted by the institutes for Internal Audit.

It should be clearly distinguished who is the direct subject of the audit and who is the client of the audit reports. When conducting an external audit, the direct subject I Audit is a business

entity with which an audit contract is entered into (when applying for a commercial audit by a private audit firm) or a business entity has a legal obligation to be audited by an audit firm. external (in the case of the state audit or audit of European funds). In both cases the audit client reports on the performance of external audit (commercial, state audit or audit of European funds) is the contracting authority with which the contract is concluded, the Government or Parliament in the state.

Unlike external audit when conducting direct internal audit The audited entity is the business entity in which the internal auditors are directly employed, who audit for the needs of senior management in the business entity which is also the direct client of their audit reports.

It is common for both types of audits that internal and external auditors organize and carry out audit activities in accordance with internationally accepted auditing standards and are required to have an appropriate level of independence in organizing and conducting audit activities.

With the development of economic flows and the need to maintain a consistently high level quality in the market of audit services arises the need for professionalism internal auditors in business entities in order to standardize the internal audit that is organized and performed for the needs of business management cases.

Internal auditing standards are approved by the American Institute of Internal Audit auditors. This institute promotes and standardizes the profession - internal auditor in terms of:

- International provision of complex professional activities, standards for conducting internal audit and internal certification auditors;
- Research of knowledge and information related to internal audit, including internal control and closely related issues, as well as promotion and dissemination of the obtained results to its members and to the general public all over the world;
- Holding worldwide meetings to educate members of the profession about conducting internal audit practice in all parts of the world;

Association of internal auditors from all countries with the primary purpose of exchanging opinions, information and experience in the field of internal audit and also to promote education in the field of internal audit.

The Institute of Internal Auditors adopted internal review standards in 1978 which are divided into 5 (five) parts as follows:

- 100 - Independence
- 200 - Professional expertise
- 300 - Scope
- 400 - Perform the audit
- 500 - Internal Audit Management

These 5 sets of internal audit standards are further elaborated 25 separate standards, as follows:

- 100 - Independence
- 110 - Organizational status
- 120 - Objectivity
- 200 - Professional expertise
- 210 - Staff
- 220 - Knowledge, skills and discipline at work
- 230 - Supervision
- 240 - Compliance with standards of conduct
- 250 - Knowledge, skills and discipline at work

- 260 - Communications and relationships with colleagues
- 270 - Continuing Education
- 280 - Mandatory professional attention
- 300 - Scope
- 310 - Confidentiality and integrity of information
- Compliance with policies, plans, procedures, laws, regulations and contracts
- 330 - Asset insurance
- 340 - Economic and efficient use of resources
- 350 - Meeting the goals and objectives set for specific operations or programs
- 400 - Perform the audit
- 410 - Audit planning
- 420 - Examination and evaluation of information
- 430 - Communication with results
- 440 - Recharge
- 500 - Internal Audit Management
- 510 - Objectives, competencies and responsibilities
- 520 - Planning
- 530 - Policies and Procedures
- 540 - Personnel management and development
- 550 - External Auditors
- 560 - Quality Assurance

The first set of internal audit standards covers the aspect of independence of internal auditors. Internal auditors are required to organize and conduct the audit independently, freely and objectively for the purpose of preparing an independent audit report on the needs of senior management in the entity.

The concept of independence is ensured through an appropriate organizational organization of internal audit in the business entity and ensuring its independence in operations.

The second group of internal audit standards covers the concept of professional expertise, ie performing the audit with due diligence and expertise. Based on this concept, the selection of persons to be employed as internal auditors, who must have an appropriate level of knowledge, expertise, competence, ethics and professionalism in operation, as well as mastery of communication skills and an established education system continuous for the purposes of vocational training conducting audit activities.

The third group of internal audit standards covers the concept of the scope of work of internal auditors in conducting auditing activities. Therefore, special emphasis is placed on the confidentiality and integrity of information, the need to review the effective functioning of the established system of internal controls in the business entity, compliance with policies and plans of the business entity as well as legislation and economic and efficient use of resources. Although this standard defines the scope of internal audit, it is necessary.

It should be noted that the management of the business entity provides general guidance for conducting internal audit in accordance with the priorities and needs in the business operation.

The fourth set of internal audit standards covers the concept of conducting an audit by internal auditors, which begins with the planning of the audit, examination and evaluation of the information received, communication of audit results and additional procedures for monitoring

the implementation of recommendations. Audit to improve the functioning of the established system of internal controls in the business entity.

The fifth group of internal audit standards covers the concept of management, namely the management of internal audit from the aspect of achieving the defined audit objectives, performing the audit within the scope of authority, responsibilities and mandate of auditors who organize, plan, implement auditing in accordance with internal audit standards, as well as ensuring the appropriate level of quality of audit activities.

The Association of Internal Auditors of Macedonia (hereinafter: ZVRM) is established as a non-profit organization on June 6, 2008, with the aim of promoting and promoting internal audit in the Republic of Macedonia. The standards for internal audit in the Republic of Macedonia are published in the Official Gazette 147/10, while the latest changes to the standards and other guidelines are posted on the website of the Institute of Internal Auditors in the Republic of Macedonia, from the translation of the standards and interpretations of standards in many languages. The last changes were issued in October 2008, and revised in October 2012, which are taken from January 1, 2013.

According to the standards, internal audit is defined as independent and an objective persuasive and advisory activity created to add value to improving the functioning of the organization. Internal audit helps the organization achieve its goals through the use of a systematic, disciplined approach to assess and improve the effectiveness of risk management, controls, and management processes.

When conducting audits, internal auditors are required to perform the following activities:

- Evaluate the economy, efficiency and effectiveness of the operation of the subject business,
- Review and evaluate the effectiveness of the established systems that exist in the business entity in order to ensure consistent compliance with established policies, plans, procedures, laws and regulations, which may have a significant impact on the operation of the business entity, also check the accuracy, reliability and reliability of the financial information methodology and approach used to identify the method of measuring, classifying and reporting such information.

Internal auditors check and evaluate whether the system is internal controls are adequate and whether the same economical, efficient and effective use of budgetary resources.

Internal audit is performed by professionally trained persons (internal auditors) who organize and perform the audit in accordance with the principle of professionalism, independence and objectivity at work.

Professional competence is the responsibility of the internal audit department, but also for each individual auditor. Internal auditors must possess the knowledge, skills and discipline necessary to perform the audit properly.

Every internal auditor must possess high personal qualities and professional skills, such as:

- Integrity
- Objectivity
- Ability for effective communication
- Ability to respect confidentiality
- Commitment

Internal auditors in addition to the above qualities must possess the appropriate professional skills in conducting the audit, ie it is necessary to have good communication skills, to have an appropriate level of knowledge and skills for quality implementation of the audit.

Internal auditors need to communicate skillfully, whether or not they work for written or oral communication, it is necessary to have the ability to apply procedures related to internal auditing standards and techniques, knowledge of accounting principles and techniques, as well as knowledge of the principles of management and the basics of economics, commercial law, taxation, finance and computerized information systems.

The head of the internal audit unit is directly responsible for reporting to the head of the public sector unit on all audit matters in the public sector entity, and in particular on:

- Regularity, effectiveness and efficiency of budget execution / financial plan;
- Regularity and effectiveness of internal financial control, including asset management and
- Compliance of accounting reports for budget execution / financial plan with accounting standards.

The head of the internal audit unit gives opinions on the internal rules and acts of the public sector entity, as well as advises all managers in the unit on risk management.

In conducting the audit, the methodology and approach of the audit is necessary to ask the auditors constantly questions in order to detect cases of fraud and possible corruption. From the point of view of managers - audit leaders, it is necessary in addition to the above skills, to possess specific organizational skills in order to effectively plan and control the audit, leadership and direction of the audit team as well as the overall organization of performance audit and audit preparation reports as a final result of the audit performed.

In order to achieve and maintain the above standards and requirements for professional training of internal auditors, internal auditors are required to have established an ongoing training system. The establishment of a system for continuity in training is in the context of the need to continue the professional development of auditors, in order to increase knowledge in this area of accounting and auditing.

Factors for the proper functioning of internal audit

Talking about the factors of good functioning of internal audit means opening some keys to the issues of good governance, leadership role, quality of internal leadership leadership itself, separation of leadership roles from a political role and some differences in understanding of these relationships in developed and developing countries.

Good governance means the existence of a sound and adequate system in need of internal controls, relatively limited fraud and corruption, high standards of ethical management and conduct, and the existence of effective mechanisms for reporting and enforcing measures. However, high quality management depends on the level of leadership motivation and bad leadership opportunities to remove. Leaders in developed countries have accepted responsibility for implementing internal control and every year more and more they publish quality reports in the internal control system. So this key issue is the existence of a clear distinction between the role of the clerk and the politician.

Internal audit is a useful support mechanism

Leadership that has the authority to achieve, ie make decisions about the use of funds, internal review sees it as a useful support mechanism. Internal audit integrated in all public sector organizations, they implement the standards set by the Ministry of Finance. This is all trying to strengthen the relevant financial management systems and professionally built and well trained administration, which are not changes with the change of government. Good governance also

depends on future planning systems, which effectively identify risks based on clearly defined financial goals and objectives of operations. Strong and significant in this useful Parliamentary oversight role and external audit (State Audit Office).

Good governance is crucial for good governance in the public sector. This means focusing on the question of why the organization exists and what are the effects on citizens and service users, evaluating effectiveness in work more clearly by defining the functions and roles of politicians, executors and their various types of citizen relations.

Of particular importance for the good of management is also the promotion and demonstration of the values of organization, transparent decision-making, risk management, capacity development and skills of governing bodies to increase the effectiveness of governing bodies (board of directors, council, chairman, and minister) and implementation of the obligation in practice.

CONCLUSION

A well-established internal audit system in business entities means the existence of professionally trained people who will constantly monitor the implementation of strategic priorities and the implementation of annual programs in business entities, in order to increase the economy, effectiveness and efficiency in implementation. ee same. Internal and external audit institutions need each other, we have professional, open and continuous cooperation that will contribute to better the quality of audits performed.

The Code of Ethics for Internal Auditing is clearly defined, which aims to promote an ethical culture in the global internal audit profession.

The principles to be followed by internal auditors are:

Integrity - The integrity of internal auditors builds trust and thus provides a basis for the reliability of their assessment. They do their job honestly, diligently and responsibly. Enforce the law and disclose information that is expected to be disclosed by law and profession;

Objectivity - Internal auditors show the highest level of objectivity professionalism in collecting, evaluating and transmitting information about the activity of the process they are reviewing. Internal auditors perform a balanced assessment of all relevant circumstances and are not affected by their own interests and other opinions formed. Do not engage in any activity or relationship that may or may not impair objective evaluation. Do not even accept anything that could harm them being considered detrimental to their professional opinion. They disclose all material facts that are known to them and which, if not disclosed, may distort that reporting of the activities under consideration;

Confidentiality - Internal auditors respect the value and ownership of the information they receive and do not disclose information without proper authorization, unless there is a legal or professional obligation to act. Use and reasonably protect the information obtained while performing their duties. Do not use the information for any personal gain or in any way that would do so was unlawful or detrimental to the legitimate and ethical purposes of the subject;

Competence - Internal auditors apply the knowledge, skills and experience required in conducting internal audit. Performs internal audit services in accordance with international standards for professional internal audit performance.

They are constantly improving their readiness, effectiveness and quality of services. The internal audit activity should be independent and the internal auditors should be objective in performing their work. Independence is the release from conditions that jeopardize the possibility of the

internal audit activity or the head of the internal audit unit to perform the obligation of internal audit independently. The Internal Audit Unit should evaluate and contribute to the improvement of the management process organization; it should evaluate the effectiveness and contribute to the improvement of risk management processes. Internal auditors should prepare and document a plan for each job, which will include the objectives of that job, scope, deadlines, and resource allocation. They must identify, analyze, evaluate and document sufficient information to achieve the objectives. It must determine sufficient, reliable, appropriate and useful information. The conclusions and results of the engagements should be based on appropriate analyzes and evaluations. Reporting must be accurate, objective, clear, concise, constructive, complete and in a timely manner.

A well-established internal audit means reducing the risk that the internal control system has does not work or is malfunctioning in the business entity.

Internal audit reports are a direct introduction to management in the process of business decision making.

The importance and role of internal audit in modern economies is great, a The need for continuous education of auditors is one of the prerequisites for the existence of effective internal audit that will directly help the business entity to improve the established system of internal controls in order to increase cost-effectiveness, effectiveness and efficiency in operation.

LITERATURE

1. Kovacevic, Radmila, "Auditing Profession", Accounting, Auditing and Finance, No. 1/1993
2. Minovski, Dr. Zoran, "State Accounting and Non-Profit Accounting organizations ", Faculty of Economics - Skopje, 2004
3. Lazarevska, Bozinovska Dr. Zorica, "Audit", Faculty of Economics - Skopje, 2004/2009/2011
4. Nikolovski prof. Dr. Pece, "Internal and External Audit", Faculty of Economics - Prilep, 2009
5. Nikolovski prof. Dr. Pece, ,, Organization of the audit of financial reports ", Faculty of Economics - Prilep, 2004
6. Nikolovski prof. Dr. Pece, "Fiscal Audit", Faculty of Economics - Prilep, 2007
7. Stanojevic, Dragutin, "Internal Audit", Belgrade, 1993
8. Lee, Tom, ,, The nature, scope and qualities of auditing ”in Carsberg and Hope, Current issues in Auditing, Allan, Phillip, 1994
9. Aceski, Blagoja, Trajkoski, Branko, "Internal and External Audit", Economic Faculty - Prilep, 2003
10. Robertson, Jack, S, ,, Auditing ”, 1996
11. Atanasovski, Zivko, "Public Finance"
12. Trajkoski, Branko, "Financial System", Faculty of Economics - Prilep, 1996

Laws, magazines, manuals and collections

1. Law on Internal Audit in the Public Sector, "Official Gazette of the Republic of Macedonia", 65/1997
2. Law on Internal Audit in the Public Sector, "Official Gazette of the Republic of Macedonia", 69/04 and 22/07
3. Law on Internal Audit in the Public Sector, "Official Gazette of the Republic of Macedonia", 69/04
4. International Public Sector Auditing Standards, Accountants' Council and Auditors of Serbia, Belgrade, 2007

5. International Federation of Accountants - International Federation of Accounting
6. Rulebook on Auditing Standards for State Audit, Skopje, 1998

Web pages

1. www.dzr.mk
2. www.intosai.org
3. www.finance.gov.mk
4. www.psc-intosai.org
5. www.revizija.gov.mk

© GSJ