



Internal Audit of Permanent Objects

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Abstract

In the context of the globalization of business operations and the increasing use of information technologies, complexity of business transactions, and business risk, the role of internal audit is becoming increasingly important and the range of tasks performed by internal auditors is growing. Internal audit play an important role in every organization as it assist in realization of their financial performance goals. The internal auditing function is one of the most important among the companies as it has several functions that mean to enhance the controlling and monitoring in the companies as it has a major and significant role in designing and developing the internal control system and support the corporate governance. It contributes in measuring and evaluating the risks surrounding the work environments.

Keywords: permanent objects; internal audit; sources for objects; reporting.

1. Introduction

The terminology Revision comes from the latin proverb "revidere" which means to investigate, to check one more time because of the investigation or to do last corrections etc.

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In the English environment, for the Revision, we use the word "audit" which comes from the latin word "audite" which means to hear it or to hear about it. The true meaning of the "auditer" in the English language is a person that hears and from there we have the word audit, that even till now, it kept his original form. In the beginning of the development on the revision, the revisor was working on his activities through hearing the verbal reports from the revision workers. In Germany they use the word "wirtschaftsprüfung" and the word "revision" as well and in France the word "revision compatible" is used. Literally speaking, the revision is identifying itself as repetitive repeating of activities, which shows her character in the functioning of the working activities. An audit, observed as a systematic, process, involves the objective collection and evaluation of evidence. Consequently, the evidence is information that has a significant impact on the auditor in the decision-making process [1]. So, the core component of the audit process is to collect evidence regarding the economic events and performance report [2]. The audit involves the accumulation and evaluation of evidence in relation to information in order to establish and report on the system of correspondence between information and established criteria. The audit should be conducted by competent and independent persons [3]. More precisely, the revision is additional check control on all business events, that is completed by the already existing documents, but apart from the control, she has mainly the corrective character. Tom Lee, in the early 80's or at 1984 to be exact, gave the most described definition for the revision-one person is making sure of something through second person in the quality, position and status of the subject that the second person was investigating or working on it. The need of the revision is existing because the first mentioned person is in dilemma or has doubts in the quality, position and status on the relevant subject question and he is not capable to remove that dilemma or doubt. The same author in 1993 defines the audit of corporation as complex and technical function in which the auditor confirms and reports on the quality of the financial statements that the management of the corporation publicly disclosed to external members that have the right to vote as well as part of their financial responsibility [4].

An audit frequently is of direct benefit to the management of the client. Based on the examination, the independent auditor can make suggestions to improve controls and achieve greater operating efficiencies within the client's organization. The economic benefit is especially valuable to small and medium – size companies. [5]. I decided on the topic of internal audit of permanent objects, because permanent objects represent a significant component for the overall operation of the business. Permanent objects represent the material basis of the business entity and the technical equipment of the labor. For most of the enterprises, permanent objects have the largest percentage share in the total assets available to the enterprise. Hence, due to the great importance of the permanent objects, it is necessary to plan the process of internal audit of the permanent objects in order to enable detection of the gaps in the operations with the fixed assets, but also to improve the working with the fixed assets.

2. Internal audit of the permanent objects

In the production process, basic assets may arise in the following forms:

- Initial monetary form;
- Initial commodity form;

- Technological form;
- Completed commodity form;
- Completed monetary form.

Fixed assets represent the material basis of the business entity. With their size and in terms of business tasks, the quality of the business entity is measured, and their relation to living labor express the technical equipment of labor [6]. The permanent objects can be (buildings, block of lands etc), which means of every these structural segments can be a subject to the internal revision. The different way of their construction and use can be a part of the special methodology in the revision as well. As we mentioned before, the permanent or the fixed subjects can be divided in groups in taking of consideration of how they became subjects, their external shape, function, what are they used for and etc. For the goals of the internal revision, the permanent object can be grouped depending on their readiness so the business tasks can be done. According to this criterium, the grouping of the permanent subjects will be:

- Permanent objects in function
- Permanent objects out of function and
- Permanent object in construction mode

As far as the permanent objects in function, the internal revision begins from the moment of their construction. The supply of the permanent object can be done by one time buying of that permanent object (land, equipment, construction material) from their builders or from specialized organizations or in some cases with given away permanent objects (presents, sponsorship, donations) When one time buying is done, the internal revision needs to considerate these aspects or revision steps: Eligibility of the organisation- are they competent and can they supply the permanent objects. For example, in some companies, the General Manager has the right to supply from unlimited to limited permanent objects. In other companies the Board of Directors are responsible for the supply and if there is a construction of big investment properties, then the Auctioneers Department can be responsible for the supply as well. From here is the internal revision responsibility to check if the eligibility of buying the permanent objects is respected. The second step is checking the price or the value of the permanent object and to compare with the one that is put on the agreement by the superior. The third step is the internal revision to check according the type and use of the permanent subject, in which way the supply price is similar or equal with the approximate price in the country or in the foreign countries And the last step is checking is the permanent object functioning, does his capacity is good enough for the budget and the needs of the company. If the companies are using second hand permanent objects, then there is a checking of according to which method their value is completed and is there any evident documentation for it.

If the construction is made by the company itself, then there is a checking of who made the decision of construction to the object, is all costs have been documented and at the end there is a compartment of the value on the constructed objects by the company itself with the value if they have been supplied by some special organizations.

When it comes to construction of a permanent object by a special organization, it is very important to be

checked if the builder and the investor have signed a contract, agreed to it and at the end there is an investigation on the value of the object. Is it different than the regular price of building that object.

With the revision of the construction objects (factory halls, administrative buildings, warehouse buildings, canals etc), the internal revision needs to investigate if the construction objects according to their capacity, size, and structure are adequate for the business, what are they costs and are they have been taken care of. It needs to be investigated are they insured as well and from what risks and were they out of function for a long or short time.

The revision of the machines and their servicing equipment is very important in the countries of transition because they still don't have the advanced technology like the other countries. The un rational spending of the machines and the servicing equipment (amortisation) can have a big impact on the working in the business object.

That's why the revision of the machines and the servicing equipment needs to investigate these aspects:

- how much were the machines and the tools have been used
- what is their invested servicing
- is there any protective equipment when the machines are in use
- how they have been amortized
- are they insured from some risks and how
- are there any defects and why
- does every machine has a sheet where all information is gathered about the relevant use and servicing

Revision of the tool has a responsibility to:

- investigate the adequateness of the tool
- size of the tool
- how the tool has been kept
- is there any evident information about the tool

The adequateness of the tool in the revision method, has been put in a first place because without the needed tool, we cannot accomplish the working goals that the organization requires. The size of the tool needs to be adequate as well with the working specifications that the workers have and the tasks that they are doing.

It is very important when it comes to keeping the tool in their right place. With the revision, it needs to be investigated is the tool been kept in the right spot and does it have been cleaned properly.

The revision on the transportation equipment is the same as the revision of the machines.

- When they have been supplied
- How many kilometres have they passed

- How much fuel they spend
- How much for spare parts and tyres, how much is the transportation service within the organization and going in another specialized organizations

The revision of long life agriculture and herd/drove within the agriculture companies is making these specific investigations [7]:

- are there any measurements taken for the health state of the herd (hygiene, vaccination)
- with the agriculture, these measurements are taken-protection of frosts, spraying etc

According to the International Accounting Standards, in the revision of the un material permanent objects are included patents, models and licences, the rights to use the technical documentation of an industry and the investment in other equipment for sake of the long lasting promotion of the working force, in the modern time said as GOOD WILL. The revision of the un material subjects needs to investigate every contract from the owners of those subjects

3. Revision of Sold, Given Away and Debited permanent subjects

The opposite activity of the supply and construction of a permanent object is the sale of the object. According to the International Accounting Standards, the sale of an object in our country is done as per these ways:

- with sale
- given away
- with expenditure

The reasons for a sale of an object in the companies are: changes in the technology process, so the supplied tools cannot be in function for the new production method or they got old. Even if they are not functioning anymore, their amortization is calculated and with a rational thinking and it has been justified economically from the company.

Same as the supply process, the liquidation of a tool or object have been investigated by the revision with these ways:

- is it a decision from a Director, the President of the Committee or is it a decision from a Director Committee
- is it the liquidation or sale of a tool or object is done on a public licitation
- is the public licitation documented
- the contract of the sale of a tool or object
- the documentation of the sale and transferring of the tool or object to the buyer

When a sale of an object is done, sometimes problems can occur regarding the sale has been made versus the present accounting value of that object (un amortized value)

If the value of the sale of a object is equal with the un amortized value, then there are no problems that can affect the financial stability in the company. If the sale is higher that the un amortized value, then that has a positive influence on the financial situation in the company. If its opposite, then there is a negative influence (loss of a capital)

With a sale of an permanent object with compensation, the revision needs to investigate if its similar with the market price. If the sale is for free, then the revision needs to investigate who made that decision, was it an individual or a Committee

The revision of already spend tools or objects, because they are too old or technologically not available, is done by these ways:

- is there any document where a suggestion is stated that these tools or objects need to be sold or get rid of
- is any decision been made about the suggestion
- is the sale or expenses being documented and what is the price of the waste

The revision in this case needs to pay more attention here, because sometimes these objects or tools have been misused- no sufficient amortization of the tools and the value of the waste is higher than the un amortized value.

The accounting coverage of the acquisition of fixed assets free of charge depends on the following circumstances [8]:

Whether a new, unused asset has been acquired

Whether an already used asset is acquired

Whether an asset is acquired together with the assumption of the loan obligation

Building objects, as well as most funds, can be acquired without compensation, with purchase or, most often, by construction. The construction of buildings can be financed from various sources: from own, foreign or by combining the sources [9].

4. Audit of the insurance od the permanent objects

This revision is very important to every business subject that insures all his objects from different risks.

The insurance has been made in two ways: paying a premium to a specialized organization, insurance companies and supplying a protection equipment for the tools or objects in case of fire or flood [10].

The internal revision is responsible to check if all the permanent tools or object are insured with their premium. She needs to check if all expensed, sold or given away tools or objects are checked out from the Insure Department so he can decrease the premium that company needs to pay for the next period.

For the revision of the insured permanent tools or objects, a report needs to be done, where it states the situation of the object or tool, their estimation and which measurements needs to be taken for a further insurance. The goal of the internal revision is to decide are the premiums (if the company doesn't insure the tools or objects from different risks at insurance companies, instead it insures then internally via forming own insurance fond) are enough to cover the damages for the previous and present year.

The management needs to be informed of the results from the insurance of the permanent tools or objects and they need to support or change the politic of self- insurance so that the objects or tools can no longer be insured by specialized insurance companies.

5. Audit of the objectis in construction stage – permanent

The internal revision of the permanent objects has an obligation to:

- making a decision in the company for construction of new or repairment and expanding of the permanent objects
- before the construction stage, finance is secured for the investment

As per the objects that they already started to build, the revision has these responsibilities:

- the up-front payment for an investment
- costs of the investment materials
- cost of the equipment
- investments outgoing

When a compartment is done with the revision on the up-front paymentsof an investment, it needs to be checked if the written price on the documentation is the same with the realistic one. And also what it needs to be checked is the prices of those works that have not been done yet.

The real number of material needs to be compared with the number that has been evident in the books, and to check if there are any plus material goods and have not been used for an investment construction, to sell them or re use them for another purpose.

With the revision of the equipment, it needs to be checked if the quantity and the value of it, is exact as in the books and is the supply done precisely as per the agreement for the investment program of the business object. The revision needs to check are all measurements been taken to prevent any eventual failure from the moment of supplying to the moment of her instalment.

With the revision of the investments needs to be checked if the construction of the object is same as on the contract and are they going to be finished by the due date, if the objects has been building for years because of lateness and which measurements to be taken for a faster finish.

For the intern revision, a special responsibility is to check is there any continuous value price confirmation while building, especially on those object that are building for years, because the inflation can affect these objects tremendously.

6. Audit of the life – long investments of the objects

In life-long investments are included life-long mortgages and common investment.

In the case of the already done objects and object ready for construction, there must be a decision made by the business subject that he can give some finance. The conditions need to be confirmed in a special contract between the company that gives the finance and the company that receives it. The internal revision needs to check if the finance is for a longer period, who made the decision for it and is there any decision in place at all. The revision needs to check the conditions that are in the contract and are they there by the law. Revision needs to check the conditions signed by the both parties as well.

7. Audit of the own sources for objects

In the companies, own sources of objects can have: the Auctioneers Capital, the capital of the individual owner, no nominated capital (reserves) and life-long reserves.

With realisation to the politics for separating a part of the profit for increasing on the own capital, it can be done on a long or short basis and needs for a reproduction of the business subject.

In reserve sources are included:

- lawful and free reserves
- comeback value of the reserves
- long time period reserves

The formation of these reserves is done from the neto profit of the business subject. The formation of the reserves is regulated by the law. Their size depends of the work that the business subject does and the risks involved and the goal is to keep that industry working, the workers to be financially and socially secured by the law of signing the contract.

The reserves are able to intervene and can be used when there are economic problems occurring like: loss, prequalification and employment for the workers in case when there is no work for certain number of workers or when the company finds itself in a very difficult situation. That is why the revision depends a lot from the size of the reserves, their structure, the way that they formed etc.

8. Audit for borrowed sources for objects

In the category of borrowed sources that the company has an obligation to liquidate on long or short period are the credits given by the banks or the business partners, taxes, wages.

Revision of the credits-Credits are borrowed sources where the subject has an obligation to return them. Credits comes from the latin word 'credere' which means to have trust. On the other side, the subject commits itself to return the borrowed credit. The credits are divided in groups according to their purpose and types. For a purpose they come as credits for permanent objects, credits for sanction, credits for buying etc. They can be on a long or short period of time. They can be given from banks of the country, from other financial institutions or from banks of different countries. The internal revision needs to follow the need of the credit, how is it used, the receiving of the credit and the repayments. Before the revision starts, we need to check if all analysis are completed for the subject and his use of the credit. Then it needs to be investigated why is it used for- expanding of the capacities and the financial strength of the company. The revision needs to investigate is the proper documentation gathered and in place and from there the size of the credit, the interest rate and on how many years. Very important moment in relation to the credits is are the repayments made on time. If not, then there are penalty rates in force and with that there is increase of the expenses and decreasing of the economic strength of the company. For the bank credits, the bank has a very organised control over them. She needs to know are they paid on time and are they used for the purpose that they are for. Through the following of the credits and their purposed use, the banks are doing a realisation of credit politics in a designated period. The banks warns the subject that the credit can be used only for its purpose, otherwise penalty rates will follow. The control is done by the bank with her intern control unit. Sometimes the bank can allow using the credit for another purpose, but with that it gives a bad reputation to the credit politics. Before allowing the credit, the bank needs to check the credit history of the subject, their account and have they been criminally convicted. Bank needs to investigate if the credits will be re payed on time as well. If the credit has not been paid on time, then the bank needs to remove the credit from the subject straight away. They are doing this because it comes difficult for the bank to follow their plan for the credit that has been given to the subject. It is very important the bank and the subject to have stable relationship so the liquidation of the credit can be removed.

9. Conclusion

The internal audit has evolved from basically an accounting oriented skill towards management-oriented profession. Now however, the internal audit is considered a separate discipline with far broader scope. Modern internal audit provides services which include examination and evaluation of the controls, performances, risk and management of public and private entities. The financial issues represent only one aspect of the scope of the internal audit. In the past, these were considered enemies of the client, but now the internal auditors try to establish collaboration and productive working relationships with clients through activities which provide greater value.

The internal audit is conducted in accordance with the independence integrity and confidentiality principles of legality, professionalism objectivity, competence and with the accepted international standards for Professional

Practice of Internal Auditing, the bylaws, internal audit charter and the internal acts of subject of the public sector. The Internal Audit Unit has the authority to conduct internal audit in all organizational structures, programs, activities and processes in public sector entities.

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