



International Journal of Sciences: Basic and Applied Research (IJSBAR)

ISSN 2307-4531
(Print & Online)

<http://gssrr.org/index.php?journal=JournalOfBasicAndApplied>



Internal Audit of Financial Operations

Sanja Vezenkoska^{a*}, Igor Zdravkoski^b, Pece Nikolovski^c, Marina
Blazhekovich^d, Veronija Nolcheska^e, Marija Kimovska^f

^{a,b,c,e,f}Faculty of Economics, University "St.Kliment Ohridski" – Bitola, Marksova 133, Prilep 7500, Republic of
Macedonia

^dFaculty of Information and Communication Technologies, University "St.Kliment Ohridski" – Bitola,
Partizanska nn, Bitola 700, Republic of Macedonia

^aEmail: sanja.vezenkoska@yahoo.com

Abstract

Due to the highly dynamic changes in the market, especially in the capital markets, capital owners and investors need a reliable and independent opinion on the financial statements of companies that are the subject of their interest. Good corporate governance is now considered a basic condition to accept and register an organization in most of the Stock Exchange Markets all over the world. The audit committee plays a major role in corporate governance regarding the organization's direction, control, and accountability; part of which is the organization's internal control which is used to provide reasonable assurance about the integrity of management and reliability of the financial reporting. The internal audit is deemed as the core of business accounting as it is the section that keeps track of all businesses associated with the sector. The internal audit efficiency assists in developing the company's work because the financial reports present the internal audit department's quality. In addition, an internal audit is a crucial part of corporate governance structure in an organization and corporate governance covers the activities of oversight conducted by the board of directors and audit committees to ensure credible financial reporting process.

Key words: internal audit; finance, financial operations; securities.

* Corresponding author.

1. Introduction

In today's conditions of operation, relevance and confidentiality in accounting and financial reporting have the treatment of primary attributes that make the information presented to be valid for a large number of entities in the financial statements[1]. Therefore, when making the deductions, the decision-makers insist on using the audited financial statements

The term 'revision' derives from the Latin verb "revidere" which means "to examine", to review the new latin ter, "revisio" which means to review once again make some more tests. In the English language area the word for revision is "audit", comes from latin "audite" and means to hear or to listen. The original meaning of the auditor (revisor) in the english language is the "the one who listens" and from this comes the term audit (revision) regardless his lineage to this day the original form is the same. Namely, at the beginning of the development of the revision, the reviser compared his activities through hearing the oral reports of the binds on the revision. But, regardless the fact that the present interpretation of the working revision directs to something else, the expression is kept and is used in it's original indetical form.

The audit is a systematic process of objectively obtaining and producing evidence of economic events and results in order to establish compliance between the permanent performance reports and the pre-set criteria and to deliver it to interested users [2]. Audits are generally classified into their catrgories: financial statement, compiliance, or operational [3]. Professionalism in all domains requires built and verified status, consent to respect the established norms and standards and credibility. The audit profession is not, and should not be immune to the rigorous expectations of the numerous users of audit services to maintain a consistently high level of professionalism.

Internal audit is identified as an independent assessment function established within the organization, which examines and evaluates the activities of the organization as its service. The purpose of the internal audit is to help the members of the organization to perform their duties efficiently. From this aspect, the internal audit provides analysis, assessment, recommendations, advice and information related to the activities it is checking. The purpose of the audit involves promoting effective control with reasonable costs [4].

From the cited definitions it follows that the primary task of the internal audit as an independent review and appraisal function within an enterprise is to provide adequate assistance to the owners and the management of the enterprise in order to more effectively carry out their professional obligations [5].

The working revision wants to perform systematic investigation of the activites on the whole bussines subject or part of it, from the perspective of the efficient and effective use of resources. The examining of the effcent it's performed in a way that is evaluated how the organisation sets it's aims from the supplies, production, sale and etc. The effectiveness is examined in a way that is evaluated the success-profitability, that the company made.

Depending the organ that sets the revision, in the present interpretation and practise there are differentiated two types of revision, external and internal revision.

Of particular importance for financial performance of companies it is to have a well organized structure proper documentation and adequate way of checking the documentation.

The motive for this control comes generally in respect of legality of operations and business ethics during the disposition of assets and the realization or the division of profits.

Within this paper, the focus will be on auditing the financial performance. Considering that the financial work is very extensive, this paper will elaborate on the following aspects of the financial operations: audit of cash operations; auditing the operations with financial assets through the accounts in the commercial banks; auditing the operations with foreign currency assets; audit of securities transactions; revision of trade receivables and other receivables from business relations. I have decided on these segments of the financial operations, because in most of the enterprises precisely these segments represent the financial operations.

2. Audit of cash operations

The main task of this internal revision is to check the regularity of operation with the cash and other resources that pass through the sequence checkout.

Cash comprises cash in the cashier, on the account of the bank account, separate cash bills and letters of credit, the foreign currency of the foreign currency accounts in the banks and other monetary assets [6].

It is necessary to stress that the cash operation in companies today lacks meaning that it had in the past, when the biggest part of the payment was exercised through the checkout. This kind of payments today are exercised through the company's accounts. That means that the payment is cashless than imprest.

The internal revision of the cash operation, needs to be pointed to examination of the function of the control system in the business subject (to have a special person that will work with the cash resources – cashier; whether the received documentation and the raised cash resources from the register is correct from a formal, substantial and material point of view; is there an authorized person that is obliged to sign documents for the received and raised cash from the register etc.) For this purpose, internal audit carries occasional unannounced inventory of the register and checks the correctness of the documentation. From the results of this test, a written report is prepared which is submitted to the manager of the company.

3. Audit of the operation funds through the accounts of the business banks

Unlike last time when businesses were indebted to a bank account to keep their cash and make payments through the former factory payment, the accounts of the business subjects (denar and foreign currency) are opened in one or more business banks and from there, they perform all their cashless payments, that means raising money and foreign currency for cash payments. On these accounts the cash and the cashless recovery flows of the denars and foreign currency. With this Law may be concluded that a business entity may have one or more denar or foreign currency accounts with one or more commercial banks. The fact is that through the accounts of business entities in banks incurs enormous inflows and outflows of domestic and foreign assets. Because of this,

the revision of denar and foreign assets of the companies should be leading the accounts to the business banks because it will be extensive and will need to be focused on testing the following aspects of the company's operations.

- compliance of businesses with the provisions of legislation in the field of finance, ie the area of payment operations.
- timely entry account of all cash income funds.
- compensation claims and obligations, especially to the same subject that are also buyers and suppliers.
- the coverage for the orders to the bank to make specified payments.
- proper usage of funds from the account for business purposes, payment of payables, state and other entities, or determining that there were cases of procurement of funds as it seems no business purpose.

4. Audit of the work with foreign assets

Foreign currency assets include the effective foreign means of payment: currencies, checks in foreign currencies and other foreign means of payment [7].

The needed foreign currency funds for the purchase of goods from abroad to cover various costs relating to travel abroad, serving representative offices abroad and etc., the companies buy from authorized banks for sell this kind of funds, from their foreign currency accounts. The exchange rate in a national economy will successfully achieve its function only as far as it is real, balanced and stable in the long run.

For each type of foreign currency assets, which are located at the register of the company or in a bank opens a separate analytical account. This means that doing business in foreign assets is very specific, the Office of Internal Audit Committee should pay particular attention. It should examine the legality of the procurement, especially how much is spent on foreign assets. Spending is extremely important because the assets are involved which the businesses subjects come harder to, and from this is the need for tidiness and discipline in their economic (rational) spending.

Foreign exchange operations in companies and other entities that enter into business relations with foreign partners, is subject to internal and above all external audit and control.

Foreign control means supervision of foreign exchange and credit operations abroad of all subjects, and companies, all social and civil rules and the citizen . This control includes the main: establishment, content and resolution of financial relationships that exist between domestic and foreign entities and operations with foreign currencies in the country.

Specifically, control or audit of foreign exchange operations covers the entire payment operations abroad, then realization, acquisition, raspolagnjeto and retention of foreign exchange, foreign exchange matters, credit operations abroad, the entry and exit denars, foreign currency, securities and gold as well as other foreign exchange operations in the country and abroad. In all these trials and test, audit should follow the consistent comparing of the legislation.

5. Audit of the working shares

Securities documents represent written documents proving the existence of certain rights arising from ownership or business relationship. The ensuring of payments between entities, mostly done by check, promissory note with Aval, an irrevocable documentary letter of credit and guarantee. Of these payment instruments greatest application in practice have checks and bills of exchange. Because the check is used to pay obligations without delay its release without cover to criminal charges. To ensure the payment of outstanding checks, businesses can set aside a fixed amount of cash in a separate account in a commercial bank, in which is kept his account. Given that the allocated funds for payment of checks constitute a means of creditors, the business entity can not be used to settle other obligations. The check used for payment after sight, that is why the business subject, by the rule should be used without postpone. Because of not filling in the date of issue and date of collection on the checks, it is possible to make various abuses in their use. In order for a better control of the issued checks, there are special books and there are written the date of issue, number, user - the purpose, the amount, the date of payment, the number of bank statements and possibly some remarks about still not paid checks by users. When we talk about bills of exchange, special task of internal auditing and the persons responsible for the issuance of promissory notes before their release to check and ascertain whether the time of their maturity for fully, enterprises with sufficient amount funds for their payment. Also, internal audit needs to examine while issuing bills of exchange was rightly judged to be at their maturity and the business subject will have resources to pay, ie whether it was done promptly payment bills of exchange, promissory notes several protest due to delayed payment and how much the amount of the court costs. In addition to the issued notes, this control should include promissory notes received for securing the claim. Moreover, should mainly be controlled: unpaid bills, protested and collected bills, transfers of receivables from regular to bad and so on. Internal auditors in the company are obliged to constantly worry about making those business decisions that will enable timely settlement of payables or prevent the possibility of insolvency of the work. The execution of such a task requires the need for the audit authorities of business entities in the provision of payments with payment instruments, and to examine whether:

- Unliquidated obligations, especially large sums, within the legal deadline by are covered with appropriate payment instruments
- The formation of the payment instruments is made in accordance with legal regulations
- There are payment instruments that enterprise issued and secured funds for their settlement
- The bookkeeping keeps accurate records for receiving and issuing of payment instruments as well as their timely liquidation
- Time issued orders for payment of payment instruments or instruments received on time are delivered in business banks
- Timely and what measures are taken for collection of claims that could not be settled either by payment instruments etc.

In the carried out examinations, the control prepares periodic reports and submits them to the authorities. In certain cases, in accordance with legal regulations and provisions of internal regulations, and the control itself have the right to bring appropriate decisions that will enable the removal of incurred irregularities in the system of payment.

6. Audit of the claim of the buyers and other claims from the business relationships

The claims are part of the the funds of the business subject - commodity money in a shorter or longer period, they are found in the material sphere of reproduction. They generally can be grouped into three groups [8]:

- Claims of te buyers
- Other claims from the business relationships and
- Claims based on placing funds in other businesses and their financing

6.1. Audit of the claims od the buyers

Regular purchases by customers are considered all those resulting from the sale of finished products, trade goods and services rendered, then selling fixed assets and other claims. For every business subject, no matter which activity is doing, it is very important to collect the receivables purchases on time. It is important because the prolonged retention of current assets for the akes it necessary to icrease their volume and use of loans from banks and other business partners. Given that the loans pay interest, which is very high, automatically redoubling expenses of the enterprise and reduces the profitability. When analyzing the size of the claims, above all, it should be emphasized that the company is not enough to execute the sale of finished products, trade goods and other assets or to perform certain services, but is particularly important to take account of collect the claim purchase. Businesses must continually monitor the charging of their claims, because it is a requirement to adequately respond to the obligations and normally carries out its operations. In settlement of the claims from the buyers is needed analyzation of all organizational parts and functions of the enterprise, whether they are of non direct production, trade or common services. In the literature we can read the certain justified opinion about the organizational unit and how is responsible for conducting the sale, it has the greatest responsibility for the collection of receivables. Such liability of this unit stems from the fact that it mostly can affect the choice of purchasers, guided mainly by their solvency. Sales service is required to maintain adequate sales policy that allows smooth, in legal terms, to effect recovery of the claim. The subject of the audit and the detailed control are actually the contracts which concluded the sales service. Thus preventively are eliminated any underperformance of these deals, because later may lead to disputes or side effects. The audit primarily checks whether the contracts contain all the essential elements, and primarily the object of the contract price, terms of delivery, payment terms, the competent court in cases of dispute and etc. Also, the audit checks whether in writnig the contracts were involved people with appropriate education, whether they are insured interests of the enterprise, whether because of poor systematization and lack of certain essential elements in the contract may arise unforeseen damages and losses for the company etc. These elements in the agreement are particularly important when it comes to cooperation with foreign partners, and the rules of the country of the buyer must be known. The organizationl unit, that which performs the development and delivery of invoices, can greatly affect the acceleration of payment of claims. This is achieved through proper and accurate forming of invoices or their timely delivery. At these moments reviiizjata the company should pay more attention. This menas the she needs to execute control of economic, accounting and legal aspects of all claims that it charged customers. In that regard, it should examine whether the claims are based on real calculations and contains the agreed prices. Any delay in the submission of invoices to customers caused a delay in payment, thus enterprise gets into major

financial difficulties. The legal department in the company, also can accelerate the recovery of receivables. Even though it should engage in the preparation of contracts under the legislation, it should constantly strive for efficient and timely completion or submission of documentation in initiating lawsuits against customers who irregularly settle their obligations. As a basic source that provides indicators of heap size, settlement status of accounts receivable occurs bookkeeping. From these records using all data download any administrative measures to speed up the collection of receivables purchase. Internal audit in shorter intervals, should check whether the legal department in the company regularly, after receiving proposals from the obvious function, submits proposals for actions to appropriate courts for recovery of claims from customers, and whether it keeps separate records for customers with whom are filed lawsuits. The internal audit has to consistently and systematically check whether the financial accounting, particularly in the subsidiary - account balances of customers timely and duly booked all debt and deleveraging, and whether it is based on credible documentation. Furthermore, control of trade, based on data from the accounting records should include:

- audit of the authenticity of trade receivables, i.e. if their factual situation in the Partner business agrees with the one from the bookkeeping. In this sense, it should be checked that against specific buyers a procedure for liquidation or forced settlement, and to what extent such phenomena reflects the real possibilities for collection of receivables. Regarding the audit of reliability - the existence of the requirements of the customers in the same amount and the seller and the buyer under the same relationships and the same currency for collection is very important and the information or records for compliance and confirmation letters. Examination of records to comply with the accounting records of the seller and buyer actually confirming the reliability of the accounts claims. This is why wherever there is a realization that balances the seller and the buyer disagree or that contention is confirmed by the response of positive confirmations, you should make a report. Of course the internal audit will investigate all claims, but the test will be made only through the method of selection of a representative sample.
- Audit of compliance clean amounts of negative side account - receivable by borrowing the positive side of Denar account and foreign exchange accounts with commercial banks or account - cash register
- determining the feasibility of transferring the predetermined amount of receivables from regular account - bad and doubtful claims or requests from their regular account - bad and doubtful claims or their unsubscribing. Here the audit should determine the economic viability and legal foundations of this way of reducing the requirements and how to determine the possible liability of the persons who have contributed to unjustified claims. Also, the doubtful and disputed claims audit should check regularly carried posting of receivables from regular to bad and doubtful. Such continuous monitoring of balance accounts - analytical records - is important because doubtful receivables are lower degree of recovery, so their increase is directly related with the decrease of liquidity and profitability of the work of the business subject.
- checking whether the business entity, i.e. mandatory fce/ person makes timely calculation of penalty interest of buyers who irregularly pay their obligations, and whether they carried their regular entry and payment. With this fact the audit must pay attention because the company for the amount of bound working capital in the search for buyers will be forced to use loans that charge interest, and to pay default interest and legal fees for late payment of payables.
- revealing the presence and size of outdated uncollected receivables. Here the audit should examine

whether uncollectable receivables older than three years, according to the Law on Obligations there is no decision on administrative The employer of the business entity for their relief. You also need to check what were the reasons for their limitation, and whether there is doubt about the responsibility of certain individuals of such an occurrence.

- examining the procedure for collection of claims that are collected within the legal deadline. One part of the claim can be challenged because of the placement object to the quality of products. An audit in addition, shall carry out tests on the complaints they have addressed, buyers of inadequate product quality and examine the reasons for that. Further more the duit needs to investigate what steps are taken to remove the comments mentioned in the complaints, ie even to reduce them to a minimum. For providing a proper assessment for the complaints the audit should recognize the tendency of their movements, whether they are rising or falling in comparison with the planned ones from last year, and if these movements are in line with the dynamics and size receivables. Part the of receivables arising from insolvency or recklessness of the buyers themselves. For such buyers, based on the subsidiary, should be paid to warnings, and thus to bring to mind the amount you need to pay, as against the value of the purchased products, goods or services rendered. After that a multiple warnings can be sent, if the buyer does not respond to them, then filed a lawsuit to court for the recovery of claims, which they couldn't be collected on the regular way. At least once a month, the internal audit needs to check whether those buyers who have not paid their debt on time is sent a warning. Just sending reminders is a delicate procedure, so it should result from a previous agreement between the persons of accounting, which are responsible for this work, and people working in commercial service and they directly contact with the customers. The agreement should be understood as a procedure for a better knowledge of the credit worthiness of customers, their previous behavior, the possibilities for their future participation in the total turnover of the company, but in no case as an opportunity to release one or indefinitely tolerating those who irregularly paid his tax. After the audit of accounts receivablec is prepared report that at least be quarterly, semi-annual and annual and it is distributed to management and the management of the company (management board, board of directors, etc.) [9]. The report is prepared by the method of prioritization, selectivity, relevance, understandability and constructiveness in which is offered findings and measures to improve the situation of the company in respect of trade receivables.

6.2. Audit of other claims from other business relations

In the "other receivables" are included those derived from the sale of finished products, merchandise and services rendered. So in this group receivables include: receivables from suppliers paid advances, claims from workers that made shortages and surpluses by their fault, claims on bails and deposits, claims based on fees paid as reimbursed, claims from insurance companies for property and persons and allowances for damages claims based on more taxes and other obligations of the deduction and other similar claims. The internal audit for other claims, same as the consistent other claims, is made especially large and medium-sized companies, because in many of them is represented a significant item, which can reach an amount up to 50% of short-term receivables. The review of other claims, as the receivables are carried in the shorter and longer intervals. The main task of the audit is to check the regularity of occurrence of the claim, the rightness of the documentation, records of other claims, billing, the occurrence of various problems related to the collection, taking measures for reduction of the amount of other claims and so on. The advance payment to the suppliers of working capital

audit should determine whether, during the period audited, are given such advances, then that suppliers and why they are given. The internal audit should check that justified the provision of advances, why thus made binding on the part of current assets with which enterprise can work until you get the counter-value in the form of assets acquired in a material form or services rendered etc. Also the audit should check that contractual obligations are timely, and whether suppliers timely settle its obligations to businesses who gives advance advances. To see these and other moments it takes to run a diligent and proper records of advances, and through examination of the audit will ascertain whether there are any deviations. The review should in particular examine whether these advances reappear many years and the reasons for their not liquidation. The other group of claims include more grounds for occurrence claims from the workers, but the most common are those that were mentioned, namely: claims based on taken ABAC for business trips, claims based on procurement workers need to perform and pay in cash and claims arising as a result of the occurrence of various shortages and damages for which the workers themselves are to blame. Special attention should be paid to the tests of this kind of "other receivables", because there are opportunities for the emergence of various wrongdoings by the individual wrongdoing by certain individuals. It should constantly examine whether regularly carried liquidating the travel orders or refund of advances taken on business trips. In this sense, should be investigated and the accuracy of documentation, fast on that is a payment of advances and their removal. Any delayed liquidation of the travel order provides opportunities for doubting the illegal use of foreign funds.

At these moments audit should pay attention with the advance payment for purchase certain materials whose payment should be made in cash.

7. Audit requirements based on funds placed in other enterprises - actively funding

Placements, include investments in fixed assets and working capital as a business entity gives to another as money or commodity type, and the kind of services with responsibility, in a certain period, plus the amount of contractual interest or other amount to be returned. Review of claims based on placing funds in other businesses, mainly includes the following tests:

- review of economic, legal and other grounds on which it is made placement in other companies. Regarding the economic effects are expected from the placement is done examining the amount of interest on the funds, ie providing supply of raw materials and energy, the joint appearance on the domestic and foreign markets, exchange of scientific and technical experience and so on. Despite the economic viability, the audit should perceive and compliance of placing funds with legal provisions and the provisions arising from international treaties and agreements.
- Auditing Compliance pace and terms of the financial asset repayment of contractual obligations. Here the audit should pay special attention to whether there were cases of performed prolongation of the deadline for return of funds placed with domestic and foreign partners, and if there were cases of completely writing off of such claims. If there were such a case, the audit should reveal factors that contribute business entity that placed the funds on time or unable to return. Such considerations are particularly important when it comes to placing a sponsor with foreign business partners.

8. Recommendations

Considering the importance and specificity of the financial operations, there should be a good organizational setup for the financial operations within the business entities. Each transaction and each registered event should be based on appropriate documentation. The audit should review each document and each event, whether they are appropriately accounted for and similar. Businesses have an obligation to follow and obey the legal regulations and ensure proper disclosure of all events related to financial operations. The audit of the financial operations is of particular importance because it brings to it the knowledge of the manner in which the financial assets and the way in which the business entity achieved the financial result, how the profit from the operation was distributed, etc. The most important thing for successful financial operations is to have a good and solid organizational setup, proper subordinate documentation and an adequate way of checking the documentation. Of course, all legal regulations should be observed while working, but in addition employees in this sector should have their own business morale when disposing of assets and exercising. The internal audit of the financial operations of the business entities contributes to improving the efficiency of the business entity, through promotion and confirmation of the accuracy and reliability of the accounting and operational data and information that are the basis for making quality business decisions.

9. Conclusion

As a result of the prohibitions economic development and servicing the operations of organizational commitment of companies, internal audit, worldwide there is highlighted development trend more and more, therefore, greatly contributes to the process of continuing integration and internationalization of companies. Unlike external, the internal audit, resulted from the need of modern companies to lead, inner, internal, an additional form of supervision to monitor the internal controls they have performed all employees as part of their working relationships to evaluate their effectiveness, to discover weaknesses in their functioning and propose measures elimination of irregularities emerged. Given the fact that there are different theoretical perspective on the notion of internal audit, we will once again underline the fact that the development of the economy, the change of the company's organizational structure (segmentation and business and profit centers), the increase in the number of owners of capital (the emergence of joint capital), and the development of management with its responsibility in the operation of businesses and so on. They conditioned the emergence of audit business entities themselves –i.e internal audit. Here, it should be emphasized that the existence of internal audit is not regulated by law, but by separate statutory and other provisions the internat was adopted by companies. This means that the internal audit is due primarily to the need of businesses for more efficient control and more efficient operation, but it has no legal basis.

References

- [1] Zorica B. Lazarevska. Audit. Skopje: Facultu of Economics, 2001, pp. 40.
- [2] J.C.Robertson, F.G.Davis. Auditing. Illinois: Liwin, 1988, pp. 5.
- [3] W.G. Kell, W.C. Boynton. Modern auditing. USA: Wiley, 1992, pp. 11.

- [4] Zorica B. Lazarevska. Audit. Skopje: Facultu of Economics, 2001, pp..
- [5] R.L.Ratliff, W.A.Wallace, G.E.Sumners, W.G.McFarland, J.K.Loebbecke. Internal Auditing – Principles and Techniques, second edition. USA: The Institute of Internal Auditors, 1996, pp. 49.
- [6] D. Kosarkoska. Accounting. (in Macedonian). Ohrid: FTU, 2008, pp. 170.
- [7] B. Aceski, B. Trajkoski. Internal and eksternal audit. (in Macedonian). Prilep: Faculty of Economics, 2004, pp.150.
- [8] B. Aceski, B. Trajkoski. Internal and eksternal audit. (in Macedonian). Prilep: Faculty of Economics, 2004, pp.154.
- [9] B. Aceski, B. Trajkoski. Internal and eksternal audit. (in Macedonian). Prilep: Faculty of Economics, 2004, pp.160.