

## **INTERNAL AUDIT OF THE FINANCIAL OPERATIONS<sup>104</sup>**

*Pece Nikolovski PhD\**, *Goce Menkinoski PhD\**, *Marina Blazhekovikj  
Toshevski, PhD\*\**

**Faculty of Economics – Prilep\***  
**Faculty of Information and Communication Technologies-  
Bitola\*\***

### **ABSTRACT**

Today, in modern economic conditions, auditing as a profession occupies a large upswing and is important for the development of companies and their operations, so the role and importance of internal audit of the financial operations of the enterprises in the country is quite large.

As a major boost in the research of this paper is actualizing the audit as an essential and necessary activity in the business operations of companies in the country. When it comes to the role of auditing in the Republic of Macedonia should be noted that it constantly follow global trends, and thus is in line with market conditions at the work of the Macedonian companies.

In the research in this paper are apply analytical procedures, first, the way of implementation of internal audit on the financial performance of the enterprises, its organizational structure, as well as reports arising from it.

Keywords: companies, financial operations, internal audit

### **INTRODUCTION**

Internal audit of the financial operations of business entities is of great importance, because most of the business decisions that are made by management rely on data obtained by the performed internal audit on the

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financial performance of an entity. When conducting internal audit strictly adhering its standards, i.e. it is characterized by its independence, expertise and scope of work. The whole process of audit starts with the planning of the implementation process of internal audit, and continues with the examination, testing and collecting evidence, finally, to complete the compilation of the audit report by the auditor who conducts internal audits on the financial operations.

The audit of the business entity is a complex and technical function that the auditor confirmed reports on the quality of the financial statements that management of the company publicly present to the external members entitled as part of their financial responsibility. Thus constructed successfully completed feature provides sufficient certainty about the quality of published financial statements and allow their content to be sufficient support for the specific users, as well as all who can directly use. Successfully conducted internal audit gives users the convenience in terms of the use and protection from unacceptable behavior and confidence in the reliability of financial reports as a solid basis for making their business decisions. Organizational structure in the implementation of internal audit is defines by Committee of the American Association of Accountants as: "A systematic process of objectively collecting and evaluating evidence related to reports on economic developments and results in order to verify the degree of harmonization between existing operational reports and predetermined criteria and to distribute the results to stakeholders.

The key components for organizing the audit can be seen from the Figure 1.

Audit represents a means by which one person is assured (by another person) in the quality of an issue that another person examined. The need for audit arises because have doubt or suspicion in quality of the relevant object question, and not able to remove that suspicion or doubt (Lee, T.A „The nature, scope and qualities of auditing“ in Carsberg and Hope, Current issues in Auditing, Philip Allan, 1994, p.8).

In terms of companies, effective functioning of the internal audit provides increased performance in operation, through: (Pece Nikolovski - Internal and External Audit, pp.73)

1. Improve the operation,
2. Improving economic discipline
3. Improvement of the financial discipline

Quality financial control implies the existence of a proper organizational structure, proper documentation and adequate way of checking the documentation. Motivation to control financial operations of business entities is

a result of respect for the legality of operations, business ethics in managing the funds, distribution of profits and efficiency. Internal audit within the enterprise is responsible for implementing the control of financial operations. In conducting the audit, the auditor include the follow: auditing of cash operations; auditing of funds through the accounts of commercial banks; auditing of operations with foreign currencies; audit of securities (bills of exchange, checks, stocks, bonds, etc.), auditing of trade receivables and other receivables from business relations etc.

### **INTERNAL AUDIT OF CASH OPERATIONS**

Audit of the cash operation aims to check and examine the legitimacy of the management of money and other cash values. When it comes to cash operations of business entities, it is necessary to note that it not have the same meaning as in the past, where the majority of payment operations are performed through cash or treasury. Today, in the modern economic conditions, the majority of payment operations performed cashless, where the payment is made through the accounts of companies that have opened in one or more banks.

Internal audit of cash operations in enterprises is aimed at examining the functioning of the control system in enterprises (i.e. whether there is a special person in charge of handling cash, whether the documentation for the cash register is material, formal and substantial correct, whether there are legal persons who are obliged to sign documents to be entered and raise money from the cashier, whether performed periodic inventory of cash, who has access to the register and so on.). For this purpose, internal audit performs periodic unannounced inventory of the cashier and check the correctness of the documentation. The result of the auditing is a report, which is submitted to the company's management.

### **INTERNAL AUDIT OF THE FUNDS THROUGH ACCOUNTS IN COMMERCIAL BANKS**

According to the Law on payment and its supplement, all business entities their domestic and foreign currency accounts can to open in one or more commercial banks, during which they perform all types of payments. According to the law, can be notes that a business entity can to have one or more domestic and foreign currency accounts and in one or more commercial banks. Through

accounts that businesses have in banks as financial institutions resulting enormous daily inflows and outflows of funds in domestic and foreign currency.

When conducting internal audits if have some irregularities in connection with the operation which is performed via appropriate account, auditor need to compile a report, and in addition to the record needs to have a report drawn up by the auditor. Within the report, it is necessary to emphasize that raised funds from the account are used for payments for which there is proper documentation and properly formed by an authorized person liquidated invoices.

### **INTERNAL AUDIT OF OPERATIONS WITH FOREIGN CURRENCIES**

Working with foreign assets is very specific and for that the internal audit pays special attention. Internal audit has tasked to examine the legality of the procurement, with particular emphasis on the spending of foreign assets. When it comes about foreign assets is necessary to note that for every type of foreign assets, regardless of whether they are in the cashier of the business entity or in a bank should to open and maintains special analytical account. According to the Law of foreign exchange operations in the country, all business entities have to their foreign assets to manage in the foreign currency accounts in domestic banks, through which is made and payment operations.

When the process of investigation is complete, the auditor prepares a report on the operation of foreign assets. Within the report presents the volume of purchase, used funds and the condition of foreign assets at the cashier or account in the bank, the discrepancies between actual and bookkeeping state of foreign assets, any irregularities concerning with the use of this kind of asset and more. A copy of the report shall be submitted to the management of the enterprise, and they need to take measures for perceived inadequacies and in certain rock to be removed.

### **INTERNAL AUDIT OF SECURITIES**

Of all the instruments used in providing payment between entities, the biggest practical applications have checks and bills of exchange.

Special task of internal auditing and the persons who issued the bill, before their release, to check whether at the time of payment, businesses will have a sufficient amount of funds for their payment.

Control should be directed primarily to: unpaid bills, transferring receivables from regular to bad and so on. Internal auditors in the business entity need to make quality business decisions that will be directed to the settlement of payables or to prevent the possibility of insolvency in operation.

After investigation, the auditor prepares periodic reports that submit to the authorities or to the holders of the business functions of the business decisions of the company. In certain cases, in accordance with the legislation and regulations, regulatory authorities have a right to make appropriate decisions that will enable the removal of irregularities emerged in the system of payment.

### **INTERNAL AUDITING OF TRADE RECEIVABLES**

For businesses it is not enough to realize the sale of goods or designated services, because is important to care for the collection of trade receivables. Businesses constantly have to follow the course of the charging of their claims, because it is a requirement to adequately respond to the normal duties and to carry out its work. For collection of trade receivables need to be engaged all organizational functions in the enterprise, whether they are of immediate production, trade or common services.

Internal audit is necessary to examine whether the service business entity regularly, after receiving proposals from the obvious function, submit proposals to appeal to the relevant courts for payment of trade receivables, and whether it keeps separate records for customers against whom filed lawsuits . Furthermore, the task of internal audit is to systematically examine whether financial accounting, particularly in the subsidiary, timely and duly record all debt and deleveraging, and whether it is conducted on the basis of authentic documentation.

After the revision of trade is making a report that submitted to the management. The report is prepared by the method of prioritization, selectivity, relevance, understanding and constructiveness which provide findings and measures to improve the situation of the business entity in respect of claims from buyers.

### **CONCLUSION**

The audit of the financial operations in each modern condition is of paramount importance for the operation of the enterprises. Internal audit helps

the organization in achieving planned objectives, introducing systematic, disciplined approach to evaluate and improve the effectiveness of risk management and control of it. Businesses within its operations in order to achieve the desired results it is necessary to have proper control over the financial operations within the company. Quality financial control implies the existence of a proper organizational structure, proper documentation and adequate way of checking the documentation.

Internal audit for successful and quality to carry out its activities needs to have a proper organizational structure. Organizational structure in the implementation of internal audit involves systematic process of objectively collecting and evaluating evidence related to reports on economic developments and results in order to verify the degree of harmonization between existing operational reports and predetermined criteria as to distribute the results to stakeholders.

At the end of this paper it can be concluded that the internal audit of the financial operations of the enterprises has a share in the development of an economy and the creation of sound economic entities. All of this will be achieved by creating quality certified auditors who will be competent and in a correct and qualitative way will performing their task in accordance with international auditing standards, the code of professional ethics and legal regulations.

## REFERENCES

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**APPENDIX A**

Figure 1: The key components for organizing the audit

