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INTERNAL AUDIT: CONCEPT, ACTIVITIES AND PROBLEMS

The use of internal audit concept becomes relevant not only for researchers, but also for business managers who seek to have an independent adviser, consultant, assurance provider [17]. In order to stay competitive in the markets, managers must shift their approach to internal audit and expect from audit not only the raw data inspection activities, but also provide consultancy services, which would allow to add value and improve performance. In this study the analysis of scientific literature, legislative and regulatory documentation about internal audit concept was undertaken (Table 1).

Table 1. Definitions of internal audit concept

<i>Reference</i>	<i>Description of the internal audit</i>
[9]	Part of the public legal entity's internal control system, which enables auditors to conduct an independent, objective research, evaluation and consulting activities aimed at ensuring the improvement of the public legal entity.
[15]	An independent and objective activity of inspection and consultancy with the aim to evaluate and improve the performance of an organization. The purpose of the internal audit is to assess systematically and comprehensively the risk management in a company and promote improvements in management, control and maintenance processes so the goals of an organization are achieved.
[18]	Part of the public legal entity's internal control system which enables auditors to conduct an independent and objective research, evaluation and consulting activities aimed at ensuring the improvement of the public legal entity performance.
[12]	An active function within an organization covering inspection and advisory services and simultaneously creating added value by using a structured and systematic approach that enables to assess and improve risk management, control and maintenance processes in organization.
[7]	An independent activities control in a company, undertaken to assess the entity's control system, the quality of activities and to assist in management decision making. An independent and objective inspection and advisory role with the aim to evaluate and improve the performance of the whole organization.
[16]	An independent and objective consulting activity with purpose to create added value of the company and improve its performance.
[1]	An effective management system of relevant institution in helping to prevent mistakes, losses and various violations, better work organization of the units, identification of internal reserves and savings.
[6]	Versatile measurement of an organization's performance, structured and

	internationally approved professional practice standards-based approach to the organization's internal processes, risk management integrity, management and internal control.
[10]	Evaluates the adequacy and efficiency of internal control system, investigates whether the system insures the achievement of a company's objectives.
[14]	An independent assessment function established within the company as a service and includes efficiency analysis and evaluation of the company's internal control and adequacy.
[5]	Systematic and objective assessment of company's activities and internal control to determine whether financial and operation information is accurate and reliable, whether risks are identified and managed, whether there is a compliance with company's politics and procedures, compliance with standards, whether resources are used efficiently and economically and achieved their goals.
[4]	The evaluation function, created within the company as a service which provides advice to company management at various levels how to perform better in their functions.

Having summarized the definitions of the internal audit in the Table 1, it can be said that there are a number of different definitions but they are all similar in their essence: that is covering the concepts of operation, evaluation and value creation. Many of them also emphasize an advisory function of internal audit, and this is very true as the internal audit activity is increasingly focusing not only on accounting issues but also covers business performance and strategic plans.

The summary of analysis of the scientific literature, legislative and regulatory acts suggests that internal audit has become an independent and objective activity for providing assurance and advice in assessing the entity's internal control system adequacy and efficiency with the aim to achieve organizational objectives and increased shareholders value.

It should be noted that the International Institute of Internal Auditors in a new internal audit definition distinguishes two types of activity: examination of records and guidance. The Institute has published International Internal Audit Professional Practice Standards, which are divided into three groups:

1. The quality standards that describe traits and characteristics of audit organizations and individuals.
2. Operational standards that describe nature of the internal audit activities, and define the criteria under which must be assessed internal audit activities or services.
3. Application standard that regulate quality and performance level applied in each individual phase or level of auditing.

As stated above, the *Standard 2000 states: Leadership in the internal audit activity* says that the function of the internal audit is not only to perform the role of a verifier, but also provide benefits to the entity creating added value and cost savings. The *Standard 2100: Nature of work* provides not only for risk management, functions of control supervisory, but also function of own monitoring systems improvement. Another *Performance Standard 2130: Supervision* provides supervision function of internal audit that is how business risk and control is managed by business leaders. In line with the requirement of this standard appears another function of internal auditor - internal auditor should be involved in creating and supervising an entity's ethical values. That is how internal auditor is compliant with laws and obligations which is highly dependent on the entity's ethical culture [2]. Even though all employees are responsible for the entity's overall ethical culture, the internal audit function must actively contribute to supervising the ethical culture. Table 2 below shows collected information about analysis of the scientific literature, legislative and regulatory documentation on the internal audit activities.

Table 2. Activities of the internal audit

<i>Referenc e</i>	<i>Distinguished activities of the internal audit</i>
[9]	<p>Determining whether a legal entity is compliant with legal regulations. Advise how to reduce risk factors in public legal entities. Recommendations of improvements to public legal entities activities and internal control. Evaluation of implementation of public legal entity strategic or other actions plans and programs where value for public money is achieved (economy, efficiency and effectiveness perspective).</p>
[15]	<p>Control.Consulting. Risk assessment and management. The pursuit of organizational goals. Efficiency in creating added value.</p>
[18]	<p>Supervision of internal control system, in order to make the system operate more economically, efficiently and effectively.</p>
[12]	<p>Control.Consulting.Creating of added value.</p>
[7]	<p>The supervision of accounting and internal control systems. Financial and other information control in management purposes. Investigation of business and financial transactions economic sense, significance and effectiveness. Investigation of activities compliance with laws, orders and some other external requirements, also with company's internal policy.</p>
[8]	<p>Internal control.Assuring.Consulting.Management.Risk management.</p>
[11]	<p>Assessment of activity performance:economy, effectiveness and efficiency. Review of accounting and internal control systems. Investigation of non-financial information.</p>
[16]	<p>Assurance of the financial statements. Assurance of the operations and internal control. Assurance of the riskmanagement system efficiency. Consulting.</p>
[1]	<p>Assurance of the adequate and effective internal control system. Assurance of the appropriate policies and procedures in achieving the organization's goals. Supervision of the organization processes and control environment. Assurance of the risk identification, assessment and management process in the organization. Reporting to supreme supervisory body on adequacy and effectiveness of internal control.</p>
[13]	<p>Assessment of internal control system information security. Monitoring of compliance with legal acts. Protection of assets. Assessment of individual operations and structural units' performance efficiency and effectiveness. Assessment and analysis of the risk management system efficiency, providing risk mitigation methods. Assessment of the entity's management system.</p>

The Table 2 shows the internal audit activities comparison. It can be said that the internal auditor can help the entity's management to help maintain an effective internal control system by periodically evaluating the efficiency of this system. There are three main objectives of the entity, when implementing a good internal control:

- reliability of the financial statements;
- efficiency of activity;
- compliance with laws and regulations.

A. Dzingulevičiene and A. Kustienė [3] have released guidelines of the internal audit activities and responsibilities, which should be used as guidance in the internal audit work helping the entity to achieve its goals:

- compliance with principle of the independence;
- possession of an appropriate competence;
- leadership consulting of potential management risk;
- provision of recommendations for improving the control;
- supervision of the proper implementation and application of recommendation;
- periodical assessment of the internal control effectiveness.

The compliance with these guidelines can be effective only when the entity's management is treating audit activities as one of the components of company's value chain and considers it like evaluation and development tool of the performance. The following problematic scopes of the internal audit activities can be identified:

- coordination and cooperation with the entity's employees and other audits performing entities;
- availability of human resources and optimization of the inspected areas.

The internal auditor should receive support from the entity's management when correcting the deficiencies that were raised during the audit, but it is not always easy to achieve. Employees often do not trust the auditor's identified shortcomings and ignore the recommendations. The internal auditor should be initiator of the improvements and reforms required to increase efficiency of management and performance, but this transformations is rather difficult to achieve without constructive communication. The Internal audit can be very beneficial but it will not resolve the problematic issues of the entity. Due to limited availability of human resources, the auditor is not in capacity to audit all process of business every year, so is required to properly optimize the choice of units checked on the basis of a preliminary risk analysis.

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