

INTERNAL AUDIT AS A FACTOR TO ENHANCE THE QUALITY OF MANAGEMENT IN BUSINESSES IN KOSOVO

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Abstract

Kosovo enterprises, especially public ones still face problems of modern management and demand flows towards the environment created by environmental changes being initiated by the political, economic, social, cultural and scientific to those technical and ecological. Kosovo enterprises, especially publicly owned ones still face problems of modern management and the demand streams towards the business ambient created by the environmental changes getting set out from the political, economic, social, cultural and scientific to those technical and ecological. Mismanagement, loss, misuse are only a few areas where internal control there could and should contribute on improving quality of management and provision of public trust, that the assets of Kosovo shall bring benefit, but also completion of population needs of companies activity. As the the aim of this paper is to analyze the efficiency, policies that characterize management of the public companies in Kosovo. We shall be achieving this by making analysis of the data and the occurrences on previous period and the comparison with the advanced practices in the world, where the internal audit serves as the tool to to improve the company's business, based on the findings and the recommendations of this sector, as significant as well useful within the companies in Kosova. Findings and recommendations given on would help for increasing the management effectiveness in view of improving the performance of the Kosovo companies.

Key Words: Audit, Enterprises, business, controll.

JEL Classification: M42, L32

Introduction

The submission of an efficient process of the management with the business of a company has become a survival precondition for kosovar enterprises as well as a precondition of growth and development by achieving and exceeding the objectives defined in adequate periods. We distinguish fundamental functions of management that are planning, organization, leadership and control. The management is an activity implemented in several institutions and organizations. The management implemented in enterprises is defined as enterprise management or business management. We are aware of daily information for the management in industry, commerce, banking management or sport, health, culture etc, but also we have variety of specializations emerging as financial management, production management, operations management, management of human resources etc. is evident that individuals and enterprises have an increasing need for management and such relation between activities development and achieving culminant performance is connected with the good management. One of the most known definitions of management has been given by M.P. Follet that says:".....is a capability to perform jobs by other people...." [Koxhaj 2006]. Is from this definition that the enterprises' management should start its engagement of resources to implement control activities through internal audit. This is done by the management of the enterprise to ensure that the enterprise's business is going in the right way to fulfill its objectives, and in both cases, when the works are going good and where there are deviations, the management takes the right measures by using all the resources in disposition (financial, human and material). In this paper we will explain the interconnection of the efficient management and internal control, which use as a tool the internal audit. Let's proceed from the assumption that management always is developing and follow the changes in its environment, that makes the management challenger and make the managers conscious of the need to know, accept and implement the practices and good experiences in the modern

management. One of these experiences deals with the internal audit and the adequate role in the identification and improvement in the process of the enterprise. In this paper has been used the competent literature of this field, as the local and international one, but also the practical knowledge of job implementations of internal audit during these years.

1. The management and the Audit as enterprise simultaneous processes.

1.1 The management as internal audit builder

The managers of the kosovar companies with all their capacities try to face the challenges, during this time they are obligated to take many business decisions that deal with the realization of enterprise objectives. The management engagement in daily works should not refocus from the control as one of the manager's functions, while in the realization of the control an important role in the monitoring enterprise activity has the "internal audit" as management instrument for supervision and control. The author Mintzberg states that very often taking decision by managers was immediately, intuitive, based in experience and not in strategy, since these decisions influenced hearsays in and out the enterprise and based in incomplete information [Mintzberg 1989]. The internal audit in most of enterprises is a service within the company that acts with duties and specific obligations, as the organizational structure of the companies in Kosova where the most of the employees are oriented in specialized activities. We mention this for the simple reason because is observed that the most of managers in companies are not specialist of Accounting, Finances and legislation which makes them be evaluated from the results achieved through efficient management of dependents and not from the knowledge of the specialists for all the fields in the company. If the manager understands the role of the control as a function and the possibilities of the control through internal audit then remains then it remains only that the manager should orient the services and individuals toward concrete duties and information resources that will help in duties

implementation. The information of enterprise's field activities should be in disposition without limits for the internal audit, and this should be assured by the manager through adequate policies. Certainly, the manager should encourage the increasing of knowledge and capacities of dependents with the support in work and continuous education in their specific fields. One of the possibilities for the managers is to consolidate the department of internal audit and with this possibility would create a tool to achieve the company's objectives for discipline, order and procedure in the fulfillment of every dependent's duty in any level.

1.2 Internal Audit as a supervisor of company's processes

The beginning of the audit is in the late of 18 century in United Kingdom (UK) was the first that by law have permitted the external experts to control the financial statement of the companies and to evaluate the credibility of such information as real and objective. Later this becomes a practice and the audit become regular in way to increment the reliability between actors as participants in financial market. The internal audit is an important part of all process of control and audit. The most important duties of internal audit are related with organization research, development and improvement of several functions of informative system (IS), and other tasks related with researching and valuating the company's business. The cause of involving the supervision of enterprise's activities often is considered as "extended hand" of companies' management. In Kosova by enterprise law is not obligatory the function of internal audit (depending on annual turnover), except public enterprises and governmental institutions. Oppositely from external audit which slowly is creating its image as an efficient management instrument, the External Audit is obligated and increasingly is preferred by small and medium enterprises that audit the financial statements as an evidence for correctness and transparency of company's business. More and more the importance of the internal audit is becoming evident as an activity in function of business growth and efficiency. The activities of the audit in Kosova that are closely to the international standards, first shows the willingness and the understanding of audits 'multiple importance in kosovar's enterprises business in the international environment. Have been adopted since 2001 the Kosovar's standards of Accounting (KSA) from Financial Reporting Board, while in 2012 is in application the Law on Accounting, Reporting and Audit and the supervising is done by KCFR (Kosova Council for Financial Reporting) Law 04-L014. Generally the orientation is to follow the international standards

approved by ISAB (International Accounting Standards Board) and further developed by IFAC (International Federation of Accountants) which has adopted also ISA (International Standards on Auditing), with the aim to help the standardization in auditing field [O'Regan 2003]. Should be underlined, that accounting standards in the world, have made significant changes, but there are spaces for harmonization through GAAP (Generally Accepted Accounting Principles), in this harmonization are included institutions as United Nations and European Union.

2. Auditing activities based to the auditing plan in public enterprises

The internal audit during the auditing planning work should evaluate the system of the internal control, the governance and risk process in the company, with the aim to estimate the size of risks as consequence of bad management of internal controls. The risks size will define the field – transactions – enterprise processes that should be included in the annual auditing plan. Based in annual auditing plan, time definition and resources for internal audit, the auditor will draw, for every auditing field, the control tests. The control tests will include the verification according to internal control system components and relation of internal control function with the statements of the management for public enterprises' transactions. The audit work done based to control tests and auditing report draft will be consigned to the management for comments and the auditing committee for a limited time, usually two weeks, and then issues the final auditing report.

The draft/final auditing report contains the follow information:

- Conducting the auditing process according to the international standards (only if the standards have been applied during all the auditing activity)
- The aim of internal audit
- The facts of auditing
- The conclusions according the facts (weaknesses found in the control system and the impact in risks management and management affirmation), and
- Recommendations and improvements.

The comments of the management are regarding with the acceptance or not of the recommendations and implementations period of these recommendations fulfillment. Internal Auditing unit according to the time rules performs the monitoring of recommendation implementation arise out of audit reports and reports to the Auditing Committee for the implementation.

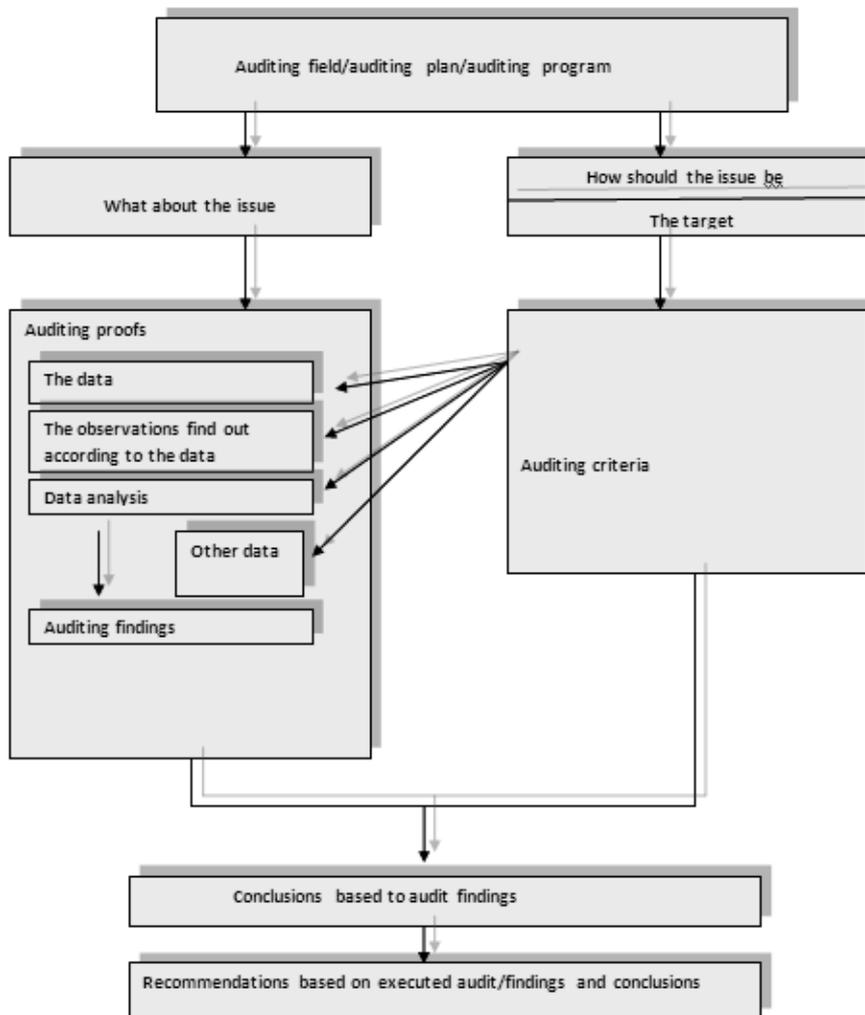


Fig.1 Auditing process and description of the steps followed.

The auditing process includes the following fazes¹:

- Audit planning
- Audit field work
- Preparation of auditing report, and
- Observation of the implementation and recommendation.

2.1 The findings from the audit

How to arrive up to auditing findings and to the process of the auditing conclusions according with the audited field - process

- Findings of the audit for internal control system function

Including all the elements of internal control system analyzed and identified as above in the evaluation, by using the control tests, the audit will come to the finding facts identifying the efficiency and the weaknesses of internal control system. In the conclusions will be submitted the impact of internal control system that has the objectives established by the management:

- The reliability and integrity of financial and operating report
- Operations efficiency and efficacy
- Assets preservation
- Accordance with the laws, rules and contracts

The auditors will report the efficient function of internal audit system. For the control weaknesses identified the auditors will give recommendations for improvements. The monitoring and the continuous evaluation of internal control system by the internal auditor in public enterprises will provide improvements and continuous strengthening of the control system and consequently the improvement of risk management. The continuous improvement of control system will provide for the higher management, auditing committee and the directors board to achieve the objectives of the company and reducing the identified risks in an acceptable level.

Conclusion

As abovementioned if in the company exist an efficient internal control system, the company will be able to face with the modern management problems against the environment demand created by environment changes as

¹ The practice of auditing activity implementation in the Airport of Prishtina.

the politician problems, economic, social-cultural until the technical-scientific and ecological problems. The good management means the use of the position that through people could be achieved the company and management objectives. The management has an important and essential instrument in keeping the business under control and this is the Internal Audit. The bad management, losses, abuses are only some of the field where the internal control can and must give it's contribute in the improvement of management quality and provide credibility for the public, the assets of Kosova will bring benefits and also will satisfy the requests of the population by the company's activity. The unit of the Internal Audit in most of the enterprises is a service within enterprise that acts with specific duties and obligations.

The management necessarily must support the internal audit in the implementation of auditing duties that includes: internal control system evaluation, governmental process and enterprise's risks, with the aim to evaluate the risks size that derives from the bad management of internal controls.

The audit will compile for every auditing field the control tests. The control tests will include the verification

according to the internal control system components and the relation of internal control function with the affirmations of the management for the transactions of the public enterprise.

After the field duty and according the control test becomes the compilation of the report draft of the audit for the management for comments and to the auditing committee for a period of two weeks after this follows the release of the final report of the audit.

The internal audit unit according to the time rules follows the monitoring and the implementation of the recommendations of the final report and then reports to the auditing committee for implementation.

The implementation of the international standards in financial reporting as well as in internal audit is a success precondition of an efficient internal control and a possibility to use the international experiences.

It remains to the management to follow and identify in time the risks by prioritizing, depending on the level, and by trying to reduce the risks in an acceptable level, which makes realizable the kosova's enterprise advancement in local and international competitors.

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