



DOI: <https://doi.org/10.59503/29538009-2023.2.12-109>

ISSUES OF INTERNAL AUDIT DEVELOPMENT

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Abstract: Internal audit receives different interpretations among professionals. Currently the functions of internal audit have expanded so much that they have penetrated into the field of consulting, management and evaluation of business results. As a result, operational, managerial and performance audit functions have been put into practice, which in their objectives are sometimes mixed, cross with each other and give rise to different opinions.

The article attempts to clarify the scope and objectives of each of the types of internal audit. In particular, the features and unique functions of operational, managerial and performance audits within the framework of internal audit are recorded, emphasizing their development stages and the tools used. The development directions of internal audit are analyzed based on the changing goals of entrepreneurship and the requirements of effective development.

JEL code: M43

Keywords: internal audit functions, operational audit, managerial audit, performance audit, internal audit toolkit

Research objectives: interpret the objectives of implementation of various types of internal audit and determine the directions of development of internal audit, based on dynamic changes in business motivations.

Research novelty: the principles of diversification of operational, managerial and performance audits were revealed and presented the features of internal audit development stages.

Introduction

The requirement to form an internal audit is conditioned not so much by checking the reliability of information as by strengthening the control functions of economic activity in order to increase the degree of efficiency of entrepreneurship. With the above-mentioned consideration in mind, business owners, shareholders and beneficiaries of organizations created internal audit structures, which, as a rule, should act independently of the executive management circles, evaluate the work of the latter, identify the weaknesses of entrepreneurship and make recommendations.

Internal audit developed especially in the 80s of the last century, when the scope of operations of that structure was regulated, then the standards of internal audit, the rules of conduct of internal auditors and the legislation on the implementation of internal audit came into use. Internal audit is an independent, objective assurance and advisory function aimed at increasing and

improving the performance of the organization. It supports the organization in achieving its objectives through systematic and systematic assessment and improvement of risk management, control and management processes.

Research results

The internal auditing profession evolved steadily with the progress of management science after World War II. It is conceptually similar in many ways to financial auditing by public accounting firms, quality assurance and banking compliance activities.

Internal auditing has evolved to the present day. In its origins, the main functions of internal audit were supervisory in nature and pursued the identification of business efficiency reserves. For these reasons, internal audit was considered operational (see Figure 1).

Operational auditing refers to the evaluation of a company's performance, both on a day-to-day basis and over a wider time frame. Unlike the external audit, through which the degree of reliability of the company's financial statements is determined, the operational audit studies the business activities of the given company with the aim of increasing the level of entrepreneurial efficiency.

An operational audit can be performed by both an external and an internal audit team. Ultimately, its purpose is to identify ways to improve management.

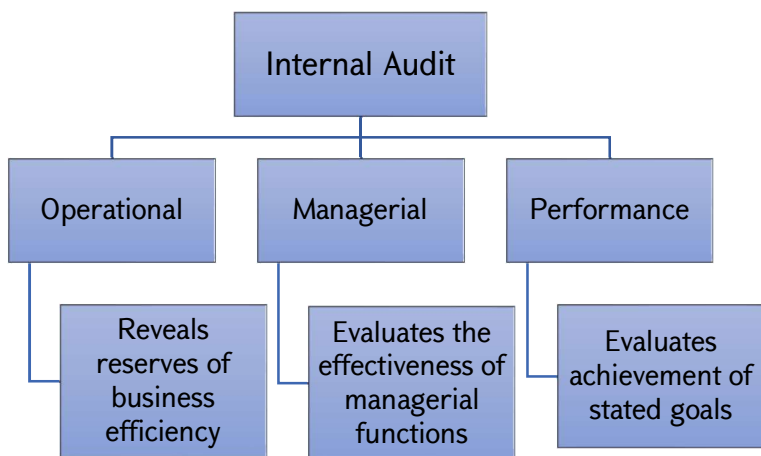


Figure 1. Classification of internal audit types⁸

By auditing its internal policies and procedures, the company can highlight the problematic points of its own activity and operate more efficiently. The result of the audit can be more useful for the management team, which, considering recommendations, will enable them to simplify further processes.

Let's present three main results of a successful operational audit:

- ✓ maximize the level of entrepreneurial efficiency by gaining a better understanding of how future policies and procedures can promote competitive business;

⁸ Composed by author

- ✓ identify and prevent risks as much as possible, as organizations typically bear many operational risks, from health and safety issues to cyber threats;
- ✓ promote the internal control system, examine each operation, delving into the impact of each change in internal control.

Based on operational weaknesses, the auditor may conduct interviews with managers, who oversee potential risk areas. He can also plan and implement audit procedures at the control level, apply tests to find out how much new processes or objectives can improve the organization's performance.

Business owners should be aware that operational audits may reveal unexpected problems (such as the need for a complete overhaul of existing systems or employee training) that take time to resolve. Such interruptions in long-term remote operation can lead to various difficulties.

The operator of the operational audit, having met with the relevant managers of the company, understands the subtleties of the business and the possible concerns related to it during discussions with them. The areas of entrepreneurship that need improvement are then identified. Thus, thanks to the discussions, the auditor defines the scope and schedule of the operational audit.

Managerial audit is a type of internal audit, that has been used relatively recently. It practically aims to identify the weak links of the organization's management and to improve the managerial functions. When examining the corporate goals, the managerial

audit is aimed at analyzing and evaluating the competences and abilities of the organization's management, considering the management performance. Therefore, it can be said that the audit evaluates how effectively the management team of the organization uses its strategic and tactical capabilities and resources.

On the other hand, management audit is a method of independent and systematic assessment of the activities of all levels of management, which aims to find out the effectiveness of management functions and the recorded achievements compared to the established standards.

Therefore, we can say that management audit is an investigation of management from the highest to the internal level. The scope of the study of managerial auditing is much wider than that of finance, as it is related not only to the financial sphere, but also to various aspects of business.

Thus, one of the activities of the managerial audit is to find out how much the management of the organization follows the principles and policies formulated by itself, to analyze the ineffectiveness of the management and the fulfillment of the goals, to present proposals for the improvement of certain areas (for example, sales, purchases, finance, human resources, administration, etc.).

Therefore, the managerial audit should assess the organization's management processes and present appropriate recommendations for their improvement in order to achieve the following goals.

Currently, performance auditing is widely used in practice (see Figure 1). Performance auditing is an independent, unbiased, and reliable study, that reveals how appropriate and timely management initiatives are, how certain systems, operations, programs, measures, or organizations are performing. Are the roads operating in accordance with the principles of economy, targeting and cost efficiency, and is there room for improvement or not?

The principles of economy, target and cost effectiveness can be defined as follows:

"The principle of economy means to minimize the expenditure of resources. The resources used must be available at the right time, in the right quantity and quality, and at the best price.

"The principle of cost efficiency means getting the most out of available resources. This refers to the relationship between the used resources and the output in terms of quantity, quality and time.

"Targeted effectiveness is related to the realization of the defined goals and the achievement of the intended result.

Thus, the main purpose of the performance audit is to constructively promote effective management in terms of economy, achievement of objectives and costs.

Along with the evolution of the types of internal audit, the tools of audit implementation and the relationships between them also evolve (see Figure 2). Thus, if at the initial stage of internal audit application, attention was paid to control regulations, then along with the development of audit activity, there was a need to develop

and implement internal audit standards and regulate the whole process by law.

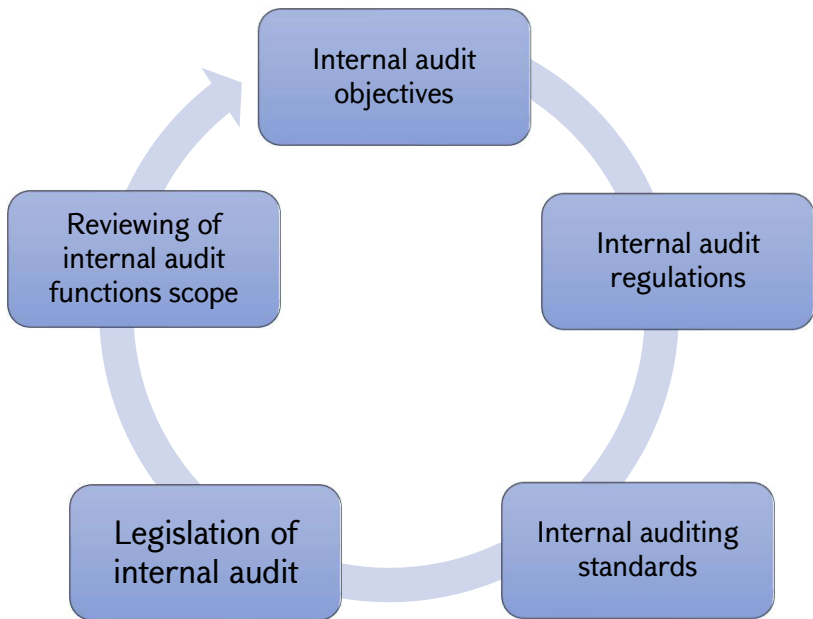


Figure 2. Interrelation of internal audit implementation tools⁹

Conclusion

Internal audit currently is in the stage of dynamic development. If the objectives of the external audit are clear, to present a reasonable opinion on the reliability of the financial statements published by the organizations, then the objectives of the internal audit are different. Nevertheless, the internal audit is not limited to

⁹ Composed by author

only control functions, but also evaluates the effectiveness of the activities of the entity management units, reveals business development reserves. Therefore, in practice, there is a need to clearly separate the functions of operational, managerial and performance audits, that are part of internal audit. This problem is complicated by the fact, that the functions of various external audits are often intertwined. Therefore, the management of the organization should clearly identify, which type of internal audit will be used based on the priorities of the business organization.

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Զուլիետա Քալաշյան

Հայաստանի պետական տնտեսագիտական համալսարան
ասպիրանտ

Քանալի բառեր - ներքին աուդիտի գործառույթներ, գործառնական աուդիտ, կառավարչական աուդիտ, կատարողականի աուդիտ, ներքին աուդիտի գործիքակազմ

Ներքին աուդիտը տարբեր մեկնաբանումներ է ստանում մասնագետների շրջանում: Հիմնականում այն դիտարկվում է որպես վերահսկողական գործիք, որը գործադիր կառույցներից անկախ գործում և հաշվետու է սեփականատերերին: Սակայն, ներկայումս ներքին աուդիտի գործառույթներն այնքան են ընդլայնվել, որ ներթափանցել են խորհրդատվական, կառավարչական և գործարարության արդյունքների գնահատման դաշտ: Արդյունքում, կիրառության մեջ են դրվել գործառնական, կառավարչական և կատարողականի աուդիտորական գործառույթները, որոնք իրենց նպատակադրումներով երբեմն միախառնվում են, խաչվում են միմյանց հետ և տարաբնույթ կարծիքների տեղիք են տալիս:

Ներկայումս ներքին աուդիտը դինամիկ զարգացման փուլում է գտնվում: Եթե արտաքին աուդիտի նպատակադրումները հստակ են՝ ներկայացնել ողջամիտ կարծիք կազմակեր-

պությունների կողմից հրատարակվող ֆինանսական հաշվետվությունների արժանահավատության վերաբերյալ, ապա ներքին աուդիտի նպատակադրումները տարաբնույթ են:

Ներքին աուդիտը չի սահմանափակվում սոսկ վերահսկողական գործառույթներով, այլ կատարում է նաև կառավարման օղակների գործունեության արդյունավետության գնահատում, գործարարության զարգացման ռեզերվների բացահայտումներ:

Ուստի, գործնականում անհրաժեշտություն է ծագում հստակ տարանջատելու ներքին աուդիտի մաս կազմող գործառնական, կառավարչական և կատարողականի աուդիտների գործառույթները:

Հոգվածում փորձ է արվում հստակեցնել ներքին աուդիտի տեսակներից յուրաքնչյուրի շրջանակը և նպատակադրումները: Մասնավորապես, արձանագրվում են գործառնական, կառավարչական և կատարողական աուդիտի առանձնահատկություններն ու յուրահատուկ գործառույթները ներքին աուդիտի շրջանակում՝ ընդգծելով դրանց զարգացման փուլերը և կիրառվող գործիքակազմը: Վերլուծության են ենթարկվում ներքին աուդիտի զարգացման ուղղությունները, ելնելով ձեռնբեցության փոփոխուն նպատակներից և արդյունավետ զարգացման պահանջներից:

Submitted: 25.09.2023; Revised: 30.09.2023; Accepted: 02.10.2023