

## THE IMPORTANCE OF PREPARING AN INTERNAL AUDIT REPORT IN REPORTING TO TOP MANAGEMENT OF A COMPANY THAT MAKES KEY MANAGEMENT DECISIONS IN ITS WORK

**MAJA JOKIĆ**

MASTER OF INDUSTRIAL ENGINEERING AND MANAGEMENT, FACULTY OF TECHNICAL SCIENCES, UNIVERSITY OF NOVI SAD, TRG DOSITEJA OBRADOVICA 6, 21000 NOVI SAD, SERBIA

CORRESPONDING AUTHOR: [majajokic85@gmail.com](mailto:majajokic85@gmail.com)

**BOGDAN LABAN**

PHD, CITY ADMINISTRATION OF THE CITY SUBOTICA, TRG SLOBODE 1, 24000 SUBOTICA, SERBIA

e-mail: [bogdanl@gmail.com](mailto:bogdanl@gmail.com)

**IVAN ARNAUTOVIĆ**

PROFESSOR, HIGH SCHOOL OF ENTREPRENEURSHIP, 11000 BELGRADE, SERBIA

e-mail: [ivanarnautovic@gmail.com](mailto:ivanarnautovic@gmail.com)

**DRAGANA POPOVIĆ**

STUDENT OF ECONOMIC FACULTY OF SUBOTICA, SEGEDINSKI PUT 9-11, 24000 SUBOTICA, SERBIA

e-mail: [draganap01@icloud.com](mailto:draganap01@icloud.com)

**SLOBODAN POPOVIĆ**

ASSISTANT PROFESSOR, AUTHORIZED PUBLIC SECTOR INTERNAL AUDITOR JKP GRADSKO ZELENILNO NOVI SAD, TEMERINSKI PUT BB, 21000 NOVI SAD, SERBIA

[slobodan.popovic49@gmail.com](mailto:slobodan.popovic49@gmail.com)

### **Abstract**

Internal audit in a large number of heterogeneous companies contributes to the improvement of the overall business of the company by contributing to the improvement and making new business decisions. This generally improves and modernizes enterprise management.

Top management decisions based on the recommendations of internal company auditors are less risky. Management risk with management using the decisions and recommendations of internal auditors has a lower degree of risk. Thus, top management decisions are made with less risk to the survival of the company.

Management should be seen as the governing body of the company. He, as the governing body, is constantly looking for a way to improve management in the enterprise. The processes for establishing internal audit mechanisms should be designed to contribute to the structural improvement of the overall management of any enterprise with respect to the business in which it operates, the size of the enterprise, and more.

Internal audit can contribute to helping top management by making continuous recommendations that can help top management improve enterprise management.

The authors emphasize that their contribution in this paper is primarily focused on demonstrating the importance of introducing internal audit in companies. This becomes part of the management structure of the company by adopting the recommendations of internal auditors from the corporate governance body or top management of the company.

**Keywords:** business, decision, enterprise, management, audit.

**Classification JEL:** M40, M41

### **1. Introduction**

Internal audit can help top management improve find new innovative management approaches based on the recommendations they will make and will help top management make important

business decisions [1]. All internal audit activities are aimed at making good business decisions by top management in enterprises [2], which can contribute to the creation of numerous benefits [3] in the business and management of companies by top management.

Internal audit in its work uses as regular procedures and standard procedure of internal audit, which is based on the application of various analyzes used by internal auditors in their work [4]. This enables and generally improves the performance of the entire enterprise as the reports of the enterprise sectors submitted to top management improve and become more secure and accurate [5], [6], [7].

Internal audit of a company begins with the design and preparation of an audit report for performing audit activities in the company [8], [9]. This practically means that the practical functioning of an enterprise can be improved [10], [11], [12] if the internal auditor correctly designs the audit reports that are formulated in the recommendations that internal auditors submit to the top management of the enterprise.

All internal audit processes should adhere to standard auditing procedures and processes that are based on the standardization of top management reporting of the enterprise [13]. The accepted behavior of internal auditors leads and gives results that contribute to the change of the overall behavior of the sector in companies, in economic branches, that is, it contributes to the change of consciousness in the economy as a whole within a country.

It can generally improve and change the socio-economic behavior of the economy as a whole [14], for the better, because the economy operates with a higher dose of security and precision.

Therefore, it can be noted that it is important for the internal audit business to properly formulate and prepare internal audit reports for the company as it will serve to make sound management decisions by top management [16], [17], [18].

## **2. Material and methods**

In developing this study, the authors used generally accepted management models in an enterprise that applies internal audit in their work. The aim was to show the importance of introducing internal audit in companies that apply it in business. Such management is based on the use of internal auditors' reports submitted to top management. Internal auditors are highly trained staff who have a high degree of accuracy in reporting even when they detect irregularities in the business of an enterprise.

Internal audit should be seen as an independent body tasked with assisting top management in business operations. The authors emphasize the importance of submitting valid internal auditors' reports in the form of recommendations to top management.

In this regard, the authors point out in the study view a possible and useful model of business operations in enterprises. This was done in the picture in Figure 1 of this study, which emphasized the importance of writing timely internal audit reporting, that is, giving recommendations to top management of the company.

Modern business requires modeling that incorporates innovative top management approaches. Complete acceptance of internal audit requires new approaches to top management reporting with the highest level of application of the audit profession, which is based on internal reporting standards.

In this paper, the authors emphasize the importance of implementing internal auditors' reporting. The aim of all the activities presented at the beginning of the study was to highlight the importance of improvement and the achievement of improvements in internal auditor reporting. This also reduces the possible operational risks in the ordinary course of business of a large number of heterogeneous enterprises.

### 3. Results and discussion

The study authors point out that internal audit is subject to change. At the same time, the work of internal audit is such that it prefers the introduction of new models and methods by which it is possible to make numerous improvements in the top management processes in enterprises.

Thus, internal audit can become an important factor of business success in the processes of business operations of enterprises in all branches and activities, regardless of the size of the company.

Audit in the preparation phase of audit reporting in agricultural enterprises should include three parts:

- Audit Report Features,
- Different expected types of audit reports,
- Guidelines on the structure and content of audit reports.

The audit report should provide the top management of the enterprise with the confirmation of the adequacy of the system under consideration as well as the basis for the overall confirmation of the adequacy of the internal audit and internal control system implemented in the enterprise.

This submits to the top management the required independently generated reports that will serve to make the top management's management decisions.

It is very important to keep in mind that an audit report is the only tangible product of an internal audit and, as such, is a "showcase" of an internal audit. It represents the sum of the planning, time and effort invested in a single audit and reflects the quality and thoroughness of the internal audits performed by the internal auditors on the task entrusted to them by the top management of the company.

The quality of the reports will significantly influence the image of the internal auditor who makes the internal reports and submits recommendations to the top management of the company. An inadequate report can invalidate both the best audit work and the best conclusions. In addition, the report may adversely affect the reputation and status of the internal audit.

The authors gave an overview of the general management model based on the previous view of the author. The authors presented a general model of enterprise internal audit management in Figure 1.

In each country, regulations have already been adopted governing where and how certain material is stored in an enterprise (office business, accounting and financial business operations) whether the documents can be transmitted by fax or e-mail. Common categories of confidentiality are:

- public information;
- non-public internal information;
- commercially sensitive data;
- confidential information;
- classified information;
- data of paramount importance.

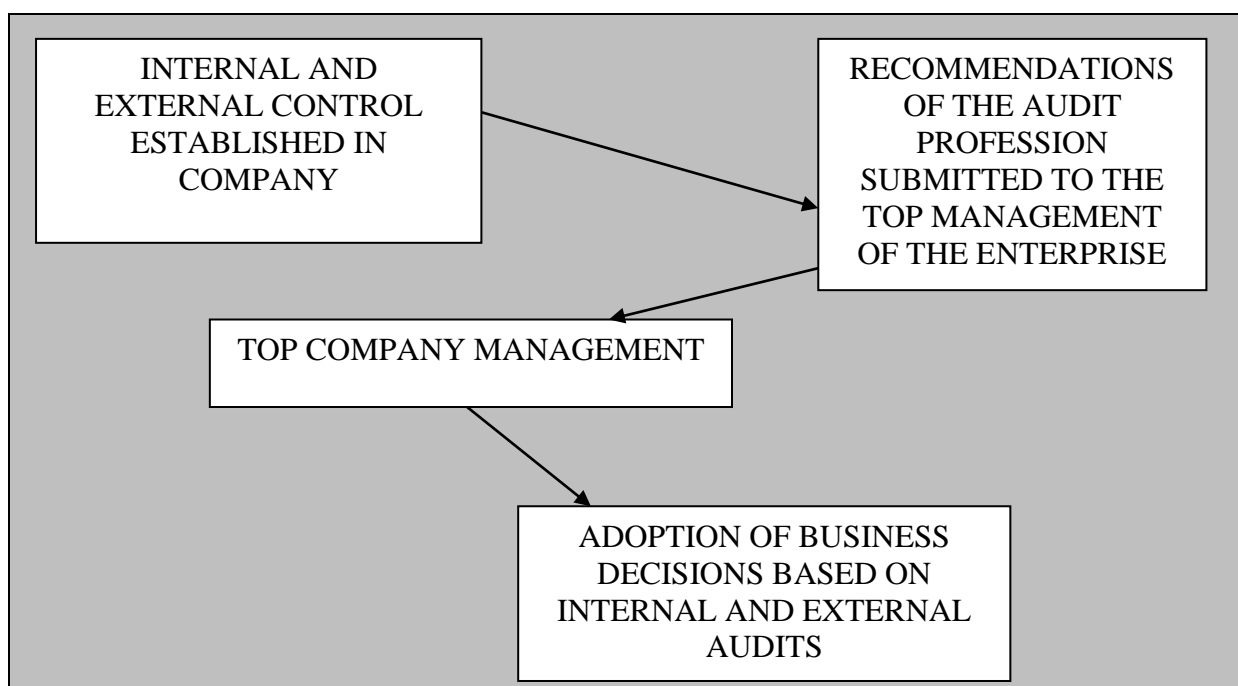


Figure No. 1. Model of harmoniously introduced audit model in enterprise based on top management decision making with respect to the recommendations of the audit profession

As an alternative to the audit report, there is also the possibility of an oral presentation, which includes a formal presentation of the audit findings, as well as a discussion of the observed positions in the company by an internal auditor, who can present themselves to top management in terms of taking management decisions that will improve management in the companies. The advantages and disadvantages of reports and presentations are presented in the following table No. 1.

The authors in Table 1 gave an example of the method of presentation as well as the reporting of top management by the standard method of reporting top management applied in enterprises.

Table No. 1. The method that implements the presentation in reporting to the top management of enterprise

PRESENTATION METHOD	ADVANTAGES	DEFICIENCY	Remarks made by the internal auditor when submitting the report to the top management given a description by words in order of importance

Presentation	Interactive Flexible Easier acceptance Helps to consider difficult questions and solutions May increase the chance of enforcement Contributes to focusing on priority issues	Not all evidence can be presented It can lead to difficulties in presenting complex data which can lead to misunderstandings Presentation skills and active involvement of two people are required Good preparation is necessary Possibility of dominance of one person or a particular problem The user can still request a report	GREAT INFLUENCE ON THE BUSINESS OF THE COMPANY
Standard Report	Good for detailed reporting and complex data It can provide general information and context The evidence is immediately available to the reader	They require more preparation time Long reports can remain unread until the end Sometimes hard to accept They may be untimely presented due to delays in preparation	MEDIUM IMPACT ON THE BUSINESS OF THE COMPANY

**Source:** Authors (2020).

They use and apply various controls in the preparation of internal auditors' reports.

- Preventive controls - they aim to prevent wrongful or unauthorized actions. In audits of information systems, these controls include, for example, passwords, encryption, inability to re-write to diskette, etc.
- Detection controls - detect and report wrong or unauthorized actions. These controls include e.g. logging, unusual case reports, etc.
- Corrective controls - Try to correct the consequences of adverse events. These controls include back-up systems, databases, security, etc.

There are certain controls that an auditor should expect in information systems, and these include application controls (application controls) that relate to specific applications, i.e. processes (e.g. controls on data entry, processing and ejection) and other general controls, which include:

- organizational controls, such as the division of duties;
- controls in system development and documentation, e.g. Testing and accepting procedures for new systems, methodology for developing new systems, etc.
- controls of hardware and software systems, e.g. maintenance, system recovery procedures (data recovery), system software maintenance procedures;

- access control and data security, such as controls related to physical access, system access, etc;
- data and system controls, such as account reconciliation procedures, user manuals, etc;
- controls in the use of the system, e.g. that ensure that only licensed versions of the software are used, and that they are used properly, to use valid data records, etc;
- software controls in the system, such as ensuring that valid versions are used and preventing modifications without proper authorization, etc.

An audit of an information system is performed like any other audit, and therefore contains the same steps. Computer-assisted audit techniques are those commonly used in information systems audits.

Other factors influencing the work of internal audit include the use of the following subsystems:

a) audit software - designed specifically for audit purposes; sometimes standard system software can also be used. These software include:

- Audit software packages (ACL; IDEA);
- internal software developed by the organization itself;
- system software (e.g. operating system or programs.

b) sets of computer system utilities - usually delivered with the operating system and used for daily administration of jobs: copying, data transfer, back-up, organizing, etc;

v) testing of operating system parameters and system software - programs that can be used to evaluate operating system parameters as well as security of Internet usage. They should be evaluated in order to check the safety and/or adequacy of the system. Such programs exist for: Unix, Windows NT, Novell and OS / 400.

#### 4. Conclusions

In this paper, the authors outline the importance of compiling an audit report as part of delivering top management recommendations. This reporting to top management by internal auditors is part of the usual activities in regular reporting of top management that opted to operate with the introduction of internal audit of the company within the regular business of the company.

Internal audit recommendations should be respected by all company executives, especially top management, as it creates the overall business policy of the company. This enables the top management of the company to create general conditions for improvement in order to achieve and achieve better business results.

The contribution of the author is reflected in emphasizing a general model that respects the reporting of internal auditors in order to make top management business decisions that will apply the recommendations of internal auditors to the fullest extent possible. By respecting the audit profession, top management also adopts a portion of new policies that integrate security, reduce business risk, and generally contribute to increasing the safety of top management operations both in the present and in the future operations of the company.

In addition, the authors pointed out that the general model of implementation of the recommendations of the internal audit profession contributes to the improvement of the company's business results. Internal auditors can report to top management in various ways, as pointed out by the study's authors.

Reporting to internal auditors can be through the preparation of a number of different types of audit reports in the form of recommendations. They contribute structurally and improve the performance of several types of businesses in the ordinary course of business, regardless of the activity in which the company operates, its size, ownership structure and more.

The structure of the internal audit report itself, in the form of recommendations submitted to top management, is subject to change. These changes may be formal but also in depth required by the contracting authority.

The application of the structure of the audit profession in reporting is of great importance, as pointed out by the authors of this paper. The contribution was to highlight in a practical initial way the basic possible structures of the internal auditor's report to top management as an instructor of internal audit reporting in the guideline.

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