

**SIGNIFICANCE OF CONSIDERATION OF INTERNAL CONTROL AND INTERNAL AUDIT IN THE BUSINESS OF COMPANIES THAT NEED TO IMPLEMENT THE IMPLEMENTATION MENTIONED WITHIN THE ACCOUNTING POLICY OF THE COMPANY**

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**Abstract**

*The importance of introducing internal audit in the company's operations is reflected in the fact that it significantly increases the quality of making large business decisions of top management in companies. Internal audit largely depends on the introduced system of internal control in companies, but it must be emphasized that the existence of external factors influencing the business operations of companies must be taken into account.*

*Business decisions are made by top management, among other things, based on the recommendations of internal auditors who have done a partial internal audit of the system entrusted to them by the decision of top management in the form of orders to join the internal audit.*

*The goal of improving good corporate governance is a continuous goal set by top managers of the company, and in order to achieve this goal, it is necessary to take into account the recommendations of internal auditors from the previous period of the company's operations.*

*In this paper, the authors emphasize the importance of a realistic approach to internal audit by the company's top management, because only in this way can a valid business decision be made by top management that will be strengthened by the views of internal auditors who performed internal audit of individual business segments.*

*This observation of the work of internal audit is the primary goal of observing safer business operations of the company and the results obtained in the paper are a realistic presentation of the implementation of internal control and internal audit as part of achieving and obtaining real contribution of authors in the context of raising managerial position in companies.*

**Keywords:** *internal audit, internal control, management improvement, enterprise.*

**Classification JEL:** *M41, M42, L26,*

## **1. Introductory notes regarding the significance of the organization of revaluation of the company's assets**

Presentation of the real value of the company's assets is of particular importance for making valid business decisions by top management.

This study emphasizes the importance of the practical application of revaluation of enterprise assets in enterprises, which builds on previously published numerous studies [1-5] in which the results of valuation of enterprise assets, management decisions based on such valued enterprise assets, presentation of valued assets in business books, etc. and that in heterogeneous companies in their essence.

Management decisions of top management begin in the legal sector of the company because it provides and provides the basic legal framework in which the company operates, and at the same time it interprets the legality of application of adopted and adopted laws in the context of revaluation of company assets.

In this way, management decisions can significantly affect the company's operations, and at the same time the decisions made on the valuation of assets in the company are forwarded by the legal sector with other sectors in the company [6-10].

In addition, the top management of the company brings a number of documents that monitor the regular operations of the company, and especially those documents that accompany the revaluation of assets such as making a decision on inventory, changing accounting policies in the company and others [11-15].

In addition, the management decisions of top management regarding the management of the new valuation of assets and the introduction of the obtained values after the valuation in the business books of the company is of particular importance for the management of the company as a whole.

The authors point out that in the process of revaluation of company assets, there should be a rational use of funds necessary for the functioning of the process of revaluation of company assets. These tasks should be performed by the top management of the company in an economical way, i.e. in an efficient and effective way, during the entire process of property revaluation, and at the same time that this process should not in any way interfere with the regular business and functioning of the company.

The goal of top management is to provide efficient and quality business decisions that will raise the quality of management in the company, and for such a goal it is necessary to organize all sectors in the company that will help perform the process of property valuation in the company.

The evaluation evaluated in this way represents the right and essential way of decision-making that can lead to the improvement of all management functions in the company.

Based on that, it can be said that the effects of management decisions are visible in the short term after the introduction of measures of revaluation of assets in the company, especially when these values are introduced in the business books of the company.

## **2. Linking the work of the internal auditor with the business and the work of internal controls in companies that respect the functioning of internal control mechanisms in the business of the company**

Modern corporate governance in its work relies on the work of internal control and internal audit in the process of making management decisions in the company's operations. [1-5]. In addition, improving internal control functions in the company's operations requires the formation of better and more reliable financial reporting, then requires a certain level of internal audit and internal control [6-10], which the author accepted as a basis for a study that essentially speaks about the importance of establishing control mechanisms in the operations of enterprises, i.e. the introduction of internal control and internal audit in the operations of enterprises, primarily in transition countries.

In conducting the presented research, the author of the paper took into account the previous views on improving the management [11-15] of companies, taking into account the already achieved standards of internal control and internal audit in transition countries.

The introduction of internal controls and internal audits in the operations of companies in the Republic of Serbia, but also in other transition countries in the region, is gaining in importance, especially after the opening of Chapter 32 (in December 2015) signed by the Republic of Serbia in the process of accession to the European Union which essentially seeks to join the Republic of Serbia, but also the countries of the region, i.e. countries that have not yet become members of the EU and surround the Republic of Serbia.

This leads to accelerated standardization in the application and operation of many companies, because in that way the organization of work in the companies of the Republic of Serbia with the EU and the norms of behavior and business is rapidly harmonized. The introduction of internal control and internal audit is becoming increasingly important for both public companies and other companies that operate independently in the market of national economies, but also more broadly relying on the EU.

The research was conducted in a country in transition, ie in the Republic of Serbia, which essentially strives to implement positive experiences from the EU and introduce its companies into regular operations.

Within this, the practical presentation of the importance of the implementation of internal control in the company's business, the author emphasizes the importance of presentation through SWOT analysis of the author [16], which focused on the research where he put the end of 2018 active companies in the Republic of Serbia and beyond.

**Table No 1.** SWOT analysis of the situation enterprises that implement the internal control

Available options	Weaknesses
<ul style="list-style-type: none"> <li>• The existence of a signed Chapter 32 with the EU on financial control in the public sector,</li> <li>• The existence of positive attitudes of internal audit introduced in the public sector,</li> <li>• adopted internal audit procedures are compatible with internal control procedures,</li> <li>• Many years of tradition in applying audit procedures in the public sector</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of complete information on the importance of full implementation of internal control in the public sector,</li> <li>• Lack of interest of local self-government units to significantly increase the operational reliability of companies,</li> <li>• Insufficient interest of companies that have established local self-government units for internal control in terms of essential financial reporting to the founder,</li> <li>• The frequent change of the top management appointed by the local self-government causes discontinuity in the performance of commenced tasks in the introduction, control and implementation of internal control</li> </ul>

	recommendations in enterprises
<b>Chances</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• Increase in commitments based on signed pre-accession chapters with the EU,</li> <li>• Increasing the safety of top management that has implemented internal control in the companies it manages,</li> <li>• Increasing the security of financial reporting to local government and state authorities,</li> <li>• Facilitates public-private investment activities in the public sector,</li> </ul> <p>Internal control contributes to the increase in the level of local government investment in the primary enterprises due to the increased security of investment and the return of funds into the budget based on the generated profit of the company</p>	<ul style="list-style-type: none"> <li>• Insufficient sanctioning of companies established by local self-government in terms of poor financial reporting,</li> <li>• Insufficient sanctioning of public utility companies established by local self-government in terms of poor implementation of business programs</li> </ul>

### 3. Connecting internal control mechanisms in the business of the company, ie internal control and business of two types of companies that strive to achieve the best possible business success of the company

The author of the paper points out the importance of introducing internal controls, the application of which can increase the transparency of corporate operations, ie the application of which can increase the operations of numerous companies in the Republic of Serbia and beyond in the countries surrounding the Republic of Serbia and intend to join the EU.

The application of internal controls in the business of companies can result in improved performance of many companies whose business can be enviably improved.

The importance of introducing internal controls in companies is reflected in increasing the understanding of the importance of applying internal controls in order to achieve possible benefits measurable by increasing operating income in the operations of various companies that have decided to establish internal controls within regular operations.

Based on the above, the authors formulated the objectives of the research. As part of the above, and using the already published work of the author [16], the author decided to present two types of companies and forms of possible internal control in relation to the overall business results that are introduced in the business books of the company.

**Table No. 2.** Presentations of two forms of enterprise organization and the number of introduced internal control in enterprises

The form of organization of the enterprise	Form of introduced internal controls and procedures		Total revenue				Total
			1	2	3	4	
“A”	Form of	Completely		0	0	32	32

	internal control	Partially	0	45	0	45
		In the procedure	39	0	0	39
	Total		39	45	32	116
“B”	Form of internal control	Completely	0	0	16	16
		Partially	0	15	0	15
		In the procedure	26	0	0	25
	Total	25	15	16	56	

#### 4. Observation of the relationship between the implemented control and the achieved business results

The author presented the already published results [16] on the basis of which it can be seen (Table 3) that there is a statistically significant relationship between the introduced form of internal controls and total revenue on the one hand, and the types of companies covered by the research on the other.

**Table No 3.** Presentation of the coefficient of correlation of the forms of introduced internal control and realized revenues in relation to the type of enterprise

The form of organization of the enterprise			Value	Approx. Sig.
“A”	Nominal by Nominal	Contingency Coefficient	.816	.000
	N of Valid Cases		116	
“B”	Nominal by Nominal	Contingency Coefficient	.816	.000
	N of Valid Cases		56	

In essence, based on the presentation in Table 3, the author pointed out that in the already published papers there is an emphasis on connecting the two forms of companies with the form of introduced internal control and the realized values of total revenue generated by companies in regular operations.

Essentially, it can be said that there is a very large connection in the mentioned research between the realized form of organization of the company, the form of introduced internal control and the realized business results measured by the values of realized total income at the end of the business year in one accounting period.

## **5. Linking the work of the internal auditor with the organization of the formation of accounting policy in companies**

In order to emphasize the importance of internal audit, the author gave an overview of the most commonly used definition of internal audit: that it is an independent and objective evaluation and consulting activity designed to "increase the value" and improve the organization's operations. Internal audit through a systematic and disciplined approach that is applied in the evaluation of activities helps the organization to achieve its goals [17-18].

Internal auditors should take into account heterogeneous requirements in their work, such as:

- Analysis of the effectiveness (efficiency) of the internal control system;
- The audit also deals with aspects of correctness, as well as the structure that ensures economy, efficiency and effectiveness (effectiveness) in companies;
- Consideration of legality / correctness of transactions;
- Analytical approach to the work, where the starting point should be an overview of the characteristics of the audited entity, responsibilities and problems it faces, and the administration and organization of the audited entity;
- An active approach, through which audit work, where possible, is characterized by a constructive attitude that ensures change, which is reflected in maintaining a constructive and adequate relationship with employees, as well as in the timing and approach applied in reporting audit findings.

In order to properly form the accounting policy in the company, the top management should adopt the standards of internal audit in the business process of the company. They should be implemented so as to reflect the real functioning of the internal audit system in the company, as well as the functioning of internal control if it is established in the business of the company.

Internal control and internal audit should be implemented in the business of the company so that top management will introduce the basics of internal control and internal audit in the framework of the new accounting policy in companies that have introduced internal control and internal audit in regular business.

It is the responsibility of all internal auditors to adhere to these internal audit standards.

The purpose of the Standard is to:

- establish the basic principles of good internal audit practice;
- provide a framework for performing and promoting a range of internal audit activities, which increase the value” of the organization and from which it benefits;
- establish the basis for the success of internal audit activities;
- encourage the improvement of the organization's procedures and activities.

## **6. Conclusions**

The purpose of signing a code of ethics is to promote an ethical culture in the internal audit profession. For the internal audit profession, a code of ethics is necessary as the audit is based on the trust placed in its objective assessment of risk management, control and governance in general.

Modern company management includes decision-making of top management that requires making valid management decisions that require increasing application of internal controls, internal audits in the regular business of the company.

The goal of introducing internal control and internal audit is the application of control which will be able to improve the general business of a large number of companies, all with the aim of achieving a higher value of total revenue.

Such business requires the introduction and modernization of accounting policy in the company so that the application of better accounting policies can make safer and better business decisions in the company.

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