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DEVELOPMENT AND PERSPECTIVES OF INTERNAL AUDITING IN THE IMPROVEMENT OF BUSINESS QUALITY OF ENTERPRISES – EMPIRICAL RESEARCH IN CROATIA

ABSTRACT

This paper is the result of empirical research among the 180 biggest Croatian companies measured in terms of total revenues. The survey was addressed to the managers of internal auditing departments but also the managers who supervise the business activities within the company. The empirical research was conducted from February till March 2007. In that period 43 companies answered to the survey which makes the rate of return of 24%. The aim of this empirical research was to investigate the current position and the presence of internal auditing in Croatian companies, to investigate the instruments of measurement, the business quality among the internal auditors in Croatia and to investigate the contribution that internal auditors make in improving the business quality among the most successful companies in Croatia.

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1. INTRODUCTION

Long-term higher or lower success rate, as a feature of a company's competitive capacity, is the consequence of the company's business operations and behavior in current and future environment. Knowledge of the characteristics of the immediate as well as the broad environment, along with internal analysis of the company itself, are prerequisites for identifying opportunities and threats in the environment, and actual strengths and weaknesses of the company. Results of such an analysis make a starting point for adequate positioning of the company in its environment and creating its sustainable competitive advantages. In order to find and maintain such a position of the company in relation to its environment, management efforts need to be directed towards the quality of management process, particularly on the strategic level. This implies clear company goals, clear direction of its actions leading towards the achievement of stated goals, and commitment to their successful implementation. All of this is a result in new circumstances where internal auditors must change their approach to work- from the old, conservative, inspective and passive approach in auditing to a new, proactive customer-focused orientation. Internal auditing must

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directed its potential towards the future, giving advice about the anticipated future risks in the particular business area. One of the main tasks of internal auditing becomes advisory services to the management about the possibility of risks management, first of all in the sense of forming and monitoring the adequate internal control systems as an instrument of risk management. In this way internal auditing becomes an important participant in the process of corporate governance.

2. RECENT TRENDS IN INTERNAL AUDITING DEVELOPMENT

Internal auditing is an «independent function of assessment in the organization which examines and assesses their activities as well as a service to the organization. The aim of internal auditing is to help the organization especially the management and the board in carrying out assigned responsibilities. Internal auditing provide for the board analysis, assessments, recommendations, advises and information which refers to the activities of organization. The aim of internal auditing includes promotion of internal control systems at reasonable cost» (Spencer, 1997, p. 5).

The definition of internal auditing refers to their basic features:

- internal auditors are employed by companies whose business is the scope of audit work,
- internal auditing is an independent function of examination, judgment and assessment without any restriction on the internal auditing judgment,
- all business activities are in the scope of internal auditing,
- internal auditing is organized as an advisory service to the management and the organization so it has an advisory function in the company.

The recent trends in organization and management of the company emphasize flexibility, decentralization, information, communications, democratic management style, team work without highlighted hierarchy, innovation and knowledge. These recent trends changed the demands of internal auditing. Under this influence, an international group of specialists (GTF- Guidance Task Force) that work under the Institute of Internal Auditors (IIA) gives the new definition of internal auditing for the 21st century: “Internal auditing is independent, objective assurance and consulting activity designed to add value and improve organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”(Krogstad, 2000., p. 25). In this definition are included the latest expectations that internal auditing must fulfill. However, this is not an easy task; hence this is a complex process of complying the professional scope of internal auditors with new conditions and circumstances that eliminate previous frames in which internal auditing has acted.

Internal auditors in future will be respected and trustworthy professionals within the company. This can be accomplished only by making internal auditor's work at a high level of objectivity, independency and competence. Only internal auditors can, as internal consultants and partners, give assurance and advise the management in the risk management, design and implementation of adequate internal control system. Internal auditors must ensure a good relationship with the management based on whether the management of the company will treat internal auditors as professionals which have an advisory role in the accomplishment of established objectives of the company. In that context, the internal auditing department should define a strategy which will define the purpose, authority's responsibilities and priorities of internal auditing department. Therefore, internal

auditors must be experts in the business operations of the company and their internal control systems. Because of that, in the future period, internal auditors should maintain their technical competence through continuing education. For a successful internal auditing performance within the company, the internal auditing department should have employees who are qualified in disciplines such as accounting and finance, analysis, informatics, organization and management, and human resources management. Simultaneously with the growth and development of the companies, expert knowledge of internal auditors must be supplemented and upgraded.

Recently, the efforts of the companies' management are directed towards the improvement of the quality of the management process, in the sense of higher consciousness and responsibilities in the accomplishment of established goals and objectives, an efficient use of resources, improvement in the quality and ecological consciousness, ethical behavior and responsibilities, thus revising the new internal auditing approach. This means that internal auditors must change their position in the company, form an old passive, inspective and conservative approach toward a new proactive, customer-focused orientation. In other words, it means a complete new approach where the internal auditing report is not a final and the only product the internal auditing department can provide and offer to the management of the company. On the contrary, internal auditing must focus their potential towards the future, giving advice about the anticipated future business risks in the particular area. The expectations from internal auditing are, in the first place, generating information needed for identification, understanding and assessment of potential risks. This expectation from internal auditors is particularly felt in the world. Risk assessment, more than ever, is becoming a key activity of an internal auditor implemented in the entire process of internal audit. Besides a risk-based audit process, the internal auditors have a permanent task of maintaining and upgrading internal control systems as an instrument of risk management. In that sense the internal auditor has the responsibility to identify deviations and problems in the system and follow up to ascertain that appropriate action is taken on reported audit findings.

When we talk about the recent trends in the internal auditing development, we can assume that the activity of internal auditors will follow two directions. Internal auditors will in the future act "retrospectively", assessing the effects of past events and mistakes that were made so to avoid them in future. In recent terms, the preventive act of internal auditing is much more important. Preventive action of internal auditing is directed towards the anticipation of future risks and implemented internal controls by which these undesired events will be avoided. The scope of the internal auditor's examination becomes the entire business of the company oriented toward the future. The business trends expected to have the most impact on internal roles, responsibilities, risk management, corporate governance between now and 2012 are technology, new regulations, risk management, corporate governance, and ethics and compliance (PricewaterhouseCoopers, (b) 2007.). In these circumstances, the audit report is not only the communication instrument where the internal auditor is presenting the audit results, with recommendations for potential improvements and corrective action that needs to be taken. In the future, the audit report will include analysis of business risks, the suggestion for their reduction and elimination, and the assessment of existing internal control systems.

3. THE RESULTS OF EMPIRICAL RESEARCH

3.1. Definition Of Aims, Sample, And The Methods Of Research

The empirical research into the role of internal auditing in the improvement of business quality was conducted on the sample of the 180 biggest companies in the Republic of Croatia measured in terms of total revenues in 2005. The survey was addressed to the managers of internal auditing department but also the managers who supervise the business activities within the company. The questionnaire surveys were sent to the respondents by post and email. The empirical research was conducted from February till March 2007. In that period 43 companies answered to the survey which makes the rate of return of 24% satisfactory. This study of the function and the role of internal auditing in the measurement of business quality was conducted with the following three objectives: 1) to investigate the current position and the presence of the internal auditing function in Croatian companies, 2) to investigate the instruments of measurement of business quality among the internal auditors in Croatia, 3) to investigate the contribution of internal auditing in the improvement of business quality among the most successful Croatian companies.

In the first part of questionnaire the basic information about the company were gathered. In that sense important information are the main business of the company, the legal form of the company, the size of the company according to the Accounting Act and the number of employees. The companies that responded to the questionnaire belong to different industries (table 1). According to the legal forms of a company of the 43 companies that answered the survey 60% (26) are organized as a corporation (shareholding company), 33% (14) are organized as limited liability companies while 7% (3) are «other» legal forms of organization (table 2).

Table 1

Main business of organization

	Main business of organization	Number of respondents	Percentage
1.	Agriculture and fisheries,	2	4.7%
2.	Mining	1	2.3%
3.	Processing industry	6	14.0%
4.	Gas production, energy and water	4	9.3%
5.	Building	3	7.0%
6.	Retail and Wholesale	5	11.6%
7.	Transportation, warehousing and communications	5	11.6%
8.	Financial services	4	9.3%
9.	Other social and personal services	2	4.7%
10.	Other	11	25.6%
	Total	43	100.0%

Table 2

Legal form of a company		
Legal form of a company	Number of respondents	Percentage
Shareholding company	26	60%
Limited liability company	14	33%
Other	3	7%
Total	43	100%

Table 3. shows that according to the Accounting Act¹ 86% of surveyed companies are large while 14% are medium sized companies. One of very important determinants besides the size of a company is the number of employees (table 4.).

Table 3

The size of companies according to the Accounting Act		
The size of companies according to the Accounting act	Number of respondents	Percentage
Medium	6	14%
Large	37	86%
Total	43	100%

Table 4

Respondents by the number of employees		
Respondents by the number of employees	Number of respondents	Percentage
From 1 to 1.000 employees	22	52 %
From 1.000 to 2.000 employees	10	24%
From 3.000 to 10.000 employees	6	14%
From 10.000 to 15.000 employees	4	10%%
Total	42	100,00%

The most of the companies have their headquarters in Zagreb (69,8%), which was expected if we take into account that the sample was based on the biggest companies in Croatia measured in terms of total revenues. Furthermore, it is important to take

¹ The survey was conducted from February till March 2007 when the Accounting Act (NN. 146/2005) came into effect. According to Article 17 (NN. 146/2005) the entities differ by the size of total assets, total revenues and average number of employees during the business year of small, medium and large enterprises. The small entities are those who do not exceed two out of the three following criteria: total assets 27 million kunas, total revenues 54 million kunas, 50 employees; The middle entities are those who exceed two out of three criteria for small entities but they never exceed two out of the following three criteria: total assets 108 million kunas, total revenues 216 million kunas, 250 employees. Entities are classified as big if they exceed two out of the three following criteria: total assets 108 million kunas, total revenues 216 million kunas, 250 employees. However, the New Accounting Act was passed on 5th October 2007 and came in effect from 1st January 2008. New Accounting Act has different criteria of classification in compliance with the European Union regulations. According to Article 3 (NN. 109/07) the entities also differ by the size of total assets, total revenues and average number of employees during the business year on small, medium and large enterprises. Small entities are those who do not exceed two out of the following three criteria: total assets 32.5 million kunas, total revenues 65 million kunas, the average number of employees during the business year 50. Middle entities are those who exceed two out of three criteria for small entities but do not exceed two out of the three following criteria: total assets 130 million kunas, total revenues 260 million kunas, average number of employees during the business year 250.

into account that 70% of the surveyed companies have organized internal auditing departments while 30% of the surveyed companies do not have organized internal auditing departments within the company.

3.2. Function Of Internal Auditing

Internal auditing is a major form of supervision of business activities². In compliance with those statements respondents were presented with different forms of business activities and the respondents could choose more than one answer (table 5).

Table 5

Respondents according to the forms of surveillance over business activities in company

The forms of surveillance on business activities within the company:	Number of respondents	Percentage
Internal Auditing	29	23.2%
Controlling	22	17.6%
Management	28	22.4%
External Auditing	34	27.2%
Government Auditing	9	7.2%
Others	3	2.4%
Total	125	100%

Independence is one of the most important assumptions for the quality and the aims oriented internal auditing process. In that sense it is important to review the opinions of internal auditors about their independence. Besides internal auditors the survey included persons who work in the surveillance of the business activities within the company (for example, finance and accountant managers). According to the results of empirical research 56% (24 respondents) of internal auditors and people who are included in surveillance of business activities thinks that they are independent

² They are different forms of surveillance and in that context we can talk about state, political, economic, regulatory, tax surveillance. There can be different objectives of surveillance depending on their domain. However, generally the aim of surveillance is to examine and comply to socio-economic-political system with established criteria (rules, regulation, rules standards) (Vitezić, 1998). Besides internal auditing, business surveillance can be implemented over many ways and forms and across different functions within the company. Some authors differentiate three basic forms of internal surveillance: internal control, internal auditing and controlling (Vitezić, 1998, Tusek, Zager, 2007, p. 266.) The responsibility for development and implementation is on management. In modern theory and practice control is the basic function management on all levels and the key factor of a successful company (Tusek, Zager, 2007. p. 269.). On the other hand external auditing has a responsibility to give reasonable assurance that the financial statements are presenting a true and fair financial position and success of the company. If internal auditing is well organized in a company this could have a positive contribution on external auditor's work. However, external auditors must consider the fact that internal auditing is not completely independent since it is connected to the management. Institutions and companies in public sectors are the subject of government audit which audits all government financial activities. The scope of state audit includes financial and performance audit. In other words, audit determines whether the financial statements of the audited companies are stating a real and objective financial position, assessing whether all budget resources are spent in accordance with planned and approved resources in an efficient and effective way and if all laws and regulations are consistently applied.

in their work, 30% (13) of them cannot assess, while 9% thinks that they are not independent in their work. Some (5%) of the respondents did not answer this question (table 6).

Table 6

Opinions of internal auditors about their independence

The opinions of internal auditors about their independence:	Number of respondents	Percentage
Yes	24	56%
No	4	9%
Cannot assess	13	30%
No answer	2	5%
Total	43	100%

The opinion of internal auditors about their independence is a matter of their subjective assessment and because of that it is also important to review the internal audit organizational structures. Namely, the adequate organization position in the organization structure of the company is the key assumption for establishing an effective and independent internal audit function for better achievement of internal audit's goals.

Table 7

Internal Audit Organizational Structure

	Organization position of internal auditing within the organization	Number of respondents	Percentage
a)	organized within the department of finance, accounting and other departments	4	13%
b)	organized as the independent department having the same rank as other departments	8	27%
c)	organized as the advisory body of the management board and the supervisory board	16	53%
d)	organized as the department directly responsible to the Audit Committee which is the advisory body of the supervisory board	2	7%
	Total	30	100%

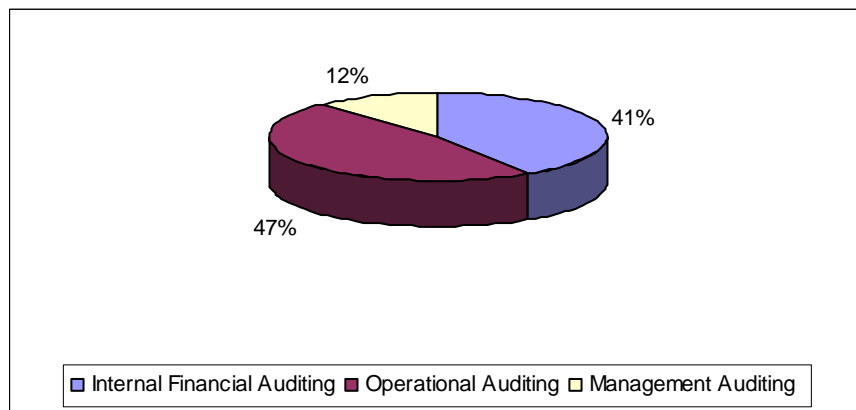
According to the results of empirical research it can be concluded that internal auditing in Croatian companies is in most cases organized as the department within the accounting, finance or some other department (table 7.). In this kind of organization structures it is difficult to ensure internal auditing independency. In other words, in most of the cases the internal auditing function is still under the management's influence and that is the reason why it is so difficult for internal auditors to be independent. It is often the case that the management of the company is determining the scope and the objects of internal audit projects. The results of empirical research in the world show that over the last five years, the reporting level of the internal audit function have risen steadily. In a 2002 survey conducted by the

Institute of Internal Auditors, only 55% of the internal audit respondents said they reports functionally to their audit committee. However, a survey conducted in 2007 by PricewaterhouseCoopers described their functional and administrative reporting relationships as follows: 89% of Fortune 500 respondents report functionally to the audit committee or board of directors. By comparison, 86% of total respondents report functionally to the audit committee or board. Furthermore, 28% of Fortune 500 respondents report administratively to the CEO or president, as do 31% of total respondents³. According to the same source fifty percent of Fortune 500 respondents report administratively to the CFO or the office of CFO, as do 47% of respondents overall.

Furthermore, the results of empirical research show that internal auditors in Croatia spend about 41% of their working hours on internal financial auditing, 47% on operational auditing while only 12% of the internal auditors' working time is dedicated to management auditing (figure 1). Therefore, in internal financial auditing internal auditors are responsible for evaluating whether their results of accounting process are fairly presented and whether they are in compliance with the laws and regulations. In operational auditing the internal auditors determine the effectiveness and efficiency of any part of the organization while in management auditing internal auditors are responsible for advisory services to the management and involvement of internal auditors to strategic management and strategic decision making process.

Figure 1

The role of internal auditing in the companies in Croatia



³ State of internal audit profession study: Pressures build for continual focus on risk, PricewaterhouseCoopers, 2007. The 2007 State of the Profession survey for internal auditing was conducted in the fourth quarter of 2006 and includes responses from 717 audit managers. 80% of the respondents are either chief audit executives or internal audit directors/managers. Fifty-nine percent are companies with \$1 billion or more in revenue. The purpose of the survey was to capture a snapshot of internal audit profession, share insights and observations of PwC experts about the major issues, trends, and changes reshaping internal auditing today.

A survey conducted by Ernst & Young⁴ indicates that the number of companies where Internal Audit maintains the primary burden of testing internal control over financial reporting is relatively high (Ernst & Young, (a) 2007. p. 2.). The results of a similar research show the degree to which the levels of assessment confidence among internal auditors vary by area of focus. In areas of finance, compliance and operation – sectors that might be characterized as traditional areas of focus for internal audit – respondents expressed high degrees of confidence, but they were less confident when dealing with risk assessments in the areas of technology, fraud and strategic or business risks (PricewaterhouseCoopers,(a) 2007,). This shows that, on the global scene, there are still many challenges facing the internal auditing profession. Although it not unusual that internal auditors spend most of their time on conducting internal financial and operational auditing (as the surveys of Ernst& Young and PricewaterhouseCoopers has shown), internal auditors in Croatia dedicate much less time on assessing strategic and business risks. In larger companies risk assessment and coverage activities need to be clearly defined, coordinated, and aligned with the company's strategic objectives (Ernst & Young, (a) 2007.). In that sense it is important to highlight that the management of Croatian companies has still not accepted the importance of internal auditing in the corporate governance and overall enterprise risk management.

3.3. The Role of Internal Auditing in The Improvement of The Business Quality in The Company

The second part of the questionnaire was focused on the role of the internal auditor in the improvement of the business quality of the company. The internal auditing landscape, recently dominated by financial reporting compliance-related efforts, is now being challenged by pressures on resources and growing demands to help improve overall business performance (Ernst & Young, 2007, p. 2.). In that sense, a very important question is the value that internal auditors can bring to the company and thus enhance the competitiveness of the company while protecting and enhancing share value. Also, senior management views audits as an excellent source of information to help them understand and assess the relative performance both of the business and of the functional units within the organization (PricewaterhouseCoopers (a), 2007, p. 36.). According to the results of empirical research in Croatia 91% (39 respondents) of internal auditors and people who do the surveillance of business activities within the company thinks that internal auditing gives a significant or medium contribution to the improvement of business quality (table 8.) In other words, the result of empirical research in Croatian companies shows that internal auditing adds value to the business.

⁴ Global Internal Audit Survey – A current state analysis with insights into future trends and leading practices- The survey was conducted by Ernst&Young where respondents were Internal Audit executives representing 138 predominately public companies with membership in the *Global Business Week 1000*, and *Standard&Poor Global 1200* from 24 countries. Most of the participants were large multinational functions with revenues of US\$ 4 billion.

Table 8**The contribution of internal auditing to the improvement of business quality**

The contribution of internal auditing to the improvement of business quality	Number of respondents	Percentage
Contribution is significant	17	40%
Medium contribution	22	51%
Little contribution	2	5%
Other/non response	2	5%
Total	43	100%

Also, one of the aims of this empirical research was to investigate the role of internal auditing in assessing the business quality that can be measured by financial and non-financial ratios. In the world of business it is usually said that what cannot be measured cannot be done. In other words business quality is something that must be measured in order to control and to assess the achievement of the company. As the results of this research show the internal auditors in Croatia spend a significant part of their working time on the auditing of accounting-information systems. With this in mind, it is logical to assume that for the auditor's assessment of business quality the financial ratios will be the most significant (table 9.). However, the scope and authority of internal auditing is also including the operational and management auditing and because of that internal auditors also need non-financial ratios.

Table 9**The instruments of measurement of business quality used by internal auditors**

Measurement of business quality	Number of respondents	Percentage
Financial ratios	11	26%
Non-financial ratios	7	16%
Financial and Non-financial ratios	23	53%
Others	2	5%
Total	43	100,00%

Regarding the importance of financial and non-financial ratios in the internal auditor's assessment of business quality 86% (37) of respondents thinks that financial and non-financial ratios are equally important, while 14% (6) respondents thinks that financial ratios are more important. The direction of the company towards financial, rather than operational and management aims shows that none of the respondents assessed non-financial ratios as the most important in the assessment of business quality (table 10).

Table 10**The role and the importance of financial and non-financial ratios in the auditor's assessment of business quality**

The role and the importance of financial and non-financial ratios in the auditor's assessment of business quality	Number of respondents	Percentage
Financial ratios are more important	6	14%
Non-financial ratios are more important	0	0%
Financial and non-financial ratios are equally important	37	86%
Total	43	100%

As it was mentioned earlier, the aim of this empirical research was to investigate whether the financial ratios are the most important in internal auditor's assessment of business quality. The results of empirical research show that what is very important for internal auditors are the financial ratios such as net income, cash flow ratios, liquidity ratios, total sales (total revenues) and the ratios that show decreasing total costs (table 11). Namely, those financial ratios have a medium of more than 3 on the scale, which means that over 50% of respondents graded this ratio with 4 or 5, while 50% of respondents graded those ratios with 1, 2 or 3 (respondents in the survey graded each financial ratio with grades from 1 to 5. Thus grade 1 means – this financial ratio is not important, 3- important, 5- very important in assessing the quality of business). Internal auditors in Croatia use less such financial ratios as earnings per share (EPS), return on equity (ROE), return on assets (ROA), economic value added (EVA), dividends payout ratio and increasing the market value of shares (table 11 and 12).

Table 11**Wilcoxon on Signed Rank Test: Financial ratios**

Interval			Confidence		
	N	N*	Estimated Median	Achieved Confidence	Lower
Upper					
Net income	42	1	4.00	95.0	3.50
4.50					
Cash flow	40	3	4.000	95.0	4.00
4.50					
Liquidity	40	3	4.000	95.0	4.00
4.50					
Earnings per Share (EPS)	36	7	2.50	95.0	2.00
3.00					
Return on assets (ROA)	40	3	3.50	95.0	2.50
4.00					
Return on equity (ROE)	41	2	3.00	95.0	2.50
4.00					
Return on sales (ROS)	40	3	4.000	95.0	3.50
4.00					
Decreasing total costs	41	2	4.000	95.0	3.50
4.00					

Economic Value Added (EVA) 3.50	39	4	2.50	95.0	2.00
Dividends payout 3.50	37	6	2.50	95.0	2.00
Increasing market value of shares 3.00	37	6	2.50	95.0	1.50

Table 12

Wilcoxon Signed Rank Test: Financial ratios

Test of median = 3.000 versus median > 3.000						
Estimated	N			Wilcoxon	Statistic	P
	N	N*	Test			
Median						
Net income 4.000	42	1	32	427.5	0.001	
Cash flow 4.000	40	3	32	496.0	0.000	
Liquidity 4.000	40	3	36	602.5	0.000	
Earnings Per Share (EPS) 2.500	36	7	31	141.5	0.982	
Return on assets 3.500	40	3	29	221.0	0.474	
Return on equity (ROE) 3.000	41	2	32	259.5	0.537	
Return on sales (ROS) 4.000	40	3	23	253.0	0.000	
Decreasing total costs 4.000	41	2	29	389.0	0.000	
Economic Value Added EVA 2.500	39	4	35	216.5	0.948	
Dividends payout 2.500	37	6	33	199.0	0.929	
Increasing market value of shares 2.500	37	6	31	122.0	0.993	

3.4. The Role of Internal Auditing in The Strategic Management Process

This empirical research among other objectives had the task to identify what is the role and meaning of internal auditing in the strategic management process among the companies in Croatia. «Today, more than ever, the fortunes of the company can be tied to internal audit. In fact, a properly structured internal audit function can bring tremendous value to an organization, impacting not just regulatory compliance but also operational excellence. Intelligently utilized, internal audit can help manage risk, prioritize goals and activities, eliminate complexity and redundancy, streamline operations, and drive down costs, which, in turn, can enhance competitiveness while protecting and enhancing share value» (Deloitte, 2006.).

The results of empirical research show some problems that internal auditors in Croatia have. Some problems come from the fact that the management of Croatian companies does not recognize the value that internal audit function can bring to the organization impacting not just regulatory compliance but also operational excellence. According to the results of empirical research, 49% (21 respondents) answered that internal auditors do not participate in preparing the decisions for strategic management, while 21% (9 respondents) think that internal audit function has little importance in determining the aims, objectives and strategy of the company (table 13.).

Table 13**The contribution internal auditors make to strategic management**

The contribution that internal auditors make to strategic management	Number of respondents	Percentage
High	7	16%
Low	9	21%
Internal auditing doesn't participate in preparing strategic management decision	21	49%
Other/non response	6	14%
Total	43	100%

A very important question to consider while examining the contribution of internal auditors to strategic management is the competence and education of internal auditors in assessing and examining strategic objectives and the strategy of the company. People are still the foremost challenge for Internal Audit function around the globe: recruiting, retooling, developing and retaining the right skills (Ernst & Young, (a) 2007. p.2). The results of empirical research in Croatia show that 14% (6 respondents) of internal auditors think they are competent enough for examination and assessment of defined strategic aims and objectives, 12% (5 respondents) think that they are not competent enough for this task and the most respondents find themselves mostly competent for these tasks (table 14.).

Table 14**Competence of internal auditors to include in the strategic management process**

Competence of internal auditor to include in strategic decision- making process	Number of respondents	Percentage
Yes	6	14%
No	5	12%
Mostly	29	67%
Other	3	7%
Total	43	100%

The “war for talent” continues to be the greatest challenge for many internal functions (Ernst & Young, (a) 2007.)⁵. A good internal audit practice requires: a sound knowledge of audit standards and methodologies, a certain level of specialization while keeping a general view on things and relevant soft skills like management, communicational skills, presentation and negotiation capabilities (ECIIA, 2006. p.

⁵ The empirical research shows that competitive compensation is only one of the many factors that impact efforts to develop and sustain high-performing organizations. Other factors – such as training, mentoring, career opportunities, and new challenging assignments- are equally important and, collectively, may be more important than compensation.

26.). To ensure these skills there is need for a good recruitment process, appropriate training activities, adequate certification and – most important- a sufficient level of experience gathered by audit practice (ECIIA, 2006. p. 26.).

4. CONCLUSION

Internal auditing as a profession is constantly changing, which is best seen in the authority, responsibility, the field of work and the position that internal auditors have in the company. In that sense, internal auditing developed from financial auditing, where the object of auditing were only accounting records and information, towards operational auditing where all the business activities are the subject of surveillance. Modern internal auditing encompasses the role of internal auditing in the process of corporate governance directed towards the achievement of company goals and objectives, risk management process and the most of all active participation in the process of corporate governance. Considering the field of work, responsibility and position of internal auditing within the company, its contribution to increasing the business quality is inevitable.

The results of empirical research have shown that the development degree of internal auditing in the companies in Croatia does not correspond to the development degree of internal auditing in the modern market economies. The fact is that management auditing is still only a minor part represented in the projects of internal auditors in Croatia. In that sense it is important to point out the importance of continuous education, not only for internal auditors, but also for the management of companies in Croatia in order to increase the level of awareness and action towards the specific forms of surveillance of business activities.

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RAZVOJ I PERSPEKTIVE INTERNE REVIZIJE U POBOLJŠANJU POSLOVNE KVALITETE PODUZEĆA – EMPIRIJSKO ISTRAŽIVANJE U HRVATSKOJ

SAŽETAK

Ovaj rad je rezultat empirijskog istraživanja provedenog među 180 najvećih Hrvatskih tvrtki sa stajališta ukupne dobiti. Istraživanje je bilo namijenjeno voditeljima internih revizorskih odjela ali i menadžerima koji nadgledaju poslovanje unutar tvrtke. Istraživanje je provedeno u periodu od veljače do ožujka 2007. U tom su periodu na upitnik odgovorile 43 tvrtke što znači da je stopa povratne informacije 24%. Cilj ovog empirijskog istraživanja bio je istražiti trenutnu poziciju i prisustvo interne revizije u hrvatskim tvrtkama te istražiti instrumente mjerenja, kvalitetu poslovanja među internim revizorima u Hrvatskoj i ispitati doprinos kojeg interni revizori daju u poboljšanju kvalitete poslovanja najuspješnijih tvrtki u Hrvatskoj.

JEL: M42

Ključne riječi: *interna revizija, revizija dodane vrijednosti, kvaliteta poslovanja, Hrvatska*