

THE ROLE OF THE INTERNAL AUDITOR IN FINANCING AGRARIAN COMPANY

Horvat Tatjana, Ph. D., Antoni Alfonz, Ph. D.**,*

**University of Primorska, Koper, Slovenia*

***Budapest Metropolitan University, Budapest, Hungary*

Abstract: *Agricultural holding is an organizational and business uniform unit of agricultural land, forests, buildings, equipment and manpower, which is engaged in agricultural production and has a single management (Agriculture Act, Official Gazette of the Republic of Slovenia, nr. 51/2006 - UPB1). Financing of these assets are one of the most important financial aspects of the agrarian company, since it must provide both short-term and long-term smooth business operations. The role of the internal auditor is to know the financing process of the agrarian company in details and to ensure that financing is in accordance with the law and other regulations.*

Key words: *financing, internal auditor, company, financial plan, regulations, internal control, cash flow.*

РОЛЬ ВНУТРЕННЕГО АУДИТОРА В ФИНАНСИРОВАНИИ АГРАРНОГО ПРЕДПРИЯТИЯ

Хорват Татьяна, Энтони Альфонц***

**Университет Приморска, Копер, Словения*

*** Будапештский университет Метрополитен, Будапешт, Венгрия*

Аннотация: *Агрохолдинг – это организационный и единый бизнес блок сельскохозяйственных угодий, лесов, зданий, оборудования и рабочей силы, которые занимаются производством сельскохозяйственной продукции и имеют единое управления (закон О сельском хозяйстве, Официальный Бюллетень Республики Словения, НР. 51/2006 - UPB1). Финансирование этих активов является одним из самых важных финансовых аспектов аграрной компании, так как она должна обеспечить как краткосрочные, так и долгосрочные гладкой бизнес-операций. Роль внутреннего аудитора должен знать процесс финансирования аграрной компании в деталях и обеспечить финансирование в соответствии с законом и иными нормативными актами.*

Ключевые слова: *финансирование, внутренний аудитор компании, финансовый план, правил, внутреннего контроля, денежный поток*

Financing the agrarian company is part of financial management and comprises the planning and implementation of a financial plan, accounting, reporting and the protection of assets from loss, damage and fraud. All items of financial management

are exposed to the risk of incorrect, improper and ineffective company financial management, which is particularly reflected in the accounting control of the company.

Financing of the company must be designed and a forward looking and, of course, very carefully controlled. Directing the management of cash flows in the company and its environment are captured with financial policy [Filipič & Markovič-Hribernik 2000, 96-97)].

The main documents of financial management are the financial plan and the annual report. If the company has no financial plan, there is a risk that the funds for the operation of the company are not properly planned and harmonized with the company's work program. This means that the bases for preparing a financial plan and the intended use of funds according to individual programs in the financial plan or their explanation are not correspondingly shown [Horvat, 2011].

Cash flows are planned with a financial plan which is more than a one-year plan. Cash flow is planned daily, for ten-days, for a month or several months.

The implementation of the plan that reflects other important document, the so-called annual report, is the realization of the plan that we had foreseen for the following year (work program), thus the fulfilment or non-fulfilment of the set objectives that derive from company's long-term orientation [Horvat, 2011].

Any management is responsible for the legality of operations and regard to this with the prevention and detection of business, which is non-compliant with legal norms. Laws and rules are these, for example:

- Legal rules: Laws and related regulations such as code of corporate finance principles, ...)
- Special regulations: the principle of financial policy, funding rules, ...
- The internal rules and policies: internal policies, financial plan, strategic plan, contract, ...

The regulations for financing of company ensures that the company avoid insolvency. The internal rules for financing, assure that financial funds are provided and used in that extent and for such purposes as it planned.

PROCESS OF FINANCING

The role of the internal auditor is to know the financing process of the agrarian company in details, when the finance process is the scope of the internal audit assignment. Namely, the internal auditor should understand the area under review.

There are quite definitions, the focus was at one of them, which is most commonly found in the literature. Financing of the company refers to the following stages [Rebernik, Repovž, 2000, pp. 67-68]:

- provision of resources (funding), which means any cash inflow into the company, which is the result of transformation of material or other forms of assets. This can involve money from outside sources or money from operating business. The use of external funding sources of the agrarian company (inflows from financing) are for example:
 - capital,
 - long-term and short-term bank loans,
 - credit lines,
 - a vista deposit,
 - borrowing from suppliers and customers,
 - leasing,
 - factoring,
 - borrowing from the companies in the group,
- subventions...;
- the use of cash acquired (investment) represents the transformation of cash in the non-monetary forms;
- management of funds, which means sensible and intelligent use of the acquired assets, in order to maximize impact through earnings or through cash flow that the company would make more smooth in operation – it comes to provide liquidity and solvency of the company;
- return of the funds received (the loan - principal plus interest), which is the conclusion
- circular movement of funds which is one of the fundamental tasks of the financial function;
- allocating of financial results, which is allocating business results expressed in cash at individual participants (owners, employees, state ...).

From these definitions follows the fundamental importance of the financing of the company, which is providing the necessary funds timely and for its rational use.

For each stage of the finance process we plan the internal audit activities.

THE PROCESS OF AUDITING FINANCING PROCESS

Internal auditing is the assessment of the correctness of internal control and reliability of its operations (Guidelines for INTOSAI Internal Control Standards, 1995). The internal audit professionals are the so-called internal auditors.

Due to regulatory and forces, attention to an organization's internal controls has increased significantly in the 1990s. Although the management is ultimately responsible for ensuring internal controls are adequate, often lack of knowledge of

internal control concepts are present. [Changchit, Holsapple and Viator, 2001, p. 275].

Before we start internal audit of the process of financing agrarian company the internal auditor should determine the scope of internal audit. Scope of internal auditing can be defined as: (Rules on the Internal Audit in direct spending units of budget RS, 2011):

a) investigation and evaluation of adequacy, effectiveness and quality of the internal control system,
b) providing reliable and creditable information,
c) ensuring compliance with policies, plans, laws and regulations,
d) protection of property,
e) providing efficient and effective use of resources,
f) achieve the aims and objectives relating to operations and programs and the continuous improvement of the implementation of basic business functions of the organization.

Planning of internal audit tasks comprising the following steps:

- obtain basic information about the audited company or the auditee;
- recognize business policies, objectives and organization of the company and to carry out an initial assessment of business risks at the company level;
- recognize and done an initial assessment of significant risks at revised field (= a unit of Audit) and existing ways of their control;
- set targets for internal audit task;
- develop a roadmap to the audited task [Koletnik, 2007, p. 186].

As the purpose of the internal audit of legality of the financing activities we can expose: ensuring compliance with policies, plans, laws and regulations in the process of financing.

In our assignment the scope of the internal audit legality of the financing process is to ensure compliance with policies, plans, laws and regulations in the process of financing. We can say that objectives are deriving from the purpose. In our assignment the objectives of the internal audit engagement are:

- to verify whether the existing internal control in the agrarian company in the process of financing activities in year 201X are carried out in accordance with the legal and professional standards and internal legal business and organizational rules,
- whether internal controls are effective and efficient so that key risks are controlled, and
- to provide an independent opinion on the legality of the financing activities of the agrarian company.

CONTROL ACTIVITIES IN FINANCING PROCESS

Control activities are tools to help prevent risks to achieving the objectives and mission of the organization [Twinning project, 2004].

From the literature and practice, several types of control activities are known. They can be found in the following internal controls:

1. Organizational control: Company should have plan of the organization that defines and allocates responsibilities, reporting lines and defined clearly defined delegation of powers and responsibilities.

2. The demarcation of duties: No person shall be responsible for processing and recording of the whole business event. Involving more people reduces the risk of an intentional manipulation or accidental errors, and increase the possibility of checking that work was done properly. It is advisable to separate the following functions: approval, implementation, security and recording, specially in the case of a computerized accounting system and developing the daily processing of data.

3. Physical controls relating to physical protection of assets and records include procedures that are designed in order to restrict access by unauthorized persons.

4. Authorization and approval: All transactions should be approved by the responsible person (the management). If there are restrictions on the authorisation they must be specified.

5. Mathematical accuracy and accounting: The checks are in the process of recording, verifying whether they are processed and recorded data approved by all involved, properly recorded and accurately processed. Such checks include verification of mathematical accuracy of records, maintenance and verification of totals, reconciling control accounts and trial balance, and responsibility for the documents.

6. Personnel: There must be procedures to ensure that the tasks are assigned and carried out by competent people. The criteria to achieve this include appropriate procedures for recruitment, promotion, training and rewarding.

7. Control: Responsibility for monitoring must be clearly defined (eg. in Internal Financial Rules).

8. Managerial control checks are carried out by management in addition to the daily routine procedures in the system. These include the overall supervision, review reports for internal purposes, to compare plans and other specific review procedures.

The most important objectives of control activities in the area of finance process are (Guidelines for Internal Control, 2004):

- Operating with laws and regulations;
- Processing and storage management of reliable financial and other information as well as accurate, fair and transparent reporting;
- The effective performance of company;
- Rational use of resources and their protection against loss due to negligence, abuse, mismanagement, errors, fraud and other irregularities.

Control activities must be given assurance that:

- Financial transactions are in accordance with the approved financial plan;
- The acquisition procedures and contracting are in accordance with relevant regulations;
- Financial transactions are supported by the contracts concluded and the general binding rules;
- Accounting data and information are authentic.

None individual shall not be liable for more than one of the following tasks:

- Commit to pay,
 - Authorization of payment,
 - Billing and recording payments.

Management is responsible to establish control in the context of processes and implement of controls as necessary (Twinning project, 2004).

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