

INTERNAL AUDIT AND ALBANIAN SMES

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Abstract

Small and medium-sized enterprises have long been recognized as engines of economic growth and development. The impact of small and medium enterprises even in the global economy are very important for increasing employment and reducing poverty. Studies have shown that majority of SMEs die prematurely, before reaching their goals due to poor management resulting from inadequate, weak, uncertain accounting and financial information, as well as the lack of regular auditing and risk management. The purpose of this research is to access the impact of internal audit at Albanian SMEs. The sample for the study consists of 110 entrepreneurs and 80 managers. Primary data for the study were collected by a combination of survey questionnaire and semi-structured interviews. Findings from the study highlight the lack of standard audit system and financial records has been a major obstacle to statutory audit of many SMEs, and by extension negatively affects their performance as they find it difficult to convince stakeholders (creditors, suppliers, tax authorities, etc.), that there was regular supervision by an independent auditor for their business activities. The finding further revealed that this can be eliminated through the adoption of a sound audit system that complies with the Auditing Standards. It has therefore been recommended that SMEs should be encouraged to embrace internal auditing.

Keywords: Internal audit, SMEs, risk management, control, activities, monitoring and evaluation.

1. Introduction

One of the main driving factors in choosing SMEs for this study is that the effectiveness of internal control tends to be more problematic for these types of businesses. Large enterprises and corporate companies have legal requirements to maintain effective internal control and the larger nature and scale of their business operation generally leads them to recognize the need for an effective internal auditor. However, as the literature on this issue points out, this tends not to be the case for SMEs. Therefore, the study chooses SMEs as the main problematic area in this regard. The choice to deal with Albanian SMEs is mainly justified by the relative physical accessibility for researchers, given the fact that the study aims to collect primary data on which to base its analysis. In addition, as highlighted in the background information, the national economy benefits greatly from the business activities of SMEs which represent about 99.8% of all types of enterprises in Albania and offer high job opportunities for its workforce. Therefore, the research question of this paper is directly related to the context of why the study is important. Although the importance of an internal audit system is widely accepted among large companies, it is usually said that an efficient internal control system is lacking or not sufficient. strong in most SMEs in general. This study highlights the importance of having sound standardized internal audit in SMEs.

2. Literature review

The Institute of Internal Auditors (IIA, 1999) defines internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. Internal audit and ANS help an organization meet its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes. To add value to an organization, the

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internal audit function must not only make reliable recommendations, but also communicate its recommendations effectively so that the organization's management relies on those recommendations. Therefore, internal auditors have recently been given greater responsibilities in strengthening internal control systems and risk management procedures (Spira and Page, 2003; Holm and Laursen, 2007) and the role of internal auditors is changing. from a traditional audit approach to a more proactive value-added approach where internal auditors are partnering with management (Bou-Raad, 2000; Leung et al., 2011). Beasley et al. (2005) found that corporate management had renewed its interest in risk management and developed a deep new interest in internal auditing. The literature has well recognized the role of internal audit in enhancing corporate performance, financial reporting and corporate governance (Lin et al., 2011; Mihret et al., 2010; Allegrini et al., 2006; Carcello et al., 2005; Nagy and Cenker, 2002.). Leung et al. (2011) argue that if internal auditors want to proactively contribute to good corporate governance, they must determine how and in what way this can be done, and they identify issues related to internal control, the evaluation of risk and management processes as the main factors. that internal audit contributes to good corporate governance. Traditionally, internal auditors were acting as "policemen" who checked and monitored company procedures and the level of compliance with regulations (Skinner and Spira, 2003). Currently internal auditors can be portrayed as consultants and the internal audit function of companies is considered to help achieve corporate objectives and add value. As noted by Sarens and De Beelde (2006), internal auditors are expected to actually make things happen rather than waiting to respond. In developed countries, the role of internal auditors has recently been affected by dramatic changes in regulations, mainly corporate governance codes/standards and the emphasis on strengthening the internal controls of organizations of these codes/standards (Flesher and Zanzig, 2000; Pass 2006 & 2004; Holm and Laursen, 2007). Investing in internal auditing can add value to an organization through operational efficiency, asset preservation, more reliable financial statements, and the achievement of an organization's goals and objectives (Feng et al., 2009). While internal audit objectives are set with a focus on controls, risks and governance, a recent study by Leung et al. (2011) finds that there is a lack of correlation between the tasks performed by internal auditors and important internal audit objectives, except for internal control and risks. According to COSO (1992), "Internal control is defined as a process performed by the board of directors, management and other personnel of the economic entity, designed to provide reasonable assurance about the achievement of objectives in the following three categories: effectiveness and efficiency of operations, reliability of financial reports and compliance with applicable laws and regulations". According to the Institute of Internal Auditors (IIA) (2004) "Internal auditing is an independent, objective assurance and advisory activity designed to add value and improve an organization's operations. It helps an organization meet its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes. Sawyer (2003) stated that internal auditing is "a systematic, objective evaluation by internal auditors of various operations and controls within an organization to determine whether:

3. Methodology

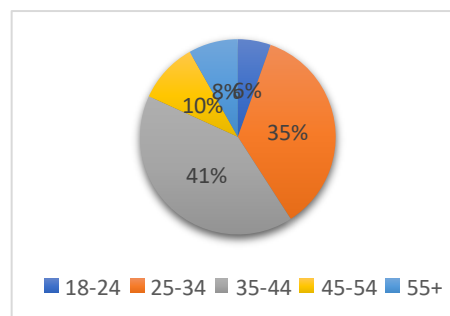
The methodology used in this paper is: To structure and analyze, the semi-structured interview method was used for senior business leaders. The data collection method used in the research is the qualitative method used. This is considered more appropriate for the nature of this research as it enables the description of internal audit in SMEs. The method also enables to perceive how respondents create and understand internal control in SMEs. Additionally, semi-structured interviews were also used during data collection. The interviews were conducted in the respective workplaces of the participants and this is believed to make the

participant feel comfortable to naturally answer open-ended questions and comments which are very important in qualitative research. Such a form is among the most popular methods to do research, which seems more practical and more suitable for this paper which focuses more on describing and explaining the perceived nature of internal audit than they are informed, how are entrepreneurs ready to invest and other similar questions in small and medium enterprises. Indeed, internal control is a sensitive issue to discuss. Those responsible for ensuring that control mechanisms are implemented in the enterprise are usually unwilling to disclose how such mechanisms actually work for fear that the enterprise is exposed to fraudulent actions. The anonymous survey reduces the risk of non-response. Individuals feel more free to answer given this fact. Therefore, owners of small and medium-sized enterprises were interviewed. These enterprises are involved in different lines of business, starting from restaurants, supermarkets to the sale of spare parts for vehicles. We believe that this heterogeneity of businesses increases the importance of the data collected from each enterprise and at the same time enables the eventual emergence of a theory that reflects the variety of cases in the real business world. Likewise, building and distributing an online questionnaire is important to create an idea about the reality of organizations in Albania.

4. Questionnaire and interview analysis

4.1 Analysis of the interview on entrepreneurs

In the interviews addressed to entrepreneurs, 110 people participated, the majority of whom are 35-44 years old, with 45 people who belong to 41% of the total, followed by the 25-34 age group with 39 people who belong to 35% of the total. of the total, the rest 11 people, i.e. 10% of the total age group 45-54 years old, followed by the age group +55 years old where only 9 people participated, corresponding to 8% of the total of 110 people, and finally the youngest age group 18- 24 years old with 6 people which means only 6%. These data are expressed graphically as below:



Graph 1. Age group of entrepreneurs in research n=110 Source Authors

In terms of geographical distribution according to cities, entrepreneurs participated, 38% from Korça, 23% from Tirana, 14% from Durrës, 6% from Elbasan, 5% from Shkodra, from 4% from Vlora and Lezha and with only 3% from Fieri and Dibra. These data are expressed graphically as below:

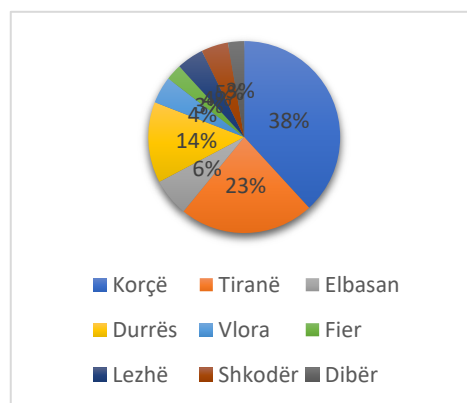


Chart 2. Geographical distribution by cities, n=110

Source Authors

Entrepreneurs were also asked the question of which of the economic activities their business was a part of. In the given options, fields such as construction, trade or others were presented where it is expressly noted that a large part of them have chosen the other option. Including here different answers starting from real estate agency, translation office, language courses, design studio, travel agency, chancellery, winery and many others including health activities such as dental or laboratory clinics as well as accounting offices and insurance. All these types of businesses demonstrate a variety of activities that are expressed in the chart below;

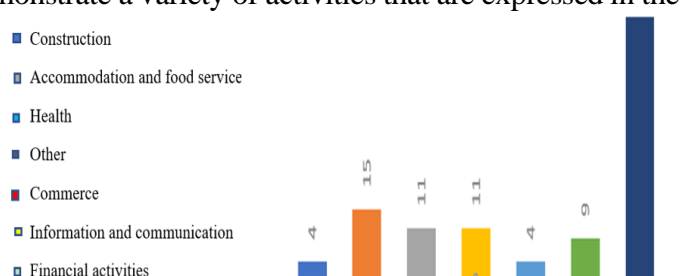
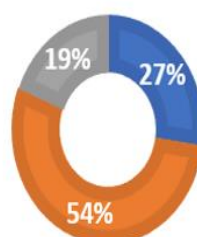


Chart 3. The field of activity in the type of business taken into research, n=110.

Source Authors

In terms of how many employees they employ in their businesses, the majority chose the option 10-49 employees. This interval represents the number of employees of a small business, which means 59 people out of 110 people that is the total have chosen this interval, or otherwise 54% of them. The rest have chosen the option 1-9 employees, this interval represents micro-enterprises and the questionnaire showed that 27% of them or 30 people chose this category. And at the end is the range of 50-249 employees, where only 21 of the respondents have selected this category, which represents medium enterprises.

■ 1 to 9 employees ■ 10 to 49 employees ■ 50 to 249 employees



Graph 4. Enterprises according to the number of operating workplaces. n=110

Source Authors

An extremely important point in terms of internal audit is information. In the questionnaire, the question was asked how informed the entrepreneurs are about what internal audit is, and it was found that a large part of them were not at all informed concretely, 74 people out of 110, i.e. 69% of them. About 22 people have affirmed that they are somehow informed about what the internal audit is, so 20% of them and the rest with only 12 people state that they are very informed, as can be seen in the graph presented.

■ very informative ■ somewhat informative ■ not informative at all

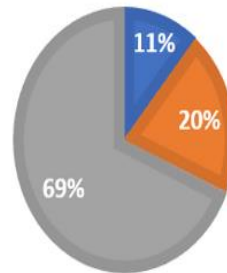


Chart 5. Information on the meaning of audit and its importance in relation to organizations n=110

Source Authors

The internal audit is carried out by auditors, i.e. professionals in the field, to show how well informed the entrepreneurs are, they were asked who performs the audit and the alternatives such as the entrepreneur, manager and professionals were presented. The vast majority of them with 58% stated that they did not they know who performs the internal audit, so 64 people are included here and people who answered that they are somehow informed about the internal audit. Another part of 19 people chose the manager option, that is 17% of them, being followed by 12 people who have chosen the entrepreneur option, i.e. 11%. In the end, there are only 15 people who really know who performs the audit and this part represents 14% of the total.

■ Entrepreneur ■ Manager ■ professionally ■ I don't know

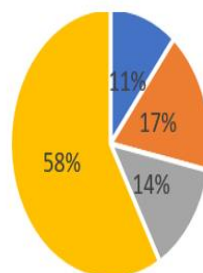


Chart 6. Those responsible for conducting the internal audit, n=110

Source Authors

The internal audit serves for key points in businesses such as the personnel to the financial condition of the business. Of the 110 respondents, only 70 of them answered. The alternatives in the question were all selectable, so you can solve only a part of them or all of them. Out of 70 people, 37 of them have selected the audit option serves to control financial documents, 21 of them have selected the option of using resources efficiently. The rest of 12 people chose the personnel review option, while finally 11 people chose the risk identification option. Since the internal audit develops all these options, only 10 of them have selected them all.

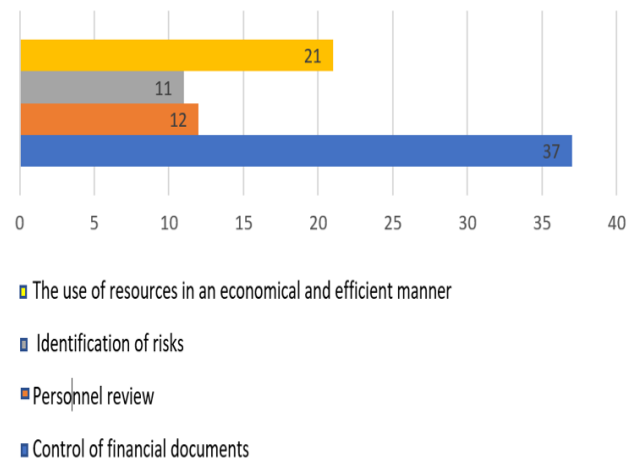


Chart 7. The importance of internal audit for organizations, n=110
Source Authors

Since we are dealing with SMEs or otherwise SMEs, the question has been asked whether they consider internal audit important considering the size of their business. Out of 110 people, 81 of them say that it does not seem important to you, that is 76% and 25 of them affirmed that it seems important to you regardless of the size of the business. The people who answered yes were also asked the following question about how important they see it from 1-5 and the answers resulted in an average of 2.54.

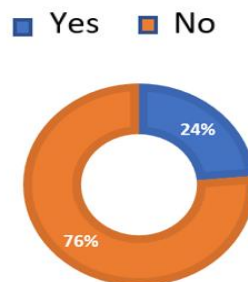


Chart 8. The importance of internal audit for organizations, n=110
Source Authors

The willingness to invest in something that is not part of your business is extremely important. This shows how willing entrepreneurs are to go beyond other investments to a service that adds value to the business. Only 6 people out of 110 were very willing to invest. The rest, 51 people, were somewhat willing to invest, so with less certainty than the first 6 people, and at the end there is a considerable part of 53 people who they are not ready to invest for the audit regardless of its importance.

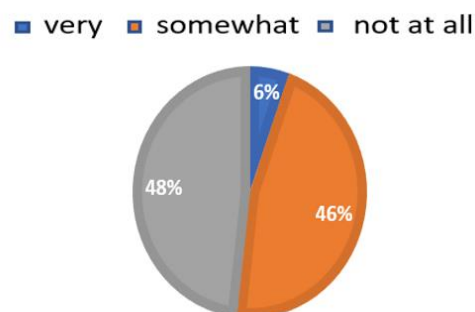


Chart 9. Investment for a real internal audit as a value for the organization, n=110
Source Authors

To show concretely how often audits are carried out in Albanian businesses, the frequency of audits is presented in the chart below. It is noted that a significant part of them, i.e. 98 people out of 110, claim that internal audits are never carried out in their business. Only 8 people chose the option less often than once a year, 2 people chose once a year and only 1 person chose the option more than once a year. We underline that the last person has a business of 140 employees, this justifies the frequency of the internal audit. In the following, only 6 people stated that their business makes continuous assessments to determine if the internal audit works and is effective.

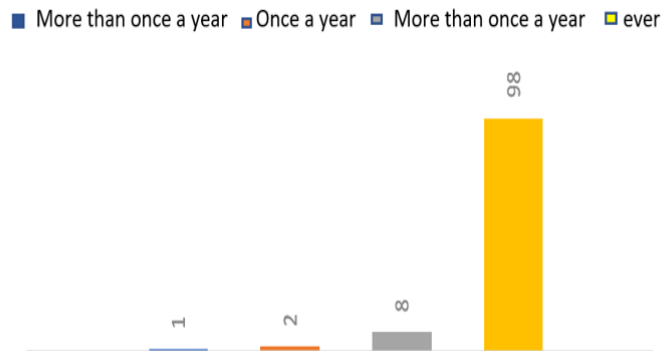


Chart 10. Effectiveness of the organization's internal audit, n=110
Source Authors

5. Conclusions

Internal audit is an important tool to help the management of organizations to find the right solutions in meeting the objectives. Through findings and recommendations, auditors provide assurance and advice on the management of internal control systems, risk and governance. Business management in Albania still has an incomplete conception and a low level of awareness about the role of contemporary internal audit services. This is related firstly to the information, cost and quality of audit activities, where in important cases the quality of this service is estimated to be not at the levels required by contemporary standards and practices and secondly to the lack of recognition and misuse of these services by many administrators and managers.

Auditing should add value, helping managers to reconsider their roles and responsibilities in order to strengthen the Internal Control System and make it a powerful tool in meeting their objectives. They also serve internal auditors to improve their practice activities. As far as the businesses in Albania are concerned, it would be very important for them to clearly understand that the audit is important and gives value to the business. This small investment compared to other types of investments required by the business helps them move forward by advising and suggesting alternative solutions, making the audit investment return several times over.

Regarding the segment of businesses, in which the audit operation is oriented, we can talk about auditors related to specific functions of the organization - for example, quality auditor, balance auditor, auditor of social and environmental behavior of the organization, security auditor, auditor of the organization and of the organization's procedures, including IT - or we can talk about the audit of aspects that are more related to management, such as: the organization's environment, the constituent values of an organization, incentive policies and personnel qualification, etc., and related to the audit of the organization's control and performance systems.

In both cases, in any case, it is a matter of different types of organization audit that differ between them in terms of: work object, methodologies, goals, techniques and necessary professional levels. Regarding the object of the audit, you can talk about a process that stands

at the beginning of a result or only the result of a process. This distinction is very important, as it characterizes the modern concept of auditing, more and more oriented to guarantee the reliability of a process and to give assurance on the accuracy and reliability of the result. Different stages or different processes need radical controls by professionals in the field. .

The importance of various internal audit activities should change significantly in the coming years from what is currently practiced, as the results from the questionnaires made showed that the information and importance given to internal audit is almost zero. Changes must be made since the businesses of small businesses that think they don't need it, when the simple fact that they don't have an internal audit could be the reason they haven't expanded further but have remained small businesses with little capacity and horizon. .

6. Recommendations

1. Small and medium-sized enterprises should be encouraged to adopt a sound internal audit system and the cost of installing and operating such systems should be minimized.

2. Internal audit should not be related to the size of small and medium-sized enterprises and accountants involved in the audit of enterprises should adopt methodologies that adequately capture the accounting and reporting needs of enterprises and comment on their peculiarities, if necessary. in the audit report.

3. Adherence to internal controls as determined by management (even if instructions are received from professional accountants) is essential to maintaining data integrity.

4. Professional auditor roles as consultants/part-time accountants are of immense value to entrepreneurs on how to better manage their business organizations for excellent results.

5. Regulatory bodies, educational and financial institutions as well as other stakeholders should organize periodic trainings related to internal audit for SME owners/managers as well as regulate the consulting fee for easy access to consulting services in order to have participation.

6. Small businesses urgently need to develop an appropriate culture for audit services. This will adequately promote the financial performance of their businesses.

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