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## **THE INTERNAL AUDIT ENVIRONMENT AND ITS DETERMINANTS OF ECONOMY ENTITIES**

**Relevance.** The role of internal audit in the entity's governance structure is constantly evolving. For a variety of reasons, internal auditors engage in an in-depth analysis of business processes to help ensure that these processes are working properly and effectively. One reason is that advanced entities expect internal auditors not only to verify compliance with laws and procedures, but also to suggest ways to make internal control more effective. However, often internal auditors in entities do not perform the function they could and should perform. They focus on tax matters, financial statements, and assess compliance with procedures. Internal auditors are sent where problems arise to play the role of auditors to detect errors and report blame. In some entities, internal auditors are separated from business or operational problems, leaving them with the traditional function of verification [Daujotaitė et.al. (2015), Tarptautiniai vidaus audito profesinės praktikos standartai (2004), Rupšys et.al. (2007), Lakis (2017)].

Scientists investigate internal audit from different angles, highlighting issues in the design and implementation stages of internal audit. Recently, the scientific literature has increasingly focused on the quality of internal audit and its evaluation. The collapse of banks also contributed to this, although in 2007 Bank SNORAS Internal Audit Service was awarded the title of "Oldest Internal Audit Service" by the Lithuanian Association of Internal Auditors. Although it is believed that poor quality audit is only due to insufficient qualification and professionalism of the auditor, this view can be negated by the list of factors determining the internal audit environment [Lakis (2007), Lietuvos Respublikos vidaus kontrolės ir vidaus audito įstatymas (2002), Pickett (2011)].

Modern performance and business management tools require employees to change their well-established work habits, but internal audit is still associated with the function of verifier for many managers and internal auditors themselves. The speed of adapting to changes in the environment depends on the success of operations and business, which requires managers to have a modern approach to their internal audit function.

**Research aim:** Identify and evaluate the determinants of the internal audit environment. **Research methods:** Systemic analysis of scientific literature and legislation and questionnaire survey. **Research results and conclusions:**

Systematic analysis of the literature suggests that the following key factors exist in the internal audit environment: the legislative environment; regulatory enactments; business practices in the region. The first two factors are otherwise known as legal regulation. It should be noted that there are significant differences in the legal level of audit regulation between external, public and internal auditing. Most of the regulations are for external audit, and least for internal audit. An analysis of the legal literature and regulatory documents on internal audit suggests that only the public sector and, to some extent, commercial banks are required to comply with statutory and regulatory requirements that are binding on them. The activities of private sector internal auditors are not regulated by law, the functions of internal auditors are determined by the managers of the entity in which they work, and the standards are purely advisory.

The beginning of the establishment of internal audit in Lithuania is considered to be 1995, when the Board of the Bank of Lithuania approved the Procedure of the Internal Audit Service of Commercial Banks and obligated commercial banks to establish internal audit services. The development of internal audit in the Lithuanian public sector was started only in 2000. In accordance with the 2000 February 7th Government of the Republic of Lithuania resolution no.127 On Internal Audit of State-owned Enterprises and Institutions, internal audit units or positions have been established within public institutions. 2002 January 1st this resolution was replaced by the Republic of Lithuania Law on Internal Control and Internal Audit.

International Standards on Internal Auditing that set out the principles for conducting internal auditing are applied worldwide. The standards themselves are fairly generalized, setting only basic requirements and guidelines, as TVAI seeks to have the standards adopted by the widest possible audience. The Internship Regulations provide interpretations and more detailed explanations of the Standards of Professional Practice in Internal Auditing. Standardization and other supporting materials include methodological literature, studies and reviews, books, seminars, conferences and more.

A systematic analysis of the literature indicates that sufficient legislation and regulations have been adopted, which has a positive impact on the internal audit environment.

In order to assess the impact of business practices in the region on the internal audit environment, a questionnaire survey was conducted among the employees of the entities. It showed that a manager's attitude towards internal audit is strongly influenced by his education. Internal audit is acceptable to higher education managers because they are more open to change and open to change. Educated executives enable the internal auditor to be qualified and understand that internal audit requires an appropriate amount of knowledge. Respondents were also asked about their views on the internal audit process. When employees are not hostile to auditing and evaluating their work, it

positively affects the internal audit environment, enabling internal auditors to play the role they would like to have in the company.

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