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|---|---|---|---|
| | ISI (Dubai, UAE) = 1.582 | РИНЦ (Russia) = 0.191 | PIF (India) = 1.940 |
| | GIF (Australia) = 0.564 | ESJI (KZ) = 8.100 | IBI (India) = 4.260 |
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Issue Article

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# INTERNAL AUDIT IN THE FINANCIAL STABILITY OF ENTERPRISES

***Abstract**: Research Objective: The main objective of the study is to investigate the impact of internal audit on the financial stability of enterprises and to assess the effectiveness of this process.*

*Research methodology: The research was conducted using analytical and comparative methods. Through these methods, experiences in the implementation of internal audit in different countries were compared and appropriate proposals were put forward for Azerbaijan. In addition, the analysis of statistical data and the effectiveness of the use of modern audit technologies were also assessed.*

*Practical significance of the study: The results of the study provide important recommendations for improving the internal audit activities of enterprises, increasing financial stability and managing risks. The proposals also reflect how the integration of internal audit into the business environment can be optimized and effective approaches aimed at maintaining financial stability.*

*Research findings: It has been shown that internal audit plays an important role in protecting the financial stability of enterprises. Research shows that the use of modern audit technologies (Big Data, artificial intelligence and automated systems) has been found to be effective in strengthening financial stability.*

*Scientific novelty of the study: The study proposes new approaches to the impact of internal audit on financial stability. In addition, specific recommendations are provided on adapting internal audit to the Azerbaijani market in comparison with international practices.*

***Key words**: internal audit, financial stability, enterprises, risk management, modern technologies, analytical analysis, financial statements, systematic approach.*

***Language**: English*

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## Introduction

The dynamic economy of the modern era and the rapidly changing requirements of world markets necessitate the application of new strategic approaches and management mechanisms for enterprises. Financial stability in the economic environment is one of the main conditions for the success and sustainable development of organizations. Ensuring the financial stability of enterprises is directly related not only to the timely and correct implementation of operations, but also to the effective functioning of the organization's internal control systems, especially internal audit. Internal audit in modern times is not only about checking the accuracy of accounting; it is also an important tool for achieving strategic goals by ensuring transparency and efficiency in all management and operational processes of the enterprise.

In most cases, the purpose of internal audit is to ensure the accuracy of financial information, as well as to make the organization's management processes more transparent and efficient. Therefore, the study of the impact of internal audit on the financial stability of enterprises is of great importance in terms of the sustainability of economic development and the creation of management systems that meet modern market requirements. The relevance of this topic is due to the increasing importance of internal audit in protecting and strengthening the financial stability of enterprises, especially in developing countries, including Azerbaijan [1, p.193].

In Azerbaijan, in the conditions of a market economy, the role of internal audit has become even more important for the protection and development of financial stability of enterprises. In particular, under the influence of global financial crises and market fluctuations, organizations are constantly faced with the need to optimize their financial structures and manage risks more effectively. Therefore, increasing the efficiency of internal audit and analyzing how these processes play a role in ensuring the financial stability of enterprises is very relevant [2, p.14].

The main objective of this study is to investigate the impact of internal audit on the financial stability of enterprises and to propose new approaches to increase this impact. The role of internal audit in protecting the financial stability of enterprises is very important in the modern business environment. To achieve the goal of the study, the following tasks have been identified:

– Introduction to the basic principles and methods of internal audit: Analyze the structure, functions, and role of internal audit in management systems and learn how these concepts affect the financial stability of enterprises.

– Assessing the impact of internal audit on the financial stability of enterprises: The study aims to measure the impact of internal audit on the financial situation and determine the extent to which audit processes have a positive impact on operations and financial statements.

– Analysis of real examples of the application of internal audit in enterprises: To examine examples of how internal audit is applied in practice in different enterprises and its impact on financial stability.

– To make suggestions for increasing the efficiency of internal audit: At the end of the study, to provide specific suggestions to enterprises to increase the efficiency of internal audit.

The methodology used in this study is based on analytical approach and comparative analysis methods. The following methods were used to achieve the objectives of the study:

An analysis of various financial indicators was conducted to measure the effectiveness of internal audit and the financial stability of enterprises. These indicators include liquidity ratio, debt-to-asset ratio and other financial stability measures. The implementation of internal audit in different countries and the impact of this process on financial stability were compared. In particular, it was investigated how modern audit approaches and methods applied in developed countries can be adapted to the economic environment of Azerbaijan.

Data on the implementation of internal audit was collected through interviews and surveys with enterprise managers and internal auditors. This method allowed for a more detailed understanding of how auditing affects the financial stability of organizations.

These research methods aim to assess the practical impact of internal auditing and to put forward strategic proposals to increase the efficiency of this process.

The scientific novelty of this study is that it examines the impact of internal audit on the financial stability of enterprises in a broader context. Although the existing literature emphasizes that internal audit is limited to checking the accuracy of financial data, this study also proposes new approaches to how audit is an important tool in ensuring the financial stability of enterprises. The importance of the study lies in revealing how internal audit can be used as a strategic tool in protecting and developing financial stability, rather than just identifying risks and analyzing transactions.

The applied significance of this research will allow enterprises to improve their internal audit systems, strengthen their financial stability, and operate in accordance with market conditions. The results of the research will help organizations become more transparent, efficient, and financially sustainable.

**Materials and methods.**

Taking into account the purpose and tasks of the study, both theoretical and practical information was obtained and systematized in this work. National and international literature was widely used in the study. Articles written in different languages, scientific research and international standards form the basis of this work. At the same time, real enterprise data and experiences were also used to more clearly understand the impact of internal audit on the financial stability of enterprises.

The theoretical basis of the study is based on an extensive literature review that includes the basic concepts of internal audit and financial stability. Among the literature materials, the writings of national and foreign experts occupy an important place. In particular, the approaches of YV Sokolov, AQ Gryaznova, EV Markina and LA Drobozina to the role of internal audit were widely considered. These approaches, establishing the theoretical framework of the study, made it possible to understand how internal audit functions as a mechanism for maintaining financial stability.

For practical analysis, data on internal audit of various enterprises were collected. This data includes annual financial reports of public and private sector enterprises, results of internal audit inspections, and various indicators of financial stability. The data was supported by statistical data obtained through the official website of the State Statistical Committee of the Republic of Azerbaijan. This data was analyzed to assess the state of financial stability in the country and the impact of internal audit.

The study used tables and graphs to more clearly illustrate the impact of internal audit on financial stability. These tools played an important role in the analysis of the composition of the state budget and the comparative analysis of financial indicators. Important indicators of financial stability were explained through tables and graphs and how these indicators changed in different periods were shown [3, p.32].

The results obtained in the study were aligned with theoretical approaches and general conclusions were reached. The importance of internal audit in ensuring the financial stability of enterprises was emphasized and suggestions were put forward for optimizing this process. The results were formulated on the basis of both theoretical foundations and practical applications [5, p.43]

**Results and Discussion.**

The purpose of the study was to investigate the impact of internal audit on the financial stability of enterprises and to provide suggestions for optimizing this impact. The results obtained showed that internal audit plays an important role in ensuring financial stability in enterprises and that specific steps should be taken to further improve this process. The results of the study and a discussion of these results are presented below.

The main conclusion of the study is that internal audit has a positive impact on the financial stability of enterprises. In particular, the correct implementation of internal audit reduces financial risks, eliminates inaccuracies and ensures the accuracy of financial transactions. In order to make the financial situation of enterprises more transparent and reliable, it is important to carry out internal audit systematically and regularly. In the enterprises participating in the study, it was observed that financial indicators improved during the periods when internal audit was implemented. Among these indicators, liquidity ratio, debt burden and profitability ratios should be especially noted.

Based on the results of the study, several strategic proposals are put forward to increase the efficiency of internal audit and ensure the financial stability of enterprises:

Improving internal audit: It is proposed to use modern audit technologies, such as Big Data and artificial intelligence, to implement internal audit more effectively in enterprises. These approaches will allow for faster and more accurate analysis of financial transactions [4, p.56].

Strengthening the skills of the audit team: Training and certification programs are offered to enhance the professional knowledge and skills of audit teams to improve the effectiveness of internal audit. Team members should be more knowledgeable about the various factors affecting financial stability and be prepared to apply modern audit methods [9].

Collaboration between management and audit team: The results of the study show that closer collaboration between management and the audit team increases the effectiveness of internal audit. The managers of the enterprise should pay more attention to the results of the internal audit and immediately react to the corrections suggested by the audit [6, p.19].

Based on international experience, the results of the study were compared with internal audit practices in the relevant countries in several positive ways. For example, in developed countries, the use of internal audit as a key tool in ensuring financial stability is widespread. In these countries, audit systems are more automated and data analysis is carried out in real time. The results of the study showed that the application of such approaches in Azerbaijan would make the financial situation of enterprises more transparent and manageable.

**Table 1. Evaluating the effectiveness of internal audit**

| Country | Audit model | Level of implementation |
|---|---|---|
| USA | Sarbanes-Oxley Act (SOX) | High |
| European Union | ISO 19011 standard | Medium-high |
| Japan | Kaizen approach | Medium |
| Singapore | Automated audit systems | High |

***Source:*** *General information and international experience on Sarbanes-Oxley Act (SOX), ISO 19011 Standard, Kaizen approach and Singapore's automated audit systems (PCAOB, ISO, Kaizen philosophy and digital audit studies).*

**Table 2. Analysis of financial stability indicators of "DIOD" OJSC**

| Indicator | Normal restriction | At the beginning of the period | At the end of the period | Deviation |
|---|---|---|---|---|
| Autonomy coefficient K1 | ≥ 0.5 | 0.635 | 0.653 | 0.018 |
| Current assets to equity ratio K2 | ≥ 0.6–0.8 | 0.353 | 0.354 | 0.001 |
| Maneuverability coefficient K3 | > 0.5 | 0.314 | 0.290 | −0.024 |

| | | | | |
|---|---|---|---|---|
| Financial stability ratio K4 | ≥ 0.6 | 0.870 | 0.909 | 0.039 |
| Financial ratio K5 | ≤ 1 | 0.576 | 0.531 | −0.045 |

***Source***: *Article titled "Theoretical and methodological aspects of the analysis of the financial soundness of banks", Leyla Huseynzade, Baku Business University.*

**Table 3. Impact of internal audit across different sectors**

| Sector | Internal Audit Activities | Impact indicators |
|---|---|---|
| Finance | Credit risk analysis | 25% risk reduction |
| Production | Supply chain optimization | 15% reduction in costs |
| Service sector | Customer data protection | 30% increase in transparency |

***Source:*** *The role of internal audit in protecting client data: www.pwc.com*

**Table 4. Comparison of financial indicators for companies with and without audits**

| Indicator | Audited Company | Company Not Audited |
|---|---|---|
| Liquidity ratio | 1.8 | 1.2 |
| Debt-asset ratio | 40% | 55% |
| Percentage of cost reduction | 15% | 5% |

***Source:*** *The impact of audit practice on the financial stability of companies: www.2.deloitte.com*

**Table 5. Internal audit activities in various areas and their results**

| Approach | Impact | Conclusion |
|---|---|---|
| Artificial intelligence application | Increasing the accuracy of operations | Efficient use of resources |
| Risk-based approach | Early identification of critical problems | Risk reduction |
| Use of modern tools | Early detection of fraud | Increasing transparency |

***Source:*** *Information on the impact of internal audit and its application across sectors: az.wikipedia.org*

The results obtained in the study have encountered certain limitations. Most importantly, the data used in the study were limited to only a few selected enterprises. Therefore, future studies should be conducted on a larger sample and the experience of enterprises in different sectors should be taken into account. Also, additional methods, such as longitudinal analysis and interaction methods, can be applied in future studies to study the impact of internal audit on financial stability in more depth [7, p.30]

**Conclusion.**

Based on our results, we can say that it has been clearly proven that internal audit plays a significant role in maintaining and developing financial stability for enterprises. The correct application of internal audit not only ensures the accuracy of financial information, but also allows organizations to build sustainable and sound financial structures. In order to increase the financial stability of enterprises and better manage risks, further improvement of internal audit, application of modern technologies and international practices are of great importance [10].

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