Tools of organizational-economic mechanism of internal control functioning

M K Aristarchova and V S Fakhrutdinov

1Ufa state aviation technical University, Institute of economy and management, department of taxes and taxation, K. Marx St., 12, 450008 Ufa, Republic of Bashkortostan, Russian Federation

E-mail: ninufa@mail.ru

Abstract. The article touches upon the topical issues of the internal control functioning at the enterprise. The tools developed by the organizational-economic mechanism of functioning of internal control, including the principles, functions, logica, time aspect, controlling, norms. The structural and functional components of internal control are identified, the technology of each of them is considered. The adaptive organizational structure of the risk management and internal control system is formed, which can be the basis for the formation of the model of internal control of the gas transportation enterprise.

1. Introduction

For almost a decade, since the introduction of article 19 of the accounting Act, there has been a continuing interest in internal control among the scientific community, consultants and practitioners. Innovation of the Law of 06.12.2011 № 402-FL obliged economic entities to organize and carry out internal control of committed facts of economic life. To date, the legislation on internal control in the Russian Federation is represented by numerous normative legal acts. At the same time, the analysis found that "in Russia at the moment there is no single normative document regulating the activities of internal control, the information is "blurred" among a large number of normative and subordinate acts [1]". Accordingly, in the absence of its own source of methodology, the construction of an internal control system always implies an element of creativity, i.e. each individual system of internal control is unique, which opens up the opportunity to design their own systems.

However, on the other hand, the organization and implementation of internal control – the way to the unknown: who and how should exercise internal control? What principles should correspond to the functioning of the organizational and economic mechanism of internal control? How to establish the process of obtaining information on the effectiveness and efficiency of activities, the reliability of all types of reporting and compliance with applicable law?

To answer the questions posed in the framework of the study, a review of the existing literature [1] was conducted and it was found that the function of "Internal control" came from a practical field: in the West, its legacy can be considered an external audit, in Russia – state financial control and audit. It is also understood that internal control is inextricably linked to the management process and is an integral part of it, is present at all stages of management: planning, implementation, accounting and control, analysis.

The basis of the internal control task is to identify deviations of the current actual state from the desired result for the subsequent adjustment of management actions and, as a consequence, the
achievement of such a desired result. In a General global sense, control is follow-up, that is, after action has been taken. The disadvantage of this format is the loss of time and functioning after the fact. Thus, a conscious approach to the function of "Internal control" is the ability in the current mode to fix deviations from the goals and adjust management decisions, which in turn always leads to a competitive advantage.

The structure of the conceptual approach of the organizational and economic mechanism of internal control is shown in figure 1 and includes the following steps:
1. Formation of the ideology of organizational and economic mechanism of internal control, containing: the basic values, the rationale for the interdependence of all subsystems of the enterprise with the mechanism of internal control, the basic laws of its organization, the requirements for the organization of the structural components of the internal control system.
2. Development of tools of organizational-economic mechanism of functioning of internal control, including: principles, functions, logically, time aspect, controlling, normal.
3. Creation of an adaptive organizational structure of the organizational and economic mechanism of internal control functioning through the use of the developed tools.

**Figure 1.** Concept of organizational-economic mechanism of function of internal control.

A. **Formation of the ideology of organizational and economic mechanism of internal control**
The initial stage of developing the concept of the organizational structure of the organizational and economic mechanism of internal control is to determine the purpose of its organization. According to
the Ministry of Finance of the Russian Federation № PL-11/2013 internal control is designed to obtain sufficient confidence that the economic entity ensures the efficiency and effectiveness of its activities, including the achievement of financial and operational indicators, the safety of assets [2].

V. V. Burtsev defines the purpose of internal control as "ensuring information transparency of the management object for the possibility of making effective decisions. In this case, the concept of "information transparency" of the control object reflects the idea of the degree of controllability of the object, that is, to what extent as a result of management is provided to maintain the desired state or action of the control object at the appropriate time (period)" [3].

In other words, the objectives of the internal control mechanism is to ensure sufficient confidence in the achievement of the goals of the economic entity, as well as proper control over financial and economic activities.

To achieve this goal, the internal control system should address the following main tasks:
– effectively manage risks, improve decision-making processes to respond to risks;
– perform internal control procedures properly and in a timely manner;
– develop internal control procedures (including those aimed at preventing and combating corruption) for timely response to risks;
– timely identify deficiencies, deviations and violations of internal control procedures in the activities of the enterprise;
– create conditions for the timely preparation and submission of reports, as well as other information to be disclosed in accordance with the law;
– improve the efficiency of use and allocation of resources for risk management and internal control procedures;
– to ensure compliance with the legislation and local regulations of the enterprise.

Accordingly, the management of internal control should be aimed at providing sufficient guarantees to achieve the goals and objectives through a set of interrelated organizational measures and processes, organizational structure, local regulations, other documents, methods and procedures (regulations, regulations, standards and guidelines), norms of corporate culture and actions taken by employees of structural units.

All of the above proves that the organizational and economic mechanism of internal control is determined by the laws of formation of complex systems. Presentation of the organizational and economic mechanism of internal control functioning as an integral part of the enterprise management system determines the need to highlight the role, i.e. subordination to synergetic laws. In the process of building an internal control system should take into account a number of laws, the presence of which is due to the role of control in the economy of the enterprise.

Summarizing and summarizing the above provisions of the ideology of internal control, we note that they are in a strict logical relationship. The formulated basic values of internal control are aimed at creating awareness among managers and employees of the enterprise, the importance of monitoring in their daily activities. With this in mind, the second provision of the ideology of the organization of the internal control system is the allocation of the relationship with all the functional subsystems of the enterprise. The internal control system is an integral part of corporate governance, integrated with existing planning systems, project and program management, industrial safety management and other management systems. Internal control processes must be built into all business processes. Third position ideology contains selected and specified regularities of internal control. The fourth provision of the ideology is the definition of the requirements for the organization of structural components of internal control, one of the key requirements of which is strict compliance of the structural construction of the internal control system with the logic of all types of work related to it.

B. Development of tools of organizational-economic mechanism of functioning of internal control.
The presented ideology is the theoretical basis for the development of tools of organizational and economic mechanism of internal control, which include:
– principles of internal control organization;
– internal control functions;
– legitate internal control;
– time aspect;
– controlling;
– norm as a condition of goal-attainment.

The principles of functioning of internal control determine the basic requirements for its organizational structure, formulated on the basis of the above regularities of functioning of internal control. Management regularities are distinguished by the group of General management principles. The laws and principles of Cybernetics allow us to distinguish the General rules of the organization of internal control, considering it as a complex system. Synergetic laws are implemented by the principles of synergy. The regularities due to need to take into account the role of internal control in the economy of the enterprise are identified by a group of special principles. Thus, four groups of principles were identified, generalized and formed: General management, principles of Cybernetics, principles of synergy, and special principles. The classification of the principles of the organizational and economic mechanism of internal control is presented in figure 2.

![Principles of organization and functioning of internal control](image)

**Figure 2.** Principles of organization and functioning of internal control.

Internal control functions are the tool that determine the composition and content of the work of each structural element of the internal control system. Each structural component of internal control is assigned a corresponding function. Figure 3 shows the scheme of assigning the allocated functions to the relevant participants of the internal control system.

The functions presented in figure 3 are based on a risk-based approach, which is now considered to be the most popular way of organizing any activity, since its use provides the possibility of spot checks, saves time, allows you to adjust the intensity, duration and frequency of control actions. Also, the obvious advantage of using a risk-based approach in the planning and implementation of the "Internal control" function is seen as resource savings, since management is carried out exclusively at critical
moments, and preventive control and risk measures can be integrated into management and decision-making processes. A similar conclusion in favor of risk-oriented technologies in internal control can be made on the basis of the study of the labor functions of the internal controller set out in the professional standard "Internal control specialist (internal controller)", approved by the Order of the Ministry of labor of Russia from 22.04.2015 № 236n [4], namely:

– identification and assessment of conditions that contribute to the emergence of significant risks and their transformation into risk events, development of recommendations for effective risk management;
– business process risk analysis;
– assessment of compliance of the performed economic operations and efficiency of use of assets to legal and regulatory framework;
– assessment of the correctness of financial and economic operations;
– evaluation of the effectiveness of the developed control procedures.

| Functions and tasks of internal control systems participants | The participants of internal control system |
|-------------------------------------------------------------|------------------------------------------|
| Ensure the functioning of organizational-economic mechanism of function of internal control | Head of enterprise |
| Develop tools of organizational-economic mechanism of function of internal control | Business process owners |
| Ensure implementation of risk management measures | Risk owners |
| Collect, systematize reports from Risk owners and Owners of internal control procedures | Risk coordinator |
| Monitoring of internal control procedures | Owners of internal control procedures |
| Perfect of tools of organizational-economic mechanism of function of internal control | Center of responsibility in the field of risk management and internal control |
| Evaluation of internal control system | Internal audit |

**Figure 3.** Consolidation of the functions of the internal control system participants.

There are also other variations in the way internal controls are organized and implemented:
– system approach based on Western concepts (SAS 55/78, SAC, COSO, COBIT);
– integrative approach of control subsystems based on ranking the degree of importance of losses;
– on the basis of accounting data and formation of organizational and instructional cards;
– analytical approach involving the creation and monitoring of key performance indicators, etc.
C. Creation of an adaptive organizational structure of the organizational and economic mechanism of internal control functioning.

Approaches can be highly individual, complement and even replace each other at certain stages. At the same time, it is important to build a system that will contribute to the achievement of the goal of internal control – to form an adequate, timely system of information support for all levels of management.

The Foundation of the future internal control system is laid at the stage of creation of the enterprise (company): when designing the organizational structure and building business processes. The organizational structure is a scheme of hierarchical subordination, demonstrates the way of interaction between departments and management bodies in relation to the implementation of authority, information flows and performance of functional duties. The organizational structure, answering questions about the number and composition of units, their subordination, however, does not disclose the mechanism of work. To understand the essence and purpose of what is happening, the persons responsible for the process (sub-processes) and the results of the persons allow properly structured business processes. A business process is a system of consistent, focused, and formalized activities in which inputs are converted through leadership and resources into outputs (process results) of value to the consumer. In other words, the organizational structure is a field of business processes, the main task of which is to promote their work as much as possible without creating "friction" and "obstacles".

In this study, it is proposed to identify and justify the role and importance of such a structural component as the Center of responsibility in the field of risk management and internal control. It is assumed that the center of responsibility in the field of risk management and internal control created on the basis of a matrix organizational structure will provide adaptability to changes in the external and internal environment, flexibility, the ability to send the most suitable employees to the right places, the speed of decision-making, complexity.

The formation of the staff of the Center of responsibility is planned to be based on identified and classified risks (General, operational, legal, tax, etc.) from among the employees of such structural units as the Engineering center, Financial and economic management, accounting, Corporate protection service, property management Department, legal Department, labor protection Department, internal audit Department, as well as delegated employees of production departments.

The main tasks of the Center of responsibility in the field of risk management and internal control will be:
– coordination of the activities of the structural units for risk management and internal control;
– definition of methodological approaches to risk management and internal control processes and internal control procedures;
– realization of generalization and analysis of reporting the company's structural subdivisions on the realized risk of the data on the contractors, on contracts with counterparties on the financial instruments of internal control;
– formation of consolidated reporting on risks and internal control procedures for provision to management bodies;
– monitoring the implementation of risk management processes and internal control procedures;
– formation of a portfolio of key risks, their analysis in order to provide results to the head of the enterprise;
– analysis of measures to improve internal control procedures developed by structural units;
– ensuring the improvement and development of approaches, methods and tools of risk management processes and internal control procedures of business processes.

The interrelation of internal control functions determines the interrelation of the specialists of the responsibility Center performing the corresponding functions, therefore, the works performed by all participants of the internal control system are also interrelated. Interaction of risk management and internal control system participants includes vertical and horizontal interaction. Vertical interaction includes interaction between the head of the enterprise, structural units and risk coordinator. Horizontal interaction is carried out between structural units, risk coordinator, risk owners, owners of internal control procedures, owners of business processes and the enterprise as a whole. Interaction of the
Company with external stakeholders, including state supervision bodies, external auditors, banks, insurance companies, shareholders, investors is carried out in compliance with the requirements of the current legislation, local regulations. Application circuit control logically when designing a responsibility Centre in the field of risk management and internal control is presented at figure 4.

Figure 4. The content of the control of logicalization: "I1" - information which Center’s staff transfer in various structural subdivisions of the enterprise; "I2" - outside information, "Ii" - inside information.

The selected relationship within the Center of responsibility, as well as the developed technology of work performance, requires the integration of the internal control system into an integrated enterprise management system. It is proposed to apply logically and temporal aspects of internal control. With the help of logicaly coordination on business management and management control on the basis of organizational activities, systematic consultation of experts internal control unit with specialists from other departments, as well as on the basis of information transfer. The potential of the control logically allow us to consider it as a bridge through which there is integration and coordination of the internal control system and management of the enterprise at every level: strategic, tactical, operational.

Figure 5 shows a model of spatial representation of the organizational structure of the enterprise and the internal control system. The advantage of this model is the ability to clearly see that the business processes of the enterprise are combined with the levels of strategic, tactical, operational management. In addition, this model contains a vertical plane that permeates the architecture of the enterprise and demonstrates that internal control is present at each stage of enterprise management (strategic, tactical, operational), in its implementation involves all the staff of the economic entity (ordinary employees, line managers and enterprise management). Thus, the structural components of internal control-integrated enterprise management system by means of instrumentation: principles, functions, logicaly, time lines, controlling rules.
Summarizing all the above, we can conclude that the selected tools are closely interrelated and represent an integrated system, the application of which is determined by the developed methodology of internal control, within which three stages of the formation of an adaptive organizational structure are identified. At the first stage, the structural components of internal control are determined. At the second stage, the functional components of internal control are distinguished. At the third stage, the technologies of each functional component of internal control are developed. The composition and characteristics of the structural components of internal control, the type of its organizational structure, the form of organization of internal control will be individual for each enterprise, since all of the above must be consistent with the overall organizational structure, and in addition to take into account the wishes of customers and legal requirements.

2. Results
The main purpose of internal control is to identify inconsistencies in any time period in all areas of enterprise management. The functioning of internal control is aimed to provide assistance and support to management, being an additional channel of information for it, it provides a methodological basis for other control systems, coordinates all control functions within the organization.

In essence, internal control is formed by a set of subjects of internal control; internal control procedures, i.e. the tools by which the controller carries out its work; norms of behavior and actions of employees. Within the framework of the internal control system, the norm is designed to maintain its functioning in a stable state, providing a certain degree of freedom, avoiding negative trends.

Also, when building a system of internal control there is an excessive overregulation of economic activity. To solve the existing problems, we used a risk-oriented approach, which has provided an opportunity to choose the object of inspection, as well as the intensity of control measures.

In this case, as a result, we got no unwanted controls, adequacy of control procedures in form and content, transparency and control of business processes. All this, certainly, moves apart the horizons and opens a way to creativity.

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