BUSINESS AND THE INTERNAL CONTROL SYSTEM OF THE AUDITED ENTITY: RISK ASSESSMENT

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INTRODUCTION

The internal control system is an indicator of the success of the enterprise, thereby contributing to the growth of the level of profitability and its assets. Companies should conduct internal control independently without state regulation. Using a clear control procedure, the company can prematurely identify risks and threats that may affect the final financial result of the company, thereby eliminating all shortcomings in the work at an early stage.

Due to the novelty of implementing an internal control system in organizations where practical application experience is required, there is still a need for scientific research. These studies should be aimed at the careful development of audit standards for which there will be a place of its application.

MATERIALS AND METHODS

The theoretical elements of the work were applied to the scientific research of Russian scientists who had direct experience in the development of the internal control system. The main research tools used in this work are system analysis. Methods of empirical research, principles of formal logic, synthesis and analysis of the works of Russian and foreign scientists are used to study theoretical and practical material.

RESULTS

The word business is a borrowing from the English language, where business - “business, occupation”, the word process from Lat. prōcēssus means "moving forward", based on the etymology of the two words, a business process is a set of continuous actions performed to achieve the desired end result. The future success of any business process depends on various factors, where internal control is one of these factors. The need to implement internal control is determined as one of the functions of the company’s management. The appearance of the internal control system is connected with the entry into force of Article 19 of the Federal Law No. 402-FL "On Accounting" dated December 06, 2011. The appearance in this law of an article on the organization of internal control is associated with an increase in the number of fraudulent schemes of organizations.

In order to determine the effectiveness of the internal control system, the organization should evaluate the reliability of the internal control system. The trend of implementing an internal control system is directly related to the management of cash flows, the company should conduct a cash flow analysis, which makes it possible to assess the financial stability of the company, find weak points, and determine the most liquid assets of the company. Therefore, with the help of the experience of foreign companies, it is possible to build an effective internal control system (ACCESS FROM THE LEGAL REFERENCE SYSTEM "CONSULTANTPLUS", 2011).

The most reliable concept of an internal control system can be found in International Standard on Auditing 315 “Identifying and assessing the risks of material misstatement by examining the
organization and its environment", in this standard " Internal control system - these are processes designed, implemented, and maintained by those responsible for corporate governance, management, and other employees of the organization to provide reasonable assurance about the achievement of the organization's objectives in the areas of reliable financial reporting, performance and efficiency, and compliance with applicable laws and regulations." The predicted assessment of the analysis results of the internal control system makes it possible to get an answer to such questions as:

1) should one invest money to increase the company's turnover;
2) where to reduce investment;
3) what sources to use to attract additional funds;
4) in what case can the company's obligations be reduced;
5) is it possible to increase the reserve of unforeseen expenses (Access from the reference legal system "ConsultantPlus")

Since the activity of the internal control system is aimed at protecting the assets of companies, where one of the protective mechanisms is to identify existing distortions at an early stage, and their further elimination. These activities provide direct assistance in the organization of the company's work, where it is assumed that the orders of the company's management are executed, ensuring accurate and reliable financial statements. Clarification of the control environment in which the work will be carried out. Therefore, the auditor is required to evaluate the work of the company's owner, whose functions include providing the company with supervisory structures that represent corporate management. The system will not work effectively if the company does not set up a process for assessing existing risks. Risk assessment, as one of the components of the system, provides for the identification of risks by the company's management, if the risk is identified by the auditor, an assessment of this risk and the extent of its impact on the company's financial performance is given.

Understanding the operation of the information system used in the business process gives the auditor an idea of the significant operations that exist in the company, as presented in the accounting data. The procedures for preparing financial statements, using information systems, also make it possible to give an objective assessment of the work of the audited entity. The significance of the applicable control actions in the audited organization requires careful study by the auditor (Access from the reference legal system "ConsultantPlus"). A modern organization requires continuous monitoring of controls, for the timely action of internal control in the direction of preventing deficiencies in the system. During the cash flow analysis, it is necessary to monitor the ratio of actual and expected indicators, in order to timely identify deviations and eliminate this deviation, which should ultimately lead to strengthening the financial stability of the company.

Auditors need to understand all the specifics of the internal control system of the audited entity, due to the difference in the work of each company, which operate using their own internal regulations and policies. Current legal requirements: on the implementation of the internal control system in the business processes of the organization, due to the need to specify the requirements of the organization of this system. For this purpose, the Ministry of Finance of the Russian Federation issued recommendations in the field of accounting "Organization and implementation by an economic entity of internal control of the performed facts of economic life, accounting and preparation of accounting (financial) statements".

Considering the assessment of financial reporting indicators in the context of Russian and international practice, we can note their similarity of approaches to assessment. The Ministry of Finance, which developed its own model for evaluating the internal control system, where the basis for the calculation was a multidimensional discriminant analysis (KAZAKOVA, 2015). Internal control of the audited entity involves assistance in achieving the fundamental goals of the economic entity, identifying existing deviations in the activities, thereby increasing the efficiency of the economic entity, this item does not take away the probability of the occurrence of inefficient work, the probability of occurrence is shown in Figure 1.
Therefore, there is a need to create, implement and document procedures to reduce the likelihood of risks affecting the outcome of the implementation of the objectives of the economic entity.

Table 1 - shows the internal control procedures recommended by the Ministry of Finance of the Russian Federation. Table 1 - Internal control procedures

| No | Control procedure                                      | Examples                                                                                                                                                                                                 |
|----|--------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1  | Documentary registration                               | Each business transaction must be documented using a primary accounting document, including accounting certificates, periodicals of the dynamics of primary documents, cash register, etc. The estimated values should be based on the regulations established by the management. |
| 2  | Confirmation of compliance with the established legal requirements | The internal control procedure is based on related transactions, the correlation of the transfer of funds to pay for tangible assets, the procedure for receiving and entering tangible assets. |
| 3  | Authorization of business transactions                 | The procedures are carried out with the consent of the managers                                                                                                                                                                                                    |
| 4  | Data reconciliation                                    | Quarterly reconciliation of accounts receivable and payable with suppliers and buyers. Reconciliation of cash account balances with cash book data.                                                                 |
| 5  | Separation of jurisdictions and rotation of responsibilities | There should be a clear regulation of the division of responsibilities among responsible employees.                                                                                                        |
| 6  | Physical control                                       | Security service, inventory, restricted access                                                                                                                                                                                                                   |

Source: Search data.

One of the recommended procedures is to regularly update the documentation applicable in the organization. Once a year, it is recommended to assess the need for updating the documentation. This need is due to the ongoing work on errors, that is, in order to optimize the work and reduce the work processes. The reason for the revision of the documentation may be, as a result of the assessment of the internal control system, the inefficient use of work processes was revealed. The implemented changes showed negative results on the activity of the economic entity. The documentation used in the organization showed unreliable data. Therefore, in order to eliminate at an early-stage negative procedures that directly affect financial results, it is necessary to update the applicable documentation (FEDOSENKO, 2017).
All transactions applicable on the territory of an economic entity are recorded in the accounting and management records on the appropriate accounts, the time period, the specific place of sale of services, and according to the accounting policy that is applied by the economic entity. Taking into account the international experience of applying the internal control system, we should separately consider the direct practice of the system in the United States as the most influential experience. Due to the emergence in 2002 of a number of high-profile cases directly related to the submission of unreliable financial data by a number of major international companies, the degree of control over the preparation and presentation of financial statements has increased several times. As a result, a law was published that applies to all international companies interested in selling securities, in order to protect the holders of securities.

Basically, the law is aimed at the high role of the responsibility of the owners of companies, who are responsible for organizing an effective model of the internal control system and its regular performance assessment. Since the entry into force of the law, the owners of companies must perform a regular assessment of the company’s activities, using control procedures, and at the same time have evidence of the use of a particular operation to justify the effectiveness of the internal control system.

The role of the auditor in this case is to analyze and evaluate the effectiveness of the internal control system, the applicable evaluation procedures, the management of the companies, as well as to express an opinion on the reliability of the presented financial statements (Access from the reference legal system “ConsultantPlus”).

With the introduction of this law, due attention has been paid to the detection of risks in all elements of the functioning of business processes. Just for the timely detection of a specific type of risk and to minimize its impact on the results of the business entity, an internal control system was organized. The internationally recognized COSO model is the foundation for building an internal control system. This model and its principles are the basis for all control units established by the supervisory authorities for credit institutions (KOVALEVA, 2014).

Russian organizations should adopt the experience of foreign companies that have implemented internal control, considering the recommendations developed by the Institute of Chartered Accountants of the United Kingdom, which are valid for the London Stock Exchange. Since foreign experience has shown the effectiveness of using these recommendations, which include a system of policies and processes aimed at:

- timely response to risks in the company, compliance with internal requirements of the company.
- preparation of high-quality management and financial statements.
- compliance with current legislation, regulatory requirements and internal policies of the organization (Access from the legal reference system “Consultant Plus”).

Company owners are responsible for evaluating the performance of the internal control and risk management system. The executive officers are responsible for compliance with the company’s internal policy and achieving the set goals within the scope of their powers. In the COSO model, a special place is given to evaluating the effectiveness of internal control, where, in turn, the selected board of directors is based on the following factors:

- the role of internal control in the company’s business processes;
- materiality and scope of risks;
- assessment of the occurrence of threats from outside;
- the ratio of the benefits received from the internal control system.

It should be noted that the model of three lines of defense is widely used abroad. The model is a clear distribution of responsibilities at three levels of control and risk management in the company.
The first level of protection involves control over operational risks, and their analysis and assessment of the impact on business processes.

The second level of protection is a constant monitoring and risk management, control over the performance of their duties as the first line of protection, according to internal policy. Also, the second level of protection helps the owners of the company to develop business processes, internal policies that will be effective specifically for this company.

The third level of protection is an independent, disinterested, internal audit. Owners of companies interested in achieving their goals should receive an objective assessment of their company's performance, thereby protecting the company from unforeseen losses that the first and second lines of defense of the company will not be able to objectively assess.

Thus, a clear separation of jurisdictions of each level of protection in the company, with the help of an internal control system, provides the company with a high-quality study of all levels of the business process. The company's implementation of the COSO risk management model in tandem with the three lines of defense model guarantees confidence to the company's owners, control over the company's financial turnover, which in turn provides the company with the necessary and sufficient financial resources.

The owners of the companies are responsible for the effective functioning of all levels of business processes, so they need to agree to the comments submitted by the auditor. Executive officers are responsible for compliance with the company's internal policies. It should be emphasized that during the first half of the year from the moment of implementation of the system, monthly testing of control procedures is necessary. This will eliminate mistakes made during development. In the future, the internal control system may be tested every six months. The internal control system must be built in such a way that the following conditions are met:

1) before starting work with potential partners, conduct a rapid analysis of the company's solvency to have an idea of the financial capabilities of the company.
2) set clear deadlines for debt repayment, set interest rates for each overdue day.
3) conduct monthly monitoring of compliance within the terms of the contract.
4) develop a debt collection calendar, thereby controlling the maturity of obligations for each client.
5) for debt that cannot be recovered, create a provision for doubtful debts.

After the testing, a report on its results is compiled, including recommendations for eliminating the identified shortcomings of control procedures. Strict implementation of the developed control procedures is required by implementing information systems. For example, an information system can provide electronic document management and block payments that have not been authorized or prevent the formation of documents necessary for the shipment of products to the buyer if he has exhausted his credit limit.

There is also software that allows one to test the created control procedures, for example, Aris Audit Manager; there are separate modules in software such as Axapta, SAP, Oracle. In addition, this system can simplify the identification of dynamics for specific types of violations and shortcomings of the internal control system in the context of specific business processes, divisions, subsidiaries or affiliates. Thus, a timely analysis of the internal control system creates an opportunity to avoid an unexpected decline in the level of income in the company. A detailed study and development of the internal control system makes it possible to predict the future income of the company.

**CONCLUSION**

One of the tasks of the business process management system is to control the company's financial turnover, which in turn provides the company with the necessary and sufficient
financial resources. One of the characteristics of the financial condition is the solvency of the company, which is defined as a guarantee of the continuous process of carrying out activities. The internal control system is aimed at creating the necessary prerequisites and increasing the likelihood that the company as a whole and the company’s managers in particular will achieve their goals. When developing an internal control system, companies should be guided by the COSO methodology, the main requirements of which are reduced to the following theses:

- preparation of high-quality management and financial statements.
- compliance with current legislation, regulatory requirements and internal policies of the organization
- the creation of a successful development of business processes, the company cannot refuse to increase its obligations, so the company is characterized by a low level of solvency.

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Business and the internal control system of the audited entity: risk assessment

Negócios e o sistema de controle interno da entidade auditada: avaliação de risco

Negocio y el sistema de control interno de la entidad auditada: evaluación de riesgos

Resumo
Uma seção importante em qualquer empresa de bom funcionamento é o sistema de controle interno. Como uma das funções das atividades de gestão, que determina a avaliação quantitativa e qualitativa do desempenho da empresa, o controle ajuda a identificar vulnerabilidades na empresa em tempo hábil. O objetivo fundamental deste trabalho é estudar o sistema de controle interno e divulgar o conceito de negócio da entidade auditada a partir do lado teórico e prático. No decorrer do estudo, os autores chegam à conclusão de que, para construir um sistema de controle interno eficaz, é necessário desenvolver subseções em processos de negócios que levem ao controle em cada cadeia de processos.

Palavras-chave:Negócio. Sistema de controle interno. Riscos. Modelo COSO. Auditoria.

Abstract
An important section in any well-functioning company is the internal control system. As one of the functions of management activities, which determines the quantitative and qualitative assessment of the company’s performance, control helps to identify vulnerabilities in the company in a timely manner. The fundamental purpose of this work is to study the internal control system and to disclose the concept of the audited entity’s business from the theoretical and practical side. In the course of the study, the authors concluded that in order to build an effective internal control system, it is necessary to develop subsections in business processes that lead to control at each process chain.

Keywords: Business. Internal control system. Risks. COSO model. Audit.

Resumen
Una sección importante en cualquier empresa que funcione bien es el sistema de control interno. Como una de las funciones de las actividades de gestión, que determina la evaluación cuantitativa y cualitativa del desempeño de la empresa, el control ayuda a identificar vulnerabilidades en la empresa de manera oportuna. El propósito fundamental de este trabajo es estudiar el sistema de control interno y divulgar el concepto de negocio de la entidad auditada desde el punto de vista teórico y práctico. En el transcurso del estudio, los autores llegan a la conclusión de que para construir un sistema de control interno eficaz, es necesario desarrollar subsecciones en los procesos de negocio que conduzcan al control en cada cadena de procesos.

Palabras-clave: Negocio. Sistema de control interno. Riesgos. Modelo COSO. Auditoria.