

A Model of Internal Audit in the Company Management System

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Abstract:

An issue of justification of elements of the internal audit integrated system, development of its model focus upon the increased enterprise management efficiency, as well as its inclusion into the management system are believed to be debatable and have to be solved both within a particular enterprise, and at the state level. As a result of the analysis of approaches to definition of internal audit in the scientific and educational literature, the author determined several problematic issues regarding interpretation of the internal audit essence. A model of the internal audit system for self-identification in the enterprise management system is developed to improve the internal control efficiency; a model implementing a comprehensive approach focused upon achieving corporate goals is offered.

Keywords: internal audit; model of internal audit; internal control; management system; balanced scorecard.

JEL Classifications: M40; M42; M48.

Introduction

One of the important tasks for enterprises is to ensure its stable activity, but many companies have no audit at all and this fact increases a chance of accounting and reporting distortions, as well as of inappropriate operations. Therefore, one of the conditions of the effective activity of corporations is the permanent control system. Regular information requests of owners, managers and other internal users necessitate arranging the internal audit service in the corporate management system to obtain independent guarantees and objective recommendations and clarifications on various issues of the corporate management. In addition, 60% of top-managers and 45% of involved persons (audit committee chairmen and members, senior management) expect that over the next five years the internal audit function is going beyond usual frameworks to serve for the company as a prescient trusted advisor (Research of the state of an internal auditor job, 2015).

Internal control is not a mandatory institutional element of enterprises and corporations, however, recently organization of the internal audit and control at corporations is considered to be important.

Internal audit meaning is determined by its ability to ensure solution of social and economic tasks, as well as to use efficiently the enterprise's financial and other resources under the legality principle. As a management function, an internal audit should comprehensively consider new trends in the scientific management, taking into account not only innovative approaches and methods, common in developed countries, but also a negative experience in this area, caused by the complexity and scale of tasks to be solved (Kabashkin and Myshov 2011).

Issues of the internal audit theory and organization are still interpreted ambiguously: different terminology, no adopted laws to regulate the internal audit procedure and its conceptual framework. It constrains its practical implementation due to lack of clear understanding by the society both of the internal audit essence, and its capacity to foster the improvement of corporate and risk management processes. So this research of theoretical aspects of internal audit in the context of development of its conceptual model is considered to be relevant.

Searching ways to improve the efficiency and quality of the internal control system resulted in the inclusion of theoretical, methodological and organizational aspects of the internal audit into the sphere of post-soviet specialists' interests. At the same time due to limitations of its own internal audit, and then of the field of long-term scientific generalizations, the methodology for the conclusions and proposals in this area was mainly based on works by Western authors: M.A. Azarskaya (2009), P.A. Alborov (1998), R. Dodge (1992), I.A. Prodanova (2006), J. Robertson, (1993). Taking into account achievements of the western theory and practice concerning the organization of the internal audit, borrowing the experience did not provide any positive influence. Issues of the internal control system were described in the works by V.D. Andreyev (1994), V.V. Burtsev (2000), T.V. Kakovkina (2011), V.M. Melnik (2004), however, their works do not disclose the relationship of the control function with other management functions. Thus the social needs for reliable and structured information can be satisfied by the developed systems of the internal control and auditing.

Currently there are no discussions on interpretation of the internal audit concept as part of the internal control system of an economic entity. However, in the late 90s of the XX century, this conclusion, despite availability of translations of Western researchers' papers in the former Soviet Union, was not considered to be irrefutable (Alborov 1998), leading to equation of the concepts of 'internal audit' and 'internal control' and corresponding equation of tasks and functions of the internal audit and control. However, domestic and foreign scientists are still using different approaches to definition of the internal audit as well as for the regulations, namely: as a system (Sheremet 2007), as an activity (Burtsev 2003), as a control process (Pugachev 2010), as an audit (Byichkova 2003), as a provision of independent and objective guarantees and consultations (International Standards for the Professional Practice Internal Auditing 2012).

Implementation of the analysis of existing definitions of the internal audit and clarification of its essence are given in Table 1.

Table 1. Definition of the internal audit essence in the educational and scientific literature

Source	Interpretation of the internal audit concept
Educational literature	
P.A. Alborov (1998)	Internal audit – it's actually internal control
V.D. Andreyev (1994)	The monitoring system, organized at an economic entity for its owners' (or top-management's) benefits and regulated by internal documents. Internal audit is an independent competent assessment of the financial, economic and administrative activity of the company, basing on the systematic scientific process of objective collection, analysis and evaluation of evidences on economic measures and cases in order to establish their compliance with the performance criteria, forecast of future development, working out of recommendations
A.S. Bakayev (2002)	Internal audit – adopted by an economic entity for its members' (founders') benefits, regulated system of control over maintenance of an established procedure of accounting and collection of other information, implementation of the company's programs and plans in accordance with the legislation at business running
A.M. Bogomolov and M.O. Goloschapov (1999)	Part of the overall audit organized within an economic entity for its owners' benefits and regulated by its internal documents on compliance with an established accounting procedure, property protection and reliability of the internal control system
S.M. Byichkova (2003)	An element of the internal control system, organized by the company's management to analyze accounting and other control data
L.M. Kalistratov (2007)	Internal audit – organized by an economic entity acting for its owners' or top-managers' benefits, regulated by internal documents, the system of control over compliance with an established accounting procedure and reliability of the internal control system
V.M. Melnik, A.S. Panteleyev and A.L. Zvezdin (2004)	Internal audit – organized by an economic entity for its management's benefits and regulated by its internal documents activity to verify and assess the work of the entity in order to determine reliability and efficiency of individual components of the internal control system
J. Robertson (1993)	Internal audit – an independent assessment within a company to verify and determine effectiveness of its activities
Scientific literature	
E.A. Arens and J.K. Loebbecke (2004)	Internal audit – inner economic audit, which provides the administration with valuable information for making decisions regarding their efficient business running

Source	Interpretation of the internal audit concept
V.V. Burtsev (2003)	Internal audit – regulated by internal documents company's activity in the management control and various aspects of the company's functioning carried out by representatives of the special supervisory body to assist the company's control authorities
R. Dodge (1992)	Internal audit is part of the internal control; conducted by decision of management bodies for control and analysis of economic activities
I.A. Prodanova (2006)	Internal audit is an independent activity at a company on inspection and evaluation of its work for its chiefs' benefits. The purpose of internal audit - to help a company's employees to function effectively

Upon the analysis of the works of domestic and foreign scientists on definition of the internal audit essence, it can be concluded that the interpretation of the internal audit concept is quite diverse. According to the author, all these definitions have the right to exist, although they have certain drawbacks.

The multiplicity of existing definitions of the internal audit testifies inadequate development of the issue: the most felicitous definition is still looking for that would at least disclose inherent features of the internal audit. Indeed, each of the above definitions reveals certain features of the internal audit. Thus, the disclosure of the internal audit as a system indicates that it is a complex structure, which includes certain elements. Definition of the internal audit as an activity suggests that inherent attributes are revealed through actions of certain individuals – the internal audit subjects. Certain symptoms indicate the internal audit functions, recognized by one or other author. Generally, there are definitions more or less based on interpretations in a particular standard. In the domestic theory, an internal audit has been recently considered as certain guarantees and consultations meeting the provisions of the International internal auditing standards (Standards for the International Professional Practice of Internal Auditing 2012). In accordance with these standards, internal audit has to assess an ability to improve corporate management processes, risk management and control, using a systematic and sequential approach.

The point of view by M.G. Gogsadze (2015) seems to be interesting, indicating a feature on the corporations' internal audit 'an internal audit is a continuous activity, regulated by internal documents, on an independent and objective assessment of the internal control system effectiveness at a corporation and its divisions in order to improve efficiency of an economic entity in the future.'

The paper by A.V. Smetanko (2013) stipulates the following definition of internal auditing as 'a professional activity of internal auditors in inspection of the accounting, internal control and corporate management in order to provide guarantees, consultations, draft decisions and guidelines aimed to improve the company's functioning and risk management, followed by an assessment of their effectiveness.'

However, a domestic user of the internal audit does not sufficiently know about these definitions. Therefore, according to the author, the terms 'Recommendation' and 'Explanation' are advisable to use in the domestic science and practice when considering a method to provide results of by internal audit subject's actions. Thus, the research of theoretical and methodological principles of internal audit helps to clarify the definition of its concept.

An internal audit is offered to understand as the authorized entities' activities on provision of independent and objective assessments of the systems of risk management, control and corporate management and of clarification and recommendations to those highly authorized at a company, in order to improve performance. This interpretation allows, firstly, to consider an internal audit as a system of interrelated elements - subject, objects, process, result, employees' actions, which interacts with other elements of the system of the company's internal control, as well as with elements of the company's management system and, secondly, to identify a generic structure of the internal audit objects, *i.e.* processes of the corporate management, risk management, internal control system, as well as to specify groups of the internal control objects with respect to which the internal audit subjects should take actions to provide clarification and recommendations for its improvement. The national system of financial and economic control is offered to be considered as an external environment regarding the internal audit system functioning, which within the powers interacts with the internal audit subjects (*e.g.*, during an external audit, communication with the state financial control bodies).

According to the accepted approaches, the internal audit system (IAS) is one of the elements of the internal control system (ICS). The aim of the IAS is the control over the effectiveness of production and financial activity, information provision of the enterprise's management with reliable and timely information, the control over

compliance with the existing legislation. According to the above tasks, the IAS is intended to solve a number of the following tasks:

- Assessment of the risk management quality;
- Assessment of the operational efficiency;
- Assisting the enterprise's management in the development of rules and procedures;
- Evaluation of methods, tools and quality of the internal management control;

However, certain shortcomings can be named:

- Lack of the adequate managerial control and the reporting system;
- Poor revealing and assessment of risks;
- Lack and weakness of the regulatory structures;
- Insufficient exchange of information between different levels and structures.

At the same time, the specificity of corporate structures' activities requires to take into account certain specificity and features. Features of the corporate management are in several stakeholders: shareholders, managers, board members, etc. The complex structure of corporations leads to appearance of new approaches in the management system organization, one of which is a process approach. It defines the importance of the development of the internal control system and appropriate organizational, methodological and information support.

Control at the process approach is not limited to executors' liability within the structural division. The main control object is relation providing effective interaction of these structural divisions and achievement of their goals. But it is not enough to manage modern corporations, because the strategic objectives of their development require the role and place of the internal audit in the control system to be defined so that to avoid function duplication, conflicts of interests and to improve efficiency. The mission of the internal audit is to carry out independent control in the management system, providing the owners and domestic users with objective and reliable information about the enterprise's activities. The model of the corporate management system would significantly affect formation of a model of audit in the corporate management system. The most common models of the corporate management are known as follows: American (or outsider) model; German (or insider) model; Japanese model and family model of the corporate management. The main difference between these models is in different ownership and sharing control levels. However, the corporate management Russian system is noted to be different from all the said models because the principle of sharing of the ownership and control is not recognized, so the corporate management is gradually developing into the simultaneous integration of several models.

Thus, the approaches of the internal audit corporation require certain changes and improvements. The corporate audit can be viewed from two perspectives:

- In a broad sense – it is an audit for the quality of financial statements, management decisions in finances and economic security, risk management;
- In a narrow sense – a corporate audit can be defined as implementation and monitoring of compliance with the corporate standards.

Thus, building IAS in the corporate management system, objectives, objects and subjects, which would be key elements of this system, should be clearly identified and formulated. So, in the author's opinion, the purpose of the IAS functioning at the corporation is to ensure its financial stability and competitiveness. Unlike IAS objects at enterprises and organizations, IAS objects at corporations are separate vertically or horizontally integrated business-processes, structural elements of the corporation, its subsidiaries and associated companies. IAS subjects at corporations at the macro level: the State Duma, the Russian President, Central Bank, etc; at the micro level: controllers and auditors of an individual section, corporation control authorities, auditing commission, chief accountant, middle managers. The IAS functioning mechanism is the whole set of elements of the system for control.

Procedures of the corporation internal audit includes the following: analysis, monitoring, request, and confirmation.

The internal audit system functions in accordance with the principles, typical for the complex systems (Kakovkina 2011) Table 2.

Table 2. Principles of the internal audit system functioning (compiled by the author)

Principle	The principle content
the communicativeness principle	The internal audit system is not isolated from other systems, in particular, the internal control system and the company's management system, which takes into account the exchange of information flows at the company level, as well as the national system of the financial and economic control;
the hierarchical subordination principle	The internal audit is a system and sub-system of the internal control system, the company's management system, the national system of the financial and economic control which are relatively considered to be higher-order systems;
the necessary diversity principle	The internal audit is a function of the internal control system, as well as of the company's management system, it cannot exist apart from the organizational structure of the company's management system;
the structuredness principle	The internal audit structure cannot be considered separately from the researcher's goals;
the openness principle	Empowering the involved people to provide the control exposure;
the legality principle	Processes of functioning and development of the internal control system (ICS) are based on the Russian and international legislation. Internal control procedures, in particular, allow to ensure legitimacy of an activity of an enterprise and all its employees;
the principle complexity	The ICS is a complete, comprehensive and coherent system covering all aspects of the enterprise's activity, and taking into account peculiarities of its sub-systems;
the focal principle	The ICS creates conditions for concentration of common efforts of all participants of the control activity upon development of those of its members who provide effective achievement of the enterprise's objectives;
the risk-orientation principle	Processes of ICS development and functioning are based on the results of the detection, prediction and assessment of risks inherent in the enterprise;
the independence and objectivity principle	The internal control effectiveness is evaluated by specialized bodies, acting on the basis of professional and corporate standards independently and impartiality that allows to provide the management with objective results of the evaluation;
the principle of sharing responsibility between the control subjects	During the ICS procedure, control functions are shared between different control subjects so that to achieve the control activity objectives by the most effective way;
the sufficiency principle	The scale and scope of the control functions and procedures should be proportionate to identified risks and projected threats, to ensure safe operation of the industry, the effective achievement of the objectives.
the balance principle	An internal control subject cannot be entrusted to perform functions not supported by appropriate organizational (order, instruction) and technical (software, counting and measuring devices) means for their proper execution.
the constancy principle	The ICS operates permanently allowing timely to reveal deviations from the planned assignments and standards.
the principle of proper reports on identified significant deviations.	The information about them should be promptly communicated to the persons directly taking decisions on these deviations.
the principle of distribution of duties.	Functions of the administrative staff are distributed so that to satisfy the requirements for formation of the control environment.

Thus, the internal audit on the one hand is an independent function of the internal control and management with inherent properties, and on the other hand - a cybernetic system, developing according to certain principles. In the context of reforming the financial control system, optimization of the internal audit system is getting much more important. Limiting the external environment influence with respect to an economic entity by regulatory and control activities through taxation mechanisms obliges those, endowed with the highest authority on the definition of the company's strategy development, to provide reliable feedback in the control system through integration, creation of appropriate conditions and optimization of internal audit functions.

2. Materials and Methods

Various models of the internal control systems, assessment of their effectiveness, as well as shortcomings of the classical models are described in different scientific works. However, one major drawback is that the internal

control services at the most enterprises do not have the purpose, non-compliance with the internal control service to quickly adaptation and transformation to the new standards, lack of an established documentation procedure, plans, mechanisms of regulation, decision-making.

Considering the research theme and the corporation activity specificity, it is necessary to analyze the existing models of the internal control systems. Having summarized the modern scientific-methodical approaches, three currently available main models of the internal control were found: confirming, system-oriented, risk-oriented (Table 3).

Table 3. Characteristics of the existing models of the internal audit system (compiled by the author)

Model	Model Characteristics
Supporting model	It is intended to confirm and assess compliance of the inspected systems with the legislation requirements
System-oriented model, including:	<ul style="list-style-type: none"> ▪ A model of the effective internal control ▪ A model of the indicative internal control
A risk-oriented model	The modern model which pays great attention to definition of risk tendency in line with the strategy and tactics of the company's development

E.V. Galkina (2013) in her work noted that large companies traditionally used elements of the system-oriented and risk-oriented model. To create a meta-system, a single set of three models is proposed to use. In this paper the authors (Deynega and Martynova 2012) stipulated that the integrated model of the internal control should include three levels of control. The first level - a system of the internal control as an element of the control system, the second – the service of the financial control and risk management, the third – the internal audit. Horizontally, this system involves integration of experienced personnel, information technology, databases, etc. At the same time, in accordance with the international COSO methodology in practice in Russian companies, the component analysis of the internal control system effectiveness is offered to use, which involves a score by the following components: control environment, risk assessment, control measures, information and its transfer, and monitoring.

The methodology of the internal audit is described with three main methods (Bulyga 2013):

- (1) determination of actual quantitative measurements of an audited object revealed in the form of an inventory of material assets;
- (2) comparison of actual data to the planned indicators, which include current, operational and strategic plans and contain some indicators, studying which the phenomenon progress can be accurately considered;
- (3) the method of evaluation is considered to be particularly relevant at the accelerated inflation rates, reorganization or liquidation of the enterprise, facts of theft, etc.

The audit completeness, total costs for its implementation and cost-effectiveness, which provides for compliance, acceptable for a single enterprise, between the costs of audit service retention and resources saved during the internal auditors' productive work, serve as a criterion of the internal audit quality at the enterprise (Bychkova 2003). These indicators may vary considerably depending on the specific features of the enterprise and external market conditions. That is why various systems of self-assessment of the internal audit service efficiency are used abroad, in particular 'Quality Assurance Manager' position is included who checks the internal audit quality. At the same time, the practical experience (Study of the current status and trends of development of internal audit in Russia, 2015) shows that the following indicators are most common at the Russian enterprises (Table 4).

Table 4. Indicators of assessment of the effectiveness of the IAS

Indicator	The percentage of usage in practice, %	
	2013	2015
The degree of the actual implementation of the plan of audit assignments	87	80
The significance of the conclusions and recommendations resulting from audits	53	39
The results of surveys of executives, board members/ audit committee	57	57
Percentage of implemented audit recommendations	37	34
The economic effect of the IA activities	23	21
Compliance with the rules on the audit reporting	13	18
Deviations from the plan of the audit project implementation (time, resources, budget)	17	16
Number of recommendations on improving the systems / processes	10	15
Number of risks, 'closed' following by results of the implementation of recommendations	13	15

According to the author, to improve the audit services significantly, appropriate employees should be very initiative and interest in the process through making proposals regarding the choice of audit objects, methods and timing of the audit both scheduled and unscheduled. The enterprise's audit employees with a fixed area of analytical work better orient themselves in a certain part of work than the enterprise's top-management, so the quality of internal audit services is based on the legal right of employees to participate in planning of the audit activity.

E.V. Verkeyeva (2010) in her work proposed to evaluate the internal audit effectiveness on the basis of the developed criteria of the system of indicators and measurements that allow to assess the quality, effectiveness and useful result of the IAS activity. This system should be focused upon assessment of the following indicators: preventive effect as prevention of possible violations and abuses; informed decision-making; direct quantitative effect (number and amount of revealed violations; amounts recovered from the perpetrators); indirect quantitative effect (reduction of external audit costs and costs for audit-related services):

The composition and the target values of the indicators, in her opinion, should be differentiated depending on the level of indicators representation. The first group includes indicators submitted to the directors board and senior management. For this level, the following consolidated indicators are enough: dynamics of implementation of the annual and quarterly plans of the internal audit service; dynamics of general and specific costs for inspections; customers' satisfaction with the internal audit service quality. The second group: indicators submitted to the head of the internal audit service and includes detailed values to assess the internal audit effectiveness. Also she identified 'three groups of tasks to create an internal audit system in large business running: complication of the control function; need for risk management as an essential element of the effective corporate management; monitoring of the efficiency of the functioning of the whole corporate management system.'

One of the methods of internal audit quality control is the mutual verification process, when an employee provides and checks an assignment given to another employee, and vice versa. This procedure reduces the process of 'habituation' to routine operations, and thus helps to reveal mechanical errors. To save financial resources, some companies charge their financial or controlling departments to conduct an internal audit, even sometimes creating specialized divisions for audit conducting. Internal auditors are reported to some extent to the company management, so their opinion is less objective than the external auditors' findings, but the internal audit has a higher confidence regarding the confidentiality principle (Azarskaya 2009). First of all, the internal audit is focused upon protection of the enterprise owner's interests, who determines its specific tasks. The main criteria for the internal audit service at the enterprise is an economic activity, including the enterprise's specialization and size.

One of the main directions of the internal corporate audit is to assess the corporate management quality. At the same time the criteria of the corporate management quality assessment can be as follows: improving the

activity efficiency; equity growth, lack of finance withdrawal, and inappropriate integration processes (Kasyuk 2014).

Certain papers propose a general model of formation of the internal control system with economic and mathematical modeling methods. For example, B.A. Amanzholov and A.V. Naumov (2009), proposed a general model of formation of the internal control system, which in contrast to traditional ones contains an ordered system of economic and mathematical methods and a flexible system of indicators, which serves as indicators to determine the target sets of the internal control system.

However at the same time, in spite of the diversity of methods and approaches to creation of the internal audit system, currently the approaches to creation of the internal audit system at corporations are still not enough developed.

Thus it's necessary to understand the overall situation, typical for the internal audit system within the global trends and for the internal audit system at Russian corporations. The analysis of internal and external factors, directions and trends allows to determine and formulate further directions of the internal audit system development in general and in individual sectors of the economy.

According to the PwC global research, which was attended by more than 1300 IAS leaders, senior executives and board members around the world, four key areas of implementation of the internal audit functions were allocated:

- to focus timely upon priority risks;
- to develop professionals with the necessary skills and business features;
- to improve coordination of actions with the enterprise's risk management department and other security lines;
- to use effectively data analysis methods (Research of the state of internal auditor job 2015).

At the same time four key areas were allocated in which the IAS is recognized as more effective comparing to other enterprise systems:

- (1) attention paid on risks - 88%;
- (2) formation of a human resources model and - 63%;
- (3) coordination with business-goals – 91;
- (4) data analysis - 54%.

Researches of the state of the internal audit market are carried out by various independent auditing firms, which data can be generalized and upon generally analysis the prospects, threats and trends of the further development can be examined. For example, the Institute of Internal Auditors every two years conducts researches of the state and the trends of the internal audit, exploring about hundred companies in different sectors of the economy (Research of the state of internal auditor job 2015). Tendencies were evaluated according to several criteria: priorities in users' requests of information; job duties of internal audit divisions, the degree of dependence and subordination of internal audit divisions.

In a recent study in 2015, it was found on the basis of surveys of managers of various companies that there have been changes in the priority areas: assessment of reliability and effectiveness of the internal control system (ICS) are considered as important (83%), consulting of executive management on various issues (81%), as well as monitoring of elimination of ICS shortcomings (78%). At the same time the main job duties of the internal audit divisions remained unchanged, but priorities were shifted: if in 2013 the basic functions of the IA divisions consisted of monitoring of elimination of the internal control system shortcomings (87%), recommendations for ICS improvement (87%) and assistance to the management in its creation (83%), then in 2015, assessment of the ICS reliability and efficiency is considered to be the key activity (83%) as well as consulting the executive management on various issues (81%). There was a change in the degree of dependence of internal audit divisions on the company's management: share of companies, with the IA division fully or mostly independently on the executive management, decreased from 87% in 2013 to 79% in 2015. The areas included in the scope of work of the IA divisions in 2015, are similar to audit areas indicated by respondents in 2013. It includes the operation audit and the compliance audit. The share of companies where the internal audit evaluates the financial statements is gradually reduced (with 66% of companies in 2011 to 42% in 2015). In 2015, less attention is paid to assessment of the effectiveness of IT systems. As in previous years, less than half of companies evaluate the risk management effectiveness (47% according to a study in 2015), which is most likely caused by insufficient development of the ERM-system at the companies - 60% of respondents rated it as initial.

At the same time the main factors significantly affecting the IA work include inadequate human resources (52%) (this indicator is significantly decreased comparing to 2013, when it was 83%), as well as high time-

consuming to receive the necessary information (48%) and lack of the senior management's support (28% in 2015 compared to 13% in 2013), insufficient authority of IA employees (21% in 2015 year, compared to 3% in 2013).

In my opinion, considering the practical implementation of the internal audit system, it is limited by certain factors classified by the author on the basis of the researches by several directions:

- Factors affecting the internal audit system at the macrolevel:
 - geopolitical instability (28 % of respondents)
 - changes in the balance of power and the world economy uncertainty (76% of respondents)
 - change in the government policy (60% of respondents)
 - climate change and environment issues (60% of the respondents)
 - dynamics of changes in the business (56% of respondents)
 - changes in the competitive conditions (56% of respondents)
 - changes in consumers' behavior and expenses (24 % respondents)
 - excessive government regulation (17 % of respondents)
 - changes in the balance of power in international trade (48% of respondents)
 - commodity market risks (44% of respondents)
- Factors affecting the internal audit system on the microlevel
 - safety and privacy of the data (60% of respondents)
 - introduction of a cost optimization program (49 % of respondents)
 - transformation of key business processes (46 % of respondents)
 - strategy adjustment (42 % of respondents)
 - innovation implementation (41 % of respondents)
 - diversification of products / services (38 % of respondents) (Between the strategy and tactics, 2016).

However, the factors affecting the internal audit system on the mesolevel (i.e. at the industry level) should be considered separately.

At the same time the peculiarities of the internal audit system are partially determined by the types of violations to be met by the internal audit service. So, the common types of fraud are misappropriation of assets (72%), fraud in procurement of goods and services (33%), bribery and corruption (30%) and cybercrime (23%). At least 41% of respondents believe their companies are likely to face economic crime in the next two years (Review of economic crime in Russia in 2016, 2016).

Thus, current development tendencies and expectations of leading managers, corporate owners led to the necessity of implementation and continuous improvement of the internal audit system at modern corporations.

3. Results and Discussions

The modern economic realities, caused by adverse external and internal factors of the structural and cyclical nature, are characterized by a sharp reduction of the economic activity. The GDP volume in 2015 was declined by 3.7% compared to the previous year. The reduction in production of goods and services was observed in most economic activities. The banking sector is considered to be one of the most important sectors of the economy, affecting satisfaction of the financial service demand by the corporate and public sector. Today's crisis in the Russian economy, associated with energy-price reduction, economic and financial sanctions showed that most banks are not ready for this situation: in 2015, the number of acting loan institutions reportedly tended to be reduced. Their number decreased by 101 up to 733, the number of regional banks registered outside the Moscow region decreased from 375 up to 341. According to the report (The annual Russian Bank report for 2015, 2015). The unfavorable external economic environment, decreased domestic demand, exchange rate fluctuations had a negative impact on the financial results of Russian enterprises' activity.

In 2015, under declined economic activity and consumption, the cash volume was decreased by 3.6% (6.4% growth in the previous year). Also the ruble kept dropping due to decreasing international oil prices. An unfavorable factor was the continued external sanctions against Russia. At the same time the US dollar has grown against the ruble for 2015 by 29.5% up to 72.8827 rubles per dollar as of 1 January 2016, the euro - by 16.6% to 79.6972 rubles per euro as of 1 January 2016. The average annual US dollar exchange rate against the ruble rose by 58.7% to 60.9579 rubles per dollar, the euro - by 33.4% to 67.7767 rubles per euro. Thus, the risks

of the banking sector (mesolevel) are quite significant, diverse and only partially predictable. According to the risks of the banking sector were classified by the following areas:

Table 5. Risks of the banking sector, typical for this economy sector

Risk Type	Characteristics
Credit risk	The level of credit risk, accepted by Russian banks, to a large extent is determined by the quality of the corporate loan portfolio, which share as of 01.01.2016 was 75.7% of the total loan volume to the economy. During the reporting year, outstanding corporate loans increased by 66.0% at increase in loans by 12.7%; the share of overdue debt in loans to non-financial organizations increased from 4.2 to 6.2% for the year. In ruble loans, this Figure increased from 5.5% as of 01.01.2015 to 8.2% as of 01.01.2016, and in loans in foreign currency - from 1.7 up to 3.3%
Market risk	The indicator of the market risk of banking sector 2 rose by 41.1% in 2015 up to 3.9 trillion rubles as of 01.01.2016, and its share in the total amount of risks of bank sector 3 increased from 4.3% as of 01.01.2015 to 5.4% as of 01.01.2016
Interest risk	At the end of 2015, potential losses of loan institutions, related to possible interest rate risk by total trade investments 1 into equity securities, increased and at the beginning of 2016 would be 7.4% of the capital compared to 6.3% as of 01.01.2015.
Fund risk	At the beginning of 2016, as a whole by loan institutions with commercial investments into equity securities, in case of falling stock markets by 50%, potential losses would have amounted to 1.8% of the capital (3.5% as of 01.01.2015).
Currency risk	Evaluation of banking sector vulnerability to foreign exchange risk showed an increase of potential losses at the foreign exchange risks in 2015: losses as of 01.01.2016 would make up 1.4% of the capital of banks 1, at the beginning of 2015 - 0.5%.
Liquidity risk	The average value of the most liquid assets with the average value of total assets of the banking sector increased from 7.7% in 2014 to 8.0% in 2015. More than 30% of the most liquid assets accounted for the funds on deposit and correspondent accounts of loan institutions at the Bank of Russia.

In this regard, the banking sector occurred in an urgent need to develop tools to reduce the negative impact of shocks. The author believes, the internal audit system can be introduced and developed in response to this need, to provide an increased control over expenses and to help in risks prediction and minimizing.

Upon the analysis of approaches to creation of the internal audit system in the corporate management, the conclusion is made that each of the existing systems has its drawbacks, which significantly reduce their effectiveness and efficiency. One key disadvantage is that there is no unified approach to formation of information in the internal audit system. Despite the basic elements and structure of the system's internal audit, as stated above, are determined by the corporation's activity specifics, however, in my opinion, common approaches to information grouping and presenting should be formed.

A decision on the need for an internal audit should be made by the corporation owners and top management considering sharing of business ownership and management; size, scope and structure of the corporation branching; the level of risk inherent in the different stages of the corporation's economic activity.

Development of common approaches first and foremost should be based on the information needs of information users. So, the owners consider as actual the issues of control over the corporation's functioning. In this case, one of the most effective tools of control is an internal audit.

The managers consider as actual the achievement of goals and tasks regarding the corporation management by the most effective way. The success greatly depends on: (1) the timely possession of qualitative information to substantiate and make management decisions; (2) the existence of effective control over implementation of the made decisions.

Besides, the internal audits in the corporation largely depend on an integrated consideration of the objectives, principles on which it should be based, the functions to be performed. The researches of this issue provide an opportunity to propose a conceptual model of the corporation's internal audit (Figure 1), which is based on a hierarchical approach to development of information and control procedures. The proposed model was based on creation of information flows on the corporation's activities in different directions, which allows to strengthen the effectiveness of the functioning management system and the corporation development.

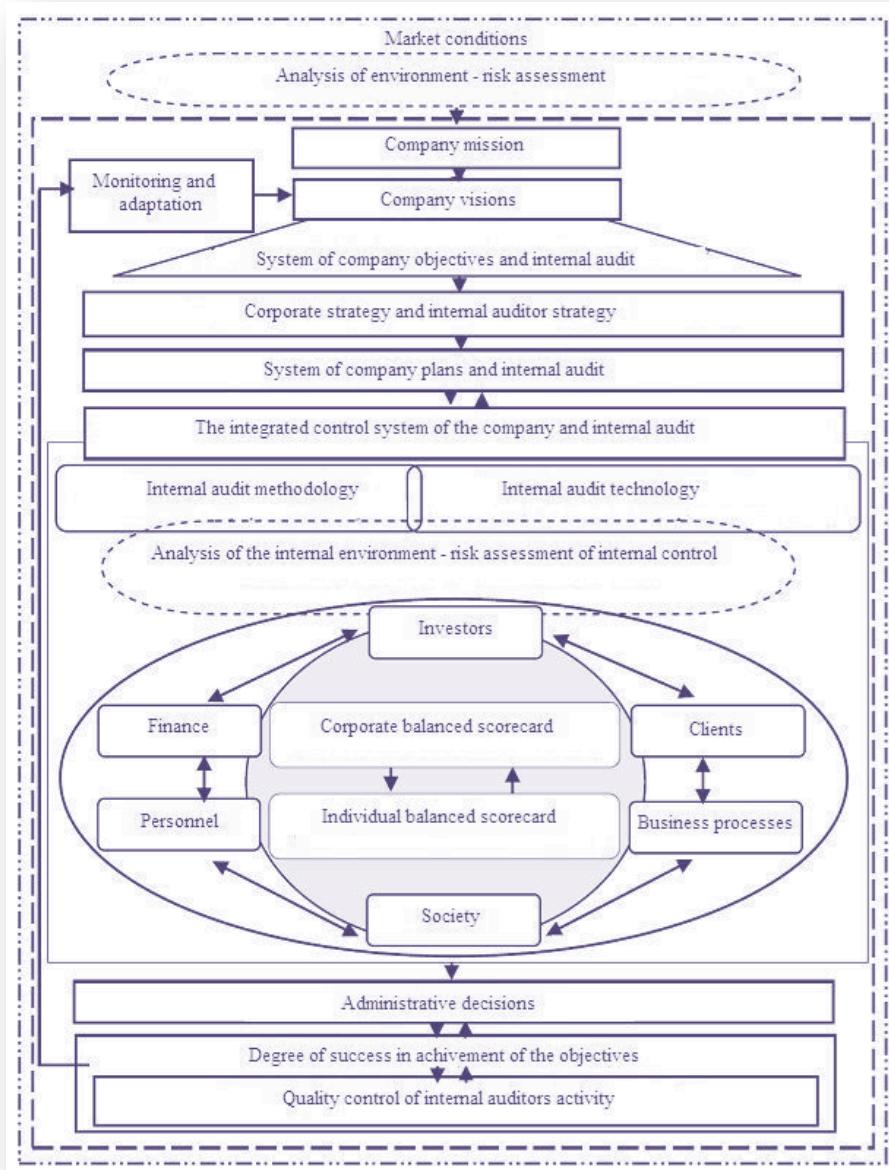
Currently, a balanced scorecard is most convenient and widespread to use, representing formation of a set of indicators in four areas: finance, customers, staff, and business processes.

However, in contrast to the balanced scorecard developed by R. Kaplan and D. Norton (2004), the corporate balanced scorecard is proposed to allocate by hierarchical levels (enterprise, responsibility centers) as well as the personal balanced scorecard system.

Besides, two additional aspects of the corporation's activity are proposed to be included - 'investors' (including owners and lenders) and 'society.' This is because of, firstly, the increased role of investors in the corporation development; secondly, the corporation's desire to strengthen its status in the society, and to receive benefits from the state.

The emphasis on the hierarchy of the balanced scorecard is primarily associated with the ability to stimulate the contribution of individual responsibility centers, management personnel and employees to the corporation's efficiency.

Figure 1. The internal audit model in the corporation's management system



Thus the proposed model, as opposed to existing ones, is aimed at improving the effectiveness of the corporate management system by increasing the personal responsibility in each area of the corporation's activity,

as well as formation of the detailed information flows in each direction. In addition, a significant advantage of this model is its applicability for use at the process and functional approaches to the corporate management.

Thus, increasing responsibility within the financial institution does not allow to reduce macro- and mesorisks that are not controlled in any level of the management, but provide an opportunity to minimize losses from fraud within the corporation and to increase control over the corporations' expenses, including transaction costs.

4. Discussions

The main goal of the corporation's internal audit is to provide constant monitoring and assessment of its activities (in general of the corporation, of its structural divisions, executors) for compliance with the applicable regulatory acts, internal regulations, administrative decisions and consulting to maintain effective functioning. The main goal of the corporation's internal audit is to be achieved through solution of interrelated objectives by these aspects: (1) investors (owners and lenders) – providing confidence in achieving the corporation's strategic and operational goals, preservation of assets; (2) finance - prevention of internal and external risks; (3) customers – quality assurance, a high degree of consumers' confidence; (4) business processes – providing competitive advantages, effective team work, increased levels of employees' satisfaction, compliance with the current legislation and regulations and internal documents of the company; (5) staff – increasing productivity, improving the employees' competence, improvement of access to information within their authority; (6) company – rational safety and technology reliability, employment, beneficence, and sponsorship.

The main principles of the internal audit include: focus of the internal audit system upon realization of the developed corporate strategy; flexibility of the internal audit; multifunctionality of the internal audit; ease of creation of the internal audit; compliance of the internal audit methods with specifics of accounting, analytical and planning techniques used by the corporation; ensuring professionalism and sufficient number of internal auditors, efficient use of staff; efficiency of the internal audit.

The following is offered to include into the main groups of the internal audit functions:

- control functions (study, evaluation and monitoring of adequacy and effectiveness of the internal audit system);
- compliance with the applicable legislation and internal regulations; compliance with the standard requirements regarding to the accounting and reporting;
- assessment of the appropriateness of management decisions; management audits and efficiency audit; inspection of availability of assets; interaction with the external auditor);
- information and analytical functions (informing the management on revealed circumstances and trends of formation and rational use of resources;
- expertise of developed management decisions; participation in the development and review of the implementation of business plans, budgets);
- methodological and advisory functions (participation in development of the accounting methodology;
- participation in development of the methodology of taxation and charging;
- participation in development and improvement of the management information systems; consulting the corporation's experts within the competences).

The author proposes the methodological approach to development of the hierarchical corporate and personal scorecards on the evaluation of the effectiveness of the internal audit functioning, which provides consistent mutual definition of the system of goals and performance indicators. The qualitative and quantitative indicators in the corporate balanced system are formed basing on objectively existing relationship at the hierarchical levels. For example, by an aspect of the 'society' the corporation's goal is rational safety and technology reliability, employment, sponsorship. Performance indicators in the monitoring by the internal auditors have to be: the number of work openings, the number of created job places, the number of children and youth institutions, taken under sponsorship.

In the personal balanced scorecard by an aspect 'investors' the personal goal is determined – to achieve partnership with a guaranteed future income. Performance indicators are: participation in distribution of the corporation's profits, dividends per ordinary share.

The personal goal by an aspect 'society' - to be a highly valuable society member and useful to the society. Performance indicators are: work duration per year, participation in the community organizations, state awards and distinctions.

At the same time, considering the experience of long-term acting corporate, all the decisions should be checked on its advisability and feasibility, in order to avoid the problems of overregulation and bureaucracy, as General Electric, which in the middle of the XX century was close to bankruptcy: about 70% of hundred thousands of the company employees controlled over each other. Now the corporation is believed to be one of the standards of the internal control system, corporate management, and risk management.

Similarly, the author explains the presence of the mutually agreed goal system and performance indicators for each aspect within the corporate and personal scorecards.

The effectiveness of the internal audit function at the enterprise is offered to be determined by a level of set goals and objectives aimed at achieving the following results: prevention of possible violations and abuses; quantity and quality of revealed violations; decrease in external audit costs and costs of other types of audit works.

Conclusion

Thus, there is a certain set of interrelated elements representing organization of the quality system of the internal control, which ultimately determines the corporate's management effectiveness.

The study allowed to formulate the following conclusions and suggestions:

- the internal audit is proposed to be interpreted as the activity of authorized subjects to provide independent and objective assessment of systems of the risk management, control and corporate management and to provide clarification and guidance to those who are endowed with the highest authority in the company, in order to improve performance;
- the conceptual model of the internal audit is offered, which covers the target setting of maintenance and improved of the corporation management efficiency; methodology, structure and tools of the internal audit; the corporate balanced scorecard by hierarchies and the personal balanced scorecard with six interrelated aspects of activities (investors, including owners and lenders, finance, customers, business-processes, personnel, company);
- indicators for assessment of the hierarchy corporate and personal scorecards are proposed.

The effect is achieved by the work of all chains of the internal control system, if each participant is considered to be important at each level of the hierarchy. Increasing the level of the corporate management via the IAS allows banks to solve the problem of 'bad' loans and to strengthen the confidence of potential counterparties (depositors, borrowers, customers in currency and stock exchange transactions). As a result the distribution of credit resources among non-financial companies becomes more rational, enabling the state economy to go to the sustainable growth. The appropriate system of the corporate management in the banking sector provides benefits to all involved parties:

- banks improve their efficiency;
- the banking system as a whole attracts new depositors, borrowers, investors and other counterparties;
- banks' shareholders become confident in protecting and improving the profitability of their investments;
- the state can rely on the banking sector support in its efforts to strengthen the competitiveness of the national economy and the fight against fraud and corruption;
- the society as a whole takes advantages of increased public wealth.

One of the first steps in this direction should be establishment of an independent internal audit department engaged in the analysis of risk factors and reported directly to the board of directors. In the banking sector - against the market growth and complexity in general - need to establish a comprehensive risk management system that would allow to collect and analyze and manage the main bank's business-risks is becoming increasingly important.

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