




# Methodological Support for Internal Control of Autonomous Institutions

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## Abstract

The integrated model of the internal control system of an autonomous institution proposed by the authors considers the systematic approach, risk orientation taking into account the factors of the internal and external environment, incorporating the model into the business processes, accommodating the ultimate goal of implementation – the increase in the efficiency of business processes accompanied by cost reduction and profit growth in financial responsibility centers. The scientific and practical studies conducted have revealed the interaction of the institutional environments of an autonomous institution and internal control, in which there is a direct interaction with the internal institutional environment of the autonomous institution both at the microlevel and at the mesolevel, taking into account proper analytical support. This interaction means the priority of the institutional environment of an autonomous institution.

**Keywords:** autonomous institutions, institutional environment, internal control, external control

## 1. Introduction

An institutional environment is a set of environmental factors that affect the functioning of business entities through the activities of many political, economic, social and other institutions. In this regard, an institutional environment can be defined as a set of formal and informal rules (institutions) that affect the ratio of incentives in the activities and determine the achievement of maximum agreement between its users. In turn, according to Lefler and Gabler [22], informal institutions in the institutional environment can be presented in the form of standards and norms of behavior that are mandatory for society, and norms of behavior regulated for corporate needs.

## 2. Literature Review

In the scientific studies of Zain, Davidov [11, 34], and later practical studies of Mele [26], the following levels are distinguished in the institutional environment – the external and internal institutional environment, of which the external one, consisting of formal and informal institutions and providing the impact on the internal environment of an economic entity, represented by its own specific cultural and functional "micro-institutions" (formal and informal), is prevalent. At the same time, when studying the application of factors of the external institutional environment that affect significantly the formation of the internal institutional environment of an economic entity, the taxation and transfer institute [29; 32; 33], the current state budget and tax policy, and the market institution [3], including the mechanisms of state regulation of market relations, as well as various formal and informal rules and agreements on the regulation of individual markets, should be mentioned specifically [13].

## 3. Method

### 3.1. Participants

The participants of the present study based on the institutional concept and audit model proposed by Church [7], it can be assumed that the institutional approach makes it possible to consider internal control as an institution, i.e. as a set of legal norms, rules, standards, concepts and implementation mechanisms of the economic entity. In this regard, with a greater degree of probability it can be assumed that the institution of internal control consists of principles, methods, objects, basic categories and requirements and is located in the institutional environment of internal control of an autonomous institution. At the same time, the institutional environment of the internal control of an autonomous institution consists of two levels – the

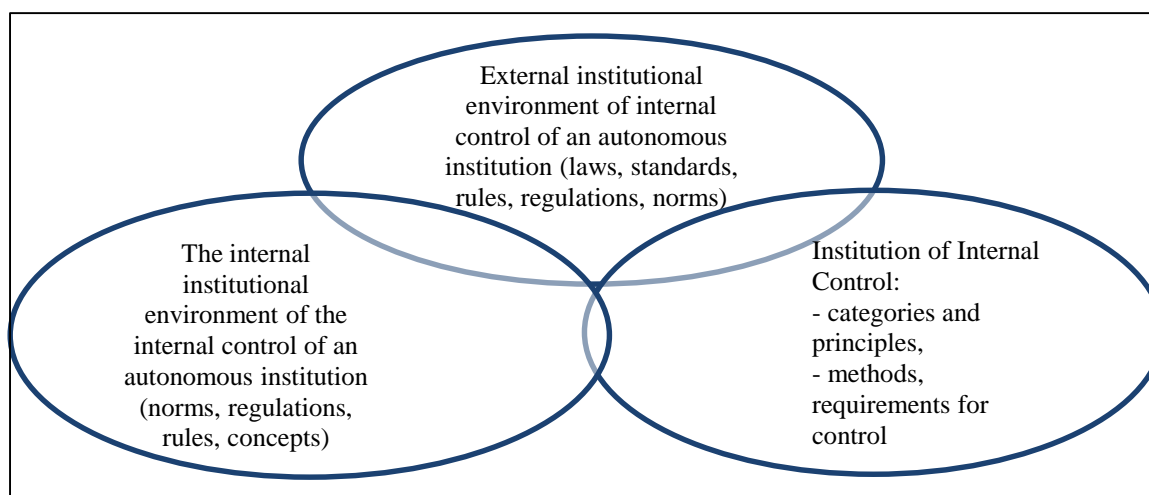


external institutional and internal institutional environment of internal control. As a legal basis, the external environment of internal control of an autonomous institution is represented by formal and informal institutions, and the main formal institutions of the external institutional environment of internal control are:

- the international standards of internal control;

- Russian experience, limited by the Federal Law No. 402-FZ dated December 6, 2011 "On Accounting", as well as the federal accounting standards for public sector organizations (for institutions), the explanations at the level of the Ministry of Finance of Russia regarding the organization and implementation by an economic entity of internal control of the economic life facts, accounting and financial (fiscal) statements for commercial organizations.

Since the institutional internal environment is identical to the concept of internal control environment, according to the authors, the formal institutions of the internal environment of internal control should also be represented by local regulatory documents, reflecting the general attitude of the administration and management towards the need for control in the institution and the actions undertaken in this regard. In particular, they include: the developed regulation on the distribution of responsibility and authority; the ongoing personnel policy; the procedure for preparing financial statements for external users; the regulations for the implementation of internal management accounting and reporting for internal purposes; the regulation on the conformity of economic activity as a whole with the requirements of the current legislation, as well as the style and basic principles of the autonomous institution management, taking into account the organizational structure of an autonomous institution. In this regard, the practical application of the current institutional environment model of an autonomous institution's internal control can be represented as the following interaction algorithm (Fig. 1).



**Figure 1.** The interaction of the internal control institutional environment in an autonomous institution.

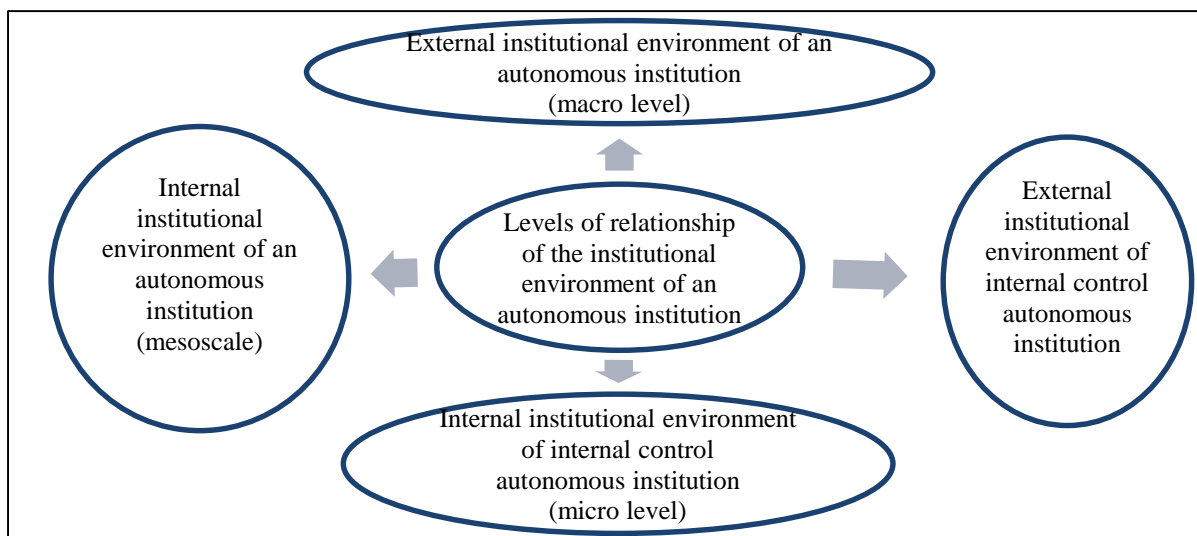
Source: the authors' own development

At the same time, the proposed algorithm serves as one of the important areas of analysis for internal control, as well as the effective interaction of the internal institutional environment of internal control with the external institutional environment. On the other hand, it allows the analysis of the interaction of the internal institutional environment of internal control with the institutional environment of the autonomous institution as a whole. Such interaction can be not only highly productive but also fraught with conflicts and reduced efficiency.

### 3.2. Materials

The teaching materials used in the current study of the first interaction is generally clear and the effectiveness of this interaction includes total involvement of formal environmental institutions in the development of local legal documents on the internal control of the institution, both on the basis of these

formal rules and directly of their own, taking into account the need to develop internal control in an autonomous institution. At the same time, the essence and the effectiveness of the interaction of the internal institutional environment of internal control with the institutional environment of an autonomous institution can be presented as follows. The external institutional environment of an autonomous institution is formed by formal and informal institutions that govern the relationship of the institution with the state, consumers of work and services, suppliers, credit organizations and other legal and physical entities, and, in turn, it determines the internal institutional environment as part of formal and informal institutions (rules) that determine the development and functioning of a particular autonomous institution. In turn, the internal institutional environment of internal control directly interacts with both the internal institutional environment of an autonomous institution and the external environment. In this regard, as a practical application, the relationships between the microlevel and the mesolevel, as well as the microlevel and the macrolevel, can be represented as the following interaction (Fig. 2).



**Figure 2.** The mechanism of interaction of the levels of the institutional environment of an autonomous institution

Source: the authors' own development

The interaction mechanism, proposed in Fig. 2, primarily means the priority of the formal rules of the institutional environment of the autonomous institution over the formal rules (institutions) of the internal institutional environment of the institution's internal control and, therefore, requires mandatory consideration, when developing local regulatory documents on internal control and legal documents on the features of the development of autonomous institutions. In this regard, it should be noted that, from the standpoint of the institutional approach, the internal control system of an autonomous institution is the more effective, the more effective is the influence of institutional factors (economic, financial, etc.) aimed at improving the formal and informal rules on internal control in autonomous institutions, as well as the whole autonomous institution.

Special mention should go to the main factors such as the improvement of formal institutions in the field of accounting and reporting, which are both objects of control and the main sources of information support for the internal control of an autonomous institution, which is able to form a full-fledged effect for the formation of an internal control system using various practical models. The most applicable internal control models in the world practice are: COBIT developed by the Information Systems Audit and Control Association (ISACA), COSO, SAC, SAS [5], Russian internal control models based on the risk-based integrated approach [8]. At the same time, as a rule, the risks are incorporated in the systematic approach used and the main object of internal control; and the element "control environment" is incorporated in the

institutional internal environment. The advantage of the integrated model is that the new concept involves goal setting and the identification of events, and control as the instrument to increase the likelihood of goal achievement [16].

### 3.3. Procedure

Moreover, the practical significance of the applied model of internal control is focused on:

- a) risk management of business entities;
- b) compliance with the optimal balance between the profitability of the organization and risks;
- c) the effective and cost-effective use of the necessary resources to achieve the main objectives of the organization.

Taking into account the established theoretical concept, the model of risk-based internal control (RBIC) can be applied in the Russian market. The development of this model was started at the beginning of this century, and in 2014 it was approved as mandatory for commercial banks. Unlike the COSO model, according to which management is carried out considering the assessed risk, in the Russian RBIC model, management itself is already considered a risky event. At the same time, risk-based internal control can be interpreted as prevention, assessment and risk control using various management technologies in all areas of activity and business units aimed at the maximum possible reduction of risks. However, the main differences between the use of the COSO and RBIC models are the following significant aspects:

1. Unlike COSO, where the great importance is attached to the internal environment, RBIC is focused on the verification of the activities of the units in the context of business processes from the standpoint of building a risk management system.

2. In COSO, the maximum importance is attached to internal control monitoring as a form of subsequent control, and monitoring is one of the main elements of the COSO model. RBIC is focused on building the internal control system.

3. In COSO, the greatest importance is attached to the operation of the Board of Directors, while in RBIC – to the process of interaction of all management bodies.

4. The current concept of RBIC includes the following elements: compliance control, as legal and regulatory risk monitoring; control of the whole set of potential and actual risks assigned to the internal audit service; monitoring of the compliance with procedures and deviations performed by the internal control service; risk assessment performed by the risk management service, which is an integrated element of any technological business process. Risk assessment includes an assessment of the risk factor of any business model, including the development strategy, the business plan, the concepts for the individual areas and business development, as well as the assessment of risk appetite for all development factors. Moreover, the mechanism for monitoring procedures to combat money laundering and terrorist financing is assigned to the financial monitoring service. Based on the fact that the Russian model is identical in content to compliance control, which is an element of a risk-based model of internal control, the authors believe that this model has lost its purpose. Its existence can be justified only if the risk-based model is ineffective in the economic entity. At the same time, the applied mechanism of the system-oriented approach of internal control is that the main object is the structural units of the economic entity, reproduced as a process, and the economic entity as a whole represents a chain or a network of processes. In a strict understanding, in the authors' opinion, this is not a model, but the basic principles (platform) that underlie the construction of an effective and indicative model of internal control, which allows the assessment of the degree of influence of standardization by the type of costs incurred in an autonomous institution.

## 4. Results

The normative costs are based on the basic standard of costs for the provision of services (work) related to the state task, which falls into two standards: the basic standard of costs directly related to the provision of services (work), for example, employee salaries, material costs, rental costs, and the basic standard cost of general business needs. Thus, on the basis of the results, it turns out that the first basic standard of costs directly related to the provision of services (works) is related not only to direct but also to overhead costs (depreciation, rent, and other costs) that cannot be allocated for services (work) in accordance



with the standards. As for general business expenses, in the authors' opinion, in this case, the standards for their establishment should not be discussed, because they are not subject to standardization at all. In this regard, it is advisable to establish objective standards for the expenses (or resource consumption) only for variable costs that have a direct relationship with the volume of services rendered or works performed (these include the remuneration of employees, materials consumed in the process of rendering services and performing work, etc.). These standards can be established, for example, as the standard of remuneration of employees per unit of services, the rate of consumption of materials per unit of services, etc. With regard to the definition and distribution of general and overhead (indirect) costs, a slightly different approach should be applied. First of all, it must be noted that for the most part these expenses are not the same. Secondly, it is necessary to single out those expenses that can be predicted, estimated in cost terms and which are regular from month to month. Such expenses include payment for communication services, transportation costs, maintenance of buildings, payment of utilities, rent, etc. and they can be set by extrapolation. As for their distribution by services, for the base it is possible to recommend the remuneration of workers directly related to the provision of public services.

With regard to general business and overhead costs that are carried out irregularly (one-time lump sum costs not related to the development of an autonomous institution), and which cannot be estimated and predicted and the share of which is minimal, the authors support the position of those specialists who believe that depending on the availability of financial resources in the respective budgets, they should be financed outside the framework of financial support for the implementation of state (municipal) tasks. Special instruments can be used to finance these "irregular" costs - long-term and/or departmental target programs or targeted subsidies. Non-recurring costs for the development of an autonomous institution are included in their entire amount in overhead costs and are distributed as noted earlier - in proportion to the wages of employees directly related to the assignment. Therefore, based on the provisions formulated by the authors, it follows that the formation of basic standards for the costs of public services should exist only in relation to direct costs, and the understanding of basic standards should not appear in relation to overheads as part of direct expenses and general business expenses.

General and overhead (indirect) expenses are determined and distributed according to an individual scheme and should be designated as non-standardized general economic and non-standardized overhead costs (expenses). Hence, the authors suppose that the current "definition of standard costs for the provision of public services" should be worded as "the definition of integrated (total) costs for the provision of public services", including the formation of basic standards for the costs and non-standardized overhead costs and the expenses for general business needs. Thus, in contrast to the calculation procedure in force in Russia, the cost determination scheme, proposed by the authors for calculation of the amount of financial support (subsidies) of a state (municipal) task for an autonomous institution, involves the division of the regulatory costs into two groups - the costs of provision of state (municipal) services and performance of work calculated according to the standards, and non-standardized overhead and general business expenses of the institution determined by calculation. This approach to determining the financial support for the fulfillment of state (municipal) tasks by autonomous institutions will not only adequately and objectively determine the amount of subsidies (financial support) to an autonomous institution, but will also provide information on the total cost of public services (work), the share of overhead (permanent) costs in the cost of public services and works, the cost of public services per user of services (works). Such information is the basis for making informed management decisions related to the provision of state and municipal services to consumers and the performance of work. At the same time, the current mechanism of financial support for the fulfillment of state (municipal) tasks presupposes to apply a normative approach in the cases when normative costs are defined as the product of the cost of a cost group unit by the number of cost group units, while the authors offer an integrated method that includes the costs calculated normatively and the costs calculated in other ways, and involves passing through several stages.

Stage 1. The formation of basic regulatory costs. Determination of standardized costs, when for all services rendered and works performed by state (municipal) autonomous institutions in accordance with the tasks of the founder, neat basic standards for the costs of working time and material resources are formed, according to the following main aggregated cost blocks:



a) the cost of working time of the employees directly involved in the process of service (work) rendering [17];

b) raw materials used in the process of service (work) rendering;

c) the cost of purchase of the necessary equipment and the other direct costs [31].

Stage 2. Determination of the overhead costs as part of expenses directly related to the provision of services (works) and expenses for general business needs. As part of the costs of autonomous institutions directly related to the provision of services (performance of work), as already noted, there are overhead costs, indirectly related to the provision of services and performance of work [19]. General business expenses also include overhead costs such as expenses for utilities, communication services, administrative and technical staff remuneration, determined by calculation, since it is impossible to establish correctly the cost standards for them. Moreover, these types of costs include both regular (utilities, rent, communications, etc.) and irregular costs (repairs, etc.), i.e. costs for which there is a clear frequency of their implementation and those for which there is no frequency [20]. It is for the first group of overhead costs that it should be noted that when calculating the financial support for the fulfillment of state (municipal) tasks, such an approach is possible when the costs are related to the cost of services (works) provided as part of the task, in accordance with the established proportion of their distribution among services (works). Accordingly, the proposed changes and improvements in the accounting and determination of overhead costs and, in general, the costs underlying the formation of the amount of budget financing (subsidies) for the provision of state (municipal) services will entail positive changes in the organization of the internal control system.

## 5. Discussion and Conclusion

The effective model is based on the understanding of internal control as a focus on cost optimization, efficiency improvement of the existing business processes and cost reduction in parallel with the establishment of financial responsibility centers (FRCs) and formation of the financial flows in an economic entity. Therefore, effective internal control can be interpreted as control over business processes and the FRCs in all areas and divisions of the economic entity, aimed at cost optimization as a condition for further development. At the same time, the areas of effective internal control may include:

a) the definition of key indicators of the FRC in the long term, taking into account the analysis and building of a model of business processes operating in an economic entity [6];

b) the creation of an identification card of business processes and financial flows operating in an economic entity;

c) adjustment of the interaction system of various departments with building business process models [15].

Based on the focus, the model of effective internal control as a whole is a technology for building business processes, in particular, adjusting the business model. In this regard, the experience of organizing internal control abroad based on the Turnbull Review Group model developed by the Institute of Chartered Accountants in England and Wales for economic entities represented on the London Stock Exchange [27] is worth noting. At the same time, it is recommended to apply the process-oriented approach, considered as an integral part of management processes [29], and not as a single measure for the implementation of regulatory requirements, in which internal control is included in the organization's business processes. An important role in the English model belongs to the assessment of effectiveness of the functioning of the internal control system, for which management should take into account the influence of the following factors:

a) the contribution of internal control to enhancing the sustainability of the economic entity [1];

b) the nature and extent of the risks and the degree of reality of external threats [28];

d) the cost-benefit ratio of internal control [21].

The formation of the German-Swiss model of internal control was based on KonTraG's increased requirements for the organization of internal control, based on the integration of risk-based internal control with the business processes of the organization and the departure of the internal control system beyond the accounting process, covering all areas of the organization. However, the main goal of KonTraG, according to Ang [2], is:



- a) the responsibility of the company's management for risk management and risk management (risk classification and control);
- c) the establishment of an early risk warning system [9];
- d) the prophylactic monitoring and detection of erroneous designs, such as viruses, illegal content, IT security;
- e) transparency of the company for decision-making by the investor [10].

It should be noted that the KonTraG principle is that all business risks are detected, and the company is considered as a system that cannot be compromised by individual risks [31]. In turn, the Russian model on the platform of the system-oriented model is based on the indicative model, which is based on a vision of internal control in the form of an analysis of the dependence of the economic entity, with the identification of business processes, on indicators (factors) of the external and internal environment as the parameters of competitive advantages, in parallel building interaction with indicators (factors) of development in terms of their impact indicators of the environment [12], using various analysis methods, including multivariate analysis and multidimensional scaling in the face of macroeconomic uncertainty [23]. At the same time, in Russian reality, in the effective model (based on the principles of the system-oriented model), the process-oriented model was enriched additionally by including not only business processes in the model. Therefore, indicative internal control can be defined as control over the activity of an economic entity with the identification of business processes and taking into account the influence of indicators (factors) of the internal and external environment on the final result of this business process using information technologies and management technologies.

Based on the study, it seems to the authors that given that the economic entities improve their management by the introduction and replacement of the functional management of the process management with the formation of business processes, and also considering the active creation of financial responsibility centers (FRCs), the authors consider the use of the effective model the most promising internal control model. At the same time, the authors believe that it is impossible to ignore risk management prevailing in economic entities and the analysis of the influence of the external and internal environment factors. In this regard, the authors, by analogy with the German KonTraG model [18], where the risk-oriented and process-oriented models of internal control are synthesized, consider the integrated (complex) model of internal control combining the effective, indicative and risk-oriented models to be the most progressive and efficient one. Therefore, based on the authors' presentation of the integrated internal control model, its main components will be: the systematic approach, risk orientation taking into account the factors of the internal and external environment, embedding the model in business processes and financial responsibility centers [4]. The selection process and the implementation of a rational, economically sound accounting policy based on federal regulations, including federal accounting standards for public sector organizations, make it possible to influence the efficiency of the use of material, labor and financial resources, accelerate the turnover of capital elements, obtain additional internal sources of financing capital investments and current assets, attract external resources to expand activities. Moreover, the conducted scientific research allows formulating the following provisions.

1. Based on the conceptual vision of internal control for an autonomous institution, a comprehensive (integrated) model of internal control is proposed, which includes the individual components of the risk-based, systemic, effective and indicative models. Based on the authors' presentation of the integrated internal control model of an autonomous institution, its main components are: the systematic approach, risk orientation taking into account factors of the internal and external environment, embedding the model in business processes and centers of financial responsibility. The purpose of the model is to increase the efficiency of the existing business processes while reducing the costs and increasing the profits in financial responsibility centers.

2. An algorithm is proposed for application of the model of the institutional environment of the internal control of an autonomous institution, consisting of the levels – the external and internal institutional environment as part of formal and informal institutions (rules), including the institution of internal control, consisting of the principles, methods, objects, basic categories and requirements. At the same time, the procedure is proposed for the interaction of the institutional environments of the autonomous institution



and internal control, where the internal institutional environment of internal control directly interacts with the internal institutional environment of the autonomous institution as a microlevel and mesolevel, and with the external institutional environment as a microlevel and macrolevel. This interaction means the priority of the institutional environment of an autonomous institution.

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