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Problems of Internal Control Organization at Enterprises of the Republic of Kazakhstan

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Abstract:

The relevance of the problem is conditioned by the need for the organization of internal control in commercial organizations. Indeed, both the safety of their property and cash, achievement of financial goals and objectives by the company, and the avoidance of errors in accounting and tax accounting, which ultimately lead to a distortion of financial and tax reporting, depend on internal control. Errors and inaccuracies, deliberate violations can lead to sanctions from inspection bodies or are capable of misleading the shareholders (participants) and partners of the organization in the event of a distortion of the reporting. The purpose of the article is to develop recommendations for commercial organizations of the Republic of Kazakhstan on the improvement of internal control systems based on foreign practice. The leading methods of research of this problem are: questionnaire that allows you to obtain, based on a certain sample, actual results that allow you to evaluate the development of the internal control system of the enterprises under study; modeling that allows you to create an internal control model for large trading companies. This article presents the main approaches to the organization of internal control systems used in Kazakhstan companies operating in the sphere of industrial production enterprises. Features and problems of their application are also revealed, recommendations and optimal models for improving these systems are formulated, taking into account the modern needs of the developing business. The materials of the article are of practical value to trading companies, as the presented models and recommendations for improving the internal control system are aimed at improving financial control in the business of such entities, bringing these systems closer to international standards and increasing control effectiveness (more rapid identification of errors and violations, that happen in the accounting process and financial transactions).

Keywords: internal control; financial control; internal audit; controlling; business risk management.

JEL Classification: H83; M42; M48.

Introduction

In recent years, in the context of the Kazakhstani market development, including retail and whole sale trade, increase of competition and the consolidation of companies in different areas, the issue of improving financial control in companies has become acute. Financial control is a fairly multifaceted category, used in different spheres. Financial control can be state (from the side of inspection bodies) and non-governmental (external audit and internal control). Both government agencies and non-governmental (commercial and non-profit) organizations are subject to financial control.

If we consider financial control at the level of an enterprise (commercial organization), here it is a system of actions of authorized persons that are related to the compliance verification by a regulated entity (enterprise) of both the norms of financial law and decisions that are accepted by the managing entity and the interests of the managing entity. Such an approach is noted, for example, in the work of B.N. Sokolov, dedicated to these issues (Sokolov 2017). A similar opinion is shared by other authors who have investigated this problem, in particular by

Deshuk and Abalakina (Deshuk and Abalkina 2014), Zaviyalova and Brukhanenko (Zaviyalova and Bryukhanenko 2016) and others. That is, at the enterprise level, financial control can be both external and internal. External is connected with both the actions of the controlling bodies (in the Republic of Kazakhstan it is the National Bank of the Republic of Kazakhstan in relation to second-tier banks, insurance companies and other subjects of the financial market; the State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan in relation to all taxpayers), and with the actions of auditors, who are involved in the independent audit of enterprise reporting voluntarily or in accordance with the legislation. Internal financial control is the process that is aimed at obtaining sufficient confidence of the management and owners of the enterprise, that the enterprise ensures the effectiveness of its activities (achievement of financial and operational indicators, as well as the safety of assets); compliance with the law in the conduct of business (tax and other risks); the reliability of financial statements formation (which is important for the owner and management in the first place) (Shinder 2015). Thus, internal financial control is organized in the interests of the companies' owners and management, and is called upon to protect their interests.

This article is devoted to the issues of internal financial control. Considering the structure of internal financial control, we can distinguish such elements as internal audit, controlling, budgeting. At the same time, many authors consider internal control rather narrowly, referring either to internal audit only (Grinavtseva 2013), or paying excessive attention to financial planning, analysis and controlling, considering internal audit superficially (Kostikova 2016) or not considering it at all (Deshuk and Abalkina 2014). Therefore, it is planned to systematize the system of the enterprise's internal control within the framework of the article. The practical importance of the issue lies in the fact that modern Kazakhstani enterprises working in the sphere of industrial production enterprises, do not yet use the methods of internal financial control in a sufficiently wide and complex manner, they have not fully developed the systems of this control. At the same time, consolidating companies, converting them into joint-stock companies, attracting new shareholders (participants) requires reducing business risks for the company, improving its internal control system, as described in ISA 315 (ISA 315 2015). Evaluation of the internal control system affects the evaluation of audit risks in the conduct of external audit, since an effective system excludes errors and distortions, and ineffective – does not. Therefore, the development of internal control systems for Kazakhstani enterprises is the key to reducing risks and increasing the attraction of investment in business.

1. Literature Review

Investigating the scientific literature and current international standards concerning internal control at the enterprise, it was revealed that a lot of work has been devoted to internal control, but it is not presented as a systematized phenomenon or complex of financial management in many of them.

First, we should focus on international standards. Actually, internal control in ISA 315 mentioned earlier is considered as the processes developed, implemented and supported by persons who are responsible for corporate governance, as well as by management, other employees of the organization. This system is designed for the purposes of ensuring 'reasonable assurance about the achievement of the organization's objectives in the preparation of reliable financial reporting, the effectiveness of the activity and compliance with applicable laws and regulations' (ISA 315 2015). At the same time, the term 'control means', considered in ISA 315, means any of the components assigned to the internal control system of the enterprise. That is, the definition is broad enough and does not have the specifics that the system includes. If you continue to study ISA 315, then it indicates the possibility of having an internal audit service in the audited organization, as well as important corporate governance bodies whose powers are fixed in the current legislation, charters, corporate organizations' codes. At the same time, joint-stock companies and limited partnerships are currently the most common corporate organizations in the Republic of Kazakhstan. The Law on Joint-Stock Companies (JSC Law 2003) presupposes the separate functioning of the executive body of the company and the management body – the board of directors. This ensures separation of powers in the organization, eliminates a number of possible abuses by the executive body. Also, Article 61 of this law provides for the possibility (but not mandatory) of the internal audit service creation subordinate to the board of directors. At the same time, the law does not explicitly state whether it is necessary to create such a service in a public joint-stock company (with all the increased requirements for the work and management of a public joint-stock company). The Law on Limited Partnerships (Law on LLP 1998) and the supervisory board as a control body can only be created if the founders so decide (Article 57 of the law). An audit committee with up to 5 members can be created in the same way (Article 58 of the law) for audits (internal audit). The creation of these bodies, however, is not mandatory. In this case it is quite understandable, since a limited partnership can be a small enough organization (joint-stock companies are much larger companies, usually).

In any case, there are no clear requirements for the organization of internal control services (audit) both in ISA 315 and in Kazakhstani corporate legislation: corporate legislation contains only very general requirements for

the organization of such services and their functions, and ISA describes only what an external auditor should be guided by, assessing the risk of internal control of the audited entity. The risk of internal control is the degree of the auditor's confidence in the organization's internal control system in the formation of economic indicators (Rastegayeva *et al.* 2016). In turn, this trust will depend on the presence of a number of business processes of the audited entity in the internal control system. It should include such processes:

- identification of business risks that are significant for financial reporting;
- assessment of the risks' significance;
- an estimation of the risks' occurrence probability;
- decision-making mechanism on measures to reduce such risks (ISA 315).

On the basis of the processes identified in ISA 315, theories and systems for managing the internal risk of the organization are created, which are already applied by each organization at its discretion to ensure financial control and risk management. In particular, the literature examines the COSO risk management model (Fayzullina 2017), which was developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This model is designed to form an internal control system in organizations, and a great importance within it is attached to the internal environment, monitoring of internal control as a form of follow-up control. Monitoring is considered as one of the most important elements of the model, and a rather large importance is attached to the board of directors as a management body. It is up to the board of directors from the COSO point of view that the control structures of the enterprise must be subordinated, and the most important functions related to risk management must be assigned to it.

Internal audit as an element of the internal control system also occupies an important place in the scientific literature and publications. ISA 610 (ISA 610 2013) provide the basic concepts connected with service of internal audit of organization and use of its activity's results at carrying out external audit. This standard specifies that the internal audit service is a unit that carries out work related to assurance, consulting activities to assess and improve the effectiveness of corporate governance processes of the organization, as well as work on risk management, management of internal control processes. When conducting an external audit, the status, subordination, qualification of employees of the internal audit service are taken into account. That is, the standard presumes recommendations for the external auditor on the evaluation of the internal audit body's work of the audited entity, but does not regulate the work of this body. At the same time, the literature also highlights those prerequisites that indicate that organizations should create an internal audit service in the post-Soviet countries:

Table 1. Prerequisites for the formation of internal audit services in countries in the post-Soviet space

General prerequisites	Organizational prerequisites
Regulating the control function in corporations at the level of legislation (primarily in joint-stock companies)	Absence of normative regulation on the structure and functions of internal control services, internal audit
Complex, multi-level managerial and organizational-technological structures of a number of enterprises	Legislative prerequisites for establishing internal control services (corporate legislation, accounting and audit legislation), adoption of ISA requirements for audit organization, international corporate governance standards
Increase in production, sales, business expansion or diversification	Traditions of departmental financial control, which existed in the Soviet period, the need for methods of which does not disappear
Insufficiency of external financial control to ensure safety of work with business entities as partners and objects of investment	The functioning of different control bodies that perform certain functions related to internal control in vertical and horizontal interaction systems
Absence of unified concepts related to the organization of internal control and internal audit systems	The delineation of the functions of the structural and functional units that perform them are inherent in the internal audit, and not the financial control body
The need for professional consulting for the work of accounting and financial services companies	Implementation of quality management systems in modern companies that require more complex corporate governance and improve the quality of corporate information, including financial information

Source: Compiled on the basis of (Suvorova *et al.* 2011).

That is, the prerequisites for the creation of internal control services – internal audit – are primarily related to the large scale of the work of commercial organizations, so that control is required for effective financial management and for the timely detection of violations, abuses, errors in risk management related to such violations, abuses and mistakes. The task of the internal audit service is independent control, which provides a real

assessment of the work of an economic entity, the formation of an opinion on the results of its activities on this basis, both for the organization as a whole and for its separate structural divisions (Kucherov and Leushina 2013).

At the same time, in order to simplify the work on the creation of an effective internal audit system, the International Institute of Internal Audit developed the 'International Standards for the Professional Practice of Internal Auditing' (ISPPA 2014). They are one of the components of the International Framework for Professional Practice (IPPF), and are set out as principles, representing the basis, according to which internal audit can be organized and conducted. Actually, these standards themselves are not a normative act, but rather a 'template' for the organization of internal audit. Their structure is made up of standards of quality characteristics, performance standards and standards of practical application. In general, the internal audit in the organization, as a rule, works similarly to the external one, but constantly, systematically deals with risk assessment, conducting control procedures, identifying errors, abuses and other negative factors. In carrying out the work, the internal auditor uses the same ISA standards that are developed for external audit (given that the audit is internal, and not all ISA requirements are relevant to it), or based on their own standards, or ISPPA. The results of the audit are reported to the person who is formally superior (with the 'high' status of the internal audit – to the board of directors, to the general meeting of participants, with the lower status – to the executive body of the organization). In the first case, it ensures the interests of shareholders (participants), in the second – the interests of management (Sharipova and Puryayev 2017).

In general, at present the construction of an internal audit system in an organization is built on three foundations: the creation of own audit service, outsourcing and co-sourcing. Outsourcing is in this case the transfer of the functions of internal audit of another organization (the audit company) with which the contract is concluded, and which, according to the principle of internal audit, maintains constant and regular control over the accounting, financial operations of the organization. Co-sourcing is a partial outsourcing when third-party experts are employed to work in the company's internal audit service (Kucherov and Leushina 2013). However, outsourcing and co-sourcing of internal audit for the company have certain risks associated with possible information 'leakage'. That is why the creation of own audit service, which is staffed with specialists is still the best option, although the shortage of qualified personnel able to perform such work is the problem here, which is relevant for both Russia and Kazakhstan (Sharipova and Puryayev 2017).

In addition to the internal audit service, such units as budgeting, controlling, financial analysis services should be included in the company's internal control system. Since budgeting (financial planning), controlling (ensuring the implementation of plans and ongoing monitoring) and financial analysis (follow-up control) are important elements in the organization's financial control system, which are identified by most researchers (Deshuk and Abalakina 2014).

In general, it can be said that the internal control system aimed at identifying and preventing business risks of the enterprise is associated with the formation of internal audit, financial planning, analysis and controlling services in its structure, providing financial control over the activities of the whole enterprise.

2. Materials and Methods

2.1. Methods of Research

In the process of investigating the development of internal control at enterprises of the Republic of Kazakhstan, theoretical, diagnostic and empirical methods were used. Theoretical methods include analysis, synthesis, generalization, and modeling. Diagnostic methods include questioning, interviewing. This empirical method was also used to study the experience of some trade organizations of Kazakhstan when building internal control systems in them.

At the same time, the main empirical method was the questioning of organizations' managers from the empirical base, who are directly responsible for financial management (having the position of 'financial director' or 'deputy director for finance' or 'director of economics and finance', 'head of the financial department'. As a rule, it is these organizations' officials that have full information about financial management, internal control system, including accounting and internal audit (even if the service of internal audit and accounting service are not their subordinates formally). Interviewing officials (financial directors) of the three trading companies was carried out for the formation of the actual models of internal control as an example for this article.

2.2. Empirical Basis of Research

As an empirical base of the research, 20 trading companies of the Republic of Kazakhstan, working in Almaty and Astana (major metropolitan cities), that meet the following criteria were selected:

- they are not small and medium-sized organizations (more than 250 people and revenues of more than 3 000 thousand of the established minimum calculation index);
- they are not affiliated companies of foreign companies (who implement their own corporate standards in their own way immediately upon opening a subsidiary company);
- they have more than two outlets (in the city or several cities).

It is important that to ensure the preservation of trade secrets, the survey was conducted on the conditions of non-disclosure of information for each individual enterprise, unless its official authorizes the publication of such information.

2.3. Stages of Research

The study of the problem was carried out in four stages:

- (1) at the first stage, a theoretical analysis of existing methodological approaches to the organization of the internal control system at enterprises was conducted; the purpose and methods of research were singled out; criteria for the analysis of enterprises in the experimental part was determined; a sample of enterprises meeting the criteria was determined and a pilot study plan was drawn up;
- (2) at the second stage, questionnaires were conducted, the results of the questionnaires were processed, and summary tables were compiled according to the results of the officials' responses of the enterprises under investigation regarding the state of the financial control system of the enterprise; the results obtained were summarized and systematized;
- (3) at the third stage, a selective empirical study of three enterprises from the empirical base was carried out, the internal control systems existing in them were described;
- (4) at the fourth stage, general conclusions regarding the development of internal control systems of enterprises of the Republic of Kazakhstan were drawn (in particular, trade companies) and an optimal model that would more effectively guarantee effective internal control in such enterprises was developed.

3. Results

Performing work on each of the previously mentioned stages of the study made it possible to draw the main conclusions from the results. The purpose of the study is to obtain insights on the development of the internal control system of the Kazakhstani companies under study, for which answers to questions that characterize the means of internal control should be obtained.

The questionnaire, which was submitted for filling in to officials directly or indirectly involved (controlling) the processes associated with the internal control of organizations, contained the following sections:

- (1) 'Do you have automated accounting systems (integrated trading systems or ERP systems) in your company' (answer options: yes or no);
- (2) 'What internal control methods are applied in your organization' (listed: audits, budgeting, operational controlling, internal audit);
- (3) 'Which bodies responsible for internal control are established in your organization' (listed: board of directors or supervisory board, internal audit/audit service, budgeting or controlling service (or other similar service));
- (4) 'How is internal audit organized in the company?' (options: absent, outsourcing, own service);
- (5) 'Who the internal audit/audit service is subject to' (only for companies that have it in their structure, options: executive body or board of directors/supervisory board/general meeting).

The study was conducted in June 2017 through personal communication and communication via e-mail with companies' officials that meet the selection criteria and agreed to participate in the survey. As a result, data were obtained, after processing of which the resulting tables and diagrams were drawn:

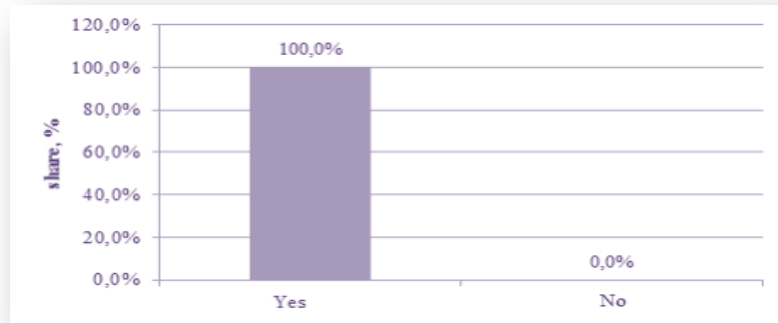


Figure 1. The answer to the question ‘Do you use automated accounting systems (integrated trading systems or ERP-systems) in your company’

From the data presented in Figure 1 it follows that all the surveyed trading companies have automated their accounting and work, since without the processes’ automation in industrial production enterprises it is extremely difficult to work now: because of the wide range of goods, active goods movement, both numerous errors are possible and violations related to theft. Prevention of both is possible with the use of systems (databases with access from different outlets, the entry of goods with the barcodes’ use, sale with their application, integration of cash and commodity transactions, etc.). Therefore, this result was quite expected.

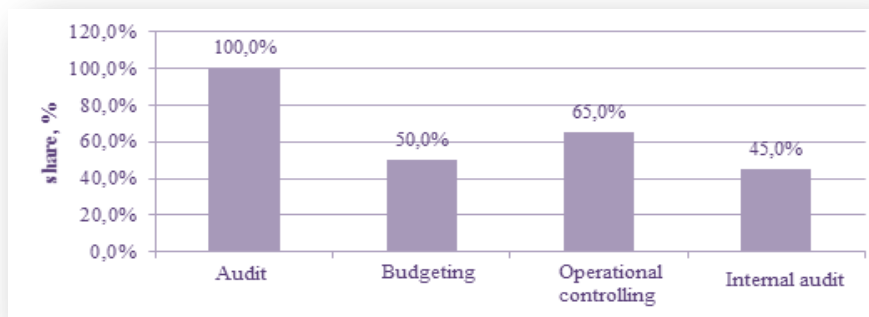


Figure 2. The answer to the question ‘What internal control methods are applied in your organization’

As can be seen from the data shown in Figure 2, 100% of the enterprises surveyed use audit as a method of internal control, which ensures the safety of goods and money, through which shortages are quickly identified. As a rule, all trade organizations use this method, applying it often. Budgeting is used by only half of the companies surveyed, given that not all companies are able to organize this process, which offers both complex automation and the availability of specialists (divisions) that are engaged in budgeting. Operational controlling (cost analysis, efficiency analysis, control over spending of funds and implementation of certain standards) is used by a large number of enterprises, more often than budgeting, which is associated with a simpler scheme for implementing these methods. Internal audit is used by only 45% of the companies surveyed, which is less than half.

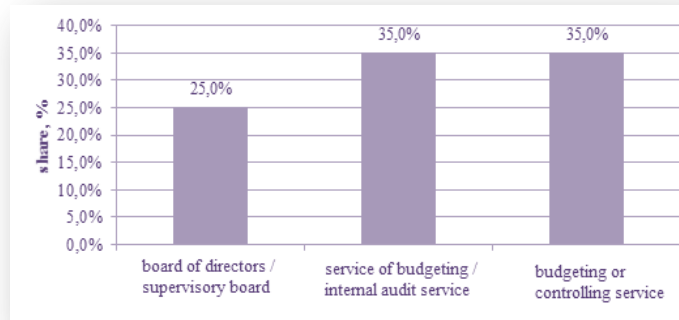


Figure 3. The answer to the question 'Which bodies responsible for internal control are established in your organization'

As can be seen from the data in Figure 3, only a quarter of enterprises have a board of directors or supervisory board, and this is mainly those organizations where there are several large owners (participants or shareholders) who want to control the business, to make it efficient and transparent. The service of budgeting and the internal audit service is only for 35% of enterprises. This is due to the fact that these functions (budgeting, controlling, internal audit) are often performed by unspecialized divisions (budgeting and controlling is often carried out by the finance department, which is not always an effective transfer of function to this division), internal audit can also be conducted not by own efforts.

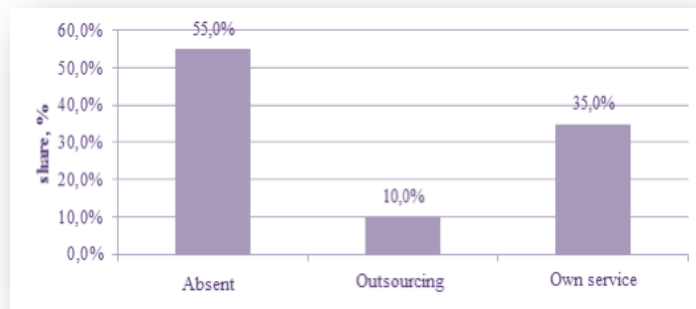


Figure 4. The answer to the question 'How is internal audit organized in the company?'

As can be seen from the data presented in Figure 4, most of the enterprises under study do not have internal audit in principle, 35% have their own service, and 10% have contracts with audit companies for regular and systematic audit, which is applied as internal.

Representatives of those companies that have their own audit service were asked the last question:

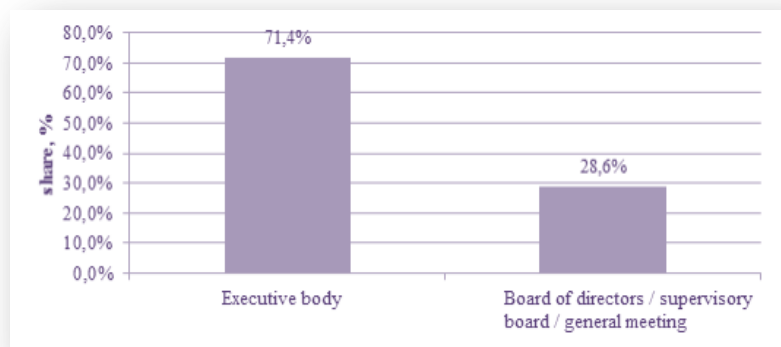


Figure 5. The answer to the question 'Who the internal audit service/audit service is subject to'

As can be seen from the above data, in most of the companies having the audit service, it is subordinated to the executive body (director or board), and only slightly more than a quarter – to the board of directors, supervisory board or general meeting directly (formed with their direct participation and they are accountable to them, which is why to a greater extent, the interests of the company’s owners are catered to, rather than the management’s). As a result of the questionnaire, it can be concluded that currently in Kazakhstani companies operating in the sphere of industrial production enterprises and having a sufficiently large size (not small and medium business entities), internal control systems are not developed enough. Now the accounting and management of industrial production enterprises in all companies is automated, which significantly reduces the possible business risks associated with accounting, audits of goods and cash, calculations. However, such internal control methods as budgeting and internal audit are rarely used. Also, at the level of corporate governance, bodies that monitor, including financial and economic activities of companies, are not often formed, and where they are formed, they are rarely subordinated to internal audit services (audit services), which reduces the effectiveness of internal control in companies.

A selective study of internal control systems for three trading companies allows us to describe the models of these systems. The first company was Sulpak JSC, a large company operating in many cities of Kazakhstan, with regional divisions and 82 stores in the country. It has the following structure of the internal control system:

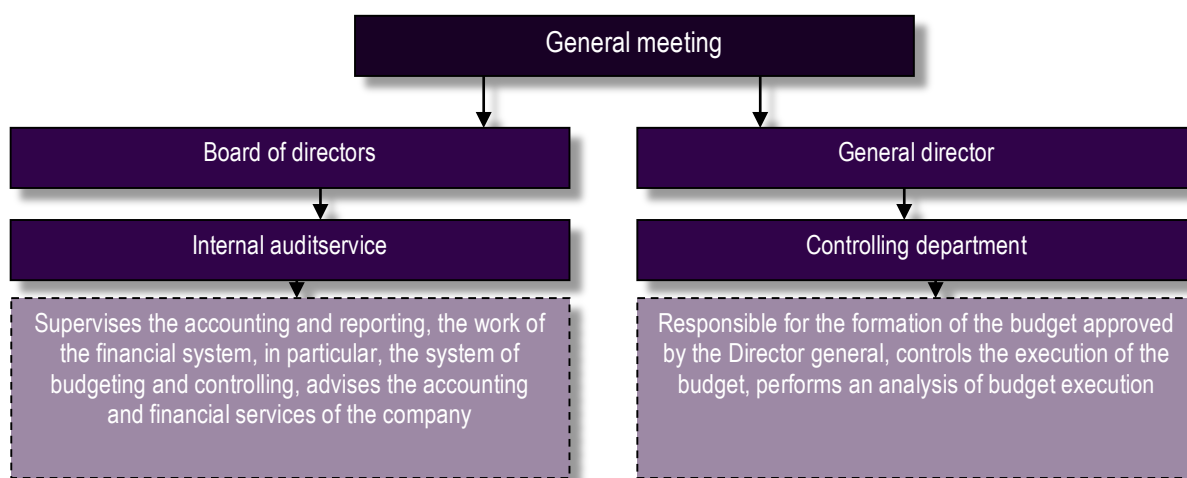


Figure 6. Structure of the internal control system of ‘Sulpak’ JSC

In general, this enterprise has implemented all elements of internal control, which were described earlier. At the same time, the subordination of the internal control service to the company’s board of directors is fully justified, since the auditor’s reports should be provided through it to the shareholders, the shareholders should be informed of the revealed mistakes, distortions, abuses, in order to directly influence the executive body.

The second company investigated was ‘Wholesale club ‘Arzan’ LLP – asupermarket chain. It has the following structure of the internal control system:

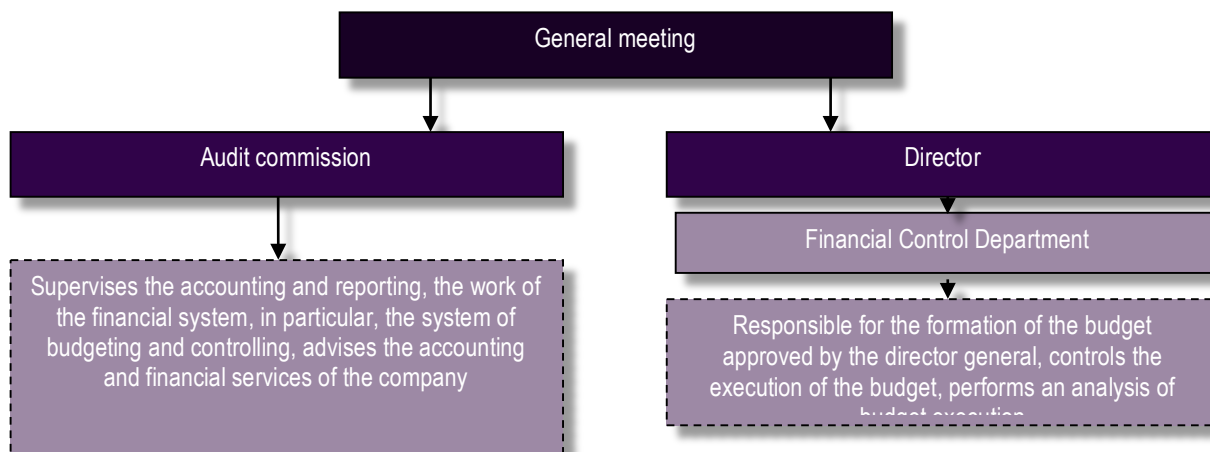


Figure 7. Structure of the internal control system of ‘Wholesale club ‘Arzan’ LLP

That is, in this company, which is a limited liability company, the corporate structure is simplified (there is no supervisory board), but there is an audit commission, which is subordinated to the general meeting, and it is formed by it. The division of financial control is the department of financial control (in fact – the controlling department), which is subordinated to the executive body, and performs the same functions that were described in the analysis of the previous organization. The audit commission provides the results of the audit to the general meeting of participants, to justify the distribution of dividends to the company, among other things.

The third company investigated was Aidi LLP (a chain of crockery stores). This organization operates mainly in Astana and the Akmolinsk region, it is slightly smaller than those that were previously represented, but also has several participants in the limited liability partnership. The organization has the following structure of internal control system:

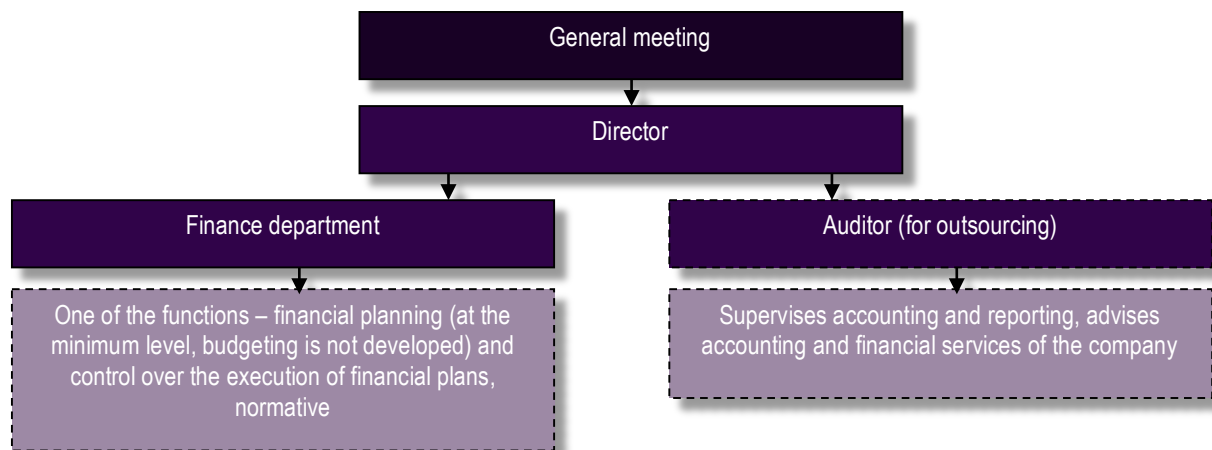


Figure 8. Structure of the internal control system of Aidi LLP

That is, this company does not have those elements of the corporate structure that were available for those described above. Also, all units of the company engaged in internal control are directly subordinated to the director. At the same time, the company does not have its own internal audit service, this function is performed by the external auditor (for outsourcing). Such a system of internal control can be called weaker than the above mentioned structures: it does not provide full control for the owners over doing business, over the work of the executive body. Summarizing the results of the study, it can be said that at present a comparatively small number of large trading companies of Kazakhstan (if it is not a company with foreign capital participation having a sufficiently high level of corporate governance development) has a system of internal financial control that meets modern corporate governance requirements which would ensure the minimization of companies' business risks. Therefore, it would be optimal for many companies to improve their own systems, improve both internal financial control, and corporate management systems in general.

4. Discussions

The creation of an internal control system in modern Kazakhstani companies that would meet the actual needs of their development is quite a complicated task, requiring the analysis of theoretical approaches and practice generalization of using these elements of corporate governance abroad. The discussion raises the question of whether any company needs an internal audit service. Thus, Grishchenko, summarizing foreign practice, indicates that the internal audit service is needed, first of all, when the company has minority shareholders (participants) who want to at least partially put the business under control through similar services (Grishchenko 2014). At the same time, Obratsova, describing the need for internal audit service companies, proceeds from the size of the company, arguing that even with a small number of shareholders (participants) and even one shareholder (participant), the creation of such a service can be justified (Obratsova 2016). Her article lists certain criteria for how the internal audit service should be formed in the company. This specificity of formation, depending on the business' size, of course, is not indisputable, since it does not take into account the corporate structure, the ownership structure in the company, nor the subordination issues.

In general, the question of who the internal audit department should be subordinated to in the corporate governance system raises much discussion. The legislation of the Republic of Kazakhstan gives an unambiguous answer to this question for joint-stock companies – to the board of directors. However, if there is no board of

directors in the joint-stock company, or it is a limited liability partnership – here the question of such a unit subordination (if it is created at all) remains open. A. Sonin, Chairman of the Board of the Russian Institute of Internal Auditors (IIA), a specialist in GAAP, argues that it is necessary to ensure the independence of the internal audit service, and ideally it should be subordinated to the board of directors functionally; and in administrative submission it must be with the executive body. Or, in a very large company, an Audit Council can be created, that will deal with both internal audit issues and work with external auditors (Sonin 2012). At the same time, he warns that full submission to the board of directors is dangerous for the company, for control over this service is lost, since, administratively, the board of directors cannot control it. Therefore, he considers administrative subordination to the executive body necessary. B. Sokolov asserts that in practice it is possible to split the functions of internal audit, when the subdivision performing the operational audit (audit of business processes related to accounting and financial operations, other functions and processes) is subordinated to the financial director or the executive body as a whole, and the financial audit (which performs the function of reporting audit) is subordinated to the board of directors (Sokolov 2014).

Table 2. Specificity of internal audit services formation in companies

Criterion	Micro business	Small business	Medium business	Large business	Large business in the form of a large corporation
Number of employees, people.	1 – 15 people	15 – 100 people	100 – 250 people	250 – 1000 people	over 1000 people
Income per year, USD (\$).	less than 2 million	2 – 13 million	13 – 30 million	30 – 300 million	more than 300 million
Organization of internal audit service	Does not need the creation	Outsourcing is possible (annual check)	Full-time specialist (1) or outsourcing with a check 1-4 times a year	Full-time service consisting of 4-8 people	Full-time service, including subdivisions in branches and subsidiaries, partial outsourcing is possible

Source: Compiled on the basis of (Obraztsova 2016).

Therefore, on one hand, the company can fully control business processes, make adjustments to them in the current mode based on the results of regular inspections. On the other hand, shareholders (participants) regularly receive comprehensive reports from the internal audit service subordinate to the board of directors who are already evaluating the results of accounting, financial transactions and reporting. A. Grishchenko, analyzing the international practice of internal audit, states that there are two main approaches to the internal audit organization in developed countries:

- the focus on the formation and maintenance of a sound internal control environment (in this, either the director for audit is allocated as an independent member of the collegial executive body or the deputy of the sole executive body – director; or the internal audit service is subordinated to the board of directors, if it exists in the corporate structure);
- the focus on checking financial statements, accounting procedures and the safety of the company's assets, in which case the internal audit service is subordinate to the executive body, or rather, to the financial director) (Grishchenko 2014).

At the same time, they are allocated the possibility of parallel subordination of such a service and the financial service of the company (to the financial director) and to the board of directors or the director of audit, which is part of the collegial executive body of the company (Grishchenko 2014).

In general, the discussion about the subordination of the internal audit service is due to the fact that not all large companies, even joint-stock companies, create boards of directors or supervisory boards, which complicates the issue of the subordination of the internal audit service. There is also a problem in the division of internal audit functions. Sokolov argues that the internal audit of the company must necessarily be divided into financial and operational (Sokolov 2014). Revisions can also be assigned to operational audit, which are systematically conducted in trade organizations, and which are mainly assigned to accounting services or to the company's auditing services. Accounting control, monitoring of the use of funds and other transactions related to specific business processes also apply here. Auditors should identify violations, make recommendations, and make prescriptions. If the company has many branches, it would be optimal to subordinate such a service to the head office, even if the inspections are carried out 'on the spot' in the branches (Rastegayeva and Rakhmatullin 2016). On one hand, a financial audit should regularly assess the company's financial statements, keep records in one direction or another. It should use operational audit data according to the same principles as those established in ISAs 315 and 610. It is also the financial audit unit that can interact with the external auditor (Obraztsova 2016).

That is why the really optimal solution will be the separation of these two services, with submission of the first to the financial director, and the second – to the board of directors (if any), the general meeting or the director of audit.

Similar issues are related to the subordination of controlling and budgeting services, which also significantly affect the internal control system of the enterprise. Thus, Filchenkov proceeds from the premise that this service must obey either the financial director or directly the general (for greater independence), but in one way or another – to the executive body (Filchenkov 2013). On the other hand, the article of Guseva considers the idea of the functional subordination of such a service to the board of directors (since it is it that must approve the budget and the report on its execution) (Guseva *et al.* 2014). However, the same problems as in the subordination of the internal audit service often arise here; therefore, in practice, both in Kazakhstan and in other countries this service is subordinated, mainly, to the executive body of the enterprise, either directly to the director (director general) or the director for controlling, or the financial director (Kaliakparova 2010). Moreover, controlling performs precisely the function of operational control, as well as the 'operational' internal audit described above.

Hence, one can present optimal models for the formation of an internal control system. So, this structure should be complicated for a large company with a corporate structure, several participants, including minority shareholders. The creation of the board of directors (supervisory board) with the internal audit service subordinate to it will be optimal. This service will also audit the reports, work with external auditors, and also audit the approved budgets for their reconciliation. The internal control service will consist of audit and controlling departments, the first of which will deal with issues of operational audit, the second will be the budgeting and controlling the enterprise. The structure will look like this:

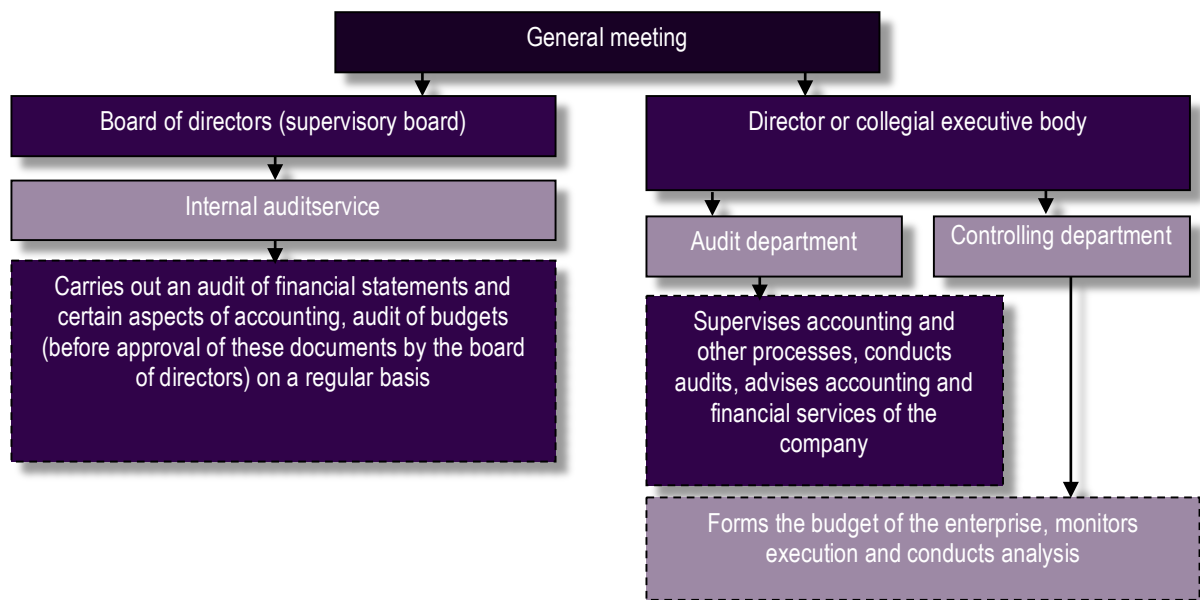


Figure 9. The proposed structure of the internal control system for a large corporate organization

On the other hand, companies that have a less developed corporate structure but are also large, will optimally have one internal audit service that is subordinated to a separate manager, independent of the accounting and financial services, as shown in Figure 10:

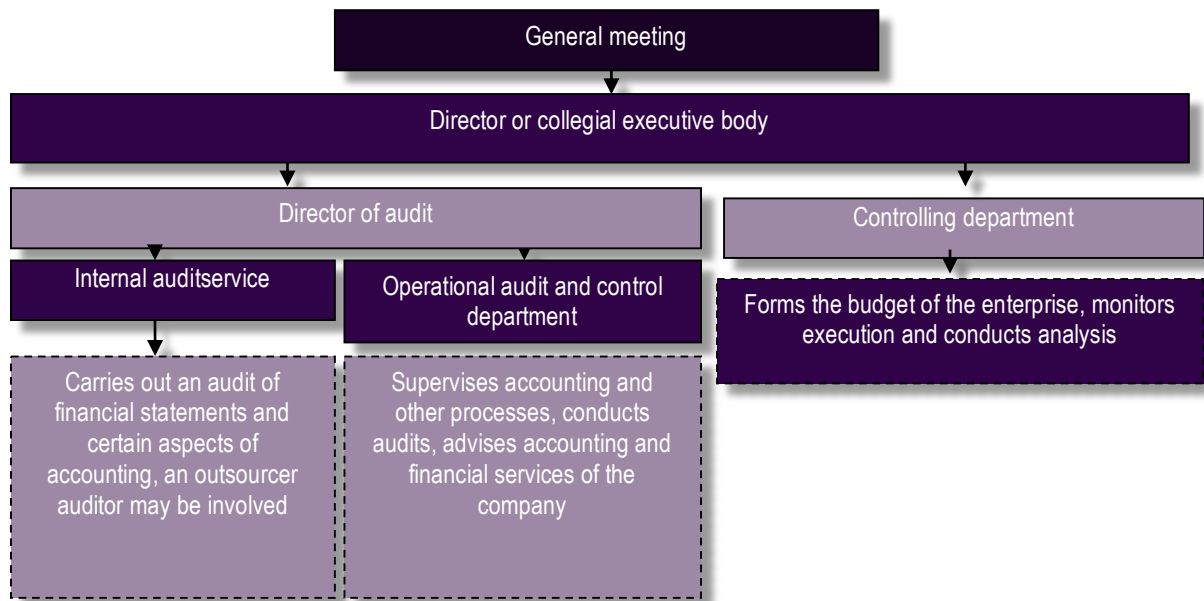


Figure 10. The proposed structure of the internal control system for a large organization that has a simple corporate structure

That is, such a simplified structure assumes the subordination of the entire system of internal control to the executive body of the company, however, shares its functions.

Conclusions and Recommendations

Summarizing the results, we can draw the following conclusions. At present, with the development of the business of a number of corporations in Kazakhstan, with the entry of these corporations into the financial markets, with the need for their consolidation, and also due to the already sufficiently large corporate structures of some companies, the issues of improving the internal control system are gaining popularity. On one hand, to ensure greater 'transparency' of business for shareholders (participants) and partners, companies are forced to implement services that provide internal audit and controlling (budgeting, execution and analysis). On the other hand, a relatively small percentage of companies in the Republic of Kazakhstan are implementing all these processes in a comprehensive manner, which was shown by the results of employees' survey responsible for the financial management of trading corporations selected for the study. In most of these companies, the functions of internal control are greatly simplified, or do not reflect those needs and trends in the development of internal control systems that exist in developed countries.

Taking into account the revealed shortcomings in the development of internal control systems at Kazakhstani enterprises, the following recommendations were made. It is necessary to improve these systems in the direction of complicating the corporate structure of a number of companies (the creation of boards of directors and supervisory boards), the subordination of the internal audit services responsible for accounts' audit, budgets and work with external auditors to the boards of directors and the supervisory board, subordination of internal operational audit services and controlling services to the executive body (having separate control functions). In those companies where the complexity of the corporate structure is not required, it will be optimal to divide the internal audit into operational and financial (different departments, but subordinate to one director of audit who belongs to the collegial body or directly subordinate to the general director), as well as the controlling department's work that is subordinate to the director general or the financial director.

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