

INTERNAL CONTROL: GENERAL ANTI-CORRUPTION APPROACHES

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Abstract

Within the framework of this research, it is necessary to **solve the problem** of introducing the anti-corruption vector of internal control in the organization, starting with understanding the existing approaches to the control itself, both the management function and the creation of its system modification by famous researchers and practitioners. It can be stated that today there is not a single state for which anti-corruption issues would not seem significant, for the Russian Federation this problem is one of the most relevant.

The purpose of the research is to develop an effective methodology for conducting an internal audit, in terms of implementing anti-corruption control of an economic entity.

Keywords: functional and administrative subordination of the internal audit service, internal audit, organization of the internal audit service

1 INTRODUCTION

According to the results of the Association of Certified Fraud Examiners study, theft losses as a percentage of the total cost of doing business in Russia averages 31.0%, and theft losses as a percentage of annual sales volume averages 15.8% [4], the most vulnerable processes for theft have been identified (Figure 1).

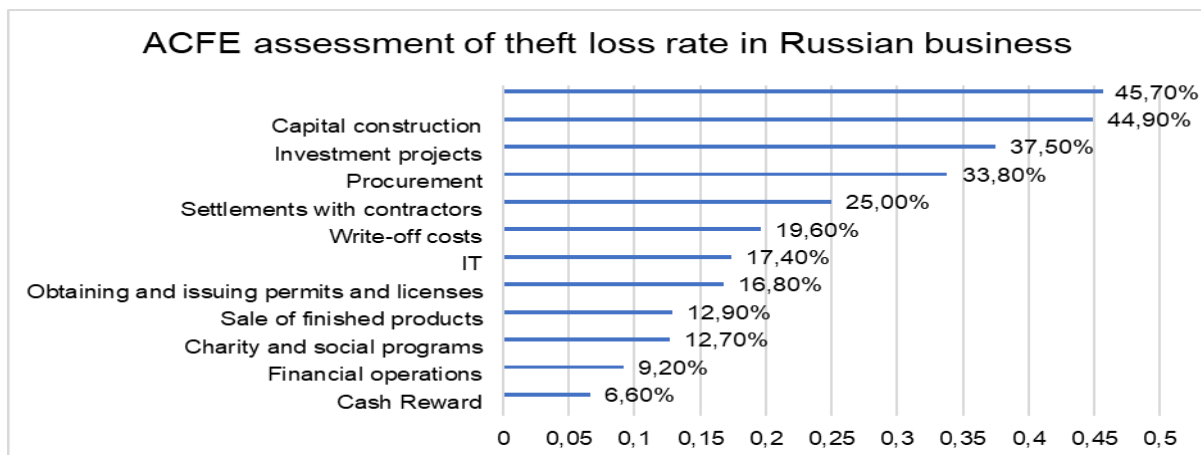


Fig. 1. ACFE assessment of theft loss rate in Russian business
Source: [4]

It is important to note that this corruption scheme is equally attractive for fraudsters, both at the level of

tendering / tendering of public procurements and at the level of procurement of commercial companies (Figure 2). The presented digital values of potential corruption-related violations at the stages of procurement transactions should guide internal control system (hereafter – ICS) organizers in planning and developing means of controlling contracts for the acquisition of material values. The most widespread and at the same time the most effective means of control for the anti-corruption orientation, with its sufficient development, is the Regulation on contractual work. This is an internal document containing certain regulations for actions imputed to entities by responsibility centers: economic security, legal, financial and economic, technical and environmental services. Their responsibility is determined by checking draft contracts for potential risk risks in accordance with the competencies inherent in these services. Each contract must go through the approval of these services. Ignoring approval - there is a 100% risk of corruption. For the transparency of these procedures, according to the practice being implemented in companies, two documents (protocols) are developed for the Regulation on contract work, which accompany the contract before signing: agreement and disagreement.



Fig. 2. Procurement fraud in Russia and around the world (%)
Source: [1]

In the protocol of disagreements - service representatives express their professional judgments about the necessity, economic rationality of signing the agreement, according to the approved criteria of acceptability for each type of agreement. Typically, the Regulation on contractual work provides classification of contracts - standard and non-standard. All contracts, in turn, are distributed according to the following criteria: the amount of the contract and the amount of risk to simplify the passage of contracts with a small transaction volume or with a low risk rating. to provide services and perform work with significant volumes of the transaction. For each standard size of contracts, the procedure for approval of the draft contract should be determined, the circle of managers - subjects of control. In the Regulation on contract work should be provided and spelled out: the term for passing approval of the contract by each service and the sequence of its consideration, as well as the procedure for transferring the project from one manager to another; details and procedures of registration of contracts, the person responsible for their registration and storage organization in the process of their implementation and after the expiration of the validity period, that is, archiving. The progress in the quality of execution of the signed agreements is controlled by the regulations of the Regulation on claim work, which controls the entire procedure from the occurrence to the result of consideration for each claim (Figure 3).



Fig. 3. The consequences (risks) observed in the company in the absence of long-term procurement planning

Source: complete by authors

An important point in the implementation of ICS is associated with the optimization and minimization of the occurrence of corruption risks during the functioning of procurement processes and the organization of tenders and competitions. Practice shows that the regulation of the supply department, put on a long-term planned basis, can optimize the risk factors associated with its absence activities of the organization.

According to ACFE [4], more than 37% of employees in the procurement department of Russian companies take bribes, create or participate in fraudulent schemes. Researchers of this problem note the amazing "creative potential" of fraudsters in the continuous improvement of kickback schemes []. However, there are constant indirect signs (signals) by which it can be assumed that the corruption component in the activities of the procurement department employee is (Table 1).

Table 1. Indirect signs of procurement fraud

No	Signals	Confirmation facts (FP) and preventive measures (MP)
1	Holding meetings (negotiations) outside the office and / or after hours	FP - control the frequency of such meetings for each employee. MP - the regulation of meetings in the office.
2	Reluctance to transfer their suppliers to other employees	FP - the argument that the supplier will not work with another employee. MP - redistribution of the supplier base and delay in payment to counterparties. The fraudster will begin to get nervous and will force a demand to pay faster to the supplier from whom he received kickbacks.
3	Resistance to tenders and / or attempt to control them	MP - tenders for the purchase should be held regularly. If during their implementation, the supplier base does not change significantly (FP), the conclusion is disappointing - in the procurement department there is a system for receiving kickbacks.
4	Regular increase in the procurement budget and constant increase in expenses	MP - you cannot trust the procurement budget planning process to the logistics department. Otherwise, the corruption component will be initially included in the budget.
5	Inconsistency of the employee's standard of living with wages	FP - purchase of expensive things (real estate, cars) for cash for themselves and their immediate family, holidays in expensive resorts, teaching children in prestigious universities on a paid basis, etc..

Source: compiled by the authors

Returning to the control of the procurement planning procedure, it is important to emphasize that it should be carried out by various services, which is designed to reduce corruption risks in the formation of the procurement budget (Clause 4, Table 1). At the stage of approval of the procurement plan, the opinions of most of the existing departments in the company are coordinated. The procurement plan is based on the production plan for the year (period), prepared on the basis of the coordinated efforts of the production and commercial departments. The norms for the consumption of material resources for products are being formed, which are the result of the agreed opinion of the planning, economic and technological services. The same services calculate the standards for stock balances for uninterrupted production at the end of the period. The forecasting of prices for necessary resources is carried out by the financial and economic service with the participation of the department of material and technical supply. The analytical group compares market prices with existing counterparties. Asks a number of suppliers for prices for similar products or a list of services. Check their economic feasibility (inflation, quality). With a 10% increase in the cost of purchased products to market counterparts, we can already conclude that the company pays "lift" to the managers of the supply department. At this stage, the accreditation of suppliers is carried out, in which, in addition to the above departments, the economic security service, accounting, and internal auditors take part. It is during a collegiate discussion of representatives of these services that the composition and acceptable number of suppliers are determined. Based on the synthesis of conclusions from the array of data obtained, the company calculates the planned volume of purchases with the approved delivery dates and the optimal lot size (lot). The lot should indicate possible variations in the lot volume (for example, 10%), in case of exceeding the limits of the lot, additional coordination with the executive director is necessary. This calculation in the form of a plan is approved by the general or executive director of the company, in accordance with the functional distribution adopted by the organization for these managers. In the practice of

tendering, the terms for concluding contracts (contracting of supplies) and the accreditation of suppliers should be further regulated. An approved detailed supplier replacement procedure must exist. Verification of the reasons and the validity of the need to replace the supplier are carried out by internal auditors and the economic security service. The decision to replace the supplier is made by the commercial director with the approval of the general director. In order to strengthen internal control of procurement activities, a monthly practice of reports of the supply department for each manager is introduced, as well as quarterly monitoring of supply prices. The level of losses from abuse at the stage of sale of finished products in the Russian business is 16.8% [2]. It is worth noting that the development of only sales regulations and monitoring their compliance is often not enough. In practice, various control procedures are additionally introduced. But the scrupulously developed sales regulations in the company is still an effective barrier to reducing the likelihood of financial fraud. The best option when developing a sales plan is to use the principle of two information flows, where the sources have different functional motivations - the sales department and the marketing department. With a similar coordination of the sales plan with the procurement plan described above, special attention is paid to significant differences in sales volumes, the ratio of these volumes with advertising events. The position of price planning is discussed collectively at the level of top management and the Board of Directors, where all arguments are considered. The decision becomes the basis of the pricing policy of the company, where marketers set price limits, and sales managers form a price list version within the established limits taking into account existing relationships with customers.

Frequent changes in the price list are undesirable, both because of the laboriousness of performing all procedures, and because of the guaranteed negative reaction of customers. Therefore, ICS usually sets and strictly monitors the timing of price changes. An unscheduled price review can be initiated when the following reasons arise: a decrease in return on sales; formation of excess stocks in the warehouse; a sharp change in consumer demand; changes in market conditions, mainly the appearance of similar, but more attractive products at the price of competitors, etc. In order to prevent fraudulent activities, the price list should specify the procedures for providing discounts and surcharges to the price that customers can be guided by: depending on the volume of purchases and terms of payment (fact of shipment, fact of transfer of goods, amount of prepayment). Flexible methods of discounts and allowances, depending on the customer's valuable values for the company, which sales managers can follow, should be described in detail and strictly regulated. In companies with mature ICS, their provision with the participation of a commercial and general director is envisaged. A special place in the control of sales should take regular monitoring. Namely, due to its effectiveness, it is possible to identify signs of dishonesty and abuse on the part of managers and the head of the sales department (Figure 4).

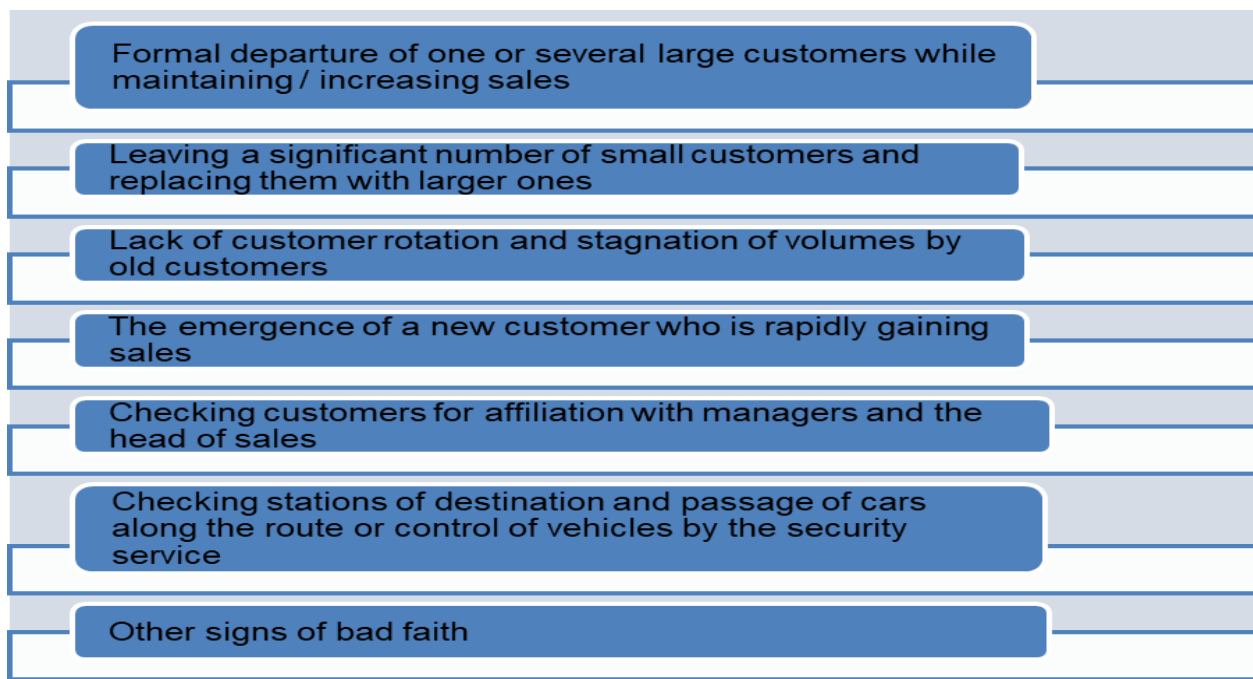


Fig. 4. Signs of dishonesty and abuse by managers and the sales manager

Source: compiled by the authors

Often a signal of the trouble of the affairs in the sales department is the fact of an increase in receivables in the company's statements. To control the solvency of customers, the control services conduct an analysis of counterparties. The analysis is performed in Excel, which reduces its complexity. The analysis algorithm is based on the financial statements of each client, and the performance of assessments: legal reliability, financial stability, payment discipline and prospects of the client. A summary table of an example of an assessment of counterparties is presented in Figure 5.

Debtor	Number of receivables, thousand rubles	Annual revenue, thousand rubles	% of total revenue	Customer category	Customer category		Reliability		Financial stability		Payment discipline		Customer perspective		TOTAL Points	Recommendation
					Grade	Weight	Grade	Weight	Grade	Weight	Grade	Weight	Grade	Weight		
					0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2		
D 1	42	3 061	12%	Strategic	5	20%	3	20%	0	20%	4	20%	2	20%	3	A deferred payment is granted only subject to interim measures (fines, penalties, late fees)
D 2	800	9 356	36%	Strategic	5	20%	1	20%	5	20%	3	20%	3	20%	3	A deferred payment is granted only subject to interim measures (fines, penalties, late fees)
D 3	102	2 350	9%	Large	4	20%	4	20%	2	20%	4	20%	5	20%	4	Deferral is granted for a minimum period
D 4	1 696	6 484	25%	Strategic	5	20%	1	20%	1	20%	1	20%	3	20%	2	Shipments only with collateral or surety, enhanced control over the turnover of receivables
D 5	269	4 682	18%	Strategic	5	20%	1	20%	2	20%	1	20%	2	20%	2	Shipments only with collateral or surety, enhanced control over the turnover of receivables
TOTAL		25 933														

Fig. 5. Counterparty Evaluation Summary Table with Recommendations

Source: compiled by the authors

In the goal-setting of sales control in ICS, a collection of various types of reports is used: for example, on discounts provided, on targeted stimulation of counterparties, on direct costs for promoting products by customer. Consideration of the general approaches of the ICS, which are designed to reduce and prevent the corruption component, allows us to draw conclusions about the main requirements that determine the effectiveness of the internal control system: the accountability of each subject of internal control of the organization from the general director to the ordinary employee; Regulation of rejection of any deviations by creating special conditions under which deviations become visible and require correction; Prevention of concentration of primary control rights of any business process in the hands of one person, which leads to abuse; the acceptability of the internal control methodology, in which the distribution of functions and applied methods should be appropriate for certain priorities; optimal centralization of control combined with sole responsibility; the continuity of control procedures, even when retirement of entities responsible for their implementation, through the development of the potential for functional substitution; coordination of control based on the clear interaction of all divisions and services of the company; regulation of all business processes based on flowcharts.

Table 2. Test of elements of the internal control system that potentially ensure compliance with anti-corruption requirements

№	Sections and questions	Assessment	
		Yes	No
1	The leadership of the audited entity assumes responsibility for ensuring compliance with anti-corruption requirements, including:		
a.	Are the ethical standards of the audited entity in the form of policies, procedures, a code of ethics / code of conduct;		
b.	Does the management of the audited entity demonstrate a commitment to a culture of honesty, ethical standards and organizational values in the process of implementing activities, making managerial decisions and evaluating / rewarding employees;		
c.	whether the employees of the audited entity are required to familiarize themselves with the code of ethics / code of conduct and confirm written familiarization;		
d.	Does the management of the audited entity respond promptly to detected cases of violation of the requirements of the code of ethics / code of conduct and (or) cases of unethical behavior;		
e.	Does the management of the audited entity implement and maintain internal policy and culture of inadmissibility of violation / circumvention of internal control requirements;		
f.	Does the management of the audited entity regularly review internal control policies and procedures, including those aimed at preventing and detecting corruption offenses, as well as the code of ethics / code of conduct to take into account changes in legislation and the internal environment; whether any changes are communicated to employees.		
2.	Risk assessment of cases of corruption offenses, including:		
a.	whether a risk management unit has been formed, or a person responsible for risk management has been appointed, or is there a different process for identifying risks, assessing the significance of these risks and the likelihood of their occurrence, as well as making decisions on measures to reduce and manage these risks;		
b.	whether the responsible department or person regularly submits reports to the representatives of the owners or the executive body of the audited entity;		
c.	whether the responsible unit or person is considering (in addition to identifying and assessing risks) the presence of incentives, opportunities and circumstances conducive to committing offenses, including corruption, and whether it carries out a general risk assessment for the ongoing activities of the audited entity;		
d.	Does the management of the audited entity receive information and data supporting the risk assessment process, both from internal and external sources.		
3.	Special internal control procedures, including:		

№	Sections and questions	Assessment	
		Yes	No
a.	Does the audited person carry out a special examination of candidates when hiring employees for key positions (for example, checking educational documents, obtaining feedback from a previous job, checking for evidence of a criminal offense, information about committed offenses, including accusations / suspicions that did not end with a trial);		
b.	Whether the audited entity checks contractors before the conclusion of the contract, including their legal and tax status;		
c.	Does the audited entity verify the transaction (contract) before concluding the contract from the point of view of compliance with the requirements of applicable law and the internal organizational and administrative documentation of the audited entity;		
d.	Does the agreement require at least two levels of approval and is it carried out by representatives of several departments;		
e.	whether liability limits are established and applied for procurement and payments, assuming a different level of coordination depending on the amounts of purchases and payments;		
f.	whether a tender process is being organized for purchases the amounts of which exceed the established limits;		
g.	whether for contracts with organizations registered in foreign jurisdictions that provide a low level of taxation, acceptance by the sole executive body or the official responsible for monitoring		
h.	Have procurement and sales processes and procedures been organized taking into account the provisions of the code of ethics / code of conduct and the need to ensure compliance with anti-corruption laws.		
4.	Information and communication		
a.	Does a regularly audited person inform employees about changes in legislation and internal organizational and administrative documentation, including through training;		
b.	Are vocational training programs in line with the requirements of regulatory authorities and professional associations;		
c.	whether there is a special procedure for reporting facts (suspicions) of corruption and dishonest or unethical behavior (for example, a hotline); whether independent investigations are carried out on the facts of violations (suspicions) reported through the hotline; whether the results of the investigations are brought to the attention of the appropriate level of management and representatives of the owners;		
d.	whether the external communications of the audited entity are coordinated with the responsible leaders; whether the correspondence and other interaction of the audited entity with government bodies is controlled by management or a specially designated responsible person.		
5.	Monitoring internal control:		
a.	Does the regularly responsible unit or person (for example, the internal audit service or internal auditor) check the operability and effectiveness of the internal control system, the safety and efficiency of the use of assets; whether reports and recommendations on eliminating deficiencies and preventing violations are prepared for the audit committee of the management and representatives of the owners of the audited entity based on the results of inspections;		
b.	if necessary, the responsible unit or person conducts special checks and investigations of corruption, suspicion of corruption and transactions with corruption signs;		
c.	whether, according to the results of the measures planned to eliminate identified deficiencies and prevent violations, are additional control actions being carried out.		

Source: compiled by the authors [3]

Table 3. Counterparty Reliability Assessment

Criterion	Value	Rating	Comment
Life time (date of registration)	More than three (3) years	1	Less than a year and a period of 2.5-3 years is considered the most negative factor.
The mass of the head / owner	Head / owner in 5 or more non-affiliated companies	0	Single group companies and holdings are not considered massive
Participation in arbitration cases as a Respondent.	Does not participate in arbitration cases as a Respondent	1	For small companies, participation as a plaintiff for large amounts (comparable to revenue) is also a negative factor.
The presence of enforcement proceedings (FSSP)	stop out	1	Particularly negative are debts on taxes and insurance premiums, on salaries, the presence of individual entrepreneurs, completed under Art. 41 h. 1 p. 3.4
Availability of decisions on suspension of the current account (Federal Tax Service)	stop out	1	Especially negative is the existence of decisions for a period of less than 1 month (more than 1 month. We consider the technical mistake of the Federal Tax Service if there are payments from this account)
The presence of tax arrears and failure to submit reports for more than a year	stop out	1	-
The presence of disqualified persons in the executive bodies	stop out	1	-
Presence of unscrupulous suppliers in the register	stop out	1	-
Availability of decisions on liquidation or reorganization in the form of accession to another legal entity	stop out	1	The presence of a solution is extremely negative (with the exception of the merger within one holding)
Bankruptcy information	stop out	1	The presence of a solution is extremely negative, cooperation is impossible

Source: compiled by the authors

2 SOURCES AND METHODS

The main methods used in the work were methods of analysis, synthesis, comparison, analogy and modeling. As the theoretical basis of the research, the results of fundamental and applied research published in periodicals and monographs, and conference materials were used.

3 RESULTS

In the context of Russian reality, one of the most significant areas of state policy of the Russian Federation today is the fight against corruption. Corruption in one form or another has been present throughout the entire historical development of Russian society, but in recent decades it has assumed a systemic character. The corruption component, as an element, is present in all structures: both powerful and economic, and affects all spheres of life. Given the multi-faceted nature of this phenomenon, the introduction of anti-corruption mechanisms should have both social and economic consequences. The reason for the low

effectiveness of the anti-corruption fight in the Russian Federation lies in its localization at the level of law enforcement agencies, with a declarative approach at the level of business entities. Accepting all international UN, World Bank, and EU regulations, Russian entrepreneurs are only at the beginning of the path to creating an effective anti-corruption environment at enterprises that allows them to actively counteract any corruption and fraudulent risks through the use of tools and tools of the internal control system. With this in mind, there is an urgent need to develop optimal approaches to creating an effective control environment for identifying risks and developing measures to combat the corruption component and fraud. The external and internal contours of the use of the professional audit tool are designed to provide not only evaluative guarantees of the reliability of financial statements, but also to identify and minimize compliance at the ICS level - risks associated with the corruption component of the business entity. One of the tools of an effective anti-corruption policy is audit (internal and external), which allows you to assess the reliability of the financial statements, providing an effective system to combat corruption and fraud. With this in mind, it is necessary to develop methodological approaches to the construction of an internal control system that ensures reporting verification, since it is an effective system of internal control that significantly contributes to reducing the risks of corruption and fraud.

The scientific novelty of the presented study lies in the formulation of needs for the further development of a methodology for conducting an internal audit aimed at preventing the spread of corruption elements in society, as well as increasing the transparency of financial reporting for managing business processes within the functional responsibilities of internal auditors.

4 CONCLUSIONS

The greatest harm to entrepreneurship is inflicted within companies, where superiority in corruption schemes belongs to top management. Important factors of losses incurred by Russian business are corruption in relations with regulators, the theft of employees and mid-level managers. The combination of these reasons is compounded by the lack of information security, the lack of corporate culture, unfair competition and industrial espionage. The modern internal audit is capable of performing a variety of large-scale tasks and is an activity related to assessing the reliability and effectiveness of ICS (not only financial but also operational, as well as following the adopted policies and procedures). A special place in the activities of NEA is occupied by a comprehensive assessment of the risks faced by the company: for example, in connection with the offer of new products on the market, the introduction of new information systems, business restructuring, etc. in the process of corporate governance.

Currently, the main task of internal auditors is not so much servicing the executive management as providing owners (shareholders), company management, potential investors with guarantees of the effectiveness of the current ICS, compliance with applicable laws, efficient functioning of business processes, efficient use of the organization's assets and liabilities.

The results of scientific research can be used in scientific and educational processes in the field of Economics, for all levels of higher education: undergraduate, graduate, postgraduate studies.

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