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PROBLEMS AND THREATS TO THE ORGANIZATION OF INTERNAL AUDIT SERVICES IN COMPANIES OF THE REPUBLIC OF BELARUS

ABSTRACT:

The article determines the need for internal audit in organizations of the Republic of Belarus in connection with the requirements of International financial reporting standards and other circumstances, examines the state of development of internal audit in the country, assesses the level of national regulations governing internal audit and identifies the problems of its formation in domestic practice. The author studies the international, Russian and domestic experience in creating internal audit services, examines the main forms of organization of internal audit services, considers their content, advantages and disadvantages, and assesses the probability of threats in the application of each of the forms. On the basis of world practice, the author investigated the options of accountability of the internal audit service of the company, provided statistical data on the evolution of the subordination of the internal audit service to company officials, systematized the main criteria in the approach to the choice of organizational accountability of the internal audit service. In addition, the variations of the structure of the internal audit service are indicated, their content is disclosed, as well as their advantages and disadvantages that allow property owners to organize an effective information channel of interaction. At the same time, based on the results of the study, practical recommendations are given to business entities of the Republic of Belarus on the preference of organizational forms of the internal audit service, its subordination in the company, as well as the choice of an alternative structure.

INTRODUCTION.

The creation of internal audit services is a need of the state, owners and managers of the organization. The presence of an effective internal audit service avoids bankruptcy and increases the investment attractiveness of organizations. In Western Europe and the United States, investors assess the availability of internal audit as a guarantee of providing good information about the performance of the business entity, the ability of managers to predict and counter threats to achieve strategic goals of the company. With the development of trust management, owners should have confidence that the management of the organization uses resources effectively, the probability of fraud is minimized and the forecasts of the company's development are real. Management of a business entity should have operational information about

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the state of Affairs, the presence of distortions in the financial statements, the effectiveness of the internal control service and risk assessment.

However, the study conducted by the author showed that in the Republic of Belarus the main problems in the development of internal audit are:

- insufficient formation of interest, both on the part of the state and business entities in the internal audit;
- lack of normative legal acts regulating internal audit;
- lack of professional requirements for specialists in the field of internal audit and their professional training in accordance with international standards of internal audit and international standards of education;
- the imperfection of methodology of internal audit.

The Republic of Belarus legislatively defines the establishment of the internal audit service only in the banking sector, identifies the concepts of internal audit and internal control [1]. These circumstances are due to the fact that there is no scientific justification of the importance, place and role of internal audit in the control system of the organization, its organizational forms, options for creating an internal audit service and its subordination to company officials are insufficiently studied.

Therefore, the purpose of this study is to develop a scientific basis for the companies of the Republic of Belarus to choose the organizational form of internal audit based on their advantages and disadvantages, as well as to assess the likelihood of threats and their prevention; to provide recommendations on the subordination of the internal audit service and the choice of the.

PROBLEMS AND THREATS OF ORGANIZATIONAL FORMS OF INTERNAL AUDIT.

In the economic literature, there are three main forms of internal audit and owners face a difficult task for their optimal choice [2-4]. Each of the organizational forms has advantages and disadvantages (table 1).

Table 1

Advantages and disadvantages of organizational forms of internal audit

Organizational forms of internal audit	Advantages	Disadvantages
Own internal audit service	Structural division of the organization; Stability of personnel; Functioning on a permanent basis; Good knowledge of business processes and activities of the company, understanding of weaknesses; Prestige of the organization	It takes considerable time to create an internal audit service; High costs for the creation and maintenance of the service; Possible professional incompetence of employees; The presence of conflicts among colleagues from other departments

Table 1 (continued)

Organizational forms of internal audit	Advantages	Disadvantages
Outsourcing is the transfer of internal audit functions to a third party (legal or physical)	On a contractual basis we choose professionals; No problem finding a qualified employee; There are no expenses for maintenance of own internal audit service; Lack of social obligations (kindergartens and other); A "fresh" view of the organization's activities; Meeting deadlines and reporting to the customer; Reducing financial risks; Permanent service provider; Use of modern technologies and methods of international practice	Insufficient knowledge of the client's business; Dependence on outsourcing organization; Possible loss of information; Control over the execution of tasks is required; Possible loss of business reputation
Partial outsourcing is the presence of its own internal audit service, and in some cases, the involvement of third-party specialists	Attracting highly qualified specialists as needed, rather than on an ongoing basis; Availability of contractual relations; Multidisciplinary experience of specialists; Costs are lower than if you have your own internal audit service and outsourcing; Reducing reliance on third-party organizations; Consulting	Possible loss of information; Control over the execution of tasks is required; Possible loss of business reputation of the company

[Authorial development]

Thus, the choice of a specific organizational form of internal audit depends on a number of factors: the organizational and managerial structure of the company, the types of economic activities carried out, activities, geography of structural divisions, branches, etc.

The creation of its own internal audit service requires property owners to understand its role and importance, clearly define the goals, objectives and functions, as well as the development of local regulations, standards governing the actions of employees of the internal audit service. In addition, it is necessary to form a highly qualified team of specialists with modern knowledge and professional skills in the field of internal audit, allowing preventing the occurrence of negative phenomena negatively affecting the achievement of strategic goals of the organization. The presence of the internal audit service will require considerable time, financial investments, but will allow you to receive information from specialists who know the production and financial activities of the organization, the industry feature of the business, understand internal problems. In addition, the presence of its own internal audit service is one of the main requirements for organizations that place securities on the world's leading stock exchanges.

For organizations with small volumes of activity, the creation of its own internal audit service is very expensive. These companies may outsource internal audit functions to a third party (legal entity or individual). Using this

form of internal audit, the organization enters into a contract, as a rule, with the audit company, which allows a "fresh" look to assess the activities of the business entity, use modern technologies and methods of international practice, eliminates the cost of maintaining its own internal audit service on a permanent basis and search for qualified employees. In the Republic of Belarus, this practice is most common.

In order not to fully depend on an external outsourcing organization, business entities in some cases may invite third-party specialists, experts, consultants from external organizations, which will allow to attract highly qualified specialists in a certain area as needed, without changing the personnel composition of their own internal audit service.

According to the results of the study, the author came to the conclusion that each of the organizational forms of internal audit carries threats, the occurrence of which has a probabilistic nature (table 2).

Table 2

Threats of organizational forms of internal audit

Criterion	Own internal audit service	Outsourcing	Partial outsourcing
1. The cost of carrying out the internal audit	on an ongoing basis high threats	high threats, but not permanent	the risks are lower than with our own internal audit service and outsourcing
2. Skill of workers	there are threats of professional incompetence	threats are low, qualification is high, confirmed by certificates, diplomas in the field of audit	threats are low, qualification is high, multidisciplinary experience of specialists
3. Business knowledge	low threats, good knowledge of business processes and activities	the threat of insufficient knowledge of the client's business is present	
4. Quality of services	it depends on a number of internal factors (relationships in the organization, compliance with corporate culture, and so on)	high, but threats of losses are present	however, there is no threat of losses, as specialists in a specific area of knowledge are involved
5. The periodicity	on continuing basis	Periodically	
6. Efficiency in the provision of information	there are no threats to the efficiency of providing information with proper performance discipline	there are threats to reduce the efficiency of data provision	minor threats to data responsiveness
7. Loss of business reputation	threats do not exist	there are threats of loss of business reputation	
8. Social obligation	the threats are high, but the costs of maintaining the social base for the company's employees are high	threats do not exist	

[Authorial development]

According to the author, business entities of the Republic of Belarus should fully assess the occurrence of possible threats when choosing a particular

organizational form of internal audit and compare them with obtaining the desired results.

PROBLEMS IN SELECTING THE ACCOUNTABILITY OPTION OF THE INTERNAL AUDIT SERVICE.

The analysis of the economic literature and the Russian experience show that there are several options for the autonomy of the internal audit service in the organization. As indicated by the studies of the current state of internal audit in Russia, conducted by the Institute of internal auditors of Russia and the international audit company KPMG for 2013-2017, there is a steady trend of increasing the share of business entities whose internal audit service is subordinate to the Board of Directors and (or) the audit Committee (from 53% in 2013 to 81% in 2017) and decreasing the proportion of organizations where the internal audit service is subordinate to the CEO (from 37% in 2013 to 10% in 2017), as well as the CFO (from 8% in 2015 to 1% in 2017) [5]. This situation demonstrates the maturity of internal audit services and compliance with the basic principle of internal audit-independence. Similar studies have not been conducted in the Republic of Belarus.

Having studied the experience of Russian companies, business entities of the Republic of Belarus should evaluate and choose the best and acceptable version of the accountability of the internal audit service. The internal audit service is accountable to the audit Committee (audit Committee) is one of the common approaches in international practice. Its essence is that the Board of Directors creates an Audit Committee (audit Committee) which is functionally subordinated to the internal audit service. This organizational structure is acceptable for large organizations (holdings) and allows providing property owners with objective information about the activities of the organization. The main purpose of subordination of the internal audit service to the audit Committee is to observe the principle of independence from the management and management of the company. The author believes that in this situation it is important to consider the purpose of creating an Audit Committee and determine its composition. The purpose of the Committee may be to study individual issues of the organization, assess the effectiveness of the existing internal control system and develop recommendations. The composition of the Audit Committee is formed on the basis of a number of factors (features of activity, structure of the organization, etc.) and may include several people with high training, experience and reputation. Thus, the author believes that the Audit Committee is a "bridge" between the Board of Directors and the structural unit of internal audit: on the one hand, the Audit Committee provides objective information about the effectiveness of the organization's management, and on the other – provides the internal audit service with functional independence and provides consulting in the development of recommendations for business improvement. The author considers that the probability of occurrence of

threats of unfavorable business development is insignificant and is associated with the effectiveness of interaction of the internal audit service with the audit Committee and the Board of Directors.

The following approach in the organizational structure of a business entity, when the owner decided to subordinate the internal audit unit directly to the Board of Directors without creating an Audit Committee, has also become widespread in the world practice. The author believes that, as in the first case, the internal audit service retains functional independence from the management of the organization, but there are no specialists who are able to comprehensively assess the situation and assist in its resolution. In this regard, it is advisable that members of the Board of Directors have appropriate qualifications, are able to read financial information and form proposals for improvement. Expenses for the maintenance of the Audit Committee will be absent, but, according to the author, it is not necessary to save big business. Threats are present, as the qualification of members of the Board of Directors is not regulated.

According to the author, the option of subordinating the internal audit service directly to the General Director is typical for medium-sized businesses, which do not set ambitious tasks for the internal audit service, but associate internal audit as a verification activity. The internal audit service loses its functional independence to Executive management. However, this option takes place if the owner of the property is the General Director. The author believes that the threats are significant, since the internal audit service functionally depends on the company's management, its main function is to check the activities for compliance with the legislation, and there is no assessment of the effectiveness of the internal control system.

In practice, there are organizations in which the internal audit service reports directly to the financial Director or chief accountant here, according to the author, there is a contradiction, firstly, the financial Director or chief accountant as a Manager must create and maintain an internal control system at the proper level, and they can commit illegal actions that entail negative consequences for the organization and they also control the actions of internal auditors. At the same time, the probability of detecting cases of abuse is very low. Secondly, the internal audit service is obliged to assess the effectiveness of the internal control system of the organization, which is impossible, since the internal audit service is functionally and administratively dependent on the financial Director (chief accountant). The main principle of functioning of the internal audit unit – independence is violated. The role and importance of the internal audit service are small and consist only in ensuring the safety of property, which, in the author's opinion, duplicates the functions of accounting and raises the question of the feasibility of creating an internal audit service and maintaining the high qualification of internal auditors. According to the



author, threats are of a permanent nature, and the main function of the internal audit service is to ensure the safety of assets.

Based on the results of the study, the author systematized the main criteria in the approach to the choice of organizational subordination of the internal audit service of a business entity (table 3).

Table 3

Comparison of organizational subordination of internal audit service

Criterion	Organizational subordination of the internal audit service:			
	Audit Committee	Committee of Directors	General Director	Financial Director
Scope of application	big business	large and medium business	medium and small businesses	small business
Main functional tasks	evaluation of the effectiveness of the internal control system; risk management; consulting; studying of separate questions of activity of the organization		checking the status of accounting and reporting	safety of property
Compliance with the interests of the owner	completely		partially, if the owner and CEO are different persons	No
Accountability	Audit Committee	Committee of Directors	General Director	Financial Director (chief accountant)

[Authorial development]

The criteria presented in table 3 do not have strict application facets. Each business entity in the Republic of Belarus, based on a variety of both objective and subjective factors, makes an independent decision on the choice of organizational structure and subordination of the internal audit service. The main thing, according to the author, is to know and understand all the nuances and compare with their upcoming expectations.

THE PROBLEM OF CHOOSING THE STRUCTURE OF THE INTERNAL AUDIT SERVICE.

The next issue that requires a decision is the choice of the structure of the internal audit service. In the economic literature and in practice, centralized, decentralized and hierarchical structures are used. The essence of the centralized structure is that the internal audit service is formed in the parent company, while the employees of the unit can be in the state, both the parent and subsidiaries. The content of the decentralized structure is that the internal auditors are located directly in the branches and subsidiaries, and the internal auditor's service is not created in the parent organization. The hierarchical structure implies the establishment of internal audit services in the parent organization and in branches.

As indicated by the results of research conducted by the Institute of internal auditors of the Russian Federation and the international audit company KPMG in Russia in 2017, the structure of internal audit services was as follows: 76%

- centralized management and internal audit structure, 21% - centralized management with a regional center and 3% decentralized structure with local accountability [5]. Unfortunately, similar data are not available in the Republic of Belarus. The author studied the international experience of the content of each of the existing internal audit structures, established their advantages and disadvantages, which are of interest to business entities of the Republic of Belarus (table 4).

Table 4

Advantages and disadvantages of internal audit structures

The structure of the internal audit	Advantages	Disadvantages
Centralized	- independence from the management of subordinate organizations;	- insufficient knowledge of the peculiarities of branches, subsidiaries;
	- a common method of implementation internal audit;	- additional costs for internal audit in subordinate organizations located on a large territory;
	- concentration and exchange of knowledge and experience;	- low efficiency on the impact of identified deviations;
Decentralized	- direct presence of internal auditors in branches and other structures;	- there is a risk of dependence on local management and influence on the opinion of the internal auditor;
	- good knowledge of the situation at the facility;	- differences in approaches and recommendations;
	- operative intervention and the solution of the arisen problems;	- reduced handling;
	- thorough internal audit directly at the location of the object;	
Hierarchical	- clear distribution of areas of responsibility between the internal audit services of the parent company and structural units;	- complex, multi-level structure;
	- the opportunity for career growth	- internal audit services of structural divisions are not subordinated to the internal audit service of the parent company

[Authorial development]

When choosing the structure of the internal audit service, it is necessary to take into account the organizational and managerial structure of the company, the geographical remoteness of subsidiaries, the goals and objectives of the internal audit division, the understanding of all threats by the owners, their expectations from the results of the internal audit service, its level of maturity, etc.

CONCLUSION.

To achieve strategic goals, further development of the company, meeting the information needs of property owners, there is a need for highly qualified personnel in various fields of knowledge, having sovereignty from managers and able to objectively assess the situation, to develop recommendations. The solution of these issues requires the presence of an internal audit. Its presence in the company is due to a number of circumstances:



- availability of multilevel organizational and managerial structure;
- requirement of national and international legislation to establish internal control services;
- assessment of threats and effectiveness of management of the organization;
- the need for professional consulting and so on.

However, it is necessary to pay attention to the choice of organizational form of internal audit: own internal audit service, outsourcing or co-sourcing. It is important for owners to receive from the internal audit not only sufficient guarantees about the effectiveness of the organization, but it is important to know and assess the possible threats posed by each of the considered forms, which will allow to take measures to reduce their negative impact. To achieve this goal, it is necessary to create an internal audit service by business entities of the Republic of Belarus and determine to which body or official it will be functionally subordinate in order to improve the quality and objectivity of the information provided, as well as to choose its optimal structure. The recommendations developed by the author will allow companies of the Republic of Belarus to optimize the costs of internal audit, avoid mistakes in the formation of structural units and recruitment.

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