

Improvement of the monitoring process during the functioning of risk-oriented internal control

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Received: September 3, 2021 | Revised: September 14, 2021 | Accepted: September 30, 2021

DOI: 10.5281/zenodo.5553047

Abstract

This article summarizes the arguments and counter-arguments within the scientific discussion on the issues of internal control and risk management. Systematization of sources and approaches to solving the problem of improving the efficiency and quality of internal control has shown that the monitoring of internal control measures plays a significant role in the subject process. Internal control in the Ministry of Defense of Ukraine and the Armed Forces of Ukraine is implemented to meet the requirements of a number of documents of national importance in the field of public internal financial control of Ukraine. The study of improving the quality of internal control monitoring in the article is carried out in the following logical sequence: the main aspects of the regulation of monitoring of control measures in the process of functioning of the internal control system are considered; recommendations for improving the quality of internal control monitoring are provided. The article provides a partial analysis of the regulatory framework in the subject area in order to find relevant innovations in the regulation of internal control and risk management in budgetary institutions. Currently, the Ministry of Defense of Ukraine is a leader among other Central executive bodies in the implementation of internal control and risk management, so this experience can be used in other areas where there is a need for risk management. The results of the study can be useful for managers, researchers, risk managers, and for all who are interested in risk-oriented internal control and risk minimization in their activities. The article uses methods of scientific knowledge: analysis and synthesis. The main purpose of the study is to provide the head of the institution with recommendations aimed at improving the system of internal control in the subordinate institution by improving the process of monitoring the implementation of control measures.

Key words: internal control, risk, management of risk, monitoring of internal control.

Introduction

According to the third part of Article 26 of the Budget Code of Ukraine (Budget Code of Ukraine) internal control is a set of measures used by the head to ensure compliance with the legality and efficiency of budget funds, achieving results in accordance with the goals, objectives, plans and requirements for budget managers and

enterprises, institutions and organizations belonging to the sphere of its management.

Internal control covers issues of planning the activities of the institution, budget management, accounting and financial and budgetary reporting, protection of assets from losses, targeted and efficient use of budget

funds and other issues that are not limited to financial aspects of the institution.

The basis of internal control is the responsibility of the head for management and development of the institution as a whole (managerial responsibility and accountability), the formation of an adequate structure of internal control, risk management to achieve reasonable assurance that the implemented goal and objectives will be achieved. the activities of employees and the decisions taken, including financial ones, will comply with the principles of legality, efficiency, effectiveness and transparency.

In general, the objectives of internal control include the focus on achieving the strategic goal, efficiency and effectiveness of operations, the reliability of financial statements, compliance with applicable laws and regulations.

At present, Ukraine is actively implementing public internal financial control in accordance with the commitments made in the framework of the Association Agreement between Ukraine on the one hand and the European Union, the European Atomic Energy Community and their Member States on the other (Association Agreement ...).

In the system of Public Internal Financial Control, the existing Internal Control is based on a risk-oriented approach, is the basis for management decisions and in the process of daily activities, achieving planned goals is to take into account existing risks and develop measures to prevent or reduce their negative impact. In the system of the Ministry of Defense, as in Ukraine as a whole, the internal control system is based on the application of the COSO (COSO) internal control model, but ISO (ISO. (2009a); ISO. (2009b)) series standards are also applied.

The COSO concept defines the objectives of internal control, defines the components of internal control, illustrates how these components help to achieve the objectives.

The main participants in the internal control process are:

manager – design and responsibility for operation;

deputy heads and heads of structural subdivisions – organization of control and responsibility for observance of principles and for the state of internal control in subordinate spheres of management;

employees – compliance with established rules, regulations, procedures and are responsible for their implementation.

The main principles of internal control by managers of budget funds, approved by the resolution of the Cabinet of Ministers of Ukraine dated 12.12.2018 № 1062, are determined in particular that:

the organization and implementation of internal control in the institution is ensured by the development and approval by the head of the institution of internal documents aimed at ensuring the functioning of the elements of internal control;

the system of internal control in the institution consists, including the internal environment, processes, operations, regulations, structures and distribution of powers for their implementation, rules and principles of human resources management aimed at ensuring the institution's tasks and functions and achieving goals (mission), strategic and other goals, plans and requirements for the activities of the institution;

the head of the institution is responsible and accountable for the proper management and development of the institution; achievement of certain goals (missions), strategic and other goals, objectives, plans and requirements for the activities of the institution; ensuring legal, economical, efficient, effective and transparent management of budget funds, state property and other resources; organization and implementation in the institution of internal control.

To implement these measures, it is planned to monitor the implementation of internal control measures. The internal control manager is responsible for the direct control of internal control measures, who develops the relevant plan and monitors its implementation.

The purpose of this article is to formulate recommendations to the head of the institution

aimed at improving the system of internal control in the subordinate institution, by

improving the process of monitoring internal control.

Material and methods

The following methods of theoretical and empirical research were used in the research, namely: comparison, analysis, synthesis, induction, deduction, system approach.

To ensure the achievement of the purpose of the article, it is proposed to decompose the purpose of scientific research and partially:

1) regulation of the issue of monitoring in normative-legal and administrative documents

in the field of internal control and risk management in the system of the State Internal Financial Control of Ukraine and the Ministry of Defense of Ukraine;

2) practical recommendations to the head of the institution to improve the quality of the process of monitoring internal control in the institution.

Results and discussion

1. Implementation of Article 26 of the Budget Code of Ukraine on internal control in budgetary institutions in Ukraine is carried out by issuing a Resolution of the Cabinet of Ministers of Ukraine dated 12.12.2018 "On approval of the Basic Principles of internal control by budget managers and amendments to the resolution of the Cabinet of Ministers of Ukraine № 1001".

The system of internal control in the institution consists of the following elements: internal environment, risk management, control measures, information and communication (information and communication exchange), monitoring.

In accordance with the definition set forth in the Resolution "monitoring of internal control" – tracking the state of the organization and functioning of the internal control system as a whole and / or its individual elements.

The internal issues of the institution should regulate the following issues related to monitoring:

1) constant monitoring during the current activities of the institution (management and supervisory activities of managers and employees of the institution during the performance of their duties to identify and correct deviations);

2) conducting periodic evaluation of the implementation of certain tasks and functions (including employees who are not responsible for their implementation, and / or the internal

audit department of the institution) to analyze the effectiveness of the internal control system;

3) informing the management of the institution about the shortcomings in the internal control system identified by the results of monitoring.

The monitoring implemented in the institution should ensure the detection and assessment of deviations in the functioning of the internal control system and / or its individual elements and take measures to eliminate such deviations.

In compliance with the requirements of Resolution № 1062 in the system of the Ministry of Defense of Ukraine was developed the Procedure for organizing in the system of the Ministry of Defense of Ukraine internal control and risk management, approved by the order of the Ministry of Defense of Ukraine from 02.04.2019 № 145, (as amended by the order of the Ministry of Defense of Ukraine № 227).

The Procedure contains the following definitions related to the issue of internal control monitoring:

1) internal control monitoring plan is a set of monitoring measures for compliance of internal control with the established requirements, actual implementation of control measures by certain personnel and elimination of deficiencies identified during control and audit activities in the institution;

2) internal control manager – an official of the institution responsible for coordinating risk

management, monitoring and evaluation of the internal control system in the institution, which is appointed from among persons directly subordinate and accountable to the head of the institution and whose power extends to all staff.

Risk management is carried out, including on the principle of constant monitoring, monitoring of the level of risks and control over the results of the implementation of measures to manage such risks are carried out constantly.

Continuous monitoring is carried out during the daily activities of the institution and provides management, supervisory and other actions of managers at all levels and personnel to identify and correct deviations from the established procedure for internal control. To implement the appropriate level of monitoring, the following are identified: key control measures to be monitored; monitoring procedures to be applied; frequency of use of monitoring measures.

The effectiveness of the monitoring system is achieved by complying with four basic requirements:

- 1) determining the priorities of risks depending on their impact on achieving the goals of the institution;

- 2) identification of control measures necessary for the management of priority (key) risks;

- 3) determination of information confirming the effectiveness of control measures;

- 4) development and implementation of the Internal Control Monitoring Plan.

Separate assessments (periodic assessments) provide for the assessment of the implementation of certain functions, tasks, control measures on a periodic basis and are carried out by personnel who are not responsible for their implementation.

In accordance with the Procedure, monitoring the functioning of internal control and risk management in institutions and subordinate military units, institutions (organizations) in the system of the Ministry of Defense of Ukraine and the Armed Forces of Ukraine shall be entrusted to internal control coordinators and internal control managers within the limits of their powers.

In order to fully and timely implement internal control procedures, the head of the institution organizes the development of the Internal Control Monitoring Plan in the appropriate form.

The initial data for the formation of this plan are the information of the Risk Register (risk management database), the Risk Management Plan, recommendations and proposals provided as a result of internal audits and control measures, and decisions on how to respond to risks, established control measures.

2. Monitoring is a mandatory element of a risk management system.

First, it is needed to confirm that the results of risk management are in line with expectations. Secondly, monitoring allows timely detection of changes in the situation and the need to adjust the system itself.

Monitoring the implementation of control measures and preventing the occurrence of identified risks is carried out by the actual continuous verification by the manager of the implementation of measures defined in the risk management plan and selectively other, in the subjective opinion of the internal control manager, control measures identified in the risk register.

The manager may involve a working group on risk assessment and, if necessary, upon the relevant decision of the head of the institution – an internal inspection commission to monitor the implementation of control measures.

In case of non-compliance with the specified control measures in the risk register, it is proposed to involve a working group on risk assessment, and if necessary, by decision of the head of the budgetary institution – an internal audit committee.

Monitoring of internal control measures can be effective and efficient provided that well-formulated, concretized, constructive control measures are aimed at preventing the occurrence of identified negative events.

The control measure is considered to be carried out if it is possible to document it and there is evidence of its practical implementation.

Continuous monitoring of control measures can be effective and efficient provided that all personnel (staff) of the institution are interested in achieving the goals set before the institution.

To this end, the heads of structural units of the institution may identify in their structural units' officials who, according to their level of competence, are able to assess the process of achieving the goals set before the structural unit (unit) and can identify negative events in the structural unit (unit).

Also, it is advisable to involve members of the working group on risk assessment in the monitoring of internal control measures. functioning of the institution and the measures taken, ways to prevent their occurrence.

The potential conflict of interest of the members of the risk assessment working group should be taken into account if they are involved in internal control monitoring measures.

As a rule, an extract from the register of risks is given to the heads of structural units (units) of the institution. The internal control manager during the implementation of internal control monitoring measures usually focuses on those risks that are included in the Risk Management Plan of the institution, but should not ignore the risks not included in the Plan and monitoring which does not occur at the level of structural units.

Monitoring of internal control measures can be considered effective and efficient provided that it is integrated and measures aimed at covering control measures at all levels of the institution, the internal control manager must accumulate comprehensive information on the reliability and effectiveness of control measures to counteract possible negative risks at all levels. institutions regardless of the value of the integrated risk indicator.

It should be added that in the case of proper organization of internal control and risk management in the institution, each employee is aware of the risks that are present in their daily activities. Also, some of them, with significant practical experience, can identify risk events in advance and predict the degree of achievement of certain goals.

This once again confirms the thesis that risk management applies to every manager and employee of the institution and covers all processes of the institution. That is, the constant monitoring of internal control measures involves the general interest of the staff of the institution in achieving a certain goal set before the institution.

In the case of proper development of the Description of the internal environment of the institution in terms of tasks, functions and powers to each employee of the institution should be brought an extract from the distribution of processes between the personnel of the unit within its competence. This information clearly shows the employee his specific and formalized role in the functioning of the institution. This can be used in the feedback to review the existing risks and clarify (improve) control measures.

Monitoring of internal control measures is carried out to implement the objectives of internal control, implementation of control measures, improvement of the internal control system and risk management.

The monitoring process allows to systematically monitor and evaluate the effectiveness of risk response measures. The results of monitoring can also be used to improve control measures (development of new options for responding to risks, re-analysis of known risks, identification of new threats).

Tasks for monitoring and risk management:

1) check and make sure that there are adequate conditions for the process; risk register configuration management and risk management action plan;

2) monitoring and control of risk response actions;

3) monitoring of triggers;

4) monitor the general situation of achieving the project objectives;

5) conducting risk analysis and audits;

6) identification and analysis of new risks;

7) development of a response plan to new risks;

8) review existing risks;

9) collect and report on the state of risk in accordance with the measures specified in the risk response plan;

10) updating the action plan for risk management;

11) to develop a system of study and generalization of experience (NATO. (2012)).

In our opinion, paragraph 11 is a very relevant and necessary measure. The study and generalization of experience will allow to systematize information on internal control and risk management for previous periods and subsequently will have a wide array of statistical information that can be used in quantitative risk assessment.

Also, it should be noted that the Guidelines for Risk Management, Problems and Opportunities of the Ministry of Defense for Defense Procurement Programs in the Risk Monitoring Process provide for the development of a matrix of trends to track changes in risk status (Guidelines for Risk Management...).

In addition, one of the elements of quality monitoring of internal control is the suddenness of control procedures for participants in the processes directly involved in the processes.

Thus, the heads of structural units are provided with a register of risks with certain control measures, at the same time, operational executors cannot know when the internal control manager will inspect the control measure.

Monitoring includes not only the implementation of control measures but also the degree of achievement of a certain goal of the institution through direct work internal control manager with heads of structural units (process owners) and direct participants in the processes.

The following is the author's version of the practical algorithm of actions of the internal control manager:

1. Personally, at least once a quarter, inspects the implementation of control measures identified for the risks included in the Risk Management Plan of the institution. When inspecting the implementation of control

measures, follow the principle of suddenness of inspection.

2. Assigns members of the working group on risk assessment to verify the implementation of risk control measures on the priority in its subjective opinion, not included in the Risk Management Plan, but in such a way that each control measure was checked at least once on year. The designated members of the risk assessment working group provide information on the results of the work to the internal control manager for inclusion in the internal control monitoring plan.

3. Performs risk response tasks as necessary:

1) consider each risk and determine the most appropriate strategy;

2) list alternative actions for the implementation of the strategy;

3) identify the most appropriate alternatives based on economic efficiency, or any other factor (regulatory, availability of resources, etc.).

4) identify the final and secondary risks that may arise as a result of the application of the chosen strategy of action;

5) conduct limited identification and analysis of final secondary risks;

6) repeat the measures in paragraphs 1-5 until the response to risks leads to an acceptable solution that would reduce the risk to an acceptable level;

7) update the risk register;

8) inform personnel with risks within the limits of responsibility;

9) risk managers develop a detailed risk response plan;

It should be noted that in terms of this task, it is proposed to classify the person not as responsible for the risk, but as the owner of the risk and consider the feasibility of creating risk passports.

10) obtain approval from management and other stakeholders for a risk response plan that may affect any other plan (financial, quality management, testing, schedules, etc.).

4. Instructs personnel on possible conflicts of interest during the implementation of internal control measures.

5. Monthly during the preparation of the certificate on the state of functioning of internal

control monitors the achievement of effective indicators of the purpose of the institution; the state of organization of internal control and risk management, the state of compliance with laws, other regulations, regulations, rules and procedures established in the Ministry of Defense of Ukraine and the Armed Forces; reliability and timeliness of financial, statistical and management reporting and other information used to make management decisions; issues that need to be addressed to improve the internal control system in the institution. To do this, provide for the provision of relevant information within the responsibility of the relevant officials of the institution.

6. Informs the head of the issues that need to be addressed to improve the system of internal control in the institution.

In the report of the internal control manager to provide a section to inform the head of the

Conclusions

Checking the functioning of the monitoring element of internal control showed insufficient attention to it by the participants of internal control, as a rule, the Monitoring Plan includes control measures defined in the Risk Management Plan (usually 6-7 risks). But these 6-7 risks are risks that are directly managed by the head of the institution, then the other risks are not monitored by the internal control manager. The internal control monitoring plan is a working document of the internal control manager, so information on the verification of the implementation of control measures should be included taking into account the opinion of the internal control manager on the maximum

measures taken within the implementation of the internal control monitoring plan for the relevant year during the reporting month. The section must provide brief information on the results of the monitoring and the recommendations provided to specific heads of departments (services) to eliminate the identified shortcomings. After reviewing the report, the head of the institution imposes a resolution on the implementation of the recommendations provided.

7. If during the monitoring the non-implementation impact of the risk control measure is established, during which the indicators of probability and risk impact are reduced, or the implemented control measure excludes the occurrence of risk, it is necessary to make changes to the risk register and risk management plan.

coverage of high priority risks in the current time.

Also, the internal control manager should involve in the process of monitoring the internal control of other officials of the institution, capable of their level of training to analyze the implementation of the control measure and provide constructive recommendations for improving the control measure or state the absence of risk confirmed by risk minimization.

Prospects for further research are seen in the search for and study of best practices in the field of internal control and risk management in order to implement them in the Ministry of Defense of Ukraine and the Armed Forces of Ukraine, taking into account the specifics of the activity.

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