Internal control and audit of public sector organizations: Risk assessment
A noticeable role in economic life of any society is played by the state. Now practically all countries of the world assume existence of public sector of economy. The Russian Federation is also among such countries. The most important direction of increase in efficiency of modern public administration is development risk - the focused internal control and audit on the basis of application of achievements of science and technology. In this article questions of assessment of risks when carrying out internal control and audit of the organizations of public sector which are insufficiently opened in literature now are considered and demand studying of the international experience and the annex to practical situations. For practical realization of processes of internal control and audit the need for highly effective approaches to assessment of risks more and more increases. In work we carried out application of the standardized approaches to assessment of the risks acquired in the sphere of independent audit, internal control and internal audit first of all for the commercial sector in processes of internal control and audit of the organizations relating to public sector. For evaluating risks in public sector areas of risks of essential distortion for this sector were allocated, the approximate list of control questions is developed for testing by internal controllers and auditors of risks of essential distortion of information in the organizations of public sector, the method of calculation of components of auditor risk is given.

KEYWORDS: internal audit, auditor risk, importance, public sector.
The relevance of work is that illumination of questions of internal control and audit in public sector as resources of public sector usually are a form of realization of funds of society becomes much demanded direction now and their use in public interests usually requires special attention.

Implementation of internal control and audit in the organizations of public sector is intended to increase efficiency of modern public administration [1, with. 48], but questions of assessment of risks for internal control and audit of the organizations of public sector demand studying of the international experience and study in practice [2, with. 1].

Creation of a conceptual framework of internal audit in public sector is based on laws and standards on independent audit, on internal control and internal audit. In this case the deduction method takes place: there is a transfer of knowledge from the general case to private. Public sector has the features which the internal auditor has to take into account; however the generalizing definitions set the direction in their work [3, with. 75].

When conducting checks of the organizations of both the state, and commercial sectors of economy there is a risk that checking can come to inadequate conclusions, that is make a mistake as it is limited in time and resources. However the organizations of public sector, as a rule, deal with the large sums of means of taxpayers of which it is necessary to dispose according to the legislation, is the most effective [4, with. 396]. The risk is one of key categories both in independent, and in internal control and audit.

### METHODS

The following areas of risks of essential distortion of information are especially characteristic of public sector of economy:

¾ considerable sums of non-standard and not systematic operations;

¾ operating by the considerable sums of cash or expensive material values;

¾ activity which is traditionally predisposed to fraud (for example, contracts under the state orders);

¾ new budgetary programs, kinds of activity;

¾ basic changes in the existing programs;

¾ the new acts regulating activity in public sector;

¾ political decisions (for example, redistribution of means);

¾ strong pressure upon management for the purpose of achievement of the unrealistic purposes, results, dates of performance, for example, in development of budgetary funds;

¾ the increased public expectations;

¾ change of the management, change of key personnel;

¾ new sources of financing;

¾ big number of staff, turnover of staff;

¾ low qualification of personnel;

¾ changes in the environment of information technologies;

¾ geographical dispersion and weak communication.

Assessment of processes of management of risks of the checked organization is one of elements of internal control according to the COSO model. According to ISSAI 9100 “Guidelines for Internal Control Standards for the Public Sector” assessment of risks is a process of identification and the risk analysis connec-
ted with achievement of the goals of the organization and definition of appropriate countermeasures. Join in assessment of risks [5]:

- determination of risk;
- risk assessment;
- assessment of readiness of the organization for adoption of risk;
- development of actions for response to risks.

At assessment of risks it is necessary to consider all possible risks (including risk of fraud and corruption). Thus, it is important to carry out comprehensive identification of risks. It needs to be conducted constantly, continuously and, often, in indissoluble connection with planning process. Often it is useful to consider risks "from scratch", without being limited to results of the previous check. Instruments of identification of risks are presented in the figure 1.

One of key problems of assessment of risks consists in informing the management on those spheres of emergence of possible risks on which it is necessary to take measures and also about their relative priority.

It is remarkable that in ISSAI 9140 “Internal Audit Independence in the Public Sector” is emphasized that, despite identification of risks when carrying out internal audit, the system of internal control has to the first react to risks.

In “International Standards for the Professional Practice of Internal Auditing (Standards) the” (ISPPIA) provided initially for the commercial sector it is given to definition to risk as a possibility of approach of any event which can exert impact on achievement of the goals [6]. In a plot of standards determination of risk - key risk, essential risk meets. Importance of application in internal audit risk - the focused approach is emphasized.

In INTERNATIONAL STANDARD ON AUDITING (ISA) 200 “Overall objectives of the independent auditor and the conduct of an audit in accordance with ISA” definitions are given to the main components of auditor risk (figure 2).

In ISA 315 (Revised) “Identifying and assessing the risks of material misstatement through understanding the entity and its environment” there is a speech about risk of essential distortion without division it on inherent risk and risk of control devices [7].

Traditionally the model of auditor risk is presented in the form of the work of risks of essential distortion and risks of nondetection. Each of components defines quality, reliability of work of the organization of public sector (inherent risk), the systems of internal control (risk of control devices) and reliability of work of the auditor (risk of nondetection) [8, page 110].

Quantitatively auditor risk is estimated in the range from 0 to 1 or from 0 to 100%. Use of digital data allows giving an idea of probability of commission of a mistake by the auditor. Achievement of extreme points (0 and 1) is represented unreal. The zero risk is impossible as the auditor cannot express absolute confidence. At single risk the meaning of audit is lost. That is value has the range as the concrete value gives only an approximate idea of risk level which assessment it is more effective to express verbally. In practice for such assessment qualitative characteristics of
risk are more often used: low, below an average (optimum), average (optimum), above an average (optimum) and high.

So, for risks of essential distortion it is possible to use the gradation presented in table 1.

<table>
<thead>
<tr>
<th>Risk level</th>
<th>Quantification</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>1</td>
</tr>
<tr>
<td>Middle</td>
<td>0,5</td>
</tr>
<tr>
<td>Low</td>
<td>0,33</td>
</tr>
</tbody>
</table>

Table 1. Quantitative assessment of risks of essential distortion

As the optimum size of acceptable level of auditor risk is recognized 5%. This size is not standardly approved, but is widely used in practice of independent audit, internal control and internal audit.

**RESULTS AND DISCUSSION**

For assessment of components of auditor risk various procedures which are generally connected with conducting testing are used [9, page 306]. As a rule, tests are developed for complex assessment of risks of essential distortion, but also allocation of sections for separate assessment of inherent risk and risk of control devices is possible.

The brief of the auditor on testing of risks of essential distortion of information in the organization of public sector is intended to reveal whether process of work with risks in the organization is effectively adjusted. The fragment of a control leaf of testing of risks of essential distortion of the organization of public sector which is turning on two blocks of questions is given in table 2: according to inherent risk and assessment of risks of means of internal control. In the control leaf developed by us questions of the closed type with definite answer in order that they were more universal in use are used. The sign “V” marked the answers characterizing a situation with the increased risk. It is necessary the sum of answers in columns with the sign “V” for calculation of level of risks of essential distortion to divide into total of questions.

The following stage we will calculate risk of nondetection on the basis of multiplicative model of auditor risk. At assumption that it is necessary to reach the level of auditor risk of 5%, calculation of inherent risk it is presented in table 3.

<table>
<thead>
<tr>
<th>Questions</th>
<th>Ye</th>
<th>N</th>
<th>Without answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>The organization carries out the activity in economically unstable region?</td>
<td>V</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whether there were considerable changes in regulation of public sector?</td>
<td>V</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whether close attention to activity of the subject and its financial results is observed?</td>
<td>V</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whether there are in the organization excess stocks of inventory items?</td>
<td>V</td>
<td></td>
<td></td>
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<tr>
<td>The organization has a broad geographical dispersion?</td>
<td>V</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whether there is a probability of non-compliance with the principle of continuity of activity of the organization?</td>
<td>V</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whether new programs, kinds of activity took root into the controlled period?</td>
<td>V</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whether there were changes in the management, change of key personnel?</td>
<td>V</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whether key indicators of branch, activity of the organization, a tendency of its development are analyzed?</td>
<td>V</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whether monitoring of control measures of financial statements is carried out?</td>
<td>V</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whether events for initiation of corrections of shortcomings are held?</td>
<td>V</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whether assessment of risks which the organization can face is carried out?</td>
<td>V</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whether the purposes control on risk management is identified?</td>
<td>V</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whether a positive control environment is created?</td>
<td>V</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whether training of personnel concerning internal control is provided on a systematic basis?</td>
<td>V</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whether analytical procedures of check of efficiency of use of resources are carried out within the system of internal control of the organization?</td>
<td>V</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2. Fragment of a control leaf of testing of risks of essential distortion in the organization of public sector
The concept of auditor risk is closely interconnected with a concept of importance. Feedback is characteristic of them: the auditor risk is higher, the importance is lower. It is connected with the fact that after establishment of high risk level the low value of importance is chosen that means increase in volume of the carried-out inspection as probability to find mistakes above. In a general view the interrelation of importance, volume of auditor procedures and auditor risk can be presented in table 4.

As a result of assessment of risks and countermeasures by their decrease or elimination [10 are determined by the internal controller, with. 227]. The internal auditor checks result of this work defines risks which were not considered, or reciprocal actions which was insufficiently. Assessment of risks internal auditors influences determination of importance and volume of auditor procedures.

Concerning assessment of risks in internal control and audit in public sector the following aspects were described:

- areas of risk of essential distortion for consideration in public sector are allocated;
- the control leaf of testing of risks of essential distortion of information in the organization of public sector is developed;

Thus, it is possible to draw a conclusion, as in the course of internal control, and in the course of internal audit of the organization of public sector assessment of risks [11 is made, with. 116]. It is important to note that areas of risk of essential distortion for consideration in public sector are a little other than the private sector as the specifics of activity of the organization of public sector include accumulation and management of means of society.

CONCLUSIONS

The work is performed according to the Russian Government Program of Competitive Growth of Kazan Federal University.

**SUMMARY**

As a result of assessment of risks and countermeasures by their decrease or elimination [10 are determined by the internal controller, with. 227]. The internal auditor checks result of this work defines risks which were not considered, or reciprocal actions which was insufficiently. Assessment of risks internal auditors influences determination of importance and volume of auditor procedures.

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