

**METHODICAL ASPECTS OF INTERNAL AUDIT CONCERNING OBLIGATIONS OF
EDUCATIONAL INSTITUTIONS**

(Recibido el 19-05-2017. Aprobado el 24-09-2017)

Ilshat Railevich Safin
Kazan Federal University
e-mail: ilshat.1994@mail.ru

Firdaus Ilyasovna Kharisova
Kazan Federal University

Abstract. In current conditions of university functioning, there is a significant increase of interest in internal audit (IA), which contributes to the effectiveness of their activity increase. Internal audit is an important tool to evaluate the performance of institution key processes. The presence of internal control in a budgetary institution (a university) is a prerequisite for an effective activity in the educational sphere in order to prevent, detect and suppress financial offenses. The internal audit of obligations is one of the main ones in the overall process. The final result depends on a program drawing up and an internal audit performance. The methodological aspects of the internal audit performance concerning the obligations presented in the study make it possible to conduct a qualitative check as soon as possible and to evaluate the effectiveness of work concerning the obligations. The proposed methodology is a universal one for internal audit obligation performance at different educational institutions. The study focuses on the evaluation of obligation management effectiveness, not limited by the check of accounting aspect correctness. This is a breakthrough moment for this industry, since the process of such institutions check by internal auditors presupposes mainly the control concerning normative acts compliance, neglecting the evaluation of such operation efficiency at the present moment.

Key words: internal audit, international professional standards of internal audit, obligations, educational institutions, university.

1. INTRODUCTION

Budgetary institutions perform important functions in modern Russian economy (Fedorenko, 2010). At that, the issues of internal audit at budget institutions are developed poorly in specialized literature, which conditions the relevance of the research topic (Bergmann, 2016). When an audit is planned, it is necessary to formulate its goals and objectives, to draw up a plan and an audit program, to determine the composition of an audit team, the terms of an audit and the categories of materiality and risk.

The main objectives of the internal audit concerning the obligations of a budgetary institution is the check:

- of accounting and reporting information about obligation correctness;
- the reasonableness and the efficiency of funds spending during the performance of obligations (Fedorenko, 2010).

An important area of an internal audit concerning the obligations of a budgetary institution due to the importance and the frequency of manifestation is the verification of obligations for suppliers and contractors (Sharonina, 2012). These obligations are reflected in the account 030200000 "Settlements under the accepted obligations" within the accounting of a budgetary institution.

In order to achieve these goals in the internal audit of obligations for suppliers and contractors, it is necessary to check:

- the legality and the validity of calculations from the point of view of the budgetary process, including the quotations and tariffs;
- the completeness, the timeliness and the correctness of settlement reflection with transaction suppliers and contractors within accounting;
- the identity of accounting data and budgetary reporting;
- timeliness of obligation performance;

- the efficiency of obligation performance.

2. MATERIALS AND METHODS

The information base of obligation internal audit is the registers of accounting and the financial statements of an institution. An internal auditor should have access to all information that he needs for an effective internal audit.

The effectiveness of internal audit largely depends on the quality of planning: a plan and a program (*International Professional Standards for Internal Audit (Standards)*, 2016). During the development of a plan and an internal audit program, we suggest to use the list of standard procedures for the check of obligations to suppliers and contractors, presented in Table 1 and developed by us.

The progress of an audit and its results should be documented in the relevant working documents of an internal auditor, proving the fact of the necessary procedure quality performance (Brusca, 2016).

Based on the results of an audit, an internal auditor analyzes the information received and develops his opinion on the issues of the plan and the verification program, and also prepares written information for the management of an audited organization (Manes-Rossi, 2016).

An internal auditor, should collect audit evidences that confirm or do not confirm the prerequisites for the preparation of financial statements in accordance with International Audit Standard No. 315 (revised) "The identification and the assessment of material distortion risks through the study of an organization and its environment".

An internal auditor is obliged to take into account the qualitative aspect of materiality in order to determine whether the deviations from financial and business operations revealed in the course of the audit concerning the compliance with the requirements of the relevant normative acts acting in Russian Federation are significant ones (Robb & Newberry, 2007). Further, it is necessary to determine the quantitative characteristic of materiality, that is, the level of materiality.

Table 1

Program fragment of obligation internal audit

Customer: University

Audit assignment: the check and assessment of obligation validity

Head of the Internal Audit Team: Ivanov I.I.

The composition of internal auditor group: Sidorov V.A., Kochurov S.G., Tikhomirov G.A.

Internal audit period: 01.10.16-31.12.16

Internal audit term: 320 audit hours.

Audit risk: 5%

Materiality:

a) quality characteristics and compliance with regulatory documents, regular reports on the expenditure of budgetary funds.

b) quantitative characteristics - the level of materiality makes 1.3 million rubles.

The name of the procedures for IA check and their groups	Prerequisites and information preparation	Terms of conduct	Performer's NSP	Checked documents	Note
1. Verification of calculation legality and validity from the point of view of the budget process					
1.1. Verification of budget commitments compliance with limits and estimates for non-budgetary activities					
1.1.1. Verification of adopted budgetary obligations	Presence, rights and obligations,	01.03.17	Sidorov V.A.	The accounting journal of budget organization	

ons (BO) compliance with the limits	completeness (Identification and assessment of risks of material misstatement through the study of the organization and its environment, 2016)			ation (hereinafter BO), BO limit accounting card	
1.1.2. Verification of adopted BO compliance with approved cost estimate		01.03.17	Kochurov S.G.	The account card of budgetary assignments (for off-budget activities), BO accounting log	
1.2. Verification of accepted and fulfilled monetary obligations compliance to the set limits		02.03.17	Kochurov S.G.	The card of means and calculations account under accounts 302 and 206, the card of BO limit account	
1.3. Verification of accepted and completed BO compliance with the estimates for non-budgetary activities (NBA)		02.03.17	Tikhomirov G.A.	Card of funds account according to accounts 302 and 206, an accounting card for estimated assignments	

2. Verification of completeness, timeliness and correctness of accounting for the payments to suppliers and contractors in accounting					
2.1. Budget obligation check in accounting					
2.1.1. Verification of the compliance of accepted BOs with contracts, agreements and other documents	Presence, rights and obligations, completeness <i>(Identification and assessment of risks of material misstatement through the study of the organization and its environment, 2016)</i>	03.0 3.17	Tikhonov G.A.	BO accounting log, contracts, agreements, transaction log for the settlements with suppliers and contractors	
2.1.2. Reconciliation of BO and OFC data reflected in accounting records	Accuracy, fullness, recognitions <i>(Identification and assessment of risks of material misstatement through the study of the organization and its environment, 2016)</i>	03.0 3.17	Sidorov V.A.	BO accounting log, account statement	

	ment, 2016)				
2.2. Check of accepted monetary liabilities					
2.2.1. Verification of completeness and timeliness of accepted monetary obligations by primary documents	Accuracy, fullness, recognitions <i>(Identification and assessment of risks of material misstatement through the study of the organization and its environment, 2016)</i>	03.0 3.17	Kochurov S.G.	The card of account of means and calculations under the account 302, the corresponding primary documents (invoices, certificates of performed works, etc.)	
2.2.2. Verification of compliance concerning accepted monetary obligations for advance payments under concluded contracts (agreements)		03.0 3.17	Kochurov S.G.	Card of fund accounting and the calculations on account 302 and 206, contracts (agreements), primary documents	

2.3. Verification of executed monetary obligations					
2.3.1. Check of monetary obligations completeness and performance for suppliers and contractors	Accuracy, fullness, recognitions (<i>Identification and assessment of risks of material misstatement through the study of the organization</i>)	04.0 3.17	Sidorov V.A.	Card of fund accounting and the calculations on account 302 and 206, contracts, agreements, waybills, the acts of performed works, etc.	
2.3.2. Check of monetary obligations fulfillment correctness for suppliers and contractors in accounting	(<i>and its environment, 2016</i>)	04.0 3.17	Tikhomirov G.A.	Card of fund accounting and the calculations on account 302 and 206, primary documents	
3. Verification of accounting data and budgetary reporting identity					
3.1. Check of accounting and reporting compliance with accepted BO and LBO	Accuracy, fullness, recognitions (<i>Identification and assessment of risks of material misstatement</i>)	05.0 3.17	Ivanov I.I.	BO accounting log, report on accepted BO. f. 0503128, accounting registers for accounts 501.3,	

	<i>ement through the study of the organization and its environment, 2016)</i>			502.11	
3.2. Verification of accounting and reporting compliance with accepted BO and the estimates according to PD		06.0 3.17	Kochurov S.G.	BO accounting log, report on accepted expenditure obligations f. 0503138, accounting registers for accounts 504, 502.12	
4. Verification of obligation performance timeliness					
4.1. Verification of compliance with the terms of obligation performance	Accuracy, completeness, recognitions (<i>Identification and assessment of risks of material misstatement through the study of the organization and its environment, 2016)</i>	07.0 3.17	Ivanov I.I.	Contracts, agreements, invoices and acts	
4.3. Verification of court decision and executive document execution		08.0 3.17	Ivanov I.I.	Judicial resolutions and orders, executive lists, primary documents and accounting registers	
5. Verification of obligation performance efficiency					
5.1. Evaluation of institution work effectiveness					

5.1.2. Development of target indicator assessment system	Accuracy, completeness (<i>Identification and assessment of risks of material misstatement through the study of the organization and its environment, 2016</i>)	09.03.17	Kochurov S.G.	Orders and other documents of a Ministry and a parent organization	
5.1.3. Assessment of institution operation effectiveness within the system of target indicators		09.03.17	Tikhomirov G.A.	Reporting (accounting, statistical, - f. 30, 62, etc.)	
5.2. Evaluation of specific commitment performance efficiency					
5.2.1. Evaluation of contractual fulfillment (by a contractor)	Accuracy, completeness (<i>Identification and assessment of risks of material misstatement through the study of the organization and its environment, 2016</i>)	09.03.17	Ivanov I.I.	Agreements (contracts), documents on their execution (invoices, certificates, etc.)	
5.2.2. Evaluation of delivered goods (completed works, services) quality		09.03.17	Ivanov I.I.	Technical documentation, acceptance reports, equipment operation results	
5.2.3. Evaluation of the		09.03.17	Kochurov S.G.	Reports of subdivisions,	

actual use of goods (work, service results) in the activities of an institution - effectiveness evaluation					logs of equipment, premises and statistical reporting operation. Calculations of inspectors
5.2.4. Estimation of possible alternative use of means - the comparative evaluation of effectiveness		10.03.17	Tikhomirov G.A.		Unfulfilled applications and planned works, data from questionnaires and surveys. Calculations of inspectors
5.3. Assessment of specific obligation implementation impact on the effectiveness of the institution operation					
5.3.1. Evaluation based on modeling	Accuracy, completeness (<i>Identification and assessment of risks of material misstatement through the study of the organization and its environment</i>)	10.03.17	Kochurov S.G.		Calculations of inspectors
5.3.2. Expert evaluation		10.03.17	Kochurov S.G.		Calculations of inspectors

	ment, 2016)				
--	----------------	--	--	--	--

Head of Internal Audit Service: signature (Safin I.R.)

Head of Internal Audit Team: signature (Ivanov I.I.)

An internal auditor needs to check whether the revealed deviations in sum and separately exceed the level of materiality (taking into account the predicted value of unmarked deviations).

During the evaluation of internal audit results, the detected errors and deviations should be evaluated in a combination of qualitative and quantitative factors.

The assessment of audit risk (AR) by components (household (inherent) risk (IR)), the risk of control devices (RC), the risk of non-detection (RND) is based on test results by factors, taking into account their positive and negative manifestations. The value of each risk component is defined as the ratio of negative factor number to the total number of factors for a given component. The dependence of audit risk value and its components is determined by the following formula

$$AP = BP \times PK \times PH$$

During the calculation of materiality level, the AR value affects a range selection:

- The upper limit of the range is chosen at AR equal to 5%,

- The lower limit of the range is selected at AR more than 5%, .

Then let's determine the level of materiality (Table 2)

Table 2. Materiality level

Basic indicators	The value of the base indicator at the end of the reporting period (rubles)	Limits of indicator share range %	Indicator share value, %	Level obtaining value (rounded to integers)	The share of basic indicator in the balance currency, %	The value of materiality level for balance items (rounded to integers)
1	2	3	4	5=(2x4/100)	6	7
Non-financial assets	20 948 690	6-10	10	2 094 869	37,5 2%	785 993
Capital	16 029 606	3-5	5	801 480	14,3 5%	115 051
Financial assets	58 141 375	3-6	6	3 488 483	62,4 8%	2 179 607
Settlements with debtors	25 532 646	3-6	6	1 531 959	27,4 4%	420 339
Settlements for liabilities	18 258 630	2-5	5	912 932	16,3 5%	149 273
Income	48 903 137	0,5-2	2	978 063	x	x
Costs	31 407 156	2-4	4	1 256 286	x	x
Total	X	X	X	11 064 071	x	x

Based on the results of the calculations presented in Table 2 and 3, the level of materiality makes 1,300,000 rubles. If you take 2% of the balance currency and income for calculation then 2% make 1 300 000 rubles on the average, as 2% of the balance currency make 1 600 000 rubles, and 1 000 000 rubles from income. For visual representation an internal auditor it is reasonable to apply the tabular method of importance level calculation for an internal auditor.

Table 3. Materiality calculation level

Calculation order	Value, rub.
1. Arithmetic mean of column 5	1 580 582
2. The smallest value of column 5	801 480
Deviation from the average index (p.2 - p.1) / p. 1 x 100	49,29%
3. Maximum value of column 5	3 488 483
Deviation from the average indicator (p.3 - p.1) / p. 1 x 100	120,71%
4. The decision was made concerning the exclusion from the calculation:	
- the minimum indicator (if it exceeds the average by more than 50%)	no
- the maximum indicator (if it exceeds the average by more than 50%)	yes
5. New arithmetic mean of column 5 after exclusion	1 262 598
6. The value to which the arithmetic mean is rounded (thousand rubles)	1 300 000
7. The difference between the value of the materiality level before and after rounding (p. 5 - p. 6)	-37 402
in percentage terms (p. 6 - p. 5) / p. 6 x 100% (should not exceed 20%)	2,88%
8. Accepted level of materiality, rub.	1 300 000

3.RESULTS AND DISCUSSIONS

Based on the results of the sample calculation, it is necessary to check every eighth business transaction associated with the occurrence, movement and repayment of obligations. It is necessary to pay attention to those operations that exceed the level of materiality. Such operations must be checked by all.

In order to achieve an ultimate goal (assessing the effectiveness of obligation settlement), an internal auditor must perform analytical inspection procedures of obligations (*The use of internal auditor work*, 2016). To do this, it is necessary to analyze a number of indicators, including the ratio of liability turnover.

The ratio of liability turnover shows how quickly the company pays its counterparties (Ponomareva & Melnikova, 2015).

The formula of turnover ratio calculation of accounts payable is the following one:

$$K_{об} = \frac{2 \times B}{(K_{3н} + K_{3к})}$$

where $K_{об}$ is the ratio of liability turnover,

B – income per year,

$K_{3н}$ - commitments at the beginning of the year,

$K_{3к}$ - commitments at the end of the year.

It is necessary to study this coefficient in dynamics for several periods, and also in comparison with the ratio of receivables turnover.

The repayment period is also called the period of obligation turnover. It shows how many days the organization pays its debts on the average.

In order to calculate the period for the repayment of obligations, the following formula is used:

$$\Pi_{п} = \frac{365}{K_{об}}$$

where $\Pi_{п}$ is the period of accounts payable repayment.

The coefficient of the company dependence on liabilities illustrates in which part of the enterprise the assets were financed by creditors. During the analysis of this coefficient, it is necessary to take into account industry specificity; what are the factors which formed such a dependence, whether it has a short-term character or not.

One can calculate the company dependence on liabilities using the following formula:

$$K_3 = \frac{ДО + КО}{A}$$

where K_3 is an institution dependence ratio on its obligations,

ДО – Long-term liabilities,

KO – Short-term liabilities,

A – Assets or balance currency at the end of the period.

The coefficient of financial leverage or the self-financing ratio (also called the financial independence coefficient) of the institution shows the amount of debts repaid by an organization at the expense of its own capital.

$$K_H = \frac{\Pi K}{CK}$$

Where K_H is the coefficient of financial leverage or independence,

CK - equity at the end of the period,

ΠK – attracted capital at the end of the period.

4.CONCLUSIONS

Commitments are valuable and play an important role in the provision of educational services. They should be seen as a liability affecting the solvency of the organization.

In order to assess the effectiveness of obligation management within the contractual term in the course of internal audit it is necessary to carry out its classification for certain periods.

The increase of liabilities indicates the deterioration in the financial condition of an organization and, as a consequence, the decrease of its solvency.

The proposed tools and the algorithms for internal audit of obligations management allow to improve the efficiency of an organization operation.

5.SUMMARY

Thus, an internal audit of commitment management should provide for a number of consecutive steps.

At the first stage, it is necessary to study the contracts with suppliers. At that an auditor should pay attention not only to the terms of contracts, but also to the economic feasibility of this type of contractual relationship.

At the second stage of the internal audit service, it is reasonable to take into account the legal features during the audit of obligations.

Having examined the terms of organization contractual relations with suppliers, an internal auditor needs to study the documentary execution of operations in the context of individual contracts.

When you perform internal audit of settlements with suppliers and contractors under sales and purchase contracts with deferred payment and prepayment, an auditor performs a formal and arithmetical verification of registration correctness and the filling in of primary accounting documents.

At the third stage of the audit, an internal auditor performs mutual verification of invoices, consignment notes, bank statements and supply contracts: the final and interim amounts in consignment notes, invoices and contracts must be the same. The column "Purpose of payment" in a bank statement must contain an account number, according to which a buyer made payment. An important aspect of mutual verification of such documents is the confirmation of conformity concerning the quality, the nomenclature, the quantity and the price of goods received and determined by the contract. If any discrepancies are detected, an internal auditor conducts a counter-check with a supplier by the request of a reconciliation statement.

At the fourth stage of the internal audit concerning the effectiveness of obligation management an internal auditor has to analyze the coefficients that led to the work, supplementing them with the consideration of industry specifics if necessary.

ACKNOWLEDGEMENTS

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

REFERENCES

"International Standard of Audit 315 (revised) "Identification and assessment of risks of material misstatement through the study of the organization and its environment" (put into effect on the territory of Russian Federation by the Order of the Ministry of Finance of Russia N 192n dated on 24.10.2016) Access mode: <http://www.consultant.ru/law/hotdocs/47856.html>

"International Standard of Audit 610 (revised 2013) "The use of internal auditor work" (put into effect on the territory of Russian Federation by

the Order of the Ministry of Finance No. 192n on October 24, 2016) Access mode: <http://www.consultant.ru/law/hotdocs/47812.html>

SPb.: Publishing house of Polytechnic university, 2012.

Bergmann A. Consolidation in the public sector: methods and approaches in Organisation for Economic Co-operation and Development countries// International Review of Administrative Sciences - 2016.- Vol. 82(4) - pp.763–783.

Brusca I. Adopting International Public Sector Accounting Standards: a challenge for modernizing and harmonizing public sector accounting// International Review of Administrative Sciences - 2016. - Vol. 82(4) - pp.724–744.

Fedorenko. I.V., L.M. Zasyrkina. Audit of budgetary institution obligations // Accounting № 12. December 2010 pp. 106-111

International Professional Standards for Internal Audit (Standards). Updated version (2016). Effective on 01/01/2017 (Translation into Russian, the version of December 27, 2016) Access mode: <https://www.iaa-ru.ru/contact/Standards-rus%202016%20IIA%2027122016.pdf>

Manes-Rossi F. Introduction: The Gordian knot of public sector accounting and the role of the International Public Sector Accounting Standards// International Review of Administrative Sciences - 2016. - Vol. 82(4) - pp. 718–723.

Ponomareva S.V., MelnikovaA. S. Financial Instruments Reflected by Organizations in Accordance with International Standards of Financial Accounting of Public Sector// Mediterranean Journal of Social Sciences MCSER Publishing, Rome-Italy - May 2015. - Vol 6 No 3 S3 - pp. 213-222.

RobbA., NewberryS. Globalization: governmental accounting and International Financial Reporting Standards// Socio-Economic Review - 2007. - Vol.5 - pp. 725–754.

Sharonina L.V. Internal audit as the tool for monitoring and the check of quality management system efficiency at a university // System analysis in design and management. The proceedings of the 16th Int. sci. pract. conf. -