

THEORETICAL AND METHODOLOGICAL FOUNDATIONS OF APPLYING A RISK-BASED INTERNAL AUDIT SYSTEM TO ENTERPRISE MANAGEMENT AND CONTROL

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Annotation:

This thesis covers the theoretical and methodological foundations for the application of a risk-based internal audit system in the management and control of enterprises. The role of the concept of Risk in economic and managerial decisions, its forms of manifestation at the strategic, operational and financial levels are analyzed. The limited aspects of traditional internal auditing as well as the advantages of a risk-based approach are outlined. Methodological approaches aimed at identifying, evaluating and reducing risks have also been studied.

Keywords: types of risk, internal audit, management decisions, model.

In the current conditions of globalization and the complication of market relations, risk factors are significantly increasing in the activities of enterprises. Uncertainties, rapid changes in the external environment and weaknesses in internal management require enterprises to introduce effective control mechanisms. In this context, the concept of Risk-Based Internal audit (RAIA) is gaining relevance in the management and control of enterprises. This approach, in contrast to the traditional forms of internal auditing, serves as a reliable source of information in the allocation of resources according to the level of risk, increased attention to high-risk directions, and the justification of management decisions.

In economic and management systems, risk is considered a concept of special importance when making decisions. It will be associated with unexpected consequences, losses or uncertainties. In the process of enterprise activity, risk can be manifested in the production, financial, strategic and organizational spheres. For this reason, pre-identification and effective management of risks constitute an urgent task of modern management. "Risk-Based Internal audit is a system that focuses on identifying and taking action against factors that threaten the strategic goals of an organization"¹. The Risk-Based Internal audit (RAIA) concept is regarded as a milestone in the development of internal control and internal audit systems. The formation and widespread use of this approach is explained by the inadequacy of traditional audit methods due to the complexity of economic processes. In a traditional internal audit, all areas

¹ Strelnikova O.V. Risks in auditing: St. Petersburg State University, 2008, pp. 166-195.

of activity were equally audited, resulting in problems such as inefficient use of resources and out-of-control of the most dangerous areas.

The stages of development of Risk-Based Internal Audit can be described in the following sequence:

1. Risk identification (identification;
2. Risk assessment;
3. Setting priorities for internal audit;
4. Planning and implementation of internal audit activities;
5. Monitoring and development of proposals.

The current period internal audit model analyzes risks in three main categories: strategic, operational and financial. While strategic risks are associated with external factors that prevent an organization from achieving its long-term goals, operational risks are represented by errors or system defects that occur during daily activities. Financial risks, on the other hand, are caused by incorrect accounting, fraud cases or mistakes made in tax policies.

In the internal audit system, the risk assessment process is carried out through two main methodological approaches - quality (expert) assessment and quantitative (digital) assessment. These two approaches are mutually complementary and allow internal auditors to realistically assess risks, identify priorities, and rationalize resource allocation. In an internal audit, risk assessment is not only the determination of the risk, but also the measurement of the degree of its impact on the activities of the enterprise.

The quality assessment approach is based more on the professional experience, expert opinions and subjective observations of internal auditors. In it, each risk is classified as high, medium or low risk by subjective criteria. This method is easy, fast, and flexible, and is especially useful in information-deficient conditions. "The quality approach provides effective results by relying on the internal auditor's understanding of internal audits, activities and familiarity with risks in the organization that they have previously conducted"². In quantitative assessment, however, risks are based on specific mathematical, statistical, or scoring systems. "In a quantitative approach, each risk probability and rate of consequence are expressed numerically, which simplifies their comparison"³.

The most common approach is the - possibly $\times$ consequence model, where the probability of occurrence and impact strength of each risk are assessed on a separate score scale.

² Nguyen Thi Viet Le. Development of organizational and methodological support for internal audit in commercial organizations based on standardization. — Moscow, 2022. — 26 p.

³ Bulgakov, S. A. Development of methodological support for internal control of the "Procurement" business process in commercial organizations based on a risk-based approach: PhD in Economics: 08.00.12 / Rostov State University of Economics. uni-t (RINH). — Rostov-on-Don, 2022. — 222 p.: ill. — Bibliogr.: pp. 166-195.

Determining risk priority based on quantitative assessment

Name of risk	Possibly(1-5)	Consequence (1-5)	Total risk score (P×C)	Risk level
Financial document forgery	4	5	20	High risk
Inventory errors in the warehouse	3	3	9	MediumCritical risk
Tax reporting errors	2	4	8	Low
Database corruption	5	5	25	Critical risk
Incorrect application of sales discounts	3	2	6	Low risk

Once the risk assessment process is completed in the internal audit, the issue of using its results becomes an important strategic task. These results serve as the main focal point in determining the direction of verification by internal auditors, in the formation of an internal audit program, in the distribution of internal audit resources and in the preparation of final recommendations. Risk assessment is not just a table in the report, but a practical tool that gives direction to the entire duration of internal audit activities.

Hence, the following methods are used in the implementation of risk-based internal auditing: risk identification and assessment, prioritization, development of internal control mechanisms, and establishment of a monitoring and reassessment system.

In conclusion, it should be said that the Risk-Based Internal audit System is an effective tool in managing and controlling enterprises. It allows not only to identify and assess risks, but also to develop practical measures aimed at reducing them. This approach serves to wisely use resources, ensure the stability of the enterprise's activities, improve the quality of management decisions and strengthen the level of transparency. Thus, an in-depth study of the theoretical and methodological foundations of the RAIA concept and its introduction in practice is an important strategic factor in the development of enterprises.

List of literature used:

1. Strelnikova O.V. Risks in auditing: St. Petersburg State University, 2008, pp. 166-195.
2. Nguyen Thi Viet Le. Development of organizational and methodological support for internal audit in commercial organizations based on standardization. — Moscow, 2022. — 26 p.
3. Bulgakov, S. A. Development of methodological support for internal control of the "Procurement" business process in commercial organizations based on a risk-based approach: PhD in Economics: 08.00.12 / Rostov State University of Economics. uni-t (RINH). — Rostov-on-Don, 2022. — 222 p.: ill. — Bibliogr.: pp. 166-195.