EVALUATION OF THE EFFICIENCY OF THE INTERNAL CONTROL SYSTEM OF THE EXTENSIVE REPAIR FUND

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We have studied the internal control system as one of the main tools to ensure control over the targeted use of funds for capital repairs of apartment houses. The methods of evaluating the effectiveness of the internal control system on the example of Russian experience. Defined and systematized the key risks affecting the effectiveness of financial – economic activity. The procedures of monitoring and diagnostic system of internal controls designed to assess the ability of the internal control system to eliminate or minimize the risks of ineffective control measures.

Keywords: internal control system, apartment houses, financial risks, evaluation of the efficiency

Currently, the housing stock of Russia is dominated by the buildings older than 30 years according to the data of the end of 2012 that is more than 60% of the housing stock. Two-thirds of apartment houses have a deterioration level of more than 30%1. The absence of the system of regular extensive repair, in accordance with the regulatory repair periods may make a significant part of apartment houses (hereinafter AH) inappropriate for habitation in only 10–15 years.

In world management practice there has been implemented for a long time a special tool of constant control i.e. the internal control system (hereinafter ICS). ICS is a tool ensuring the activity objectives of an organization, based on a continuous process of risk assessment, control of the efficiency of financial and economic activity, statutory compliance, completeness and accuracy of reporting, safety of information.

In Russia, they also start implementing widely internal control. Internal control units used to be created only in organizations of a particular industry such as credit institutions, professional stock market participants and private pension funds. However, after passing amendments to the Federal Law “On Accounting”2 in 2012, now all the economic entities are required to carry out internal control of the facts of economic life, introduction of business accounting and reporting.

The purpose of the internal control system of the extensive repair fund of a managing company is the implementation of the extensive repair program in apartment houses and resettlement of emergency housing and at the same time ensuring control in several ways:

– Ensure the execution of functions of forming extensive repair funds, ensure the reliability of contributions accounting of owners of premises in the AH; control statutory compliance and compliance with the rights and legitimate interests of owners of premises in AH for extensive repair of common property in an apartment house.

– Ensure control of liquidity and financial stability of extensive repair fund; monitor the effectiveness of financial and operational planning, the execution of cost estimates; monitor the timeliness, completeness and statutory compliance of accounting and financial reporting.

– Monitor the intended use and efficiency of using funds; ensure compliance with legislative requirements in selection of contractors for the provision of services and execution of works on extensive repair; exercise control over the timing and quality of work upon extensive repair.

– Monitor the use of funds obtained as support measures from the federal or regional budgets.

What is an internal control system?

The first point is that it is an organizational structure that is a structural unit or individual experts of the extensive repair fund ensuring in terms of the implementation of control activities a certain order of interaction with other departments or employees of the organization.

The second point is that it is a special corporate culture in which all employees without exception are involved in some extent in the work on risks minimization. They know how to and seek to define situations that affect critically the interests of the organization; they transmit promptly information about emerging risks and take statutory measures to prevent negative consequences.

The third point is that it is a set of measures aimed to eliminate or minimize risks; it is also a set of control activities and procedures aimed at detecting and preventing risks.

1 According to the data of Federal State Statistics Service.
Nowadays management recognizes several important principles on which an effective internal control system is to be built that is certainly applicable to the extensive repair fund [1].

- Continuity of internal control.
- Involvement of every employee in the processes of risk management and internal control.
- Integration of ICS in all business processes.
- Realization of internal control at all levels: strategic, tactical, operational control.
- Selection of priority areas of control.

The purpose of internal control is to identify and prevent risks that are probability events that can lead to negative consequences.

Usually they stand out the risks associated with natural disasters and other force-majeure circumstances; market risks and so on. According to the proposed classification there are good reasons to allocate internal and external risks [3].

However, the most significant seems to be the division of risks on the basis of the main functional areas of the activity of a managing company that is formation and management of the extensive repair fund; and risks associated with the function of a technical customer.

We should also highlight the division of risks by types of negative effects:
- financial risks;
- risks associated with the failure of the regional program of extension repair of common property in the AH;
- reputational risks.

We should pay a special attention to the function of internal control on the monitoring of the use of money by extensive repair fund as the capital of extensive repair fund and as the own capital allocated for administrative and economic needs, as well as the capital received as a support measure from the federal and regional budgets.

For ensuring effective control of the targeted use of funds and of the appropriateness and effectiveness of the cost of a managing company it is necessary to develop a detailed regulation of financial planning and to implement control procedures for the execution of such plans.

The current control of the use of funds is realized through the inclusion of a series of operations on the payment documents authorization into the process of execution of payments [5]. In particular, it is necessary to check the presence of payment in terms of costs and payment schedule, the compliance of primary documents that are the basis of payment and so on.

The approach to the organization of cash flow control is built on the conventional Shewhart-Deming cycle management («Plan-Do-Check-Act») [6].

**Management cycle:**

PDCA Methodology is the simplest algorithm of actions of process control and the achievement of its objectives. Management cycle begins with planning.

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**Planning**

Setting goals and processes necessary to achieve the objectives, work planning process to achieve goals and customer satisfaction, planning, allocation and distribution of the necessary resources.

**Performance**

The execution of the planned works.

**Inspection**

Data collection and monitoring results on the basis of key performance indicators (KPI), resulting in the implementation process, the identification and analysis of deviations, the establishment of the causes of deviations.

**Impact (control, adjustment)**

The adoption of measures to address the causes of deviations from the planned result, changes in the planning and allocation of resources.

ICS monitoring represents a specially conducted control activities aimed at assessing the level of effectiveness. That is the assessment of the ability of ICS to eliminate or minimize the risks of the organization, to ensure the realization of the objectives of the extensive repair fund [2].

In particular, the ICS monitoring is to be held for the timely achievement of the planned control procedures and in accordance with the approved procedures and method statements.

Then they assess the effectiveness of these control procedures. That is that they check whether the measures taken help to eliminate the risks of treatment or reduce the associated risks to the planned level [4].
Moreover, participation of employees in a regular assessment of the effectiveness of ICS increases their motivation and level of responsibility associated with the execution of the tasks of internal control.

We recommend holding monitoring of the effectiveness of ICS in three forms.

● Monitoring of the state of ICS, within which they verify the completeness and timeliness of control procedures, they hold the assessing of the correctness of documenting of control activities.

● Control procedures testing that is the study of the incidents that had place and the search for imperfection of control procedures which had to identify and eliminate the possibility of such incidents, but they found or didn’t exclude them.

● Inquiry of the participants of ICS in the form of mail out with questionnaires to employees who were involved in the process of internal control to gather subjective assessments of the effectiveness of the control procedures and suggestions for its improvement.

Summarizing, we may emphasize that the internal control system is an important and necessary tool for the management of a managing company.

A tool that can help the administration of a managing company to deal with the obligations to ensure the extensive repair of apartment houses in proper time and with proper quality.

A tool that can give the owners of premises in apartment houses confidence that money of their extensive repair funds will not be lost or spent inefficiently; will not be the subject of abuse or corruption schemes.

The proposed monitoring will contribute to the examination and early detection of potential financial abuse, fraud and corruption schemes in economic and financial operations of the management company. The offered evaluation of internal controls efficiency will timely identify and minimize the risks of the organization. When implemented, the offered approaches to monitoring and control of financial and economic activities of management companies will enable to create a highly effective tool to manage the process of the housing stock major repairs.

References


