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**DEVELOPMENT OF THE INTERNAL CORPORATE CONTROL
UNDER CONDITIONS OF TAX MONITORING**

Ph. D. Lubov I. Vanchukhina

Ufa State Petroleum Technological University, Russia
ORCID 0000-0003-2101-2054
BUA1996@yandex.ru

Ph. D. Nelly N. Galeeva

Ufa State Petroleum Technological University, Russia
ORCID 0000-0003-2886-097X
nelli-galeeva@yandex.ru

Ph. D. Anastasia M. Rogacheva

Ufa State Petroleum Technological University, Russia
ORCID 0000-0002-3945-6510
izabo@bk.ru

Ph. D. Yuliya R. Rudneva

Ufa State Petroleum Technological University, Russia
ORCID 0000-0003-0232-7923
julrud@yandex.ru

Ph. D. Tamara P. Shamonina

Ufa State Petroleum Technological University, Russia
ORCID 0000-0003-3878-4173
shamonina@bk.ru

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Abstract

The relevance of the issue under study is conditioned by the fact that the Federal Tax Service of Russia promotes the concept of tax administration based on the enhanced information interaction with a taxpayer. In this respect, the necessity to adapt the internal control system to the conditions of the tax monitoring became pressing. The goal of the paper is to adapt the internal control system of the organization to a new form of the enhanced information interaction between the parties of tax relations. The leading approach to the study of this issue is a risk-oriented approach to delivery of the information concerning the internal control system and to use of the information by the tax authorities. As a consequence, there was presented a model of interaction of an economic entity with a tax authority with respect to the internal control system. The model is based on COSO methodology which will secure the reduction of risks of misstatement of tax liabilities of a taxpayer.

Keywords

Tax control – Information interaction – Tax monitoring – Internal control system

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Introduction

One of the directions of the internal corporate control is the development of the internal control system (ICS) which is based on the analysis of the interrelation of the financial accounting and management accounting. Papers of the number of Russian specialists are devoted to these aspects, in particular, a considerable contribution to this line of research was made by Bakanov M.I., Barilenko V.I., Efimova O.V., Melnik M.V., and Sokolov B.N.¹

The internal control system was not used by the tax authorities until the institute of tax monitoring appeared. In light of the new legislation, a taxpayer shall provide a more detailed information on the accounting and tax bookkeeping to the tax authority and disclose the data on the internal control system. The tax authority in its turn shall decrease the administrative burden on the taxpayer and may elect not to execute some types of complex and resource-intensive tax inspections.

The creation and improvement of the internal control system at the enterprises have taken on greater and greater importance lately. The tendency is preconditioned by the numerous factors of the external environment, and the appearance of the tax monitoring institute requires the development of the internal control system, namely, the delivery of quality information.

The process of organizing an internal control system at the enterprise is complex and requires a great many of the time, labour and financial resources. The internal control shall be built-in the corporate management system being an inherent part of the organization. The internal control system shall be based on the diverse control methods covering all directions of life activity of the economic entity².

Materials and Methods

According to the authors, the interaction simulation can be based on the interpretation of the COSO methodology – which is a universally recognized standard of describing the internal control system, in accordance with which the model includes 5 interrelated components: control environment, risk assessment, information and communication, monitoring, and control activities. This model will enable to elaborate the approaches to the delivery of information concerning the internal control system by the economic entity on the one hand, and to the use of this information by tax authorities to obtain assurance that there are no risks of misstatement of the tax liabilities.

The methodology of efficiency assessment of the internal control system under conditions of the modern tax administration presented in the paper will allow taking into account the specific nature of the organization upon the assessment of the internal control

¹ M. I. Bakanov; M. V. Melnik y A. D. Sheremet, “Teoriya ekonomicheskogo analiza”, The theory of the economic analysis (Moscow: Finansy i statistika Publ., 2011); V. I. Barilenko; V. V. Berdnikov y E. I. Borodina, “Ekonomicheskii analiz” (Moscow: EKSMO Publ., 2010); O. V. Efimova, “Finansovyy analiz: sovremennyy instrumentariy dlya prinyatiya ekonomicheskikh resheniy” (Moscow: Omega-L Publ., 2010); M. V. Melnik y V. V. Berdnikov, “Analiz i kontrol v kommercheskoy organizatsii” (Moscow: Eksmo Publ., 2011) y B. N. Sokolov y V. V. Rukin, “Sistemy vnutrennego kontrolya (organizatsiya, metodika, praktika) (Moscow: Ekonomika Publ., 2014).

² O. G. Korolev, “Klyuchevye problemnye oblasti sistemy vnutrennego kontrolya organizatsii”, Audit i finansovyy analiz, num 6 (2012).

system by means of introducing a weight parameter for each business-process. In this regard, the presented methodology is universal.

The main point of the corporate control reveals itself through the variety of its types. In terms of manifestation there is internal and external control. The purpose of internal control is to provide the information required for taking decisions by the subjects of corporate management. Its sphere of application is economic and financial operations of the organization's activity inspected for the purpose of establishing the legitimacy, credibility and expediency thereof, safety of the material and financial resources, unbiased assessment of the internal reserves for increasing the efficiency of the organization's activity.

The internal control includes the audit control executed by the internal audit services and control and auditing department, and the audit committees at the Boards of Directors. The presence of a specialized service of internal control within the structure of the organization is determined by the scope of activities, the peculiar features of business operations, and the structure of the capital of a company.

The creation and improvement of the internal control system at the enterprises have taken on greater and greater importance lately. The tendency is preconditioned by the numerous factors of the external environment. Also, the legislative consolidation of the tax monitoring institute requires the development of the internal control system, namely, the delivery of quality information.

In accordance with clause 105.26 of the Tax Code of the Russian Federation, under conditions of tax monitoring the taxpayer is obliged to provide a more detailed information on accounting and tax bookkeeping to the tax authority and disclose the data on its internal control system. The tax authority in its turn shall decrease the administrative burden on the taxpayer and may elect not to execute some types of complex and resource-intensive tax inspections.

The conducted evolutionary analysis of the development of the concept of internal control system under conditions of tax monitoring enabled to state the authors' interpretation of the concept of ICS of the organization – it is an aggregate of the organizational structure, methods and procedures approved by the organization and complying with the requirements of the Federal Tax Service of Russia, intended for the ordered and efficient economic and financial activity (including the achievement of financial and operating performance, and asset protection), discovery, correction and prevention of mistakes and misrepresentation of information while calculating (withholding) the taxes, charges, insurance payments, fullness and promptness of payment thereof (transfer), and also for a timely preparation of the accounting (financial), tax or other reporting of the organization, complying with the specific nature of the organization and aimed at satisfying the needs of internal users and tax authorities. This specification emphasizes the orientation of disclosure of the information about ICS at satisfying the needs of not only internal users, but also tax authorities.

Within the framework of the tax authorities operation on organizing an enhanced interaction with taxpayers, a new form of tax control is applied – tax monitoring. A solid step on the way to a direct tax administration became a pilot introduction of an enhanced information interaction between taxpayers and the Federal Tax Service of Russia in form of a horizontal (tax) monitoring. Five major organizations took part in the experiment: RusHydro (OAO), Mobilnye telesistemy (OAO), Inter RAO UES (PJSC), Ernst & Young (CIS) B.V. global organization, and Severstal (public company).

The main goal of this pilot project was the control over execution of tax liabilities by taxpayers by means of the information exchange between the tax authorities and taxpayers.

The results of analysis of the pilot project on the enhanced information interaction are presented in figure 1.

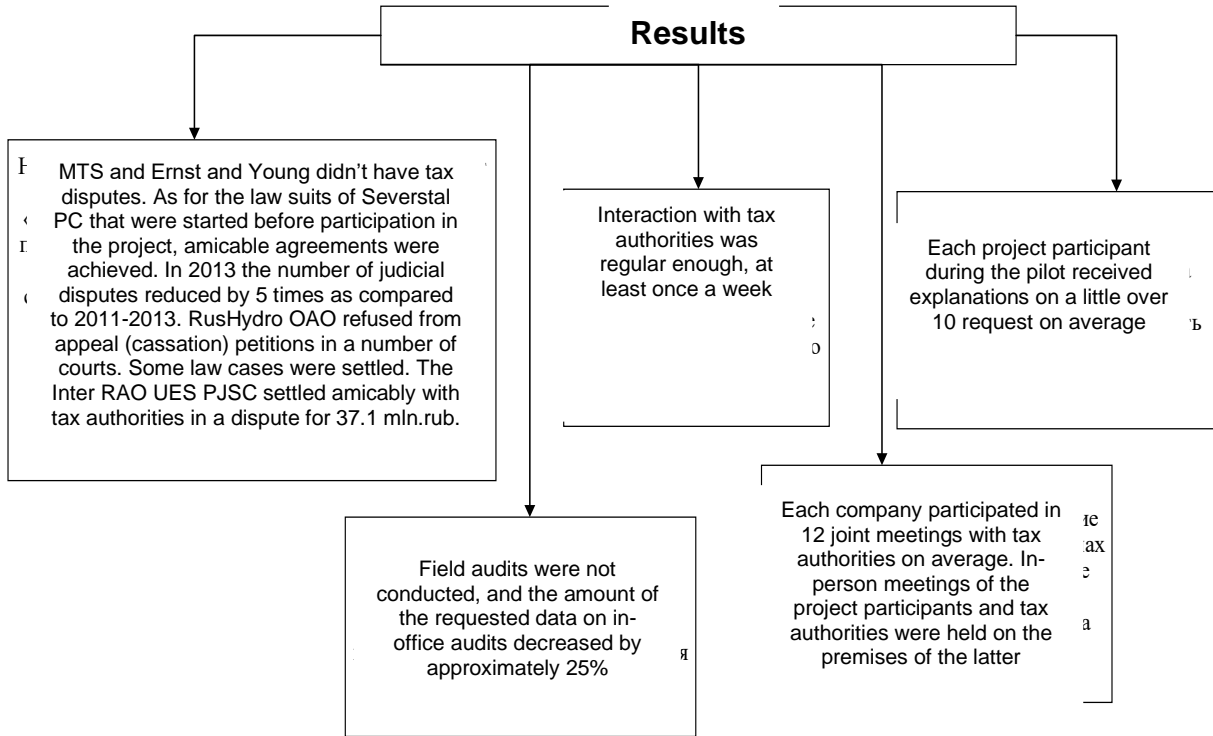


Figure 1

The results of the experience of introduction of enhanced information interaction within the pilot project

The results of the pilot project on enhanced information interaction induced to establish a new form of tax control in form of tax monitoring legislatively from January 1, 2015.

The conducted analysis of criteria for application of the tax monitoring revealed a tendency towards reduction thereof. But not many major taxpayers will be able to take part in the tax monitoring, only the representatives of a large business in Russia. According to the data of the Federal Tax Service of Russia, presently only around 2 thousand of taxpayers can comply with the established legislative criteria.

The major taxpayers already have a firmly-established special mode of operation with the tax service, therefore they regard it as a great risk to change the existing relations for something new and unknown. In this respect the risks of applying the tax monitoring were revealed (Table 1.)

The risks of applying the tax monitoring.	
Tax authorities	Taxpayers
The expenses for introduction of tax monitoring were not assessed.	The expenses for introduction of tax monitoring were not assessed.

The risks of applying the tax monitoring.	
Tax authorities	Taxpayers
Nonfulfillment of a reasoned opinion by a taxpayer	Inspections on controlled transactions can be executed during the monitoring as well.
There is no standardization of the information exchange means between a tax authority and organization	The frequency of interaction during a year is not specified
The risk of a field inspection is initiated by a higher tax authority (in the procedure of control over the activity of a tax authority that executed tax monitoring)	Failure to act shall be treated as a consent for prolongation
	No full guarantee that the in-office and field tax audits will not take place
	No clear list of the information to be provided
	Uncertainty regarding the data exchange method

Table 1
The risks of applying the tax monitoring.

Also, the analysis of the pilot project on the enhanced information interaction and the analysis of the tax monitoring operation enabled to reveal a number of problems:

- lack of understanding of the goals and objectives of the enhanced interaction programme on the part of taxpayers. The results of the study showed that part of taxpayers consider participation in the programme as an increased attention on the part of tax authorities associated with a greater frequency and intensity of inspections;
- opposition of employees of the tax authorities, who are generally oriented at detection of mistakes and additional charge of taxes, to changing the approach to relations with taxpayers;
- possibility of affiliation of a taxpayer and employees of the tax authority participating in horizontal monitoring, which implicates a risk of lowered fairness of views on the activity of a taxpayer;
- difficulties in assessing the ICS of a taxpayer (there are cases of lack of consensus among the employees of tax authorities regarding the taxpayer's ICS efficiency);
- distrust of the tax authorities to ICS of a taxpayer, as a result the tax authorities begin a repetitive control over the accuracy of tax reporting, which negates the effectiveness of horizontal monitoring.

Thus, a practice of the pilot agreements showed that the area of the information interaction on ICS proved to be the least studied. The development of the information interaction system on ICS of the tax authorities with taxpayers results in change of the tax service from a revenue body to a service organization. The result of such transformations should be the reinforcement of a positive image of tax authorities that would associate with a guarantee of predictability, uniformity and consistency of the state tax policy, as well as the establishment of partnership relations between a tax authority and taxpayers and the adherence to the balance of interests of each party.

The comparative analysis of the regulatory and legal framework on the arrangement of the internal control system performed by the authors of the paper made it possible to conclude that the acting participants of the tax monitoring will have to make considerable efforts in order to adapt the ICS to the specified requirements. In their turn, the organizations that consider the possibility of transferring to the tax monitoring should make sure that the available ICS complies with the requirements of the order of the Federal Tax Service of Russia, and correct the scope of preparatory measures if necessary.

A formalized description of the system element that is responsible for the compliance with the tax legislation is observed seldom. Consequently, for the taxpayers that are going to take part in the tax monitoring, the primary objective becomes to systematize and document the control activities that form the ICS.

In order to cope with the above objective, the authors of the paper proposed the format for documenting the control activities with the use of the cards of control activities. The control activities are developed and established with the purpose of an efficient and timely response to the risk occurred. Each control activity has a description, goal and trace, and it also has parameters and properties (Figure 2).

Using the documentation of the control activities with the use of cards under the conditions of tax monitoring will enable:

- to respond to the risk occurred efficiently and timely;
- to meet the requirements of the tax service timely and fully, specifically, to draw reports quickly;
- to trace the process of control measures of ICS;
- to help the organizations to ascertain that the management orders are fulfilled;
- an external user (tax authority) with no detailed knowledge with respect to the specific nature of the organization's activity to understand: how is the performance of the control activity oriented to prevent or minimize the risks, who takes part in control execution, how are the roles of participants distributed: who fulfills the business activity (preparing an incoming document) and who exercises control over fulfilled operations (prepared documents) and what does control involve while fulfilling the described activities and operations, how are mistakes revealed, what documents (reports) prove the performance of the control activity and the results thereof.

The report forms are presented in tables 2-4.

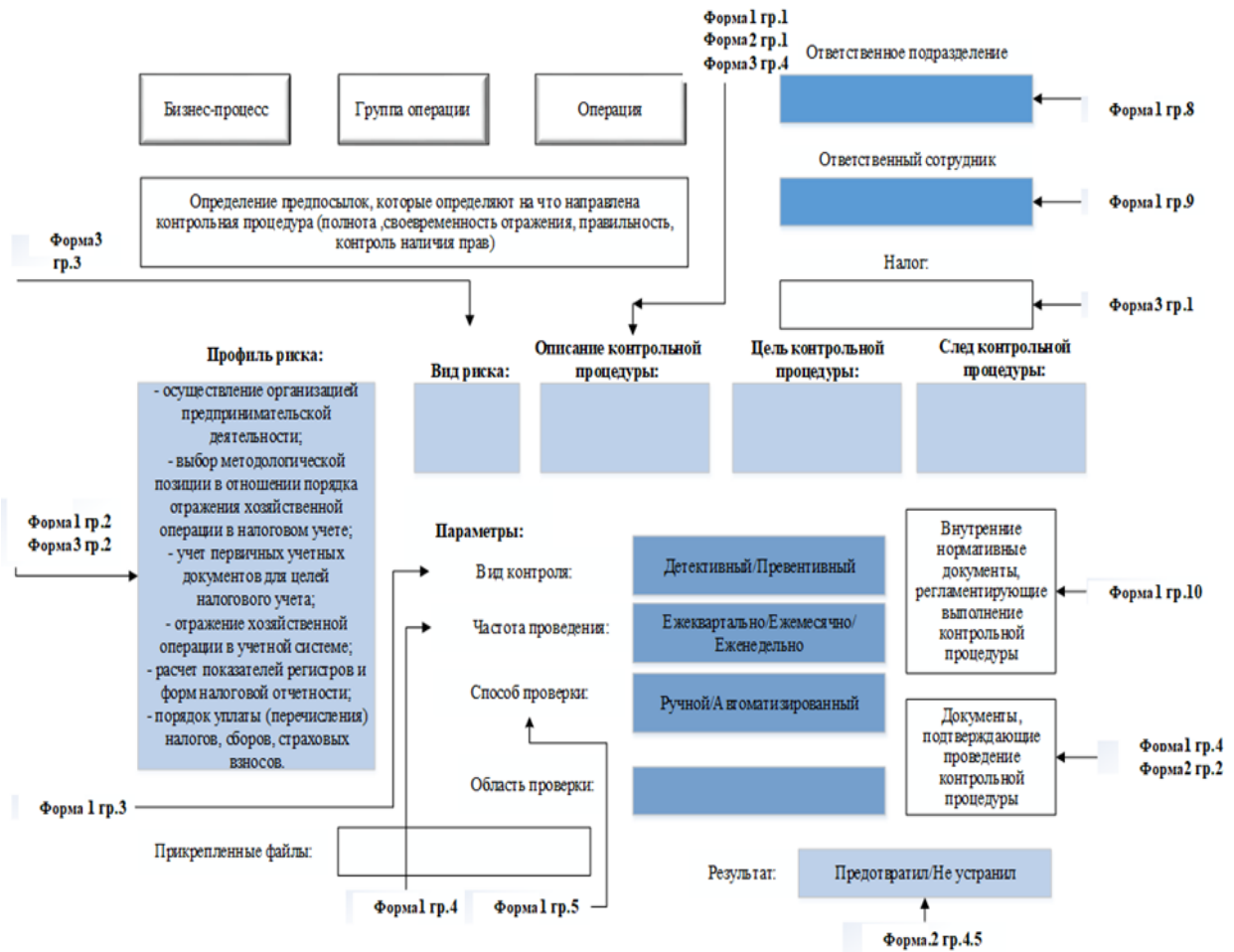


Figure 2
Format for documenting a control activity

Name	Risk profile	Type of control	Execution frequency	Procedure of a control activity					
				Method (manual / automated)	The information system in which a control activity is performed	Documents that prove the performance of the control activity	Department in charge of performance of the control activity	Position of the person in charge of performance of the control activity	Internal regulatory documents that regulate the performance of the control activity
1	2	3	4	5	6	7	8	9	10

Table 2
Form 1 "Control activities being performed"

Name of a control activity	Result of a control activity performance			
	Document that proves the performance of the control activity	Number of control activities performed for a period	Number of control activities that revealed mistakes (evasion, violations)	Number of control activities that did not reveal any mistakes (evasion, violations)
1	2	3	4	5

Table 3
Form 2 “Results of control activities”

Type of tax	Risk profile	Risk	Control activity
1	2	3	4

Table 4
Form 3 “Matrix of risks and control activities”

The analysis of peculiar features of arranging the ICS showed that a taxpayer shall independently develop the assessment of ICS efficiency, procedure, stages etc.

The authors of the paper proposed an approach to ICS description for the purposes of tax monitoring based on COSO methodology (Figure 3).

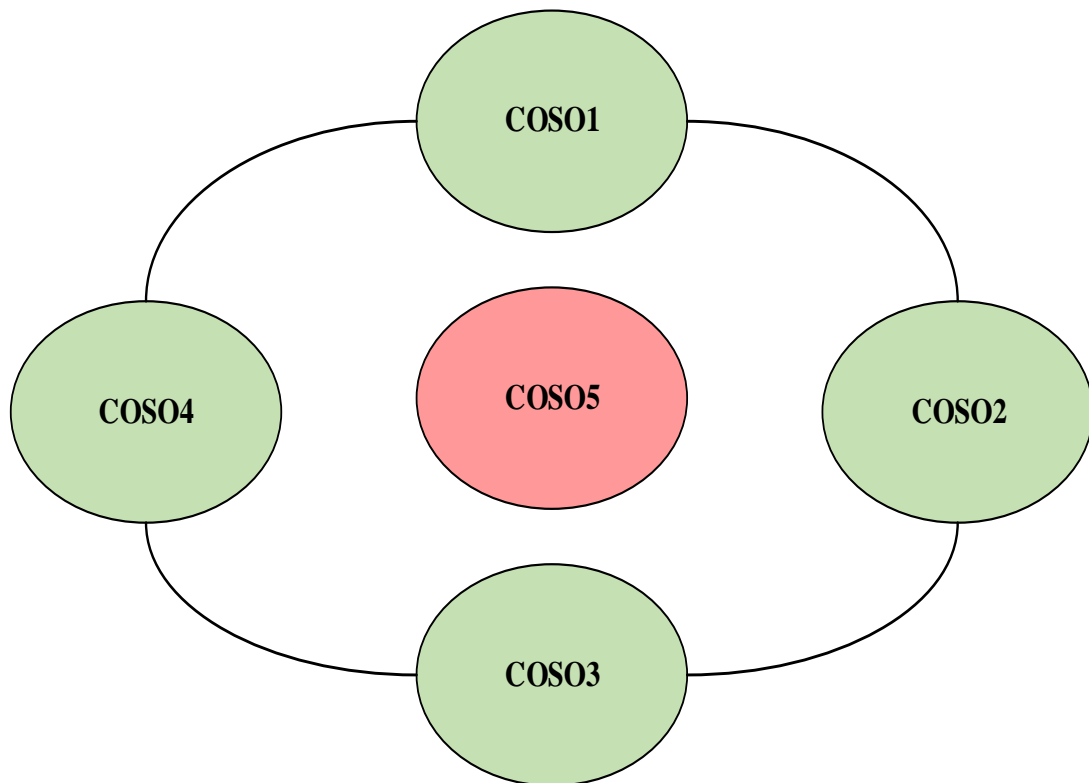


Figure 3
COSO model interpretation

Elements of the COSO model for the purposes of the tax monitoring:

COSO 1 – is a control environment; COSO 2 – risk assessment; COSO 3 – information and communication; COSO 4 – monitoring, these elements are combined in COSO 1–4 and integrated in a single assessment that presents a parameter from 0 to 1 and characterizes the efficiency of the general corporate control environment of the taxpaying organization. Later this common parameter is taken into account in the assessment of efficiency of control activities of the COSO 5 elements – control activities.

The COSO 5 component is not combined with other components and is independent, which makes it possible to assess the efficiency of each specific control activity, operation, group of operations and each business-process of the organization. For example, in the business-process “Investment account” several groups of operations can be distinguished: “Methodology of maintaining records,” “Account of financial investments flow,” “Account of financial investments in security papers,” “Period end closing,” etc, and in the group of operations “Account of financial investments flow” a number of operations can be distinguished: “Receipt of financial investments,” “Follow-up assessment of financial investments,” “Withdrawal of financial investments” etc.

Such structure of the COSO 5 component makes it possible firstly, to systematize all business-processes and operations in the organization, secondly, to determine the presence or absence of respective control activities for each operation, thirdly, to localize problem operations in terms of control, and consequently, to minimize the probability of unfavourable events.

The authors of the paper presented the efficiency assessment in the following stages:

1 stage. COSO 1–4 components. In the frameworks of the approach proposed by us, the assessment of the COSO 1–4 components shall be performed with the help of the questions specified by the requirements of the Federal Tax Service with possible variants of answers, for each of which a grade is given.

Depending on the answers to the questions, a common parameter of COSO 1–4 is calculated, which, as it was already mentioned, is taken into account in the assessment of efficiency of control activities (assessed in the framework of COSO 5). The efficiency of the common corporate environment in which these control activities are performed is very important. If the corporate control environment of the taxpaying organization has shortages, for example, the organization does not evaluate its tax risks, the level of the tax department staff skills is low, then, whatever perfect the control activities are, the total efficiency of the internal control system in this organization will considerably decrease. In other words, even the most efficient control activities cannot guarantee the avoidance of one or another risk in a relatively poor corporate control environment.

2 stage. COSO 5 component. The efficiency of the control activities is also assessed with the help of the questions specified by the requirements of the tax authorities. Afterwards, the obtained coefficient of efficiency of the control activities should be multiplied by a common parameter COSO 1–4.

3 stage. Total efficiency of ICS. Generally, all operations, groups of operations and business-processes have different value in specific organizations. Moreover, each organization depending on the sector or function can have its own business-processes and operations. For example, one organization sells goods, whereas another one manufactures them. In the first case, more important are business-processes associated with the sales of

goods, and in the second case – with manufacture thereof.

In order to take into account the specific nature of the organization upon the assessment of the internal control system, a weight parameter for each business-process, group of operations and each operation is introduced. It is a numerical characteristic from 0 to 1 which can be determined manually or calculated automatically, for example on the basis of the profit tax declaration. For that it is required to correlate the business-processes with the lines of a declaration. For example, the business-process “Account of non-current assets” can be correlated with such lines from the Appendix 2 to the sheet 02 of the tax profit declaration as expenses for acquisition of right for the plots of land, depreciation charged by a straight-line method etc.

It should be noted that the integral weight of all business-processes of the organization, groups of operations within a specific business-process, as well as operations within their group of operations shall be equal 1.

The mechanism of assessment of the internal control system is presented in Fig. 4.

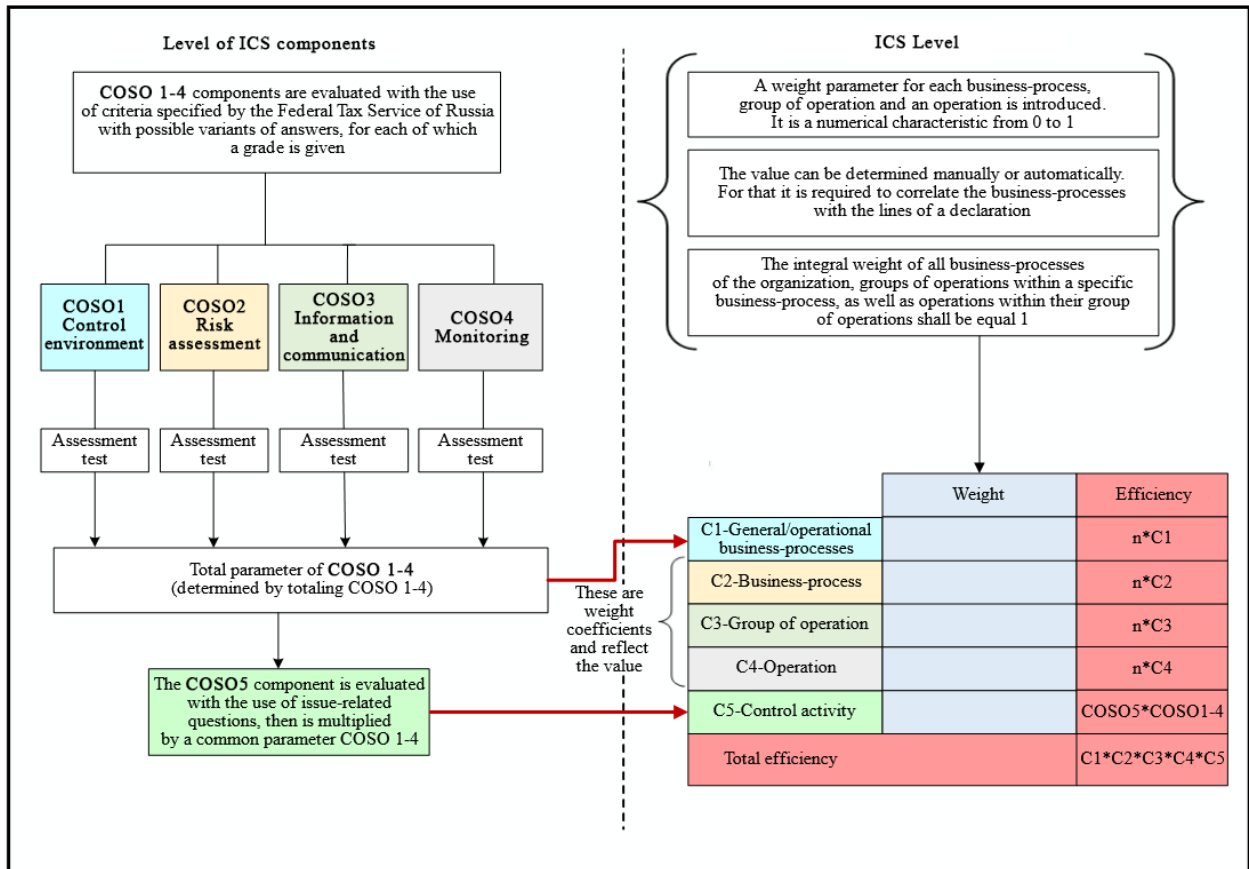


Figure 4
ICS assessment mechanism

In order to assess the internal control system of the organization, it is proposed to specify 5 primary design coefficients: C1 – C5. The coefficient C1 corresponds to the parameter COSO 1–4 and is estimating (reflects the efficiency of the corporate control environment in general). Coefficients C2–C4 are weight coefficients and reflect the

importance of the contribution of a business-process, group of operations or an operation in the internal control system of the organization respectively, and the last one (C5) is an estimating coefficient and reflects the efficiency of the control activity. The value of the C5 coefficient depends on characteristics of the control activity (detective or preventive, automated or manual etc).

The total efficiency of the internal control system is determined as a product of coefficients C1 – C5. For visibility of the disclosure of information concerning the internal control system, the reporting shall be provided in a convenient form, including for the purposes of evaluating the dynamics of change of the efficiency parameters of the internal control system. Figure 5 presents the format of a report. The column “Efficiency” specifies the efficiency parameters of all levels (total efficiency coefficient of the internal control system across the organization, the efficiency of a specific business-process, the efficiency of a specific control activity etc across all levels), and the column “Weight” specifies the significance (value) thereof.

Efficiency: of all operational business-processes, business-process, group of operations, operation, control activity		-February		-March		-April	
		Weight	Efficiency	Weight	Effic.	Weight	Effic.
Business process	- Type of BP: Operational						
	+ Accounting of non-current						
	+ Accounting of loans and credits						
	+ Accounting of settlements with personnel						
	+ Accounting of specific operations						
	→ - Accounting of inventory, goods and end products						
	+ Keeping master-data						
	+ Inventory movement						
	+ Off-balance accounting of inventory						
	+ Period end closing						
Group of operations	→ -Methodology of maintaining of records						
Operation	→ - Reflection in methodological directions						
Control activity	→ Inspection of a description of specific requirements to the assessment of performance of inventory operations						
	Approval of methodological directions by top management						
	+ Reflection in the accounting policy						
	+ Creation of reserves						
	+ Accounting of the differences between the tax accounting and accounting						
	+ Accounting of inventory operations for taxation purposes						
	Efficiency coefficient						

Figure 5
Format of a report on ICS assessment

Thus, the elaborated methodological recommendations on the efficiency assessment make it possible to take into account the efficiency of both general corporate environment and the control activity. Summarizing the above, a conclusion can be made that an efficient organization and operation of the internal control system under conditions of tax monitoring can be achieved in case of using the requirements of the Federal Tax

Service and process approach in the management of the system. Using a process approach can optimize the activity of the internal control system as well taking into account the specific nature of the organization.

Discussion

The concept-based issues of implementation and information support of the external and internal control are studied in the papers of foreign scholars:

R. Adams³,
 C. Druri⁴,
 J.C. Lobbek⁵
 R. Montgomery⁶
 J. Robertson⁷
 J. Richard⁸
 Ch. Horngren⁹
 R. Anthony¹⁰ and other.

One of the directions of the internal corporate control is the development of the internal control system which is based on the analysis of the interrelation of the financial accounting and management accounting¹¹.

The organizational aspects of the internal control are studied in the papers of the Russian authors from the perspective of:

- account-analytical support of the management: the papers of:

Bogataya I.N.¹²
 Melnik M.V.¹³

³ R. Adams, *Osnovy audita* (Moscow: YUNITI Publ., 1995).

⁴ C. Druri, *Upravlencheskiy i proizvodstvennyy uchet* (Moscow: YUNITI - DANA Publ., 2016) y C. Druri, *Management accounting for business*, Russ. Ed: Egorov V. *Upravlencheskiy uchet dlya biznes-resheniy* (Moscow: YUNITI - DANA Publ., 2003).

⁵ E. A. Arens y D. C. Lobbek, "Audit", Russ. Ed: *Audit* (Moscow: Finansy i statistika Publ., 1995).

⁶ F. L. Deflis; G. R. Janic; V. M. O'Reilly y M. B. Hirsh, "Montgomery's Auditing", Russ. Ed: *Audit Montgomeri* (Moscow: UNITI Publ., 1997).

⁷ J. Robertson, *Audit*, Russ. Ed: *Audit* (Moscow: KPMG, Auditorskaya firma Kontakt, 1993).

⁸ J. Richard, *Bookkeeping. Theory and practice*, Russ. Ed: Sokolov Ya.V. *Bukhgalterskiy uchet: teoriya i praktika* (Moscow: Finansy i statistika Publ., 2000).

⁹ Ch.T. Horngren; J. Foster y Sh. Datar, *Management accounting*, Russ. Ed: *Upravlencheskiy uchet*, 10th ed. (St. Petersburg, 2005).

¹⁰ R. Anthony; A. Atkinson; D. Rajeev y Robert S. Kaplan, *Management accounting*, Russ. Ed: *Upravlencheskiy uchet* (Moscow: Vilyams Publ., 2005).

¹¹ M. V. Shtiller; V. L. Nazarova; L. M. Bekenova; V. A. Korvyakov; I. V. Selezneva; O. Y. Kogut y A. S. Jondelbayeva, "Tax risks in the company's accounting system: essence, identification and control", *International Journal of Economics and Financial Issues*, 6(4) (2016): 1791-1797

¹² I. N. Bogataya y N. N. Khakhonova, *Bukhgalterskiy finansovyy uchet*, (Moscow: KNORUS Publ., 2016).

¹³ M. V Melnik, "Postanovka i razvitie sistem vnutrennego kontrolya v ekonomicheskikh subektakh", *Audit*, num 12 (2016): 3-9.

Rastamkhanova L.N.¹⁴
 Sadykova T.M.¹⁵
 Khakhonova N.N.¹⁶ and other.;

- financial control and controlling:

Barulina S.V.¹⁷
 Isayeva A.Yu.¹⁸
 Kalinicheva R.V.¹⁹
 Nogina O.A.²⁰
 Poponova A.N.²¹
 Tsepilova E.S.²²
 Shuvalova E.B.²³ and other.

The development and scientific justification of conceptual models of the walkthrough internal control are considered in the papers of Serebryakova T.Yu²⁴. The approaches to formation of internal control systems of interrelated organizations are studied by Amanzholova B.A.²⁵

Theoretical and practical aspects of the internal control and planning of tax expenses are considered in the papers of Safonova M.F.^{26, 27}

However, the papers of the specified authors have a conceptual nature and insufficiently develop the interrelation of the external environment of operation with the level

¹⁴ L. N. Rastamkhanova, Metodologiya i organizatsionnye osobennosti sistem vnutrennego kontrolya v upravlenii organizatsiyami (Yoshkar-Ola: MarGTU Publ., 2008).

¹⁵ T. M. Sadykova, "Metodologiya vnutrennego kontrolya i ego organizatsiya v sisteme upravlencheskogo ucheta", Feder. agentstvo po obrazovaniyu, Sarat. gos. sots.-ekon. un-t. Saratov, 2004.

¹⁶ I. N. Bogataya y N. N. Khakhonova, Bukhgalterskiy finansovyy uchët (Moscow: KNORUS Publ., 2016).

¹⁷ S. V. Barulin y E. V. Barulina, Nalogovyi kontrolling (Moscow: RUSAINS Publ., 2016).

¹⁸ A. Yu. Isayeva, "Struktura nalogovogo menedzhmenta", Audit i finansovyy analiz, num 6 (2009): 316-322.

¹⁹ R. V. Kalinicheva y N. N. Makarova, "Institutsionalnyy podkhod k formirovaniyu sistemy vnutrennego nalogovogo kontrolya", Audit i finansovyy analiz, num 4 (2010): 67-68.

²⁰ O. A. Nogina, "Nalogovyy kontrol: voprosy teorii", (St. Petersburg: Piter Publ., 2002).

²¹ A. N. Poponova; G. G. Nesterov y A. V. Terzidi, Organizatsiya nalogovogo ucheta i nalogovogo kontrolya (Moscow: Eksmo Publ., 2006).

²² E. S. Tsepilova, Sistema kontrolya nalogovykh obyazatelstv khozyaystvuyushchikh subektov (Moscow: Vuzovskaya kniga Publ., 2013).

²³ E. B. Shuvalova; L. A. Butenko y Yu. A. Rudenko, "Sistema vnutrennego nalogovogo kontrolya organizatsii", Statistika i Ekonomika, num 5 (2016): 72-78.

²⁴ T. Yu. Serebryakova, Riski organizatsii i vnutrenniy ekonomicheskyy kontrol (Moscow: INFRA-Moscow, 2010).

²⁵ B. A. Amanzholova, Teoreticheskie i metodologicheskie aspekty formirovaniya sistem vnutrennego kontrolya vzaimosvyazannykh organizatsiy (Novosibirsk: NGU Publ., 2008)

²⁶ M. F. Safonova, Vnutrenniy kontrol i audit raschetov s byudzhетom po nalogu na pribyl (Moscow: Izdatelskiy dom «NAUChNAYa BIBLIOTYeKA» Publ., 2015), 216.

²⁷ M. F. Safonova; I. N. Kalinina; N. K. Vasileva, Y. I. Bershitskiy y T. I. Kiselevich, "Methodology of planning tax expenses", International Journal of Economics and Financial Issues. V. 6, num 4, (2016): 1550-1559

of the internal corporate control. Also, the issues of adaptation to the modern conditions of the internal control system under conditions of the tax monitoring were not covered in the papers.

Conclusion

The peculiarities of arranging the internal control system for economic entities under conditions of the information interaction between the parties of tax relations were revealed in the paper. A conclusion was made that presently there are no legislatively elaborated approaches to the delivery of information concerning the internal control system and to the use of this information by tax authorities to obtain assurance that there are no risks of misstatement of the tax liabilities by a taxpayer.

According to the authors, the interaction simulation can be based on the interpretation of the COSO methodology – which is a universally recognized standard of describing the internal control system, in accordance with which the model includes 5 interrelated components: control environment, risk assessment, information and communication, monitoring, control activities. This model will enable to elaborate the approaches to the delivery of information concerning the internal control system by the economic entity on the one hand, and to the use of this information by the tax authorities to obtain assurance that there are no risks of misstatement of the tax liabilities.

The methodology of efficiency assessment of the internal control system under conditions of the modern tax administration presented in the paper will allow taking into account the specific nature of the organization upon the assessment of the internal control system by means of introducing a weight parameter for each business-process. In this regard, the presented methodology is universal.

In such a manner, for the goals of the tax monitoring – reduction of field tax audits and expenses associated with them – to be fulfilled, the processes and technologies of interaction with respect to disclosure of information concerning the internal control system should be developed, and the obtained information for the purposes of the tax control should be fully used. It will make it possible to achieve high efficiency of the tax monitoring for all parties and participants.

Recommendations

The materials of the paper can be useful for the major organizations that stated their willingness to take part in the enhanced information interaction and want to be confident of the reliability and accuracy of their tax reporting.

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