"Evaluation of Business Internal Control System and General Principles of Control and Auditing"

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Abstract

This paper deals with international system structure and its elements: control environment, accounting system and means of control.

The control environment is characterized by the style and basic principles of administration , the organisational structure , the distribution of responsibility and powers, the personnel policy.

The accounting system is characterized by the method for organizing accounting functions, circulation of documents , distribution of duties and powers to the accounting personnel and moreover by elements of accounting policy, accounting principles and requirements thereto.

Means of control are subdivided as (internal control system) ICS components of single lines and section of the business activity for the provision of the effective and reliable management.

 One of the methodological approaches to ICS is based on the elaboration of test which includes the ICS elements.

Then it is done a numeric example by a matrix for the pairwise comparison of elements of ICS.

At last, we notice that good performance of business control needs professional and personal requirements of the subjects appointed to company control and also the application of control auditing principles recommended by accounting and auditing Standard Setters.

1 - Introduction[1]

Internal control system (ICS) plays an important role in business management (except for small business units) as the complex of means for the well-ordered and effective administration of financial and economic activities. ICS elements are aimed at the prevention and prompt reveal of the personnel misconduct and the malpractice of administration of economic entities, any

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[1] This article is a result of a joint work , but § 1-2 have to be ascribed to Pavel Malyzhenkov, § 3-4 - to Larisa Makarova and § 5–6 to Marcella Mulazzani.

errors and falsification of accounting and reporting information. In the first quarter of the 20th century the main object of regard for control authorities becomes the internal control system of entities because with the effective system of internal control (or audit), the probability of accidental errors or fraud is low.

2 - Internal Control System Structure

Such approach is system-oriented[2] and the evaluation of ICS effectiveness is one of the most important functions of internal audit.

In spite of certain differences the interpretation of ICS structure may be reduced to the following elements: control environment, accounting system (AS) and means of control[3].

Table 1 – Control Environment Structure

1. Control Environment (CE)
1.1. style and basic principles of the administration:
1.1.1. availability of strategic goals for the entity development
1.1.2. relationship of strategic goals and day-to-day operations
1.1.3. attitude of the management to the ICS, the executive authority's responsibility for the ICS arrangement and behaviour
1.1.4. managerial attention to accounting and reporting
1.1.5. attitude of the management to work with stakeholders
1.1.6. attitude of the management to auditing and consulting, the use of auditors and consultants' services
1.1.7. application of officials and executors' accountability modes
1.1.8. elaboration of measures to prevent conflicts of interest
organizational structure of the management:
1.2.1. organizational structure adequacy to the scope and character of the entity's activities
1.2.2. method of the internal control organization
1.2.3. method of the accounting arrangement
1.2.4. elaboration and maintenance of the documents circulation
1.2.5. elaboration, correction and observance of duty regulations
1.3 distribution of responsibility and powers (double control) in the following processes:

1.3.1. performance of operations with assets:
    Access to assets
    Issue of permits for operations with assets
    Business transactions effecting
    Recognition of business transactions in accounting

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[2] For major reference about system-oriented control approach the essay "Audit", Yuniti-Dana, Mosca, 2008 by Prof. V. Podol'skii can be consulted;

[3] For example, the Bank of Italy defines it as the set of three elements: 1. rules and responsibilities, 2. organizational structures, 3. procedures and processes (Istruzioni di Vigilanza, 2002). The *Committee of Sponsoring Organizations of the Treadway Commission* (COSO), a U.S. private-sector initiative, formed in 1985 with the objective to identify the factors of fraudulent financial reporting specifies five components: 1. control environment, 2. risk assessment, 3. information and communication, 4. control activities, 5. monitoring. Other sources of ICS definitions are the Foreign Corrupt Practices Act of 1977 and the Sarbanes-Oxley Act of 2002;

1.3.2. performance of contractual work on:
Transaction initiation
Primary documents preparation
Transaction conclusion
Making amendments in contractual and accounting documents
1.3.3 maintenance of:
Record-keeping and accounting
Control for record-keeping and accounting

1.4. personnel policy:

1.4.1. personnel certification
1.4.2. availability of the personnel training and professional development system
1.4.3. availability and observance of leave schedule
1.4.4. fluctuation of the personnel
1.4.5. Staff recruitment system
1.4.6. Labour incentive system
1.4.7. Instructing of employees on their duties
1.4.8. Periodic personnel rotation

The *control environment* characterizes conditions for internal control, attitude, awareness and practical actions of management and (or) owners aimed at the ICS establishment and maintenance.

The control environment is characterized by the style and basic principles of administration, the organizational structure, the distribution of responsibility and powers, the personnel policy. Table 1 represents the structure of the control environment elements.

Table 2 – Elements of the Accounting System

2. Elements of Accounting System (AS)
2.1. entity's accounting policy:
2.1.1. Work card of accounts
2.1.2. Procedure of accounting and internal and external reporting formation
2.1.3. Non-typical forms of primary accounting documents in case of no typical ones
2.1.4. Internal reporting forms
2.1.5. The substantiation of used methods of accounting different from those stipulated by statutory documents
2.1.6. The substantiation of used methods of accounting in case of no statutory documents
2.2.Principles of accounting and requirements thereto:
2.2.1.Proper application of accounting currency
2.2.2. Separate accounting for the own property and other entities' property
2.2.3. Separate accounting for current and capital costs and expenses
2.2.4. Accounting continuity, detailed character (completeness)
2.2.5. Accounting documentation
2.2.6. Accounting opportuneness
2.2.7. Charging principles (proper charging of expenses to appropriate periods)
2.2.8. The comparability of accounting and reporting data (the adequacy of data from primary, analytical, synthetic, consolidated accounting to reporting)

The *accounting system* is characterized by the methods for organizing accounting functions, circulation of documents, distribution of duties and powers between the accounting personnel described in Table 1 and moreover by elements of the accounting policy, accounting principles and requirements thereto (Table 2).

Means of control are described in Table 3 as ICS components of single lines and sections of the business activity for the provision of the effective and reliable management; they are subdivided into the following four groups combining the said means:

Current control;

Inspections of business transactions at the primary accounting stages;

Check of internal control functions performance;

Others.

Table 3 – Means of Internal Control

3. Means of Control(MC)
3.1.Means of current control :
3.1.1. Inventory of assets and liabilities
3.1.2. Facilities to prove authorities for access to assets, instruments, computer-aided data processing systems
3.1.3. Material liability agreements
3.1.4. Instructions on the procedure of the acceptance, storage, putting into operation, giving out and writing off of inventories, material assets
3.1.5. The ensuring of conditions for the property and documentation safety and integrity
3.1.6. Control for documents execution
3.2. Inspections of business transactions at the stage of the primary accounting and information preparation:
3.2.1. The check of the business transactions authorization
3.2.2. The check of the observance of statutory acts, norms and standards
3.2.3. The check of the primary documents adequacy and facts, assets and liabilities reflected therein
3.2.4. The check of business transactions for their interrelation
3.2.5. The use of powers of attorney for operation performing
3.2.6. Keeping of logs for document recording
3.2.7. Keeping of logs for movement of material assets
3.3. The check of the internal control functions performance:
3.3.1. The check of the observance of the accounting policy and its elements
3.3.2. Unexpected inventories and any other inspections
3.3.3. Inventories in case of changing materially-responsible persons
3.3.4. The check of duty regulations performance
3.3.6. The supervision of non-typical operations
3.3.7. The verification of settlements
3.4. Others:
3.4.1. The evaluation of partners' financial standing when effecting transactions
3.4.2. The financial and economic substantiation of transactions prior to their effecting[4]

[4] The data inserted in the Tables 1-3 are riassumed on the base of practical activity of different enterprises and can be found in Makarova L.G. "Methodological Aspects of Developing the Internal Standards of Auditing Companies", N.Novgorod, NNGU, 2000

3 - The Test-Based Methodological Approach to the ICS Evaluation

In spite of the availability of specialized auditing regulations (standards) intended for the internal control of an entity there is still the current need in the elaboration of methods for the ICS evaluation both by outside and internal auditors.

One of the methodological approaches to the ICS evaluation is based on the elaboration of tests which include the ICS elements with the following three columns per each element: «Yes», «No», «Uncharacteristic».

«Yes» corresponds to the availability of the very element at an entity under auditing, «No» means the lack of the listed element, «Uncharacteristic» indicates no-need in such an element. The ICS test structure is shown in Table 4.

The percentage ratio of positive answers to the total number of tests applied in questioning is used for the ICS evaluation. If such a ratio comes to 40-60%, the ICS evaluation may be determined as mean, with the ratio less than 40% the ICS level is qualified as low, with the ratio exceeding 60% it is recognized as high.

At the stage of the primary evaluation of the ICS reliability and effectiveness the authors of the methods under examination suggest to analyze elements of the control environment.

Table 4 – The ICS Test Structure (Version 1)

The ICS Sub-systems and Elements	Yes	No	Uncharacteristic
A	1	2	3
The organizational structure of an object			
1. There has been elaborated and approved the organizational structure scheme of a business entity per divisions with indication of managerial relations	+	-	-

The confirmation of the ICS evaluation is carried out only if the ICS level is evaluated at the first stage not lower than as a mean one.

The subjects of the evaluation here shall be essential elements of the accounting system and the internal control means.

The described methods are distinguishable by their usability, the availability of the ICS qualitative and quantitative assessments. However, the significance of the ICS elements and the methods of their realization are not evaluated here.

To improve the above methods, in test intended for the ICS evaluation it is recommended in addition to listing the ICS parts and elements to fix the importance of such elements, to reflect their reliability degree (Table 5)[5].

To evaluate the internal control system, a multicriterion hierarchy analysis method (HAM) is effective, which is also called as a pairwise comparison method in the literature of specialized subjects.

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[5] It is worth mentioning that the generalization of the ICS evaluation as per its elements and subsystems enables an auditor to form the opinion on its reliability and effectiveness. The ICS pre-evaluation is recommended to be carried out at the stage of the control planning. The final evaluation is to be performed in course of checking procedures and qualifying types of errors detected: Makarova L.G. Methodological Aspects for Elaboration of Internal Standards For Auditing Entities. Monograph. – Nizhny Novgorod, NNSU, 2000

The said method enables at once several participants to take part in choosing a decision and to form quantitative parameters characterizing the ICS quality taking into account the priorities of its elements.

Table 5 – The ICS Test Structure (Version 2)

The ICS Sub-systems and Elements	Degree of elements reliability:			Comment
	low	mean	high	
A	1	2	3	4
The organizational structure of the management				
1.The organizational structure adequacy to the scope and character of the customer's activities	Bad	Mean	Good	
2. The delegation of powers and responsibility	No clear definition	Partially determined	Clear accountability directives available	
A	1	2	3	4

The use of the said method is connected with the problem decomposition, that is, with the presentation of a problem as a hierarchy (tree) or a network by comparative judgments, priority synthesis and alternative. It is expedient to represent the ICS evaluation problem as several levels (Fig.1).

The zero level characterizes the goal of work – the ICS evaluation, the first level reflects subgoals (the ICS subsystem evaluation), the second and the third levels enable to list ICS elements and their groups, which structure corresponds to those given in Tables 1-3.

The lower level comprises the values of elements characterizing the analyzed ICS of a business entity[6].

To record a greater number of opinions, participants should not be limited in expressing their preferences.

For example, in the problem under consideration such an element as "The availability of strategic goals for the entity development" is included in the problem description, though not all of the individuals who take decisions on the ICS effectiveness and reliability may agree with it.

The purpose of *comparative judgments* is to establish priorities of the problem elements (of criteria and their groups, alternative values of the ICS elements as well as the ICS subgoals) by means of their pairwise comparison.

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[6] One of the HAM advantages is its «democratic character». At the stage of the hierarchic layering of the problem presentation it is not required that individuals who take decisions should come to an agreement with respect to the set of criteria and alternatives.

Table 6 – The Scale of Relative Importance

Relative importance coefficient	Definition
1	Equal importance
3	Moderate superiority of one over another
5	Essential or strong superiority
7	Significant superiority
9	Extremely strong superiority
2,4,6,8	Interim decisions between two next judgments

To carry out such pairwise comparison, a scale of relative importance is suggested in the literature of specialized subjects, which has appeared to be effective in many applications according to its authors' assertion (Table 6).

At the final stage of the problem solution by using the hierarchy analysis method the assessment and the selection of alternative decisions are carried out by means of comparing priorities.

Depending on their role in the goal attainment the problem elements may be characterized by weight. To reveal the elements priorities, the pairwise comparison of weights is carried out. Let us designate the problem elements as A1, A2, A3, ... , AN, and their respective weights as $w_1, w_2, w_3, ... , w_n$.

The weights comparison results in the construction of a square matrix (Table 7). The weights values may be both quantitative (time or monetary units etc.) and qualitative (expressed in terms "more", "less", "slightly", "far", "much more" etc.).

Table 7 – Pairwise Comparison Matrix

Problem elements	A1	A2	A3	...	AN
A1	w1/w1	w1/w2	w1/w3	...	w1/wn
A2	W2/w1	W2/w2	W2/w3	...	W2/wn
A3	W3/w1	W3/w2	W3/w3	...	W3/wn
...	...	...	...	...	...
AN	wn/w1	wn/w2	wn/w3	...	wn/wn

Level 0: Objective

Level 1:
Sub-goals
(ICS subsystems)

Level 2:
Groups of
ICS elements

Level 3:

ICS elements

ICS	

1. Control environment **2. AS elements** **3. Control means**

| 1.1 | 1.2 | 1.3 | 1.4 | 2.1 | 2.2 | 3.1 | 3.2 | 3.3 | 3. |

1.1.1	1.2.1	1.3.1	1.4.1	2.1.1	2.2.1	3.1.1	3.2.1	3.3.1	3.4
1.1.2	1.2.2	1.3.2	1.4.2	2.1.2	2.2.2	3.1.2	3.2.2	3.3.2	3.4
1.1.3	1.2.3	1.3.3	1.4.3	2.1.3	2.2.3	3.1.3	3.2.3	3.3.3	
1.1.4	1.2.4		1.4.4	2.1.4	2.2.4	3.1.4	3.2.4	3.3.4	
1.1.5	1.2.5		1.4.5	2.1.5	2.2.5	3.1.5	3.2.5	3.3.5	
1.1.6			1.4.6	2.1.6	2.2.6	3.1.6	3.2.6	3.3.6	
1.1.7			1.4.7		2.2.7		3.2.7	3.3.7	
1.1.8			1.4.8		2.2.8				

Level 4:
Elements values

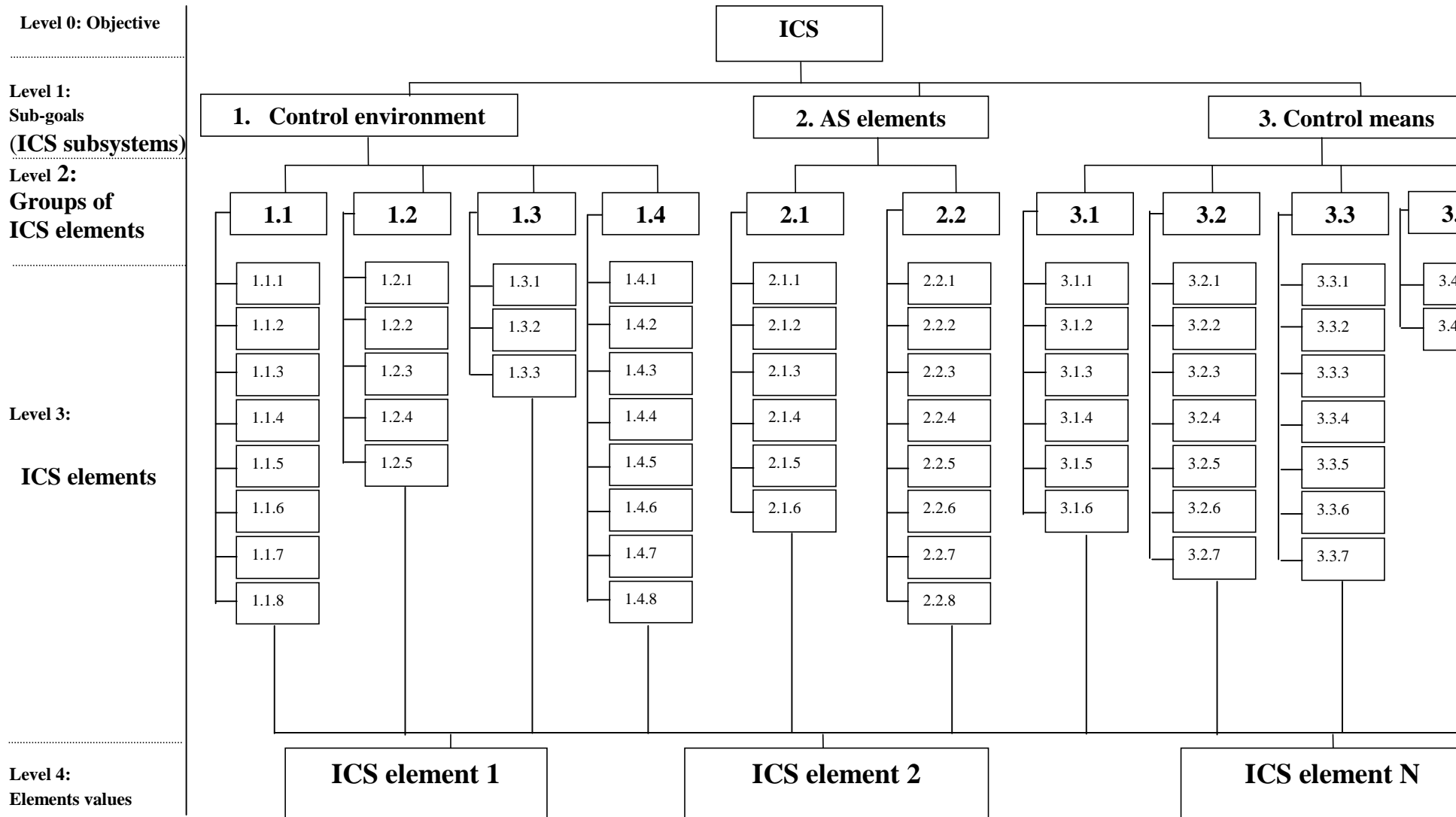| ICS element 1 | ICS element 2 | ICS element N |

Fig. 1 – Hierarchic layering of the ICS evaluation problem

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4 - A Rated Example of Using the ICS Evaluation Methods

Table 8 shows the results of the pairwise comparison of the importance in the assurance of control functions of the control environment elements, which determine the management style and basic principles. By the agreement of decision-taking individuals the left elements of the matrix are compared to its top elements. If a left element is more important than a top element, then a positive integral value of the relative importance scale is entered to a box. Otherwise a reciprocal value is fixed in a box. The relative importance of any element, to be compared to itself, is equal to one.

For example, when completing the second box of the matrix it is necessary to answer the following question: what is the importance of the availability of strategic goals as compared to the criterion of the relationship of strategic goals and day-to-day activity? Value 5 in this matrix box characterizes that the availability of strategic goals for the ICS is more important than the availability of their relationship with day-to-day activity. 1/5 is entered into a box which is symmetrical relative to diagonal. It corresponds to the complementary comparison. The rest boxes of this matrix and other matrices of this level are completed in a similar way[7].

Table 8 – Matrix for the Pairwise Comparison of Elements Which Determine the Management Style and Basic Principles

ICS elements	1.1.1	1.1.2	1.1.3	1.1.4	1.1.5	1.1.6	1.1.7	1.1.8	Local priority
1.1.1	1	5	1/6	1/4	2	1/5	1	3	0.07
1.1.2	1/5	1	1/7	1/5	1	1/4	1/2	2	0.04
1.1.3	6	7	1	3	5	5	6	4	0.34
1.1.4	4	5	1/3	1	7	8	8	7	0.29
1.1.5	½	1	1/5	1/7	1	1/4	1/2	1/5	0.03
1.1.6	5	4	1/5	1/8	4	1	5	3	0.13
1.1.7	1	2	1/6	1/8	2	1/5	1	1/3	0.04
1.1.8	1/3	1/2	1/4	1/7	5	1/3	3	1	0.05

Table 8 is also intended for the calculation of local priorities for groups and subgroups of the ICS elements, which are equal to geometrical mean per each line of each matrix, normalized to a unity. The local priority is calculated by dividing a geometrical mean value per each matrix line by the sum of geometrical mean values of all matrix line elements. The local priorities values are presented in the last columns of the said Tables.

As it is evident from Table 8, to ensure the ICS reliability and effectiveness, such elements as the management's attitude to the ICS, the responsibility of the executive authority for the ICS arrangement and behaviour are of the greatest importance; the priority of this component is 0.34. The criterion of «the

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[7] When several persons participate in making decisions, then in case of any differences in judgements presented concerning the ICS elements evaluation it is necessary to come to an agreement, which may be attained by means of substantiating arguments, by voting, by calculating an arithmetical or a geometrical mean value or in any other ways.

managerial attention to accounting and reporting» has got priority 0.29; the attitude of the management to auditing and consulting, the use of auditors and consultants' services is appraised by priority 0.13; the elaboration of measures to prevent conflicts of interest according to the opinions of individuals who take decisions on the ICS quality has got priority 0.05. The priorities of the relationship of strategic goals and day-to-day activity and the application of methods of the officials and executors' accountability are evaluated by value 0.04. The attitude of the management to stakeholders has the lowest priority in the examined group of the ICS elements. Criteria with low priorities may be omitted at the discretion of decision-making individuals.

By using such a relative importance scale the methods of the ICS elements realization are compared. For example, the following three degrees of importance are singled out for such ICS element as «The attitude of the management to auditing and consulting»: a) - insufficient; b) - satisfactory; c) proper attention.

There are the following forms of the accounting organization under the current legislation: a) – specialized unit (accounting department); b) – specialized entity (under contract); в) – accounting is carried out by an accountant; c) - accounting is carried out by the manager. Tables 9 and 10 represent matrices for the pairwise comparison of values of the ICS mentioned elements.

Table 9 – Matrix for the Pairwise Comparison of Versions of the Management's Attitude to Accounting and Reporting	*Table 10 – Matrix for the Pairwise Comparison of Accounting Organization Forms*

Element value	a)	b)	c)	Local priority
a)	1	1/4	1/9	0.07
b)	4	1	1/4	0.32
c)	9	4	1	0.61

Element value	a)	b)	c)	d)	Local priority
a)	1	3	1	6	0.4
b)	1/3	1	1/3	2	0.14
c)	1	3	1	5	0.39
d)	1/6	1/7	1/5	1	0.07

The worst version for the first criterion is evaluated by priority 0.07; the mean one – by 0.32; the best one – by 0.61; for the second version the maximum priority (0.4) gets a version when the accounting is carried out by a specialized unit (accounting department), the minimum value (0.07) evaluates the reliability of a version when the accounting is carried out by the entity's manager in person.

In Table 11 the priorities for groups of the control environment elements are determined by using the relative importance scale.

Thus, the management style and basic principles (1.1) are evaluated by auditors with value 2 as compared to the organizational structure of the Management (1.2) and the distribution of responsibility and powers (1.3) and with value 3 – as compared to the personnel policy (1.4).

The basis for the said decision is an unquestionable fact of the control element validity only subject to the consciousness of the ICS importance in the management system as a whole.

The organizational structure and the distribution of responsibility and powers are evaluated the relative importance coefficient equal to 4 as compared to the personnel structure.

Local priorities for groups of the control environment elements from the point of view of their role in the ICS reliability and effectiveness assurance are given in the last column of Table 11.

Table11 – Matrix for the Pairwise Comparison of Groups of Elements,
Which Determine the Control Environment

Groups of control environment elements	1.1	1.2	1.3	1.4	Local priority
1.1	1	2	2	3	0.4
1.2	1/2	1	3	4	0.33
1.3	1/2	1/2	1	4	0.19
1.4	1/3	1/4	1/4	1	0.03

Table 12 shows the data of the pairwise comparison of groups of accounting system elements. Group 2.1 characterizes the accounting policy, which local priority is evaluated from the point of view of positions for attaining the ICS reliability and effectiveness by value 0.25; 2.2 is assigned for the observance of accounting principles and requirements thereto; the local priority of this group of criteria is 0.75.

Table 12 – Matrix for the Pairwise Comparison of Groups of Elements,
which Determine the Accounting System (AS)

Groups of AS elements	2.1	2.2	Local priority
2.1	1	3	0.75
2.2	1/3	1	0.25

The data of the pairwise comparison for the following groups of control means are fixed in Table 13: 3.1 – means of current control; 3.2 – control of business transactions at the stage of the primary accounting; 3.3 – checking of internal control functions for their performance; 3.4 - other control facilities.

Table 13 – Matrix for the Pairwise Comparison of Groups of Criteria,
Which Determine Means of Control

Groups of control means elements	3.1	3.2	3.3	3.4	Local priority
3.1	1	1	2	5	0.37
3.2	1	1	3	4	0.39
3.3	1/2	1/3	1	2	0.16
3.4	1/5	1/2	1	1	0.08

The local priorities of such ICS parts as the control environment, the accounting system and means of control are taken as 0.33 because the said ICS constituents are relatively equal in the assurance of the control system reliability.

To solve the problem, it is necessary in addition to local priorities to calculate integral priorities per groups of the ICS elements and subsystems.

Table 14 gives as an example the integral priority for the management style and basic principles in the assurance of the ICS quality with regard to local priorities for the ICS parameters of a business entity represented in Table 8 and determined by auditors depending on a way of these elements realization.

Table 14 – The Calculation of Integral Priority for the Criteria Group
«The Management Style and Basic Principles» (1.1)

Local priorities of the ICS elements and ways of their realization								Integral Priority
1.1.	**1.1.**	**1.1.**	**1.1.**	**1.1.**	**1.1.**	**1.1.**	**1.1.**	
0.0	0.0	0.3	0.2	0.0	0.1	0.0	0.0	
0.3 2	0.3 2	0.0 7	0.6 1	0.6 1	0.3 2	0.0 7	0.0 7	0.3

The integral priority of the ICS elements is equal to the sum of the products of local priorities for these elements and their realization alternatives.

The values of integral priorities per ICS subgoals (the assurance of the reliability and effectiveness of the control environment, the accounting system and means of control), are equal to the sum of the products of local and integral priorities for groups of elements.

Taking into account the peculiarities of the ICS under study, there following integral priorities have been determined: 0.08 – for the control environment; 0.18 – for the accounting system; 0.05 – for means of control.

The last stage of using the hierarchy analysis method is devoted to the ICS global priority formation and its evaluation. The global priority is equal to the sum of the products of local and integral priorities for the ICS subsystems (refer to Table 15).

Table 15 – The Calculation of the ICS Global Priority

Groups of criteria , their local and integral priorities			Global priority
1	**2**	**3**	
0.33	0.33	0.33	
0.08	0.18	0.05	0.026

Thus, the quantitative assessment of an analyzed version of the ICS comes to about 3%. It shows its low reliability and effectiveness level. The application of the hierarchy analysis method for the ICS evaluation enables to analyze in details the internal control system structure of a business entity, ways of its elements realization, to base in taking decisions at the competent judgment of internal and external managers, of specialists of the entity's managerial services.

The results of the ICS analysis enable to single out clearly its weak elements which need their improvement.

5 – The Requirements of Business Controllers and Auditors

For good performance business control needs the application not only of suitable techniques, but also special requirements for the subjects appointed to company controls. These subjective requirements of controllers and auditors are recommended by international and national Standard Setters[8].

They must have proven professional *competence and care* - regarding both their educational curriculum and their activity control training positively valued – and especially *reputation of honorability.*

They must have formal and substantial *independence*[9] from administrators, managers, accountants, without undergoing any influence in their appointment and dismissal, in their autonomy of judgement and reporting. This means that their appointment and dismissal must be based only on elements of professional expertise and attention in control function, and never on affiliations to political parties or lobbies.

The controllers have to perform their work with professional *integrity*, mental honesty, equity and truthfulness, with *objectivity*, impartiality and freedom from bonds that may influence their judgement.

The controllers must have free access to all corporate documents and information, although with the obligation of confidentiality towards outside parties, not causing damage to the company by revealing inside information.

Control functions involve civil, administrative, penal, professional *responsibility* of the subjects of the controls for any damage caused to the company itself and to third parties, deriving from absent or negligent performance of their functions.

The assignment of any power of control implies consequent fair responsibilities, which must coincide with the control area, being neither larger, nor smaller, nor different. In fact, every subject may be considered responsible only for the effects his or her own control activity, and not for other subjects.

Also the fees granted play a relevant role in the control activity, as they must be fair to the time engaged, professionalism and responsibilities required for an effective result of controls. In other words, the fee offered must allow both the recruitment of well-qualified employees for internal control, and of expert professional auditors for internal and external auditing, and moreover the commitment of all the necessary time for effective control and auditing.

6 - Generally Accepted Auditing and Control Principles.

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[8] International Standards on Auditing (ISA) have been recommended by International Auditing and Assurance Standards Board (IAASB), which is a Committee of IFAC. (www.ifac.org).

National auditing principles issued by National Council of accounting professionals (CNDCEC) have received indirect juridical acknowledgement through the resolution CONSOB (National council of corporate companies and stock exchange) n.13809/2002, which recommends their adoption by all auditing companies enrolled in the special register.

CNDC e EC , principi di revisione 2007, Milano, Giuffrè, 2007.

[9]   Document n.100 " Principles about independence of auditors", by CNDCEC

The good execution of company control requires the application of valid control and auditing principles, referring to laws, regulations, best practices, and principles recommended by accounting and auditing Standard Setters[10].

The control results and reports must support information to all categories of stakeholders without favouring or excluding anyone, by virtue of the *neutrality* principle.

To this end the control reports must have *publicity* and disclosure towards everyone, addressing not only the ruling economic subject, but all stakeholders, and granting information to all of them.

Economic activity plays its role producing benefits for all stakeholders with fair equity, and not with advantages for some and damage for others; the ethical aim of economy is to create added value and to distribute it fairly among all the subjects who have produced it. In this framework the communication of business information and control reporting must address all stakeholders.

Written reports of controllers and auditors about their activity and judgement must comply with principles of *clearness* and *comprehensibility*, also for subjects not expert in business accounting systems.

Transparency of controls requires the communication of methods and proceedings adopted (for instance, statistical techniques of sampling in auditing)[11]. In fact, the interpretation of control results must also be supported by the knowledge of the criteria and methods adopted.

Adequacy of controls requires that information be all that necessary and effective for the decisions and behaviour of stakeholders; that information be not false, unaccounted for, or incomplete, such as to induce stakeholders to take decisions that clash with or harm their own interests.

Control and auditing functions are mandatory, observing – firstly - laws and – secondly - control and auditing principles recommended by Standard Setters. But the control functions and the drafting of reports must never be interpreted and performed following a rationale of merely formal juridical execution.

The professionalism of control subjects and the awareness of social responsibility of their function require going beyond the logic of a formal juridical performance, carrying out the necessary deeper and supplementary investigations in accordance with the principles of *completeness*, *significance,* and substantial *utility* of the information for the stakeholders, for their decisions and behaviour.

The systemic *coordination* of the various types of business controls requires an unitary vision of the subsystems of control and their different dimensions. Business controls are of many types[12]: 1) internal and external; 2) preventive and final; 3) managerial and strategic; 4) administrative, organisational, and accounting; 5) juridical, economic, financial, social, environmental. Tendentially all these controls must be coordinated in a unitary system.

In contemporary years the principle of *collaboration* in controls has been put forward, both between the subject performing the control and the subject undergoing the control, and also among the numerous agents of the various kinds of control in a corporate company.

The interpretation of *collaborative control* assumes that there is not a conflict of interest between the agent and the one undergoing the control, their activities being jointly directed towards shared aims, which are: general good performance of administration; planning of strategic aims and achievement of results coherently to the needs and expectations of all stakeholders within the restraints of available resources;

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[10]   In the IFAC ethics code the auditing general principles are: independence, integrity, objectivity, competence, carefulness, privacy, professionalism, compliance of technique standards.

[11]   Document n.530 of CNDCEC "Auditing sampling and other proceedings with selection of items to examine".

[12]   Marchi Luciano, Revisione aziendale e sistemi di controllo interno (Business auditing and internal control system), Milano, Giuffrè, 2004.

safeguard of financial balances that grant the lasting existence of the company; effectiveness and completeness of the financial statement information system; the impartial safeguard of interests of all internal and external stakeholders.

Collaborative control avoids duplications of data processing, information gaps, conflicts among subjects. It assumes that the good performance of administration and the control system is a unitary and joint objective of the subject agent and object of the control with the aim of a balanced satisfaction of the interests of all stakeholders.

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