

INTERNAL CONTROL AND RISK MANAGEMENT IN WATER TRANSPORT

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ABSTRACT

The article describes the types of risks associated primarily with fraud in organizations of inland water transport, methods for their detection and security management tools. In particular, it analyzes the

characteristics and features of the most common threats, violations or crimes in the sphere of sea and river transportation, signs of abnormal practices, which might be harmful to the transport process and financial and economic condition of the company-carrier.

Keywords: water transport, security, risk, fraud, theft item, signs of fraud, risk assessment.

Background. Risk for inland water transportation, as it is considered in the article, is a probability of damage or loss. Losses may be different: in the form of damages, lost profits or revenue, and even loss of property. The companies are exposed to various types of risks both external and internal. Among the external risks country, political, economic (tax, legal), environmental and other risks can be identified; among internal or corporate risks productional, financial, operational risks are most often. In recent years, the risks associated with fraud are increasingly emerging. And regardless of the size of the company, the legal form, industry sector, type of ownership, specialization, structure and location virtually every economic structure is exposed to the mentioned type of risk.

There are many forms of fraud, but overall they can be grouped into four areas: the theft of assets, manipulation of financial and accounting reporting, tax crimes and other. The article considers examples of fraud in organizations of river and sea transport.

Objective. The objective of the authors is to study the issues of internal control and risk management in water transport organizations.

Methods. The authors use general scientific methods, economic evaluation, scientific description, comparative method.

Results. In Nizhny Novgorod, at the enterprises of river transport fraud is often detected. For example, the CEO of one of them from April to July 2010 executed sham contracts for supply of crushed stone and gravel-sand mixture. More than one million rubles was transferred to a fictitious organization – supplier as payment. It was agreed beforehand that the delivery would not be made and the funds would go back to the Director for a refund to the cashier of the enterprise. However, the head did not return money.

In the carriage of cargo there is a specificity of fraud. Cargo is transported in containers. When loading and unloading on water transport it is problematic to steal something. Although sometimes criminals steal directly from the terminals and warehouses in the ports. Here the main persons are often employees of transport companies. Facilities such as a port are strategic objects. Accordingly, the protection there is better than in a usual warehouse. Therefore, theft of goods in the field of maritime and river transport occurs much less frequently than in other industries.

In solving crimes, qualifying as fraud on water transport facilities, there are a number of features associated with the absence of traces on the crime scene, typical of other crimes, as crime detection occurs in most cases after a sufficiently long period of time [4].

Fraud can occur in the counterfeiting of authenticity of documents received by the customs

(license, etc.), their belonging to this organization and this particular cargo, the validity of execution (signs of corrections substitution of details, discrepancy of information on the same items in different documents); non-compliance of requirements and the type of transaction contract with some export-import operation as a whole and on individual graphs (for example, the chosen order of payment, prices, etc.); violation of registration of papers related to international transportation of goods (availability, completeness, authenticity and reliability of shipping, commodity-transport and other documents, errors in their filling as established models; failure to comply with the organization requirements on the selection and consent of the customs authorities about the declaration and submission of cargo to control (certificate of recognition by the declarant, the contract with the organization – declarant, and so on).

In the shipping documents the following violations can be observed:

a) in loading orders, bill of lading, expenditure orders, receiving and acceptance statements and other documents – in case of sea transportation;

b) in the invoices, freight bill, acceptance statements, the act of loading and unloading and other papers – in case of river transportation.

It is not difficult to find a trick in tally invoices, replaceable tally statements and other documents when considering it possible to get information about the employees who carried out the loading or unloading, about vehicles, which delivered the goods in a warehouse or a ship, about their registration numbers. Violations can be in consumables orders, according to which the driver of the car exported goods from the port area; in the warehouse documents and acts, which reflects the shortage and indicates the cause of the shortage or damage.

By prior agreement between a group of people cargo theft happens most often. The ship's captain, his assistant, accountant or engineer in a similar situation often is an organizer of the theft. This is due to the fact that employees occupying positions listed, by the nature of their activities have information about loads, have full access to it and know all the features of its acceptance, transmission, storage, processing, transport, organization of accounting and reporting.

The subject of the theft of goods, committed by fraud, may be property, acquired by deception, abuse of authority or trust, the right to dispose of property. Voluntary transfer of property rights with respect to the offender is just different from other forms of fraud, theft. When committing fake certificates, fake contract, payment or founding documents are used [2].

In recent years, the volume of illegal extraction of aquatic plants and animals has increased. For these purposes both marine and river vessels are used.





On fishing vessels and fish processing plants the main subjects of theft are spawn, raw fish and fish by-products, ready-made fish products, cash and more.

Club of insurers «Skuld P & I Club», which provides information to the public about emerging fraud and deception in the shipping industry, noted that the criminals have become more innovative in terms of design and implementation of their criminal intentions. Modern scammers use the latest computer technology, while combining them with the methods of «old school», document forgery. In this regard, it is necessary to have sufficient knowledge in the field of information technology, to deal effectively with all types of violations and threats.

Often fraud is committed against the individual sailors, often from developing countries, for which it may be more difficult to discover the hidden manipulation and to take any protective action. Fraudsters create fake websites and employment agencies that promise jobs for seamen, citing its links with major shipping companies and their leaders. In practice, this is a bluff, and trusted people may lose money or may be hired by very suspicious vessels companies [2].

Misappropriation of assets occurs quite regularly, which includes theft and misuse of company assets (concealment and misappropriation of cash receipts, manipulation of the rental property, theft of inventory and funds for salaries). Signs of theft of assets can also be unjustified increase in inventories and tangible assets, shortage or surplus of funds, atypically large or atypically small operations on the current account and the box office; unevenness of remittances; unrealistically profitable, unprofitable or zero transactions; timeliness in settlement of receivables and payables; loss of primary documents or strikethrough in them; keeping copies, not the original documents.

It is rightly to consider as illogical changes in financial results signs of fraud with financial accounting and accounting reporting: increased revenue in case of reducing inventories and cash inflows; increase in stocks in case of reducing accounts payable; increase in turnover while reducing the balances of inventory, disparity in net profit in the statement of income and retained earnings in the balance sheet, mismatch of

cash on the balance sheet and net cash flow in the statement of cash flows, etc.

Signs of fraud with tax payments may be a discrepancy of accounting and tax reporting, deliberate distortion of financial information about the organization in order to mislead the users of this information (overstating revenues and understating liabilities or expenses).

The other types of fraud include unrealistically low wages paid to employees and the small amount of deductions to social funds, and similar actions [5].

Achieving economic security of water transport companies may be due to fraud risk management, elimination of external and internal threats. Risk management is control, identification, assessment and analysis of the facts, actions, background dependencies.

Risk management is only possible through development of the internal control system, which must include the following components:

- control environment;
- identification and assessment of risk consequences;
- control procedures (measures or means to reduce risk);
- information and communication;
- monitoring of effectiveness of control systems;
- organization of corrective actions.

Risk management involves establishment of respective roles and responsibilities in the field of anti-fraud at all levels of the company, existence of codes of conduct / business ethics and other general corporate rules and procedures aimed at minimizing the risk of corporate fraud.

The sources of information for risk analysis are:

- Details of financial accounting and financial statements of the company.
- Organizational structure and staffing;
- Cards of technology flows (technical-operational risks);
- Agreements and contracts (business and legal risks);
- The cost of production;
- Financial and production plans of enterprises and others.

The control environment allows to select both external and internal factors of financial and economic environment of the company, which influence the occurrence of fraud risks.

Evaluation and analysis of fraud risk should take into account the size of the company, its organizational and functional structure, activities and should be implemented on a regular basis as a separate process or as part of a comprehensive risk assessment, which are typical for the company as a whole.

Assessing the level of risk is considered as one of the most important stages of risk management. In the scientific literature, in general, the risk assessment refers to the systematic process of identifying risk factors and the types of risks and their quantitative assessment, i.e. risk analysis methodology combines the complementary qualitative and quantitative approaches.

The main objective of the qualitative risk assessment is to identify the causes and sources of risk, the stages in the work, in the implementation of which there is a certain threat to the existing order. In other words, the targets are:

- identification of potential risk areas;
- determination of the risks that accompany the activities of the organization;
- drawing up of the forecast of possible negative consequences of the identified risks and practical benefits.

The identification of the main types of risks, effecting the financial-economic activity of the enterprise, is the main purpose of this stage of analysis. The advantage of this approach is that a manager can initially analyze the level of risk assessment to quantify their composition and at an early stage to abandon the obviously risky decisions.

The initial information for a quantitative risk assessment becomes final results of the qualitative analysis, i.e. only those risks are analyzed that are present during a particular operation of the decision-making algorithm.

The risks are calculated using the numerical values of the quantities of individual risks and the overall risk of the object on the stage of quantitative risk analysis. The size of the alleged damage is determined and the valuation of risk consequences is conducted. The final stage of a quantitative analysis is development of anti-risk measures system and calculation of their efficiency.

In order to formalize the quantitative analysis, statistical methods and tools of probability theory and the theory of operations research are applied. The most common methods for quantitative risk assessment are statistical, analytical, as well as methods for expert assessments and methods of analogues.

One of the significant risks of fraud is that the regulatory system of internal control issues in Russia, including the sphere of water transport, is in its infancy. In the most industry organizations internal control is only in the annual audit of financial and economic activity, which evaluates the results of operations in the past, the so-called «follow-up control». This practice reduces the efficiency of the control in the preparation and performance of

business operations, and hence the opportunity to reduce the risk of fraud [3].

Conclusion. Current economic conditions on water transport require a review of traditional approaches to the organization of internal control. In particular, the concept of internal control and its content has not yet been fixed in the federal laws. There are no federal and industry standards governing the organization and internal control processes. Although from January 1, 2013 came into force a legislative requirement to legal persons on the need of the organization and implementation of internal control of made business activities, and to legal entities, which accounting (financial) statements are subject to mandatory audit, on the need to implement the internal control of accounting and preparation of accounting (financial) statements.

Due to the imperfection of the legislative regulation of internal control and the orientation of recommendations emerged recently under the Russian and international legislation, it is advisable both from theoretical and practical points of view to improve the methodology and the organization of internal control system on water transport, taking into account sectoral characteristics, as well as existing national and foreign experience.

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