

FORMATION OF A RISK-ORIENTED SYSTEM OF CONTINUOUS ACTIVITY MANAGEMENT

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Abstract

The article analyzes the problems associated with the formation of a risk-oriented management system for the continuous activity of an economic entity. As a result of violation of the process of continuous activity of an economic entity, there may be risks of non-receipt of income, bankruptcy and its liquidation.

The purpose of forming a risk-oriented management system is to minimize the damage from the impact of potential risks and ensure the certainty of the internal environment of the economic entity. In this regard, there is an objective need for the formation of a risk-oriented system of continuous activity management, which ensures correct management decisions in the process of production and sale of products, works, services.

Creating an effective risk-based system of corporate control over the performance of a business entity's continuous activities is an urgent task for management entities.

Keywords: risk, business as usual, risk-based management system, bankruptcy.

INTRODUCTION

In the context of the instability of the world financial system, any nation state is interested in the economic growth of the indicators of the national economy. Economic growth is directly related to the reliable functioning of the real sector of the economy, including ensuring the process of continuous activities for the production of products, goods, works, services in order to meet the needs of the state, society and business. In the sphere of interests of the state there are legal regulation of the process of production and circulation, the labor market, the financial market, etc. strategic and tactical goals. In these conditions, risks and uncertainties always appear that negatively affect the process of continuous activities of an economic entity.

The effectiveness of the risk-based business continuity management system is confirmed by the best practice in terms of planning, analysis, control, as well as capitalization of profit.

Research methodology and methods. The modern theory of accounting and auditing considers going concern as one of the fundamental principles. When preparing financial statements, International Financial Reporting Standards recommend focusing on existing conditions, until signs of termination of activities are identified, an economic entity will carry out its activities for an indefinite period of time. The Russian accounting standard contains a requirement for

mandatory disclosure by an economic entity of information regarding the presence of signs of termination of continuing activities [4]. The Australian Auditing Standards require the auditor to consider whether events or conditions have occurred that could cast significant doubt on the entity's ability to continue as a going concern. [2]

In this regard, when preparing financial statements, heads of business entities are required to assess potential risks affecting the process of continuing as a going concern and reflect them in non-financial statements. At the same time, the risk assessment of the assumption of going concern should be carried out on the basis of quantitative and qualitative indicators for all types of activities of an economic entity (operating, investment, financial), as evidenced by the requirements of the Cash Flow Statement. According to the COSO concept "Organization Risk Management. Integrated model", the risk is considered through the likelihood of an event occurring that can have a negative impact on the achievement of established goals. By themselves, these events can lead to a slowdown in growth or a drop in the value of an economic entity. Risks associated with fires, equipment failure, and losses on loans received are cited as examples. It is noted that negative events can also occur against the background of favorable conditions, for example, when the demand of buyers for a company's product significantly exceeds the company's

Formation Of A Risk-Oriented System Of Continuous Activity Management

capabilities for its production. Under such conditions, the enterprise will not be able to satisfy the requests of all customers, which will lead to the forced refusal of customers from using the company's products, and a decrease in orders from regular customers in the future [3]. According to the European standards of risk management FERMA, risk is understood as a combination of the possibility or likelihood of a certain event and its consequences [7]. In this case, the consequences can have both a potentially positive effect on the activities of the organization: such consequences are called opportunities, and a negative effect, in this case the consequences are called dangers. At the same time, it is noted that most companies consider only negative aspects of risk. In this case, the enterprise risk management system will be aimed at implementing preventive measures, as well as measures to mitigate the negative impact of risk.

RISKS AND BUSINESS CONTINUITY

The attitude towards the study of the problems of risk and ensuring the safety of an economic entity in our country has been controversial for a long time. Back in the 20s of the last century in Russia (practically at the same time when Western researchers Fr. Knight and J. Keynes were engaged in the problem of risk), the concept of "normal (acceptable) production and economic risk" was enshrined at the legislative level.

The term "risk" is deep and comprehensive. One of the first to define this distinction was A.Kh. Willet [10]. In his opinion, the risk directly correlates with the uncertainty factor in the implementation of an undesirable event and is an objective phenomenon.

F. Knight created a theory according to which uncertainty was considered as a measurable and not measurable quantity [8], the risk itself is measurable uncertainty, while the classical uncertainty "sensu stricto" (Latin - in the narrow sense) cannot be measured.

J. Pfeffer substantiated the relationship between uncertainty and risk as follows, if uncertainty is a state of imagination, then risk is an objective state of the world. Risk can be measured in terms of probability, uncertainty, or confidence level. At its core, risk is a combination of different types of gambling [9].

According to the COSO concept "Organization Risk Management. Integrated model", the risk is considered through the likelihood of an event occurring that can have a negative impact on the achievement of established goals. By themselves, these events can lead to a slowdown in growth or the termination of the continuous activity of an economic entity. Therefore, the risk of business interruption requires regular analysis by management entities.

The FERMA standards do not consider in detail the issues of building and developing a risk-oriented management system for an economic entity. In accordance with the recommendations of the standard, the risk management system should be fully integrated into the management culture, accepted and approved by the management, information about it should be brought to the attention of every employee of the economic entity. A risk-based management system, in accordance with FERMA, should contain procedures for monitoring the implementation of assigned tasks, as well as an assessment of the effectiveness and efficiency of activities, a system for rewarding responsible employees.

To analyze the operational risks of credit institutions, the Central Bank of the Russian Federation issued a guidance

letter, where it noted that in order to minimize economic damage, credit institutions are required to develop plans to ensure business continuity, including operating, and in the event of unfavorable circumstances, take comprehensive measures to restore activities [5].

In this regard, management is obliged to assess the ability of an economic entity to continue as a going concern, taking into account the impact of financial, production and other risks over a certain period. Consequently, the development of economic mechanisms and appropriate organizational and technical means to reduce the risks of continuous activities (introduction of clean technologies, reduction of emissions of harmful substances, etc.) is one of the important areas of innovative development of the economy of an economic entity. For the purpose of a deeper understanding of the problem of risks, it is necessary to consider the conceptual apparatus of such categories as "continuous activity" and "continuous production".

It should be noted that the going concern assumption is one of the requirements of the organization's life cycle. So, in accordance with the state standard, operational continuity is understood as the strategic and tactical ability of an organization to function at a set acceptable level in the event of violations of its activities caused by incidents [1]. In our opinion, continuous production is understood as a set of continuous technological processes, interconnected by a single goal for the production of final products that meet certain parameters in accordance with the production flow chart. This also includes continuous organizations that provide services to industrial enterprises and the population (generation of electricity, steam, heat, pipelines, etc.). These and other features should be taken into account when managing risks.

Thus, continuous activity is a broader concept than continuous production, because Continuing activities, in addition to operating activities, also include investment and financial activities.

The best world practice, as well as domestic experience in managing continuous operations, have developed certain financial instruments that allow us to identify, analyze and develop measures to reduce the level of risks in order to ensure the smooth operation of a complex economic system. These tools include:

- testing business continuity plans;
- the amount of net assets and their dynamics;
- structure and dynamics of cash flows;
- solvency and liquidity;
- organization of internal control over operating activities outside the ordinary course of business, etc.

The most important point in the theory of going concern management is the organization of internal control over activities outside the ordinary course of business. As a rule, in accordance with the accepted "line of defense", this procedure is performed on the third "line of defense" as an independent analysis and verification of preventive measures to control business processes and business continuity management systems. This independent review should be carried out by qualified professionals who are not involved in the development and use of going concern management systems that fully comply with the requirements of international standards of internal audit.

For the sake of a deeper understanding, it is necessary to define the terms "normal activities" and "activities outside the normal business activities."

Domestic practice of financial and auditing activities in internal control procedures has long used the concept of

Formation Of A Risk-Oriented System Of Continuous Activity Management

“ordinary business activities”. The ordinary business activities include those business transactions and transactions that are carried out systematically and are necessary to ensure normal business activities and do not differ in their economic conditions from similar transactions and transactions. As the best world practice shows, reasonable economic goals for the purposes of this research work are understood to be transactions aimed at ensuring the normal functioning of the production process.

In the practice of business turnover, the similarity of the terms of contracts means the same set of obligations of the parties to the transaction, for example, in all transactions the supplier delivered and accepted payment, and the buyer paid and accepted the goods. If additional financial instruments are introduced, for example, replacement of parties in an obligation, cession or loan, then the similarity in terms of the transaction is not observed.

The similarity of the transaction is understood to mean the conclusion of transactions with the same legal consequences for the parties, for example, the purchase of raw materials from different suppliers, but without a tender and approximately the same volume and similar cost, obtaining credit funds in the event of a shortage of its own working capital, selling products and receiving funds.

Thus, there are two conditions when a business transaction can go beyond the normal business activity:

- 1) the business transaction is not of a similar nature and is not reflected in the main activities of the economic entity;
- 2) the concluded transaction leads to the termination of the activity of an economic entity or a change in its type or a significant change in its scale.

Next, we will consider the nature of the transaction, which may lead to a significant change in the scale of activities. These include factors such as:

- an increase in the capitalization of an economic entity as a result of the successful placement of free funds on the market;

- increasing the volume of income due to the effective use of material resources;
- rationalization of production and reduction of non-productive losses;
- increase in the share of the product market in the production and sale of products.

The criterion of the materiality level is determined by economic entities independently and fixed in the accounting policy for the purposes of financial reporting.

The purpose of analyzing the risks of bankruptcy of an economic entity is to identify and prevent risks that can lead to economic insolvency, and to prepare proposals to prevent bankruptcy. The main factors behind the onset of bankruptcy are:

- 1) debts of creditors are not repaid; salaries are not paid to employees of an economic entity;
- 2) obligatory payments are overdue for more than three months from the date they should have been executed.

In the context of the development of the COVID-19 virus, the problems of business entities that are unable to pay off their debts are becoming especially urgent. In this case, it is necessary to analyze two groups of risks. The first group - risks of deterioration of general economic indicators against the background of a decrease in business activity, the second group - the risks of criminal bankruptcy in order to avoid paying their obligations. From the point of view of the business continuity assumption, the analysis of fictitious bankruptcy is an urgent task of the subjects of corporate governance. However, as the practice of bankruptcy proceedings shows, checking of economic entities for signs of fictitious bankruptcy is almost never carried out due to the inability of the arbitration managers to process a huge amount of information in order to prove the debtor's illegal activities.

The Fedresurs data indicate that the number of bankrupt business entities is growing in Russia (Table 1).

Table 1. The number of court decisions on the introduction of procedures in relation to legal entities and peasant farms

Procedure name	2015	2016	2017	2018	2019
On declaring the debtor bankrupt and opening bankruptcy proceedings	1304 4	1254 9	1354 1	1311 7	1240 1
About introducing surveillance	1019 8	1048 7	1149 5	1054 7	1013 4
On the introduction of external management	434	372	363	278	209
On the introduction of financial recovery	38	52	32	19	19
On termination of proceedings	1943	2342	2495	2802	3817
Share of cases in which creditors received nothing as a result of the procedure, %	68%	67%	67%	65%	68%
The share of cases in which the debtor does not have property, according to inventory data	41%	41%	38%	37%	37%

Source: Compiled by the author based on the source [6].

Table 1 shows that in 2019 compared to 2018, the number of bankrupt economic entities decreased by 5.5%. This phenomenon can be explained by the seasonal nature, since the number of bankruptcy filings continues to grow.

RISK-BASED APPROACH

A number of aspects of the application of a risk-based approach are highlighted in Russian legislation, with the main focus on control and supervision activities carried out by state supervisory and regulatory bodies. Thus, the Federal Law "On the Protection of the Rights of Legal Entities in the Exercise of State Control" [3] determines that in order to increase the efficiency of the use of all types of

resources involved in the implementation of the procedure of state supervision and control, to optimize the costs of legal entities and individual entrepreneurs and to ensure high efficiency of the work, state control bodies in carrying out the procedure of state control and supervision should be guided by a risk-oriented approach. At the same time, a risk-oriented approach is a way of preparing and performing the procedure of state supervision and control, in which the intensity, duration and form of control measures are calculated based on the classification of the activity of a legal entity or an individual entrepreneur to one of the risk categories or a certain category of hazard.

In our opinion, the use of a risk-based approach in the

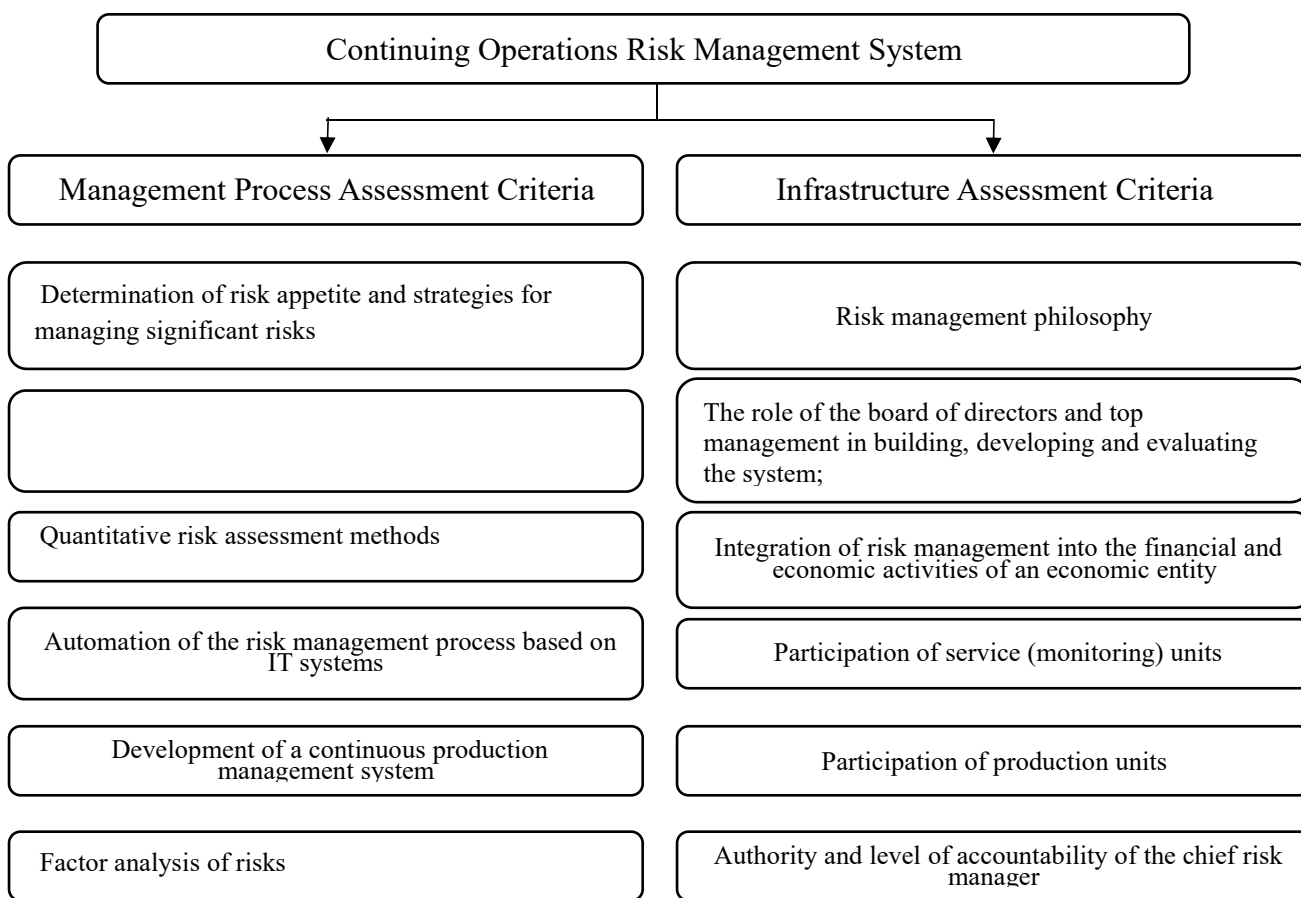
Formation Of A Risk-Oriented System Of Continuous Activity Management

continuous activities of business entities should be associated not only with control and audit activities, but also with core activities, including production, financial and investment activities. A full-fledged application of a risk-oriented approach in the management of an economic entity should mean the integration of the risk management system into the overall management system of an economic entity, as well as into the main business processes and areas of activity.

The implementation of a risk-oriented management system for continuing operations should be aimed at ensuring that all significant potential risks in all areas of activity are identified and assessed. Identification and assessment of risks at all stages of the business process allows not only to correctly predict, and, if necessary, adjust the goals of an economic entity before their approval, but also to save on

processes.

For example, when developing a budget for income and expenses, when determining the projected amount of income, the risks associated with the release of innovative products by competitors of an economic entity were not taken into account. Consequently, any changes in the external environment in terms of determining the demand for the manufactured products of an economic entity can lead to non-fulfillment of budget targets, shortage of proceeds from product sales, and, as a consequence, a decrease in financial stability. In addition, a surplus of these products can form in the finished goods warehouse, which can lose their consumer properties for a short time, which are risks that affect the process of managing continuous operations. Another example: the organizational structure does not take into account significant risks. If any risk is



identifying and assessing risks due to the synergistic effect of overlapping two business processes: management of going concern and risk management. Risks affecting the achievement of targets should be considered in all business

realized, for example, the risk of loss of intellectual property rights, it can result in significant financial losses in litigation, as well as stoppage of the production process.

Figure 1. Relationship between infrastructure and risk management process

Summarizing these examples, we can formulate a rule according to which risk analysis should be an integral part of business processes and be taken into account when setting all operational and supporting goals of an economic entity. Any risk-based going concern management system has a number of limitations that are associated with the organizational structure and management philosophy. At the same time, being the subject of influence, the risk-oriented management system itself is influenced by the internal environment, including such systems as the corporate governance system and the production culture system, etc. The management of an economic entity must ensure that

not only the risk management process works, but also the infrastructure that allows this process to function properly. The risk management infrastructure includes the methodology, organizational measures, organizational structure and the relationship of risk management with related business processes. The relationship between infrastructure and the risk management process is shown in Figure 1.

CONCLUSION

Based on the results of the study, the following conclusions can be drawn.

1. The risk management process is aimed at ensuring a

Formation Of A Risk-Oriented System Of Continuous Activity Management

consistent systematic approach to identifying and assessing risks, implementing measures to reduce risks to an acceptable level (risk appetite), monitoring changes in risks over time.

2. The successful operation of the risk management system depends on the efficiency and coordination of the work of all its components. In order to meet the expectations of stakeholders, to effectively solve the assigned tasks in the face of continuous changes in the internal and external environment, the risk management system must be continuously improved and developed.

3. The most complete and mature approach to building a risk-oriented management system is an approach that is based both on the fulfillment of the requirements for an economic entity in terms of the necessary configuration of the risk management system, and on the analysis of best practices in the field of risk management and their subsequent implementation

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