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Formation of System of Internal Control and Features its Functioning in the Innovative Development of Industrial Enterprises

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ABSTRACT

The system of internal control includes organized within the economic entity oversight and verification of: compliance with regulatory requirements; precision and coverage of the documentation of the facts of economic life; the timeliness of the formation of the authentic accounting reporting; prevention of errors and distortions; the execution of orders and instructions; safeguarding the organization's assets. The system of internal control is divided into three components: internal financial control; internal control of the company (the company); the revision Commission (revision). Active measures to strengthen the internal control system taking in financial institutions, primarily commercial banks. Special internal control units carry out systematic control over compliance with established rules and regulations, developing plans for peer review and cooperate interconnected units and discuss the results of their activities. An important task of the leaders of organizations in a market economy – the creation of a control environment, i.e. such methods, in which there is constant mutual control on the major job sites. This is implemented through the organization and management, the combination of undivided authority and collective leadership and a clear definition of authority and responsibility of each employee, collective discussion of decisions.

JEL Classifications: P11, P12, P17.

Keywords: Control, control system, internal control, enterprise.

1. INTRODUCTION

With the emergence of market competition to the Russian commercial organizations face the task of restructuring corporate management system to ensure the competitiveness, efficient functioning and development of the organization in permanently changing conditions. One of the main elements of the organization's governance is the internal control system (ICS) and features of its functioning in the innovative development of industrial enterprises.

Currently, the internal (on-farm) control in Russian organizations takes on the character of the foundations, present at all levels of management, ensuring optimum process control at all other stages (planning, organization and management, accounting, analysis). In a broader sense in the competitive environment of market relations effective ICS is one of the main conditions of successful activity of the industrial enterprises in innovative development.

Basis of research is of fundamental scientific works of domestic and foreign scientists in the field of organization theory and systems theory.

Basis of research is a systematic and synergetic approach, methods of comparative analysis and synthesis.

2. CONCEPT AND ELEMENTS OF THE INTERNAL CONTROL SYSTEM

For the interpretation of the concept of ICS, it should be assumed that the operation of any system assumes the presence of input and output system; a mechanism device, bringing the system into operation; of the mechanism that transforms the system input to its output; conditions (environment) of the mechanism. These are the basic elements of a functioning system. Entrance ICS is an information security control activities, which is a collection of implemented solutions on volume, placement and forms of organization of information necessary for monitoring (Andreev, 2003). It includes operational, planning, accounting and reporting, reference data, classifiers of technical and economic information, documentation systems (unified and special).

The output of ICS or product of its operation is information about the degree of controllability of the controlled object (Labyntsev & Kovaleva, 2000), i.e. the transparency of the object for effective managerial decision-making (control object).

Under the internal control mechanism should be understood as a set of interrelated centers of responsibility and control equipment (information and computing technology). It must be emphasized that the above-described input and output information is the basis of interaction between different responsibility centers.

Responsibility center (RC) is performing the control function and the carrier within these functions are the responsibility of the unit or combination of units of the organizational structure of the organization, interrelated controls. Under the unit (link) the organizational structure of the organization need to understand the unit (group of units) or the officer performing certain control functions. It is obvious that RC can be a separate accountant, performing control functions in the accounting for certain business operations and the Board of Directors, exercising control over the activities of the organization as a whole (Gorbachenko, Kuznetsova & Silnov, 2016). The program of internal control is a documented plan for the implementation

of certain control measures, indicating their objectives, the sequence and timing of implementation, providing the performers and their actions.

The work of the mechanism in a broad sense is the total regulated control of activity of subjects of internal control (employees or members of the organization exercising control) based on methodology of internal control (goal, tasks, principles, forms, types, methods). In other words, the operation of the control mechanism is expressed in the formally established procedures of control and in the functioning of the accounting system.

Formally established procedures of the internal control system: Formally established internal control procedures should include:

- (a) formal definition and documentation (based on the elaborated job descriptions) of the order of the activities (actions) and relationships of a certain circle of employees of the organization regarding the planning, organization, regulation, control, accounting and analysis in the process of implementation of specific financial and business transactions, as well as assessing the availability and condition of resources (capabilities) of the organization;
- (b) determine the circle of primary documents or other media that reflects evidence about the performance of the workers concerned, their functions and implementation stages relevant financial or business transactions; determination of the procedure for circulation of documents (information carriers) from the moment of their inception to archiving;
- (c) definition of “points of control” to assess various aspects of the implementation of specific financial (business) operations and evaluation status (availability) of resources (capabilities) of the organization; the establishment of controlled parameters of control objects; identifying critical control points where the risk of errors, distortions and other undesirable phenomena are especially great (Sotnikova, 2000; Dryaghlov, 2001; Vodenko, Bokachev, Levchenko, Rodionova & Shvachkina, 2016);
- (d) selection of types and methods of control.

The accounting system includes accounting policies and procedures of definition, gathering, measuring, recording (documenting), classification, analysis and transmission of information in the valuation on property, sources of its formation, financial and business transactions of the organization. One of the objectives of the accounting system is control over availability and movement of assets (resources) and its rational use in accordance with the approved norms, specifications and estimates. The effectiveness of the accounting system is determined by the level of registration and processing of financial and economic operations of the organization. This level is described by the following characteristics:

1. availability - reflects really existing operations;
2. completeness - covers all real operations;
3. arithmetic accuracy - all transactions to be correctly calculated;
4. posting account - all transactions are correctly posted on the relevant account;
5. formal resolution - for each operation are derived from either General or special formal permission;

6. temporary certainty - all operations related to the proper accounting period;
7. presentation and disclosures in the financial statements all the data correctly aggregated and summarized, complied with statutory requirements regarding the order and volume of disclosures in the financial statements.

Effective accounting system should also prevent occurrence of errors and the possibility of abuse (distortion) of employees of the organization.

Atmosphere of internal control: For the most accurate indication of operating conditions of the internal control framework, we introduce the term “atmosphere of internal control”.

The atmosphere of internal control, determine (Ragulina & Kamaev, 2013):

- management philosophy and working style of the leaders of the organization - the relation governing the commercial risks, an adequate understanding of the role of internal control in the management of the organization, a specific action plan for the organization of the ICS and its improvement, the tendency to an authoritarian management style, etc.;
- ordstatus of the internal audit Department, i.e. the position in the organizational structure of this important coordinating center of responsibility;
- adopted by the organization course of action (targets), objectives and strategies;
- types and scope of activities of the organization;
- matching organizational structure of the size and complexity of the organization;
- regulation of relationships between the organization, employees, the code of conduct;
- definition and documentation of control procedures (Scobara, 2002);
- definition and documentation of the authority and responsibility of employees;
- the methods of bringing the established rules to employees;
- study of the appropriate levels of management identified as a result of control deviations, as well as the timeliness of their decision-making according to the deviation;
- co-ordination of a communication system and information system management;
- co-ordination of management (internal) accounting, budgeting, business planning and the preparation of financial statements for external and internal users;
- adequacy of system documentation and document organization size and structure;
- rational personnel policy (personnel management mechanisms);
- conflicts in teams;
- motivation, training, intellectual level, tendencies, personal qualities, ethical principles, and physical, mental, sexual and age characteristics of the employees of the organization (Bychkova & Karzaeva, 2000);

- external influence - the level of economic development, state tax policy, market conditions, etc.;
- compliance with current legislation and work with external bodies of control.

In every organization on the state of the atmosphere internal control can be influenced also by other factors.

Thus, the internal control of an organization should be considered as a system consisting of elements of the input (information security controls), the elements of the output (information about the control object obtained as a result of control) and all of the following interconnected sections: the atmosphere of control, responsibility centers, monitoring techniques (information computer technology), control procedures, accounting systems (Ragulina, Lebedev & Popov, 2013).

It should be noted that ICS is the basis for the operation management information system (MIS), i.e., system processing and the integration of diverse internal and external information needed for decision-making at all levels of management.

3. PRINCIPLES OF ORGANIZATION OF INTERNAL CONTROL SYSTEM

Criterion of the effectiveness of the internal control system is observance of the principles of internal control.

1. The principle of responsibility.
2. The principle of the balanced (balanced means that the subject cannot be prescribed Supervisory functions, are not provided with means for their execution).
3. The principle accountability of each entity's internal control employed by the organization.
4. The principle of timely notification regarding deviations.
5. The principle of abuse of (it is necessary to create special conditions under which deviations, if any, put any employee or entity of the organization at a disadvantage and encourage them to resolve problems).
6. The principle of integration (when solving tasks related to monitoring, must be created appropriate conditions for close interaction of employees of different functional areas).
7. The principle interest of the administration.
8. The principle of competence, integrity and honesty of the subjects of internal control. The principle of competence is the manifestation of the controller's high level of expertise in the control of financial and economic activities, and also requires mandatory replenishment of Luggage of knowledge through refresher courses, seminars, trainings, you need to constantly be aware of all recent changes in legislation, to study the experience and new methods of control, to strive to improve professionalism (Bogomolov & Goloshchanov, 2004).
9. Principle of consistency (the degree of complexity of the internal control system must match the complexity of the controlled system).

10. The principle of the constancy (constant adequate functioning of the system of internal control will allow time to warn of the possibility of deviations).
11. The principle of admissibility of a methodology for internal control (means appropriate distribution of control functions, the appropriateness of internal control programs, and methods).
12. The principle of continuity of development and improvement (with time even the most progressive management methods are obsolete).
13. The principle of priority (absolute control over ordinary minor operations does not make sense and will only divert resources from more important tasks).
14. The principle of comprehensiveness (it is not possible to achieve overall efficiency by concentrating control only over a relatively narrow range of objects).
15. The principle of coherence of the capacities of the various components of the system of internal control.
16. The principle of optimal centralization (efficiency, stability, continuity of the system are made subject to unity and the optimal level of centralization of the organizational structure of the organization).
17. The principle of single responsibility (in order to avoid irresponsibility is unacceptable consolidation of separate functions for two or more centers of responsibility).
18. The principle of functional potential imitations (temporary Disposals of individual subjects of internal control should not interrupt the control processes).
19. The principle of the rules (the effectiveness of the system of internal control directly related to the extent subject to the regulations controlling activities within the organization).
20. The principle of separation of duties (Glushkov, 2000; Bashkov & Silnov, 2015).
21. The principle of permission and approval.
22. The principle of interaction and coordination. An important aspect of the functioning of the internal control system is compliance with the principles of this system, compliance with which will enhance its credibility as external users and auditors, and internal user data control.

Control should be done on the basis of clear interaction of all departments and services of the organization.

The totality of these principles is the basis of the effectiveness of the internal control system.

In the implementation of internal control, different methods are used, they include items such as:

1. financial accounting (inventory and documentation, accounts and double entry);
2. management accounting (allocation of responsibilities, the regulation of costs);
3. audit, control, audit (review of documents, verification of fidelity of arithmetic calculations, checking compliance with the rules of accounting of separate economic operations, inventory, oral questioning of staff, confirmation and tracking);
4. control theory.

All of the above methods constitute a single system and are used for enterprise management.

A general acquaintance with the system of internal control includes obtaining information about the specifics and scope of activity of the subject, representation about system of accounting. The results of the initial experience allow you to make a decision on the possible use in the verification of the internal control system. If the inspector cannot rely on the internal control system, it needs to plan its validation, in such a way that its conclusions were not based on the credibility of the system. The low efficiency of the internal control system should be reflected in the opinion on the subject.

4. PROBLEMS OF MANAGEMENT OF INNOVATIVE DEVELOPMENT OF INDUSTRIAL ENTERPRISES

Innovation is an integral part of the development of modern enterprises. Daily in the global market there is a lot of new products and services, but the life expectancy of some of them is very short. They are not recognized by buyers and also instantly disappear from the market as they appeared. This means that they have failed as innovation, though, was a new products based on interesting and original ideas.

It is well known that products, technologies have a limited life span. Most businesses pays great attention to extending the life of products. They are guided by the desire to maximize the return on invested capital. However, the company runs the risk to miss the moment when he should cease production of obsolete goods and to allocate resources to create a new one. The situation is compounded by the fact that in modern conditions a change of product is much faster than it was 15-20 years ago.

A limited period 'lifetime' of the product means that the firms need to effectively organize the sale of manufactured goods at every stage of their lifecycle taking into account of obsolescence and to timely develop new products. Achieving a balance between the improvement of existing and development of new products is an important but extremely difficult task for any company.

Innovation because of its properties should be organized separately from the main production processes. It should have its own budget, special administration. In any case, it is necessary to strive to ensure organizational flexibility and innovative enterprises. In some companies, researchers and experts can easily move from project to project, providing the extension or reduction of scope of work. As the analysis of domestic and foreign experience, the overall management of the production and innovation activities deprives the company of the future. In this case, the head always prefers current Affairs, as they provide the flow of funds from the sale of products. Therefore, one of the main organizing principles of innovation is the creation of an Autonomous group or team that operates outside of the existing governance structure to the current production.

Similarly, from the total estimates of production should be allocated to Finance designed for innovation. This is due to the fact that the funds for new product development represent costs whose benefits will be received only in the future. Consequently, managers will seek to reduce them at the earliest opportunity. Innovation must be financed independently. Moreover, it is necessary to reserve funds for the project, otherwise at the right moment they may not be and the innovation process falters. Ultimately, this delay can lead to loss of competitiveness of the enterprise.

5. INNOVATION FORECASTING

When you create innovation should focus not on the product and the market, i.e. to meet the specific needs. Focus on the product characterized the activities of many researchers and developers. Ideas of new products based on experiences of their work and the logic of research. Improving product or creating a new one, based on their aspirations of developers, outside of market orientation, leads to failure of the project. Incorrect orientation in the development of innovations in the short-term gain, resulting in risk aversion and uncertainty. Forecasting innovation is a complex, contradictory, various risks associated with the process. The difficulties associated with the impact of the following factors:

- changes in the demand for new products. When creating new products the organization carries out certain research and development expenses, and the less will be the demand for products, the more expensive it will be for buyers due to the significant costs of research and development;
- price changes for these products and, consequently, profits. Can occur under the influence of a sharp rise in requirements for economic and environmental security, changes in the prices of raw materials and materials;
- amount of its own costs. The inability to complete the accounting of its own costs for innovative products due to factors such as unforeseen costs associated with additional studies, the increase in prices from suppliers, salaries, rent payments and tariffs. Therefore, the company needs to enter a correction factor;
- in modern conditions the given actions of competitors depends on the size of the company and the degree of knowledge-intensity of its products. The larger the enterprise the less it's market rivals. Small enterprises are more difficult to take into account the actions of competitors.

Innovation as an object of management require resources. For the development and market introduction of a new product the necessary scientific, design, technological, marketing and other units. The demands of modern market to the quality and performance of new products is very high and their success is ensured by the use of a variety of knowledge.

Innovations require appropriate security, which can be divided into informational, technological, financial and human resources. Information support of innovation is a complex, contradictory process. On the one hand, necessary as complete as possible information about the state of Affairs in certain areas of science and technology, and on the other you want to minimize the amount of information on its own development.

For information support of innovations at the enterprise it is necessary to have a group of specialists that are based on the study of competitors ' products could provide the user with information on its quality, the possibilities of modernization, the private goods and the estimated costs. Technological innovation implies a technical base for work on design, prototyping and debug technology. Unfortunately, the experience of reforms in Russia, from the point of view of technical maintenance of innovative process is largely negative. The greatest damage was caused by the elimination of scientific-production associations, which had sufficient for the implementation of innovation technical base. The situation requires drastic steps to restoring and enhancing the competitiveness of domestic innovative products on the world market.

One of the critical issues of innovation is the problem of its organization, management innovations.

Many businesses are struggling in one way or another to innovate on their own, through specially created for this subsidiary structures or innovation centers, designed to promote and use innovative products.

Are invited to work specialists with expertise in patent and licensing activities, intellectual property protection and other components necessary for commercial use of innovations.

It would seem that everything is done correctly, we can only receive income from the innovation. However, as a rule, does not work. What's the matter? The reason usually lies in the obsolete system of management of innovative activity.

Innovation is not only technology, but also changes in management decisions. To most facing enterprise tasks requires a reorganization of the system of enterprise management on the basis of new managerial technologies (Gerasimenko, 2002; Silnov, 2016). The company intending to work flexibly, inevitably comes to the necessity of using innovative approaches. Its essence – in creation of such a structure, in which staff are embedded in a kind of conveyor belt (business process), ensuring quality workmanship of the manufactured product. This is achieved through organizational measures.

Important role in building such a system belongs to the project management methodology. It is necessary to develop a control system, based on the breakdown of a complex process into simple components based on the design approach and building a kind of managerial “pipeline.” This produces a significant effect: work into a purposeful movement, reduced requirements for qualification of personnel, dramatically increases the productivity, reduces the number of errors. For realization of such approach it is necessary to develop an effective organizational structure, financial management system, to form a marketing service, to provide document management, i.e. details to formulate rules of work of the enterprise, the basic features common to all companies are innovation-oriented.

For each specific case need only adjustment (in most cases – minor), adjust the system for specific business. The proposed scheme resembles the scheme of franchising. The only difference is that brand is not transferred, and delegated major functions from marketing to production. Rather is passed a structure of a control system developed and tested in specific business.

In such a structure, it is difficult to carry out unprofitable projects – economic efficiency of each innovative project is calculated and planned, and the result is then compared with the planned figures.

6. CONCLUSION

Evaluation of the effectiveness of the internal control system should be organized in areas corresponding to the cycles of business: supply and accounting inventory and services; production; marketing; remuneration; Finance.

The increasing complexity of economic processes requires a particularly thorough audit of the internal control system.

When evaluating the effectiveness of the internal control system can be used the so-called cumulative effect of the strengths and weaknesses of control. For example, even if the internal control system or its part has been assessed as generally effective, the auditor can note the possibility of risk of abuse control procedures in the specific area of inspection.

In the process of verification, the auditor should be familiar with the structure of the environment of ICS. The control environment can be structured in the following way:

- management philosophy and management style;
- organizational structure of management of the company, the structure is vertical and functional subordination;
- methods of presentation of the rights and duties of employees (instructions, code of practice etc.) and bring them to those they are intended;
- methods of control used by management, including the system of internal planning.

Economic growth is largely due to the influence of many factors, including such as the quantity and quality of natural resources, their availability for use, the volume and quality of fixed capital, level of technology, the receptivity to new technological systems, the availability of labor resources and their educational and qualification characteristics, the demand for manufactured goods and the ability to make full use of the expanding resources the ability distribution in the national economy available resources to obtain maximum quantities of high-quality products, etc. To be effective, each of these factors requires the development of scientific and technological progress in implementation of innovations that enable the creation of innovations and their practical implementation in the form of a new product, investing, providing for the change of generations of equipment and technologies, effective use of these innovations, economic growth.

In modern economy the role of innovations has increased significantly. Without application of innovations it is almost impossible to create the competitive production having high degree of research intensity and novelty. Thus, in a market economy, innovations are an effective tool of competition, so as to create new needs, to reduce production costs, investment flows, to improve the image (rating) of the manufacturer of new products, opening and capture of new markets, including external.

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