



International Journal of Applied Business and Economic Research

ISSN: 0972-7302

available at <http://www.serialsjournal.com>

© Serials Publications Pvt. Ltd.

Volume 15 • Number 12 • 2017

Theoretical and Methodological Basis of Organization of the Internal Control System of the Industrial Enterprise

Ludmila V. Goloshchapova¹, Vitaly M. Smolentsev², Denis S. Korelskiy³, Marina N. Rudenko⁴ and Elena A. Sergodeeva⁵

¹Plekhanov Russian University of Economics, Moscow, Russia. Email: cool.lvg2012@yandex.ru

²Kuban State Agrarian University named after I.T. Trubilin, Krasnodar, Russia

³Saint-Petersburg Mining University, Saint Petersburg, Russia

⁴Perm State National Research University, Perm, Russia

⁵North Caucasus Federal University, Stavropol, Russia

ABSTRACT

In modern conditions of internal control in the Russian industrial organizations should be present at all levels of government. In a broader sense in a competitive environment, market relations, an effective system of internal control under other equal conditions is a guarantee of successful activity of the industrial enterprise. Without a reliable monitoring system at present cannot function well no organization, in the control system which it solves several problems. First, by using a control can be pre-detected in the internal or external environment, industrial enterprise, factors which could have a material impact on its functioning and development and, to prepare, in a timely manner to respond to them. In addition, with the help of control are monitored not clearly expressed trends in the development of industrial enterprises, their reliable plans, especially for the future. Second, control helps to timely detect inevitable in any organization violations, deficiencies, errors, mistakes and promptly take the necessary measures to eliminate them. Thirdly, the inspection results serve as the basis of evaluation of the work of the industrial enterprise and its staff for a certain period, the efficiency and reliability of system management.

JEL Classifications: P11, P12, P17.

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

1. INTRODUCTION: CONTROL FUNCTIONS

In the literature on the functions of internal control are different. For example, the functions of internal control include operational, safety and regulatory. Can agree with this, but in relation to internal control

instead of the expression “regulatory function” is more appropriate to use “regulating function”. Note another important function of internal control is preventive. Preliminary control prevents unwanted deflection, protects the organization from unwanted consequences of certain actions. For example, the assessment of the legality and expediency at a nascent stage of operations to prevent actions contrary to the regulatory requirements and objectives of the organization. To the above features, you must add informative and communicative.

Theoretical and methodological basis of the domestic and foreign scholars and experts engaged in research in the field of process management and control of the industrial enterprise.

The study was scientific and applied works of Russian and foreign specialists in the field of economy, management; publications in Russian and foreign press.

2. GOAL OF THE ENTERPRISE MANAGEMENT IN THE ORGANIZATION OF INTERNAL CONTROL

The main objective of internal control – information object transparency control for the possibility of making effective decisions.

To enable control of the object, you must have an idea of the degree of controllability of the object, i.e. to what extent it is amenable to control or to what extent the result is the maintenance of a desired state or action of the control object at the appropriate time (period) of time. The degree of control object and is reflected in the concept of information transparency of the control object.

In the development of an effective system of internal control the company’s management generally has the following objectives:

1. Providing reliable information for successful enterprise management and effective decision-making. For example: when the facts of decreasing demand for manufactured products needed to provide timely management information on the causes of decline of demand for managerial decision-making about how to meet customer needs and coordination of activities in order to reduce costs (Kuskov, 1999).

2. Safeguarding of assets, documents and registers of the company.

Tangible assets of the company must be protected by the reliable system of control to prevent its theft, use of improper purpose or accidental destruction. Serious protection and control require and intangible assets (receivables), documents (contracts and agreements) and ledgers (General Ledger and journals). In connection with the development of computer systems require proper measures to secure the volumes of information stored on computer media.

3. Ensuring the efficiency of economic activities in order to avoid involuntary costs in all areas of economic activity, and to prevent the inefficient use of all other resources (Ragulina & Zavalko, 2013). (Sometimes the cost of performing the tasks described in the first two points, numerically greater than the possible profit that can be obtained as a result of the proposed activities. Therefore, at first glance, the activities referred to in paragraphs 1, 2 may appear to be ineffective.

But the failure of implementation of measures to ensure reliable information and safeguarding of assets and registers may lead to irreparable losses. In case of loss or theft of stakeholders, data on the number and prices of raw materials may reduce the competitiveness of manufactured products).

4. Ensure compliance with prescribed accounting principles (Ivashkevich & Zaitsev, 1996). The internal control system must ensure the necessary degree of confidence that officers and employees follow the requirements and rules laid down by internal documents of the company:
 - provisions about the Department, service, other divisions of the company.
 - job descriptions of executives, managers and specialists of enterprises
 - order of the accounting policy of the enterprise,
 - orders and directives of the Director General (Director) and other managers, published in accordance with their competence.
5. The enforcement of Federal laws and other legal acts of the Russian Federation and local authorities in the implementation of financial and economic operations.

3. FORM OF INTERNAL CONTROL

Effective combination of various types of control based on the parameters of external and internal environment – the success of functioning of the organization.

Firms widely use two forms of control: financial (as a basis for overall management control) and administrative.

Financial control is carried out by receiving from each business unit financial statements on the most important economic performance indicators for standard forms, identical for local and foreign subsidiaries (Utkin, 2000). The number of positions and timing of reporting may be different. As a rule, more detailed reporting of major subsidiaries and companies located in the major markets. It is the basis of comparison of actual performance with the planned. While the focus is on such factors as the level of profit, costs of production and their relation to net sales, return on investment, the availability of own funds, the financial condition (solvency and liquidity), etc. the Analysis of these indicators is performed separately for each center of responsibility (economic, production group, production Department, subsidiaries), as well as the firm as a whole (Gerchikova, 1995).

Organizational and financial control is carried out using units at different levels of management. In the higher levels of management, it is conducted through the office of the Comptroller (Central office). Control over the activities of the production departments and subsidiaries are using their accounting, financial services (Bogoviz, Ragulina & Kutukova, 2016), planning system that collect and process information characterizing the actual (mostly financial) performance over a past period, deviations from planned performance and, in particular, indicators on profit and costs. They also analyze the degree of implementation of the plans and reasons for rejection. Since the reporting system of branches and subsidiaries is usually built in the same form as that of the planning system, it facilitates the control over performance targets.

However, the control system gives the possibility to use the advantages such as the independence of the office and effective leadership from the center. Control function, as well as the planning function is an

essential tool of centralization of management by the senior management of the company and at the same time allows to achieve an optimal combination of centralization and decentralization in the management of the firm as a whole (Ladanov, 2002).

4. CLASSIFICATION OF INTERNAL CONTROL

Under the classification of science understand the distribution of objects, phenomena, categories, classes (categories, groups, and other entities) according to their common features characterizing the relationship between the classified objects in a single system, a related field or practical activities (Sozinova, Zhelnina, Prokhorova, Zelinskaya & Putilina, 2016). Evidence-based classification allows a deeper understanding of the essence of control as a major component of the concept of governance, to reveal the mechanism of functioning Express its relations, to identify specific features of various its components.

However, this area is insufficiently developed. There is no unity in the selection of classifications, there is no complexity in approaches. The necessary clarifications in the existing classifications of internal control of the organization to meet the changed conditions, and acceleration NTP. In terms of methodology useful classification of internal control, are presented in Table 1.

Consider the most important classification of internal control, characteristics which require detailed explanation.

Classification According to Form

Classification the most important aspect of internal control is formal. In the economic literature, there is currently no generally accepted definition of forms of internal control and generally accepted discharge forms compared to, for example, accounting – memorial-order, journal – order, automated, simplified. It seems appropriate to give a definition that most accurately reflects the concept of a form of internal control of the organization.

Category form in the philosophical interpretation is a way of existence and Express the content of objects or phenomena. Based on this we Dene the notion of forms of internal control of the organization.

Form of internal control of the commercial organization – is a way of organizing and expressing in a certain way an ordered set of internal control procedures, all commercial organizations.

As internal control of the organization need to allocate:

- internal audit;
- structural-functional form of internal control.

The choice of form of internal control depends on:

- the complexity of the organizational structure;
- legal form;
- types and scale of activities;
- the feasibility of the coverage control various aspects of the activity;
- relationship management organization to control.

Internal Audit

The economic concept of “economies of scale” means that first, the growth of scale of production, the organization achieves cost reduction through the combined effects of several factors (a positive scale effect); second, in parallel, there is a negative scale effect, which is certain management challenges associated with coordinating and controlling the activities of large organizations. The growth of the scale of the activity levels of the management dividing administrative machine and levels of government that implement work programs are becoming more numerous.

Table 1: Classification of internal control

<i>Classification</i>	<i>Elements of the internal control class</i>
Form of control	<ol style="list-style-type: none"> 1. Internal audit. 2. Structurally functional form of internal audit
Time of implementation of control actions	<ol style="list-style-type: none"> 1. Preliminary control 2. Ongoing monitoring. 3. Final control.
Automation control level	<ol style="list-style-type: none"> 1. Non-automated internal control. 2. Incomplete automated internal control. 3. Fully automated internal control.
Methodical methods of control	<ol style="list-style-type: none"> 1. General scientific methods of control (analysis, synthesis, induction, deduction, reduction, analogy, modeling, abstraction, experiment, etc.). 2. Own empirical methodological methods of control (inventory, benchmarking, control launches of equipment, formal and arithmetic checks, counter check, method of reverse calculation, method of comparing homogeneous facts, official investigation, examination of various types, scanning, logical checking, written and oral Polls, etc.). 3. Specific methods of related economic sciences (methods of economic analysis, economic-mathematical methods, methods of probability theory and mathematical statistics.
Hierarchy of control objects	<ol style="list-style-type: none"> 1. Control of the system of objects in general (the entire commercial organization). 2. Control of subsystems of the system of objects. 3. Control of individual objects.
Functional focus of control	<ol style="list-style-type: none"> 1. Administrative control. 2. Financial and economic control. 3. Accounting control. 4. Legal control. 5. Technical control. 6. Technological control. 7. Personnel control. 8. Control aimed at ensuring the security of a commercial organization.
The nature of the relationship between the controlling and supervised employee	<ol style="list-style-type: none"> 1. Control, due to the relationship of subordination. 2. Control, not due to the master-slave relationship.
Temporal orientation control	<ol style="list-style-type: none"> 1. Strategic control. 2. Tactical control. 3. Operational monitoring.
The spatial aspect	<ol style="list-style-type: none"> 1. Input control 2. Process control 3. Output control

<i>Classification</i>	<i>Elements of the internal control class</i>
Monitoring data sources	<ol style="list-style-type: none"> 1. Documentary control. 2. The actual control. 3. The automated control.
The nature of control measures	<ol style="list-style-type: none"> 1. Routine control. 2. Sudden control.
The frequency of control interventions	<ol style="list-style-type: none"> 1. The system control. 2. Periodic control. 3. Episodic control.
The completeness of the test object	<ol style="list-style-type: none"> 1. Solid control. 2. Discontinuous control.
The intensity of the controls	<ol style="list-style-type: none"> 1. The controls in the Lite mode. 2. The controls in the normal mode.

Multi-level management apparatus creates the problem of exchange of information, coordination of decisions, increases the likelihood of adoption of different levels of government decisions that are contrary to each other (Gorbachenko, Kuznetsova & Silnov, 2016). Difficult to control the various components of the control of the Central leadership, which increases the risk of errors and abuses staff (managers). If an organization has geographically dispersed branches or offices in which the local leadership to make decisions, the Central leadership needs reliable information about their activities, to carry out monitoring and evaluation of decisions as a whole.

Structural-functional form of Internal Control

In many organizations there is no Department (sector, Bureau, group, etc.), internal audit and the audit Commission (auditor). In this case, for the implementation of internal control appropriate to use a structural-functional form for the internal control of the organization (Silnov, 216). The concept of “structural-functional form of internal control” reflects the necessary interaction of units of the organizational structure (linear, functional, divisional, matrix) for their respective control functions. For example, the implementation of control, certainly is part of the official duties of any Manager should be included in the function of any responsible person. This form corresponding to the contents of the primary stage of development of internal control applied by all organizations, along with more developed forms and independently of them.

Controlling

To form internal control to some extent close to the concept of controlling. But it is close, so as directly to form internal control controlling can't be attributed.

Controlling is a system of ensuring the survival of the company in the short term, aimed at optimizing the profit in the long run on maintaining a harmonious relationship with the environment (Burtsev, 2000).

Controlling the set of methods of operative and strategic management, accounting, planning, analysis and control to a qualitatively new stage of development of the market, a unified system, which is aimed at achieving the strategic goals of the company.

Controlling in theory and practice acts as a complex, multifaceted concept. Some still believe that monitoring and controlling just consonant words that are not associated with each other. Under the

controlling understand the concept of effective management of the firm to ensure its stable existence in the market.

Service controlling analyzes statements, determine directions for future development of the company and because of this has a serious help in making management decisions. Different methods of operative and strategic controlling are very effective in the management of the enterprise agreed upon goals, while ensuring ensure financial strength of the company.

Classification at the Time of Implementation of Controls

Some of the most important types of control can be masked among other management functions. For instance, while planning and creating organizational structures rarely relates to the monitoring procedure as such, they allow to carry out preliminary control activities of the organization. This type of control is called preliminary because that is before the actual start of work.

Preliminary Control

The main means of implementation of the preliminary control is the implementation of certain rules, procedures and policies. Since the rules and lines of conduct are developed to ensure compliance with plans, their strict observance is a way to ensure that the work evolves in a given direction (Mescon et. al., 1993). Similarly, if you write a clear job description, effective to bring the formulation to subordinates, to gain the administrative management staff of qualified people, all of this will increase the likelihood that the organizational structure will work as planned. In organizations pre-control is used in three key areas – in relation to human, material and financial resources.

Human Resources

Preliminary control of human resources in organizations is achieved through careful analysis of those business and professional knowledge and skills that are required to perform certain duties and selection of the most prepared and qualified people. To make sure that we accept employees to be able to perform their assigned duties, it is necessary to set the minimum allowable level of education or work experience in the field and to check the documents and recommendations to hire.

Material Resources

Obviously, to make high-quality products from poor raw materials is impossible. Therefore, industrial companies set a mandatory preliminary control of material resources used by them. Control is carried out by developing standards minimally acceptable levels of quality and conducting physical compliance checks of incoming materials these requirements.

Financial Resources

The most important means of preliminary control of financial resources is the budget, which also enables control feature. The budget is a preliminary control mechanism in the sense that it gives confidence: when it needed cash, those funds will have.

Current Control

It is actually as its name implies, current control is performed directly in the course of the work. Most often, it is subordinate staff, and he is traditionally the prerogative of their immediate superior. Regular checking of work of subordinates, discussing issues and proposals for improvements will eliminate deviations from the plans and instructions. If we allow these variances to develop, they can escalate into serious problems for the entire organization.

The current control is not performed simultaneously with the execution of the work itself. Rather, it is based on measuring the actual results obtained after carrying out work aimed at achieving the desired goals. In order to monitor thus, the machine control requires feedback.

Final Control

When the current control feedback is used during the conduct of works in order to achieve the desired goals and to solve problems before it would be too costly. At the final control the feedback is used after work is done. Either immediately on completion of the controlled operation or upon expiration of a predefined period of time is actually the obtained results are compared with required.

Although final inspection is too late to respond to problems at the time of their occurrence, however it has two important functions. One of them is that the final control gives management information needed to plan in case similar work is planned for the future. Comparing actually received and the required results, the user has the opportunity to better assess how realistic were they prepared plans. This procedure also allows to obtain information about the problems encountered and to formulate new plans to avoid these problems in the future. The second function of the final control is to facilitate motivation. If the organization's leadership communicates incentive rewards with the achievement of a certain level of performance, it is obvious that the actually achieved performance should be measured accurately and objectively.

Classification by Types

A special place is the classification of the types of internal control. The basis of the typology, as it is known, should be an essential feature. Probably, in a basis of typology of internal control should be an essential feature – the level of automation of control that determines the level of productivity (expressed in terms of the control by elapsed time). Can the level of automation to determine the shape of the internal controls of the organization (it is known, for example, that one of the forms of accounting automated)? The organization is a way of expressing procedures for the monitoring of all objects (including their systems) commercial organization with the automation of control procedures is possible only at the level of individual objects or systems. Is it possible to fully automate all sides of the qualitative and quantitative safety of material values of the enterprise; automation control relationships in the workplace is not currently possible (Burtsev, 2000). Based on this level of automation should be considered not determinant of the types of internal control.

The following types of internal controls:

- human;
- not fully automated;
- fully automated.

Non-automated internal control is carried out directly by its subjects without the use of automated means.

Fully automated internal control is carried out by entities with the use of automated means of acquiring, processing, measurement, etc (e.g. quality control of production equipment using bar-code technology machined assemblies and parts).

Fully automated internal control is carried out in a fully automatic mode under the strengthening of internal control entities (Silnov, 2016). Examples of this type of internal control: automatic detection and correction of errors application computer program; work programs providing the allocation or the transfer of those items which do not meet the criteria (for example, if the amount of the bills for the purchase is outside of the set limits); work antivirus software; software check the type of total amounts for control of correctness of calculations (for example, a comparison of the unpaid invoices for the procurement file records the received goods produced by the program before paying the seller's account); controlling modules of the enterprise systems (e.g., system modules "Galaxy" solving the problems of control of production cost, monitoring budget performance, etc.); self-test software.

5. STAGES OF THE AUDIT PROCESS

Process control in General, should go through the following stages:

1. The definition of the concept of control (comprehensive control system "Controlling" or private test);
2. The definition of control objectives (decision on the appropriateness, correctness, regularity, and efficiency of management process);
3. Planning validation:
 - objects of control (the potentials, methods, results, indicators, etc.);
 - check the rules (ethical, legal, manufacturing);
 - the subjects of control (internal or external monitoring bodies);
 - methods of control;
 - scope and controls (full, continuous, selective, manual, automatic, computerized);
 - the timing and duration of inspections;
 - sequence, methods and tolerances checks.
4. The definition of valid values and prescribed;
5. The establishment of identity differences (detection, quantification);
6. Development of solutions, the determination of its weight;
7. Documenting solutions;
8. Meta check (check check);
9. Communication of decision (oral / written report);

10. Evaluation of solutions (analysis of variance, localization of the causes, determination of responsibility, the study of possibilities of correction measures for elimination of deficiencies).

For decision-making on the control and organization of control processes can be set to a number of criteria: efficiency, impact on people, the tasks of control and its boundaries

6. CONCLUSION

Many industrial enterprises all over the world suffer from the inefficient use of various kinds of resources – human, financial, material, lack of necessary for making the right decisions information, unintentional and intentional distortion of financial statements, outright fraud on the part of staff and managers. Such problems can be avoided by the creation within companies of an effective system of internal control. What is the role and importance of internal control?

Any activity of an industrial enterprise occurs in the two systems. One is operating (organizational) system, built to achieve goals. The other system is a system of control that permeates the operating system. It is, in General, of the policies, procedures, rules, regulations, budgets, accounting system and reporting. This system is aimed, ultimately, at creating the necessary preconditions and to enhance the likelihood that the industrial enterprise as a whole and managers in particular achieved your goals.

Internal control is a process aimed at achieving the company's goals and resulting management actions for the planning, organization, monitoring of the activities of the company as a whole and its individual divisions. Managers should, first, set goals and determine objectives of the company and the individual units and to build an appropriate it organization structure. And, second, to provide an effective system for documenting and reporting, segregation of duties, authorization and monitoring to achieve the goals and overcome the challenges.

Internal control is control from the company, as opposed to external forms of control, such as legislative regulation, control by external controlling organizations, etc. in this context, the concept of internal control is synonymous with management control, operational control.

It should also be noted such an important detail that internal control is only useful if focused on specific objectives, before evaluating inspection results, you must determine that purpose.

References

- Bogoviz, A.V., Ragulina, Y.V., & Kutukova, E.S. (2016). Economic zones as a factor of increased economic competitiveness of the region. *International Journal of Economics and Financial Issues*, 6(8Special Issue), 1-6.
- Burtsev, V.V. (2000). *Organization of the internal control system of a commercial organization*. Moscow: Exam.
- Burtsev, V.V. (2000). Management control as a system. *Management in Russia and abroad*, 5.
- Gerchikova, I.N. (1995). *Management*. Moscow: Banks and stock exchanges, UNITY.
- Gorbachenko, V.I., Kuznetsova, O.Y., & Silnov, D.S. (2016). Investigation of neural and fuzzy neural networks for diagnosis of endogenous intoxication syndrome in patients with chronic renal failure. *International Journal of Applied Engineering Research*, 11(7), 5156-5162.
- Ivashkevich, V.B. & Zaitsev, S.N. (1996). Controlling at the enterprises of Germany. *Accounting*, 10.

- Kuskov, A.N. & Chumachenko A.P. (1999). *Management: Tutorial*. Moscow: Moscow State Industrial University.
- Ladanov, I.D. (2002). *Practical management*. Moscow: Corporate strategies.
- Silnov, D. S. (2016). An analysis of modern approaches to the delivery of unwanted emails (spam). *Indian Journal of Science and Technology*, 9(4), 1-4. doi:10.17485/ijst/2016/v9i4/84803.
- Mescon, M.H., Albert, M. & Hedouri, F. (1993). *Fundamentals of Management*. Moscow: Work.
- Ragulina, J.V., & Zavalko, N.A. (2013). Theoretical and methodological background of efficiency of educational services in the system of higher education. *Life Science Journal*, 10(SPL.ISSUE11), 199-204.
- Silnov, D.S. (2016). Special features of radio interception of APCO P25 messages in Russia. *International Journal of Electrical and Computer Engineering*, 6(3), 1072-1076. doi:10.11591/ijece.v6i3.9843.
- Sozinova, A.A., Zhelnina, E.V., Prokhorova, V.V., Zelinskaya, M.V., & Putilina, I.N. (2016). Economic environment activities of russian corporations. *International Journal of Economics and Financial Issues*, 6(1S), 52-56.
- Utkin, E.A. (2000). *Course of Management (textbook for high schools)*. Moscow: Zercalo.

