

INTERNAL CONTROL IN THE MANAGEMENT SYSTEM OF THE COMPANY

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Abstract: *Today the Russian economy has no standard interpretation of the concept of "internal control". In a competitive economy a rationally organized system of internal control allows to generate information, aimed at making informed management decisions. The analysis of the concept of "internal control" revealed five basic points of view:*

1. *Control undertaken by a number of different aspects (technical, economic, financial, etc.).*
2. *Process by which managers are convinced that the resources are received and used effectively and efficiently.*
3. *Control as one of common management functions.*
4. *Control coinciding with the internal audit.*
5. *Complex of organizational structure, methods and procedures adopted by the leaders of the organization as a means of efficiency control of economic activity and economic security.*

Depending on the accepted system of views on the system of internal control various methods are used. They are:

- *Methods focused on the strategic approach;*
- *Methods focused on the tactical approach;*
- *Methods focused on the project approach.*

In a greater degree, enterprises of the Omsk region use methods of internal control of the tactical level.

Keywords: *Internal control, management, methods of control, strategic approach, tactical approach.*

INTRODUCTION

The development of market relations in the Russian economy led to strengthening of the internal control function in the management system of companies. This process was facilitated by such factors as the crisis of 2008 and 2014, economic sanctions and anti-sanctions in Russian-Western relations.

Currently in the Russian economy there is no standard interpretation of the concept of "internal control". Each company is free to address the issue of having an internal control system and determining its direction and features. In a competitive economy a rationally organized system of internal control allows to generate

information, which is aimed at making reasoned management decisions.

SECTION 1.

Over the historical development of management science the concept of "internal control" had a different essence [1].

In the early 20th century it was a combination of three elements: separation of powers; rotation of staff; accounting data analysis.

In the middle of the 20th century the essence of internal control was limited to coordinated actions aimed at safeguarding of assets, checking the reliability of management information, improving the efficiency of operations and adherence to the target policy of the company.

At the beginning of the 21st century, internal control was seen as a tool to reduce various risks within the framework defined by the risk management system of the company. Such interpretation allows us to identify three key objects of internal control.

The first object is production resources, including material resources, human resources, depreciable property and other resources.

The second object of internal control is revenues and financial results of the company's performance. This object can be detailed and presented as income from the sale of finished products, goods, works and services; other income; gains and losses.

The third object of internal control is the tax base, including value added tax, income tax, property tax and other taxes. This object is the most problematic due to the frequent changes of tax laws in Russia.

The state and the change of the objects are controlled by the subjects of internal control who can be divided into several groups in terms of their

importance and role in the implementation of the company's internal control in general.

The first group of the subjects of internal control includes the owners of the company, who are not employees, and exercise control indirectly through experts, auditors and consultants.

The second group of the internal control subjects is represented by the owners of the company, who are employees, and exercise control directly.

The third group of the subjects of internal control includes employees of the company who carry out control functions in virtue of their duties [2].

A special place in the management system of the company is given to the analytical procedures of internal control. Our studies undertaken at the leading companies of the Omsk region in 2014-2015 gave us an opportunity to highlight the main elements of the analytical procedures of internal control:

1. *Stages of internal control procedures.* We can distinguish such stages as the stage of material resources' procurement; the stage of recruitment; the stage of financial resources' attraction; the stage of production; the stage of storage and sale of finished products.
2. *Phases of internal control.* There are such phases as the preparatory phase; the phase of direct assurance of control activities; the phase of preparation of the results of internal control; the phase of development of recommendations on the results of internal control.
3. *Sources of internal control information.* There exist primary documents; various types of registers; contracts with contractors; books of purchases; books of sales; acts of inventories; acts of reconciliation.
4. *Parameters of internal control.* These include signatures of the officials; availability of bank details, prints of stamps and seals; certificates; licenses.
5. *Subjects of control.* This element includes employees participating in the activities of internal control.
6. *Methods of control.* Most often such methods as: checking of fragments of documents for proper execution; logical analysis; expert evaluation; recalculation; inspection; surveillance; counter check; and testing, - are used.

A written or oral questioning of employees by questionnaires, where there are columns for responses ("Yes", "No", "Not applicable"), and notes of the reviewer, are used most often while making the assessment of the internal control system. This technique is called "testing". It makes it possible to identify

weaknesses in the company's management system and define areas for further testing better [3]. In 2009-2010 the author of the article conducted historical research on the development of economy and management in Western Siberia in XVII-beginning of XX centuries. In this research internal control in the management system of the distilleries was studied. One of the main documents of internal control at that time was a document containing some specific data concerning the activities of the plant [4]. Its fragment is shown in Table 1.

Table 1.

Data
on Dmitrov distillery №2,
belonging to the heirs of
Omsk merchant Matvey Haimovich
and located in Tobolsk province,
Tyumen district, Sargatskoe Parish,
near the khutor of Marfushina
for the period 1910/1911

№	Questions	Answers																																
1	When did distillation at the plant start?	From October 24, 1910																																
2	What quantity of supplies was mashed every day (on average)?	Dry supplies in the 1st half of the distillation - 178 poods, in the 2nd half of distillation - 356 poods; green malt: in the 1st half of distillation - 51 poods, in the 2nd half of distillation - 102 poods. Potatoes - 2422 poods.																																
3	What quantity of different kinds of supplies was obtained by distillation at the plant? (including the quantity of supplies of the plant's own agriculture)	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th>Own</th> <th>Purchased</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Bean</td> <td>18348</td> <td>800</td> <td>17548</td> </tr> <tr> <td>rye</td> <td></td> <td></td> <td>18348</td> </tr> <tr> <td>Wheat</td> <td>26110</td> <td>4100</td> <td>22010</td> </tr> <tr> <td>Rye flour</td> <td>1464</td> <td>-</td> <td>1464</td> </tr> <tr> <td>Green malt</td> <td>12477</td> <td>300</td> <td>12177</td> </tr> <tr> <td>Potatoes</td> <td>2422</td> <td>1082</td> <td>1340</td> </tr> <tr> <td></td> <td></td> <td></td> <td>2422</td> </tr> </tbody> </table>		Own	Purchased	Total	Bean	18348	800	17548	rye			18348	Wheat	26110	4100	22010	Rye flour	1464	-	1464	Green malt	12477	300	12177	Potatoes	2422	1082	1340				2422
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4	How many mashing days does the plant have during the period?	One hundred and sixty days. 259 mashes were obtained by distillation.																																
5	How big was the total factory revenue for the period?	2241470 rub.																																
6	When did the plant stop distilling in the period?	April 6, 1911.																																
7	How is distillery dreg utilized? Is it fully used in the plant's own household or sold to other private owners of estates, or peasants? How far is distillery dreg transported within	All distillery dreg goes to the plant's own household where the cattle belonging to the plant owners, their employees and workers are fed.																																

	the own estate? If distillery dreg is sold, what is its price?	
8	What quantity of cattle is fed on distillery dreg (the number of heads and the breed)? Is distillery dreg used only for fattening cattle or also for feeding of dairy and draught cattle?	200 heads of cattle of the local breed. Distillery dreg is used for feeding dairy and draught cattle.
9	Do the cattle which is fed on distillery dreg belong to the plant owner, the lessee or the cattle dealer?	All the cattle are owned by the plant owners, its employees and workers.
10	Who was the plant's distiller? What is his nationality, education, the size of the salary?	Untill January, 15th 1911 a Buguruslan tradesman Alexander Borodin (practitioner) was a distiller. From January, 15th this position was taken by a peasant of the Kazan province Peter Bilhanov who graduated from the town Municipal School. The size of wages for both of them was 1200 rub.
11	What is the number of workers at the plant: men, women, children?	There are about 27-35 people. All of them are men. Women and children are not accepted to work.
12	Is cleaning of alcohol at the plant done by hot or cold methods?	Hot methods are used.
13	Does the plant sell wine locally or is all alcohol obtained by distillation sold to third parties? Does the plant sell distilled alcohol abroad?	All alcohol is sold to Tobolsk - Akmola Excise Directorate.

Plant manager _____
Accountant _____

Source: [4]

A special feature of the above given document is that questions as well as a blank form are printed in a printing house. The answers were written by hand. It proves the fact that such form of document was used in all distilleries. The content of questions and answers has a greater degree of analyticity. We can see that the yeast of home-brewed beer (mash) at the plant during the period was not carried out at regular intervals. In the 2nd half of the period the plant doubled its yeast capacity. When analyzing the amount of recycled raw materials, it can be concluded that the plant worked mainly on purchased raw materials. Only the need for potatoes was met by the expense of the plant's own household (approximately, by

half). By the number of employees, from today's perspective, the plant can be attributed to small businesses. However, total revenue exceeds two million rubles. This indicates a relatively high productivity of the plant. A special place in the document is the analysis of the use of distillery waste of production (distillery dreg). We can see that the production at the plant was wasteless, and all distillery dreg was used to feed the cattle. The herd was 200 heads and was fully owned by the plant owners, their employees and workers. The issue regarding the identity of the distiller, his education and wages is also very interesting. This shows that a distiller took the main place in the organization of the production process. The level of his wages confirms high financial assessment of his work. Availability of the analyzed document proves that the level of internal control at enterprises of this kind was quite high.

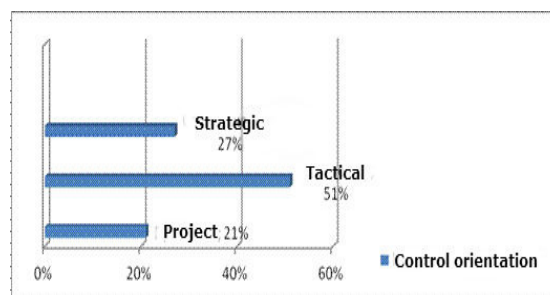
SECTION 2

The data of our research undertaken on the companies of the Omsk region in 2014-2015 constitute grounds for thinking that in many cases in the management system "internal control" is identified with "management control". This control is based on five basic points of view [5]:

1. Control exercised by a number of different directions (technical, economic, financial, etc.)
2. The process by which managers make sure that resources are received and used effectively and efficiently.
3. Control as one of the functions of common management.
4. Control coinciding with internal audit.
5. The combination of the organizational structure, methods and procedures adopted by the leaders of the organization as means of control of efficiency of economic activity and measures of economic security.

In our view, it is interesting to look at the results of assessment of the internal control orientation in the management system of the company (Figure 1).

Figure 1. Assessment of the internal control orientation



Compiled by the author

The strategic orientation of internal control provides orientation at both the strategic and tactical levels of management, which contributes to business efficiency while making management decisions. For internal control of this type of orientation the mission statement of a business entity and conducting a strategic analysis are typical for the first stage. 27% of the studied companies have got such orientation of internal control. These include the largest companies of the Omsk region: "Gazpromneft-Omsk Refinery", "Sun InBev", "Omskvinprom", "Transneft" and others [6].

The tactical orientation of internal control does not pay enough attention to the analysis of the company's strategy. It is based on the control aimed at achieving the tasks associated with the receipt of stable income in the period up to one year. Such orientation of control is typical for the majority of the analyzed companies (51%). They are mainly medium-sized companies of processing industry, trade, communications and agriculture.

The project orientation of internal control is based on the fact that the object of control is a specific economic project, consisting of co-ordinated and managed tasks (with start and end dates) which are solved to achieve a certain goal. There were only 22% of companies with such orientation of internal control. This group includes medium and small service industries, construction and transport.

CONCLUSION

Thus, internal control in the management system of the company is conceived as a complex and multifaceted process. It has its own specific subjects and objects. Analytical procedures of internal control are also quite complex and multifaceted. Our studies led to the conclusion that in the Omsk region the majority of companies use internal control focused on the tactical approach in their management system.

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