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THE MAIN ELEMENTS OF INTERNAL CONTROL SYSTEM: THE QUESTION OF CLASSIFICATION

Abstract. The article studies the need of introducing an efficient internal control system within competitiveness management of domestic enterprises. Based on a system approach the research regards internal control as a system due to the fact, that it possesses basic properties of a system. The term "internal control system" is defined in the research.

Different approaches to defining and segmenting the elements of a system are analyzed and compared with both international (COSO model, International Standards on Auditing) and domestic standards (public sector).

The analysis of the system's main elements enables the authors to suggest a new approach to the classification of the elements in the internal control system. The suggested approach includes the following groups of elements: control objectives, the subject of control, the object of control, control environment, control devices, information, risk management, control monitoring.

This article is relevant to readers and scholars from foreign countries.

Keywords: competitiveness, internal control system, control objectives, the subject of control, the object of control, control environment, control devices, information, risk management, control monitoring

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Introduction. Modern domestic enterprises operate in tough competitive environment that forces them to form a new economic strategy in the market of goods and services in order to constantly prove their competitiveness. Competitiveness, as an indicator of the financial situation of the company and its place in the market, acts as a pointer of control actions on various aspects of economic business entity. In this context, competitiveness management becomes an essential part of general economic management process and it can be regarded as a corrective process of influence on the factors that ensure proper correlation between production and sales of products and services. Management without control is meaningless. Therefore, control that is broadly considered as a management function may only be particularly disclosed while interacting with management, at a certain stage of management process.

Literature review and the problem statement. Works of many researchers, including: S. Burdukovsky [Burdukovsky 2010], T. Butynec [Butynec 2013], N. Vygovska [Vygovska 2011], V. Maksimova [Maksimova

2006], N. Zorij, N. Melnyk [Zorij, Melnyk 2012] and others are dedicated to the study of the problems of systematization of internal control theory and practice.

Taking into account the valuable scientific results in the field of developing the organization and methodology of forming an integrated internal control system, it should be noted that the current system of enterprise competitiveness management requires a serious science-based transformation of internal control in terms of its methodology, organization and methodological support.

The main goal of the given article is to determine the content of the internal control system and its elements in competitiveness management of domestic enterprises.

To achieve this goal the following tasks should be solved:

- to define the term "internal control system";
- to methodize the researchers' approaches to identifying and classifying the elements of the control system based on a critical review of scientific and regulatory sources;
- to suggest a new approach to singling out main elements of the control system in competitiveness management.

Research results. At present the enterprise competitiveness management can be regarded as a system of goal-directed actions that regulate the process of selecting a development strategy, ensure enterprise competitiveness in the market environment and promote financial stability and economic efficiency.

In order to increase enterprise competitiveness, specific requirements for the enterprise management system are set up:

- Completeness and reliability of the received management information;
- The analysis of the competitive situation both in the industry and in the market;
- The assessment of the competitive environment;
- The development of measures to reduce risks in the competitive environment;
- Conducting analytical work aimed at the development and implementation of tactics and strategy of economic development of the enterprise;
- The timeliness and efficiency of decision-making.

The efficiency of competitiveness is determined by the choice of the optimal actions to retain the competitive position. This efficiency directly depends on effective internal control, and while performing the given control one should take into account the peculiarities of enterprise's performance and its competitive development strategy in the management system.

Internal control in the field of economic control is considered as a system due to its compliance with the basic system properties, which, particularly, include:

- The availability of interrelated elements;
- Integrity, i.e., internal cohesion;
- The ability to remain stable under the influence of external factors;
- Commitment.

In order to improve theoretical and methodological bases of the internal control system it is necessary to consider the ideas of modern scientists about its essence and basic elements.

The genesis of the word "system" comes from the Greek σύστημα - "connection" Greek systema - "whole composed of parts". Traditionally, the term

"system" is interpreted as a set of interrelated elements forming a certain integrity, that is, internal unity, and interacting with each other and the environment in achieving this goal.

The review of scientific ideas about the nature of the internal control of economic entities gives ground to claim that the specialists generally have a common conventional interpretation of this concept, but today there is no single scientifically grounded term, adopted by the scientific community. Besides, there is no such term in the national legislation system. At the present stage, while determining the internal control system the researchers single out only some of its properties, including:

- An internal procedure, rules and control procedures [Butynec 2013];
- The interaction of control elements [Smatkovska, Jaros 2014];
- A set of organizational structure, methods and procedures [Syrotenko 2007].

Some scientists consider internal control in the broader sense - as the implementation of organizational and technological actions, and in the narrow sense - as a set of ordered interrelated activities, techniques and procedures [Jersova 2013].

In international practice according to COSO (Committee of Sponsoring Organizations of the Treadway Commission - committee of Sponsoring Organizations of the Commission Tredveya) a system of internal control is a process performed by the subjects of control and aimed at obtaining guarantees of the goals' achievement in particular business segments. This concept defines the notions "system of internal control" and "internal control" identically - "as a process which, in our opinion, reduces the essence of the system".

In The Glossary of International Standards on Auditing (hereafter - ISA) the system of internal control is defined as policies and procedures adopted by the management to promote business leadership in the implementation of management goals [IAMC AU «STATUS» 2004]. Such a declaration requires legislative clarification. What policies did the authors mean? A broad sense of policy makes free interpretation of the definition of internal control possible. Certainly, we can assume that in the system of business management, policy can be regarded as strategic management activities concerning internal and external legislative relationships and interactions using special tools and techniques. But this interpretation does not solve the problem with ambiguity of the notion of internal control in the terminology of ISA.

In order to determine internal control as a system it is essential to consider its elements taking into account the scientific achievements of researchers in the context of the urgent needs of competitiveness management of the enterprises.

The review of scientific sources on the elements of the internal control system shows that currently there is no one common point of view among the scientists concerning the singled out elements and their interdependency in the system. The most common approaches to determine the elements of the system of internal control are systematized in the tabl. 1.

The data in Table 1 indicates multi-scientific approaches to defining elements in the internal control system, which gives grounds for a more detailed consideration and explanation.

The research of varied elements of control proposed by the scientists can help with singling out the most essential elements of the internal controls that are shown in fig. 1.

Table 1 – Matrix of scientific approaches to the selection of elements in the internal control system

Elements of the internal control system	Scientific sources														
	T. Butynec [4]	B. Sokolov [17]	N. Vyhovska [5]	S. Levycka [11]	L. Medvid [13]	Ju. Cystiakova [18]	N. Adamova [9]	L. Belov [1]	S. Burdukovsky [2]	V. Podolsky [15]	M. Melnik [11]	V. Kundyus [10]	L. Burtseva [9]	L. Kalensky [8]	N. Jersova [6]
subjects	+		+		+						+		+	+	
objects	+		+		+						+		+		
topic	+										+			+	
target of control											+				
techniques and methods	+	+				+	+	+	+	+		+	+		
means of control															+
process steps	+														
results of control (evaluation results)	+				+				+				+		
accounting system		+		+			+			+					+
documentation									+						
control field		+		+	+	+	+	+	+	+		+			+
risk assessment system		+				+						+			
control actions			+											+	
information			+			+						+	+		
control procedures				+	+			+				+			+
Monitoring: - control system												+			
- control means						+									+
principles of control													+		
Technics and technology													+		
Process of control													+		

Source: compiled by the author based on own research

The subjects of control.

The subjects of the internal control system are considered to be persons authorized to perform the functions and procedures of internal control. The following people are generally considered to be the subjects of control:

- The founders of the company;
- Top managers and employees;
- Internal control department;
- Freelance professionals.

The subjects of control define an object of control and they are in close connection and dependence on it.

It should be noted that currently in the theory of control the subjects of internal controls are defined, and their responsibilities are detailed. A special attention should be paid to the study, written by S. Bardash and N. Vyhovska [Vyhovska 2011], which made a significant contribution to the disclosure of the legal problems of identifying the subjects of internal control and to building test models according to the nature of the interaction between the main subjects of the system. But at the same time there is no one generally accepted scientifically grounded classification of the subjects of internal control.

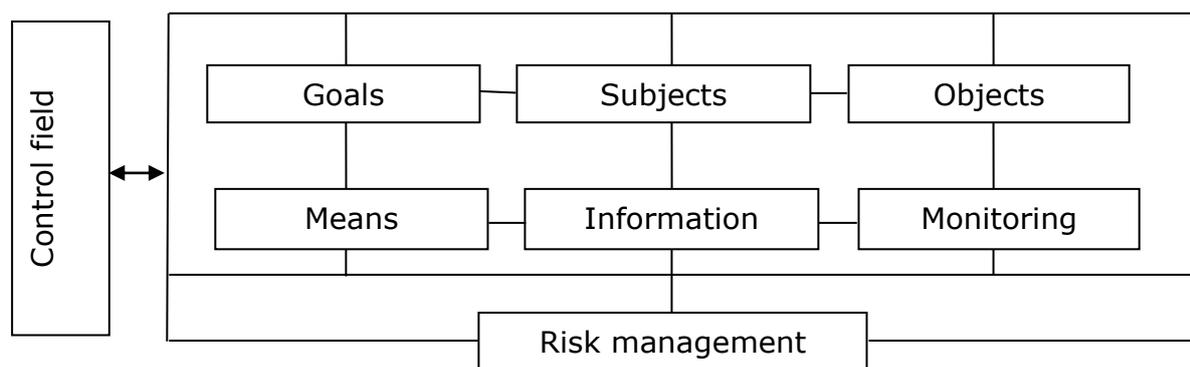


Figure 1 – The main elements of the internal control system

Source: own development

The objects of control.

In the broad sense, the objects of internal control in the company are usually resources, processes and results.

According to the budget legislation of Ukraine the objects of internal control are functions, processes and transactions, which are performed by the subjects of internal control to achieve the set goals within defined authority and responsibility.

Until now, there have been different approaches to determining the objects of internal control in different studies, probably, due to the fact only separate issues of different level of importance were considered in these studies. Thus, the object of internal control is considered to be a specified company as a system (concerning production processes, the company's management, the interaction of its structural units and the results of its operations).

T. Butynets defines the object of internal control as "the risk of business operations, i.e. movement of existing in the enterprise property, located on its territory, its sources, creation and distribution of income, changes in ownership and redistribution of property" [Butynec 2008].

N. Vyhovska believes that the object of control is something, that attracts the attention of the subject of control [Vyhovska 2011].

N. Zorij and N. Melnyk define the object of control as a separate element of the subject of internal control and claim that the objects are business processes that, taken together, make up the economic activity of the audited entity [Zorij, Melnyk 2012].

It should be noted that singling out the subject as a separate element of the system, in our view, is not appropriate due to the fact that the notions "subject" and "object" in their original interpretation are intertwined: the Latin word "object" means any object of study. Therefore, determining the subject, one should study the whole variety of its objects.

Concerning the above mentioned topic, V. Maksimova`s study, which deals with the major advances in control theory, should be mentioned. The objects of internal control, according to V. Maksimova, are individual and (or) interconnected components, subsystems and systems of the enterprise, including system of management, at which control actions are aimed. Thus, the objects of control are directly targeted, organizational, managerial, economic, and informational characteristics [Maksimova 2006].

Control field.

To define the term "control field" we`ll have to define the term "environment", which means "surrounding", "set of conditions in which the activities of economics are carried out".

According to some scholars, the control environment is a set of prerequisites in which the internal control is carried out. [Butynec 2008] In general, taking the given thesis into account, its slight incorrectness is worth noting. Prerequisites and conditions are different things. Control environment is the environment, in which control actions are being performed, but their implementation is not expected in the future. In this context, environment control as a set of conditions is a "the process of aggregated influence of various factors on the effectiveness of measures and procedures relating to the specific structure of control" [Vyhovska 2011] and is the basis of the interaction of all other elements of the internal control system.

N. Jershova regards control environment as awareness and practical actions of the management of economic entity aimed at establishing and maintaining monitoring systems [Jersova 2013].

L. Medvid', O. Charynovyč-Javorška believe that the notion "control environment" includes management style, decision making processes, delegation of authority and taking responsibility, ethical values, policy guidance in relation to personnel, the compliance of the internal control department with the scale of the company, including recommendations of internal control department into accounting and reporting, the existence of a single policy and monitoring the fulfillment of all principles, conducting regular audits with debtors, creditors, and tax authorities [Medvid, Charynovych-Javorska 2014].

E. Sirotenko identifies the control environment with the monitoring system and defines it as "practical actions of the economic entity, aimed at establishing and maintaining internal control system, and the information that it has" [Syrotenko 2007]. Control environment, in our view, is not a process of observation and recording of the parameters of the objects compared to the set criteria.

It should be noted that in international practice according to integrated concepts of COSO and national rules of the organization of internal control in the public sector, internal control environment is defined as the processes, which exist in organization, regulations, the structure, rules of resource management.

To sum up, we suggest our own definition of environmental control: it is regarded as a combination of objective and subjective conditions of control, in which the activities of economic entity is performed. The objective conditions include external factors (such as environmental conditions, type of business, organizational and legal status and ownership, location of the enterprise) and internal (such as management structure of the business entity, its resource base). Its own management strategy for performing in the market environment and increasing its competitiveness, and the economic activities are subjective terms of internal control.

Aims of control.

The system of internal control, as any system, a key element of which is a goal, which determines what exactly to control, how and by what means to carry out internal control, can be characterized by commitment. The main purpose of the control is to maintain the business entity, as an object in the control system, in a set working mode. Achieving the goal should be considered from the point of view of strategic and tactical aims, which serves as a basis for the multitude of sub-aims of competitive enterprises development.

The main objectives of internal control system functioning include:

- The efficient use of resources and potential of the company;
- Timely and adequate response to changes in the market environment;
- The increase of competitiveness and stimulation of the enterprise's development.

Achieving the goals of the system can be ensured through the implementation of the main objectives of the enterprise in the form of checks:

- The correspondence of economic activity of an enterprise with a developed strategy in a competitive environment;
- Compliance with legal and other regulatory requirements for the conduct of business;
- Validity, completeness and timeliness of accounting information for effective management decisions making;
- Following the established internal regulations by employees;
- Financial stability and rational use of the resources and their conservation;
- Identification and mobilization of the reserves.

The internal control system must ensure the implementation of goals, objectives and functions of the enterprise as a whole.

Risk management control.

One of the key elements of the internal control system is defined as risk management. This notion involves control activities related to the risks identification and assessment, their minimizing in the company's performance, determining how to respond the risks in order to detect at the early stage inefficient management of enterprise competitiveness. Vyhovska believes that the risk has the influence not only on the control of the action, but also on the ability to call for the need for a new discussion of information and communication issues or monitoring methods. Therefore, internal control can be called multilevel, repetitive process in which not only one element can affect another one, but also each element, even a small one, can influence and affect others [Vyhovska 2011].

Effective risk management involves:

- Analyzing the activity aimed at the identification and assessment of risks;
- Gathering, systematization and analysis of information on the identification of risks, which takes into account potential risks for the enterprise;
- Analysis and risk assessment according to the relevant criteria;
- Development of suggestions concerning the implementation of control measures and monitoring of the implementation of their results.

Means of control.

Means of control as the main element of the system of internal control are a collection of special management action methods, methods that make it possible to reach the goal of internal control.

B. Sokolov says that the means of control can detect and prevent the emergence of some discrepancies in the state and the performance of the subjects and the objects of control, which will go against the legal framework and the decisions of the management [Sokolov 2007].

While singling out the means of control in the elements of the system one can notice the interpolation of scientific approaches and the replacement of elements of "means" with other elements, such as: control procedures, control actions, methods of control, technics and technology of control.

In the theory of control one can define the identity of concepts that are implemented as:

- Procedures - a sequence of specific actions;
- The method - a course of action or set of methods;
- Technology - a set of tools;
- Technology - a combination and sequence of methods and techniques, or body of knowledge about methods of processes.

Means of control are in close contact with other elements of the system and depend on each other. Thus, the control environment weaknesses due to objective or subjective factors may be compensated with additional means of control.

Information.

Information is a general concept that expresses new knowledge that the consumer (the subject) gets as a result of the perception and processing of certain information.

Implementation of management control function is based on constant exchange of information, which is determined by utility and its ability to provide the subject with the necessary conditions to reach the set goal. Internal control of the company is performed in the information environment in which the subjects of control receive and transmit information necessary for implementing control functions. Information management of internal control system includes laws and other legal and regulatory frameworks, internal guidance documents, planned information, subsystems of accounting data and other information necessary for decision-making process. Completeness and availability of these documents will create optimal conditions for the effective implementation of internal control.

In this context, singling out the accounting system as a separate element of the system, in our opinion, is debatable. Accounting information is a component of the overall information support of the system of internal control.

Documenting, that is, the process of creating documents using various methods and means of recording information which is the property of the accounting system, also should not be singled out as a separate element of the system.

All system elements are penetrated with direct feedbacks, ensuring the sensitivity of the system and its viability.

Monitoring.

Monitoring, as a set of scientific, technological, organizational and other tools that provide systematic monitoring of trends and development of business entity in the market environment, the goal of which is to improve its competitiveness, is one of the key elements of internal control. The monitoring process includes a series of similar measurements of the objects of control, its further analysis, evaluation and comparison of the results to identify certain patterns and trends in the dynamics.

theory the concept of "internal control system" generally refers to generally accepted level of interpretation. The research reveals only some of its properties; in the national legislation system the term institutionally is not defined. Therefore, further research needs to be conducted to determine the problems of defining the term "internal controls" in the field of competitiveness of domestic enterprises.

In theoretical terms, the question of definition and classification of the elements of internal control remains debatable. Systematization of the most common scientific approaches to singling out system elements and their comparison with international requirements and national levels gives grounds to state that at present there is no single position concerning their definition. Study of the essence of basic elements of the system enables to suggest a new approach to elements in the internal control system with the following division: control objectives, the subjects of control, the objects of control, control environment, control devices, information, risk management, monitoring control.

In the current economic conditions the internal controls must contribute to the successful functioning of the business in a competitive business environment, so the theory and practice of control require further research towards improving its conceptual and methodological bases.

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