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**Expanding Internal Control Functionality Scope**

Mykola M. Vuitsiv

Kyiv National Taras Shevchenko University, Ukraine

PhD student

E-mail: vuitsiv@yahoo.com

**ABSTRACT.** The article reviews the influence of «western» concepts of the information needs of management process provisions on forming and developing the up-to-date model of Internal Control.

An attempt has been made to develop the approach to solve urgent management tasks by applying the ideas of controlling and management accounting via the traditional national approach to the content of control. The place of control in the enterprise management information system has also been reviewed.

**Keywords:** internal control; controlling; management accounting.

**INTRODUCTION. Raising the problem.** At the current stage of development, the capacity of the category “Internal Control” is determined by the fact that financial and business activity of an enterprise is done within two systems. The first one is the operation (organizational) system that has been built up to meet the set targets; the second one is the control system that runs through the whole of operation system. Its overall view comprises policy, procedures, rules, regulations, budgets, accounting and reporting systems. Control system is aimed at creating necessary conditions as well as increasing the degree of probability for an enterprise to meet strategic and tactical targets.

As a result of obtaining new functions, Internal Control goes beyond the traditional scope of accounting. Nowadays it is the process directed to meet strategic and tactical targets, it is also the result of management activity in planning, arranging and monitoring the enterprise performance as a whole as well as its particular subdivisions. The factors mentioned above determine the importance of the research focused on developing the category.

At the same time, as a result of the innovative information technologies rapid penetration into the management process, there is a need for revealing the possibilities of Internal Control, their importance is determined by introducing computerized information systems for managing and accounting.

**Latest research analysis.** It appears to be important to list current scientific research in the area because of great importance of Internal Control modernization issue for the local business successful development. Particularly, the works of N.Dorosh, S.Golov, S. Ivakhnenkov, L.Napadovska, M.Pushkar, V.Savchuk, and others cover some aspects of using certain controlling and management accounting functions at local enterprises.

In spite of the current scientific contribution into the subject matter under research, there is still a need to interpret and expand certain aspects of modernized Internal Control systems implementation and performance, in particular, when it goes about computerized information systems for managing and accounting to support the system of Internal Control.

The factors mentioned above determine the matter of urgency of the article as well as its purpose to research certain aspects of integrated information system implementation into an industrial enterprise and to specify the place of Internal Control within the system.

To meet the target, it's necessary to achieve the following goals:

– to research expanding Internal Control scope by means of management accounting and controlling;

– to research strategic targets of control with regard to implementing the information system;

– interaction of accounting and Internal Control.

**Setting out the essential research material.** Modernization of Internal Control system based on controlling means obtaining a number of new functions, which in international practices are also characteristic for management accounting. The following arguments prove the need for modernization of traditional Internal Control system functions at local enterprises. Firstly, the effectiveness of management system depends in the first instance on the quality of information provision which is reasonable to form on the basis of Internal Control system. At the same time, information environment is not to be limited only by either industrial data or financial data, because it is evident that the control at the new level is taken of industrial, financial and management activity. Therefore, the type of information used cannot be the motive for functional limitation to apply the Internal Control.

Secondly, Internal Control system is not arranged around the activity of executive personnel of an enterprise, on the contrary, the goal of control is to support management decisions and drive them up. In other words, management is to use the information collected by the control system to reach the targets of business, for example, for planning and controlling the business and financial performance [7].

So, Internal Control system can be presented on two levels – industrial and management [11]. On the first level, we come across a number of tasks connected with planning and managing the resources of an enterprise which are necessary for trading, manufacturing, purchasing and accounting while fulfilling clients' orders in the sphere of manufacturing, distribution and servicing (for example, in the management system of ERP [6]). On the other level we come across the tasks connected with the control of the activity of management personnel as well as ensuring long-term efficiency of a business entity. In fact, Expanding of Internal Control system functions goes in the direction of identifying, measuring, accumulating, analyzing, preparing, interpreting the information on business and financial performance, that has been collected on industrial and financial levels with the further passing it over to the enterprise top management; they do planning, assess results and control the quality of business management as well as efficient use and accounting of all the resources of an enterprise provision.

In terms of accounting, control can be described as an independent element of management accounting which appears as communications network of management accounting [9], it helps to ensure the compliance of management decisions, assess financial and non-financial information system functioning [10], that guides business management segment to take certain actions, motivates its performance, supports and creates corporate culture and values necessary for achieving strategic, tactical and immediate objectives of an enterprise.

As an element of management accounting system, control is based on the information obtained from the sub-systems of budgeting, segment accounting, segment reporting and management analysis. In such a case, control does not assume functions of the management accounting elements, does not provide service to them as to additional functions, but interacts with them and has first-hand influence on their usage efficiency.

The structure of management control is based on defining its objectives, tasks, facilities, parties, principles and functions; it enables us to consider it as both an element of management accounting system and a tool of management with the help of which the interaction between the enterprise management system and management accounting is established.

The aim of management control as an element of management accounting system is information provision for management decisions approving on the basis of assessing financial and non-financial indicators of the performance segments functioning (factual, standard and forecasting and so on), managers who implement organization strategy and who motivate them to use the resources efficiently, as well as external environment indicators.

In its turn, the structure of Internal Control system changes due to expanding its functionality. In such a case, it's possible to implement innovations potential in the proper way only in case the control carries out the following tasks:

- setting up the database by collecting, accumulating and classifying information;

- analyzing, interpreting and providing the control information in the most relevant form to adopt by users (management of all levels);
- organizing timely and complete access to information.

Thus, nowadays the critical function of Internal Control is participating in development and implementation of management decisions. So, it's getting urgent to consider Internal Control as a means of supporting the process of building up additional value by taking reasonable management decisions in planning and managing operational and financial performance of a business entity. In fact, this is building up additional value that determines the direction of management activity, value-oriented priorities of the management decision-making process as well as support and initiating the process to reach strategic, tactical and industrial targets of an enterprise.

In spite of this, Internal Control system remains the source of information which is necessary for planning and controlling the financial and business operations of an enterprise. In this regard, Internal Control includes the phases of collecting, classifying, handling, analyzing and submitting information to management. In this context, the task of Internal Control goes beyond the traditional (accounting) approach, which is mainly counting and comparing retrospective data regarding expenses and profit from operational activity, including the management of account receivables, information on volume of output, price level, value of debt capital, tools to measure efficiency based on real economic results or non-financial data.

In our opinion, all tasks of Internal Control within accounting area at industrial enterprise can be incorporated into four groups. The first group has the tasks regarding the research of financial and management information: a) control of tools and methods used for collecting, counting, classifying information and making reports based on the information; б) specific methods of checking particular component of information base including detailed control of operations, account balance as well as other methods and tools of control.

The second group has the measures regarding carrying out the monitoring of Internal Control procedures efficiency in terms of information systems functionality, in particular, accounting systems, Internal Control as well as working out recommendations to improve them.

The third group of tasks has the measures to control efficiency of using industrial resources, effectiveness and results of management and economic decisions including non-financial means of control.

The fourth group of tasks is for controlling compliance with current legislation requirements, regulations and other external requirements, as well as compliance with policy, guidelines and other internal requirements of executive board.

All four sets of tasks have been formed of a range of tasks of Internal Control, they all, to some extent, are connected with accounting. For example, the first group is connected with information quality control that is to be formed in all information systems of an enterprise (Pict. 1).

Internal Control Groups of Tasks			
Research of financial and management information	Monitoring of Internal Control procedures efficiency relative to sub-systems of information system and Internal Control system	Control of financial and business efficiency	External and internal regulating documents compliance control
Measures and Procedures			
Control of accounting quality in terms of calculating accuracy, keeping to correspondents accounts, logics	Control of functioning of automated information system (AIC)	Financial and business performance analysis	Compliance with current legislation requirements assessment
Control of accuracy of total data regarding	Control of safeguarding the database in all AIC	Complex financial analysis	Contractual work assessment

accounting records	as well as documents in the archive and departments		
Control of factual availability of assets and liabilities	Adequacy of AIC functioning assessment	Budgeting and management analysis	Tax control
Control of completeness of information disclosed in financial statements	Control of gating at the territory of an enterprise	Non-economic methods control of assets maintenance	Administrative control
Control of fixed business operations legitimacy	Control of operations documentation in terms of form and contents	Tax planning	Control of fulfilling accounting job instructions
Control of regulations of accounting policy and their interpretation in financial statement	Control of division of power		
Control of information collected via management accounting and reporting	Monitoring of repeated breach		

Pic. 1: Internal Control tasks within accounting area \*Created by the author according to [1, 4, 8, 12].

The abovementioned grouping of control tasks does not claim to be comprehensive, but its content demonstrates that any of the targets set to the Internal Control managers is connected with accounting in any case. In the first group it's about certain techniques and methods of documentary control of accounting and reporting information; in the second group it's about measures taken to keep the data summarized by accounting as well as the sources of information; in the third group it's about carrying out detailed analysis the source of which must be accounting and financial reporting data; in the fourth group the presence of accounting is limited just by checking the compliance with main regulatory documents in the area.

To that, it's worth paying attention to the fact that when setting up responsibility centres, the executive officer delegates some control and management functions to the subordinates. In most cases, the responsibility does not involve direct link to accounting, but it is more about using economic indicators of performance, for example, profitability, resources using efficiency etc. However, this kind of responsibility delegating enables the executive officer to control the personnel activity totally.

Information technologies development has also made impact on information systems for accounting and management development. As a result of automation of tools for financial and economic indicators analysis, considerable amount of enterprises resources got free. However, the need of arranging flows of information inside a company arouse in large international and local enterprises. The fourth conceptual question appeared while information environment capacity was expanding, that is the conceptual question of management: the answer to «What shall we do?», «How shall we perform?», «How shall we manage?», today it needs to solve the essential problem of arranging the information environment inside a company efficiently. In other words, the need of arranging flows of data within information sphere of business performance has been recognized.

Recognizing and solving the problem in local environment is both on scientific and practical levels. In particular, the works of Ukrainian scholars consider the issues of arranging the information environment of controlling [3] and management accounting [2].

The principal issue is that automated accounting system is just one of the possible task solutions of arranging information environment that is on the technical level or software supply level. But, the notion of «enterprise» as the environment to arrange information flows is much

higher, and so it includes the previous issue as an integral part. Forming of information sphere of business performance «... as a complex of methodical, organizational, programming, technical and telecommunication tools that provide timely access to any information resources of an organization with the view to specialists' responsibility and rights for access » [5, c. 167] is the solution to the challenges the management faces with the market going global and so the competition getting fierce.

Forming efficient system of Internal Control information provision is only possible on the basis of detailed research of information flows sources, their role and importance in the process of financial results control. Taking into consideration that the accounting information has some weak points, for example, incompleteness, inaccuracy, retrospection of information and the like, we must note that this is just the possibilities of corporate information system that must be used to form Internal Control information base. In such a case, the sources of information about them are functional departments, such as: finance, marketing, supply, stores management, sales and distribution, service, planning, etc.

Strategic target of setting up corporate information system is the enhancement of manageability, which enables to increase business efficiency and well improve financial results of an organization performance due to different factors, the most important of them are:

- establishing conditions for continuous accounting and control of collecting, transferring, handling and submitting information by means of segregation of responsibilities of working with the information between professionals of different functional sub-systems;
- organizing management standardization with the aim to implement innovative experience of improving functioning business processes into the enterprise business activity. This enables to develop integration in various business areas which need standard approach;
- eliminating information dis-balance with integrated information system being able to support general database which enables all users to gain necessary information with the view to their rights for access into the system. This is the way to provide favorable climate to eliminate intentional or accidental data distortion about the results of financial and business performance of an enterprise;
- optimizing business processes – where there is inter-connection between functional elements performance then the degree of their interaction increases. Besides, business processes re-engineering enables to re-consider the factors leading to efficiency loss and then get rid of them. Such an approach gives the possibility to reduce capital costs, such as costs for personnel, costs for raw materials purchase and warehouse inventory;
- development strategy – this approach enables the management to re-consider key aspects of the organization development and define priorities. Strategic approach provides a good possibility to optimize certain business processes and concentrate on the processes that may be competitive advantages of an organization.

**CONCLUSION.** Thus, in up-to-date conception, Internal Control goes beyond the definitions according to which its mission is retrospective checking of financial statements, providing maintenance of assets, labour discipline, etc. At the current stage, Internal Control system (based on the control modernization with controlling and management accounting functions) has been called to provide information system functioning to support the management of an enterprise. However, in spite of expanding the limit line of functionality, Internal Control does not transform into one of strategic management tools. In fact, interrelation between operational and strategic levels of business management is formed within the integrated control system.

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### **Развитие области функционирования внутреннего контроля**

Николай Николаевич Вуйцив

Киевский национальный университет имени Тараса Шевченко, Украина  
аспирант  
E-mail: vuitsiv@yahoo.com

**Аннотация.** В статье рассматриваются влияния «западной» концепции информационных потребностей управления процессами положения на формирование и развитие современной модели внутреннего контроля.

Была предпринята попытка разработать подход к решению актуальных задач управления с применением идей контроллинга и управленческого учета с помощью традиционного национального подхода к содержанию управления. Уделено внимание месту контроля в информационной системе управления предприятием.

**Ключевые слова:** внутренний контроль; контроллинг; управленческий учет.