

CONCEPT OF THE USE OF THE SYSTEM OF INTERNAL CONTROL OF ENTERPRISE

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Abstract

One of the important questions of the perfection of organization of the state financial control under actual conditions is the use of the activity of state organizations and their associations (and also the organizations with the state participation or especially connected with the activity of the state at realization of procedures of the control (i.e. in this way or otherwise using public funds etc.), information resources of the system of internal control of the latter (i.e. the control systems created within the framework of these organizations) by specialized bodies of the state financial control. It is necessary to notice, that state financial control and system of internal control in many respects are crossed, as the same the employees of internal control and auditing services of state organizations or their accounting departments are also by definition the subjects of the state financial control (in this case, of internal control).

Key words: Administration, audit, audit check, audit risk, audit sampling, control, control procedures, documents, financial control, effective, estimate, internal control, International standards, inventories, legislation, management, optimal functioning, system of internal control, system control.

Introduction

In the given article we abstract from aspects of treatment of all possible bodies of the state financial control and of the relation of the latter with internal administrative systems of enterprises. We shall consider only the question of the interaction of internal controllers (which may also be subject of the state financial control) and controllers from specialized bodies of the state financial control.

The state controllers from specialized bodies of the state financial control begin actually the check basically direct economic operations of economic subjects. It is also registered in normative base, and in various guidance materials on control, but from the point of view of modern requirements it is possible to recognize such approach to be incomplete, because it does not mention tentative estimation of managing, to be exact, control systems of organizations. And though in the scientific literature of the corresponding area the authors recommend and concentrate basically the attention on direct control of the activity and various methods of its perfection, this approach is already obsolete. The matter is that, in connection with the tendency of the growth of the volume and a variety of the structure of information flows, complication of conditions of management, expansion of fields of the activity of organizations (including in connection with trans-nationalization of management) there is an uncountable set of subjects subject to direct control. This universal control demands increasing intensity of resources and time that distracts from more important tasks. So, if previously the subjects of the state control were, basically, the safety and effective use of resources, and also the legality of control and economic operations of the organization, now besides, it is expedient to be more and more guided by rationalization of administrative systems of the checked organizations (systems of selling, supply, management of investment activity etc.), search for ways of the increase of the efficiency of their financial and economic activities. Is it necessary to explain how cost consuming and irrational would be to cover direct control all these numerous parties of the activity of the organization? So, it is much effective to treat the control not only from the point of view of direct objects and financial-economic operations and to determine those systems which control will allow to draw conclusions on the activity as a whole. It is a complex question, but resolvable.

Main text

It is known, that the optimization of costs of realization of control actions is achieved mainly by elimination of duplication, i.e. the performance of the same work on the financial control by its various bodies or subjects. For example, in nation-wide systems of the financial control of economically developed states the bodies of the control having higher status, pay the increasing attention to the results of audits and evaluation of the activity

of subordinate supervising organizations and internal control systems of the checked organizations and only after that to direct control of objects. We shall cite some examples. So, at performance of control functions the Accounting chamber of the European Community uses any valuable information received by systems of internal control of the checked organizations. If such information is reliable, it allows to analyze operatively the control systems.

The establishment of the following enters into the basic tasks of National control and audit management of the Great Britain at checks first of all of the efficiency of the use of the state financial assets: whether the establishment has a reliable system of internal control, providing the economy, efficiency and efficiency, and check as far as system of internal control works and provides the management of the establishment with the necessary managerial information. In this plan the experience of Canadian experts is also remarkable. For example, the Department of General auditor of Canada carries audit system of internal control of official bodies and corporations as one of the major components of the activity, believing, that if systems work successfully, there is no need in evaluation of separate operations and bargains. Rather an extensive experience of the evaluation of system of internal control is accumulated by independent auditors. The systematized and probabilistic approaches are basically applied for this purpose. For example, the systematized approach demands of the auditor:

- a) to be convinced in the existence of system of internal control;
- b) to describe it (by each sphere of the control);
- c) to evaluate its reliability, i.e. ability to prevent mistakes and abusing (the evaluations are also applied with the description of various sort of circuit, questionnaire, explanatory, special forms - reports etc.);
- d) to establish the extent of trust in it, that is, in turn, used at definition of character, volume and duration of procedures of the check for conformity (i.e. more detailed check of the control concerning real operations with the purpose of confirmation of the conformity to their certain requirements) and in essence (i.e. careful research of certain facts of financial and economic activities of object of the control, interpretation (accounting) and evaluation of these facts and their consequences, observance of rights and liabilities of participants, the disputable moments etc.).

The probabilistic approach to evaluation of system of internal control is new, it is based on consideration of the extent of risk and as a whole supplements the systematized approach. We shall not concentrate the attention on detailed interpretation of the systematized and probabilistic approaches, the description of procedures of quantitative evaluation of factors (components) of auditor risk and influence of values on volumes of auditor procedures in essence, because all this can be found in the corresponding literature devoted to independent audit.

It is also more expedient to domestic specialized bodies of the state control to estimate first of all system of internal control of the checked managing subjects, having preliminary established "threshold of trust" in it, i.e. the limits up to which it is possible to rely upon the internal control. So, at administrative audit or at evaluation by the state bodies of the financial control of the optimality of strategy of pricing, methods of transportation of finished goods, policy of the formation of the demand and stimulation of selling, policy of commercial crediting etc., accepted at the checked enterprise, first of all it is more reasonable to analyze and use at the stage of planning of procedures of such evaluation the corresponding materials of other levels of the control and first of all system of internal control, than to waste own limited resources, carrying out the check "from zero" (i.e. without use in the corresponding way of the analyzed information of internal control). If system of internal control works successfully, there is no need in check of separate bargains. On the other hand, an unsatisfactory status of internal control may specify to various "weak places" of economic system of the checked enterprise (establishment) that will help to reveal much infringements in the use and management of public finances.

So, one of the most urgent questions of the theory and practice of the control is an opportunity of the use system of internal control by the specialized bodies of the state financial control. At planning and realization of checks it is expedient to bodies of the state financial control to pay attention, basically, to the following important points of internal control of organizations:

Level of performance of purposes and tasks by system of internal control. Effective system of internal control provides definite purposes and tasks. So, it is necessary to understand the basic purposes of system of internal control of the organization to be as follows:

- a) preservation, lawful and effective use of various resources and potentials of the organization (including the resources received from the state);
- b) duly adaptation of the organization to internal changes and in environment;
- c) maintenance of effective functioning of the organization, and also its stability and the maximal development under multi-plane competition.

Achievement of given purposes of system of internal control is provided with the fulfillment of tasks which consist in achievement of the following basic factors of management efficiency by the organization:

- 1) conformity of the activity of the organization to the accepted course of actions (i.e. to the purposes and reference points) and strategy;
- 2) stability of the organization from the financial and economic, market and legal points of view;
- 3) safety of resources and potentials of the organization;
- 4) a due level of completeness and accuracy of initial documents and qualities of the initial information for successful management and making effective managerial decisions;
- 5) factors of the correctness of registration and processing of financial and economic operations of the

organization (presence, full disclosure, arithmetic accuracy, entries on accounts, form, time definiteness, performance and revealing data in statement);

6) rational and economical use of all kinds of resources;

7) observance of the requirements established by administration, rules and procedures (regulations about divisions, duty regulations, rules of the behavior, plans of the documentation and document circulation, plans of the organization of the work, the order on the registration policy, other orders and orders) by employees of the organization;

8) observance of requirements of laws and sub law acts issued by authorities of the Uzbekistan and its subjects, and also by authorized institutions of local administration. These and many other problems cause the creation of effective system of internal control in the organization.

It is necessary to emphasize, that a special question of evaluation system of internal control is the level of the performance of purposes of the control of operations with public funds.

Realization of procedures of internal control. The formally established and really carried out procedures of internal control should include the following basic elements:

a) according to objects, purposes and tasks of internal control and on the basis of in details developed duty regulations espy formal definition and documentary fixation of duties (the actions and mutual relations) of certain circle of employees of the organization concerning planning, organization, regulation, control, accounting and analysis at execution of concrete financial and economic operations of the organization;

b) definition of the used normative documents, sources of the information and of the circle of initial documents or other data carriers where the data testifying to the performance by the corresponding employees of functions and accomplishment of stages of the corresponding financial or economic operations are reflected; the definition of circulation of documents or other data carriers from the moment of their occurrence up to registration;

c) definition of "points of the control" for evaluation of various aspects of realization of concrete financial or economic operations and evaluation of the status or presence of resources at the organization; establishment of controllable parameters of objects of the control; establishment of "break-even points" of the control where the risk of occurrence of mistakes and distortions is especially great;

d) the choice of kinds (types and methods) of execution of internal control.

Risk of control environment. The given risk is determined: with administrative philosophy and style of the work of heads of the organization (the relation of managers to commercial, financial and internal risks; adequate understanding by them of the role of internal control in management of the organization; concrete actions at organization of system of internal control and its perfection; propensity to authoritative style in management, etc.); organizational status of the department of internal audit, i.e. the position of this important coordination center of responsibility in organizational structure; the rate of actions accepted by the organization (its reference points), the purposes and strategy; kinds and scale of the activity of the organization; conformity of organizational structure to the sizes and the extent of complexity of the organization; regulation of mutual relation between parts of the organization, employees, presence of the Code of the behavior; definition and documentary fixation of procedures of the control; definition and documentary fixation of powers and the responsibility of employees; methods of acknowledgement of employees with the established rules; studying by heads of deviations revealed as a result of the control, timeliness of making decisions by them on the given deviations; co-ordination of the system of communications and systems of information supply of management; coordination of the system of budgeting, business - planning, preparation of financial statement for external and internal users; adequacy of the system of the documentation and document circulation of the organization to its size and structure; rationality of personnel choice, i.e. mechanisms of management by staff; conflicts in the collective; motivation of labor activity, vocational training, an intellectual level, personal qualities, ethical principles, and also physical, mental, sexual and age characteristics of employees of the organization; external influences - the level of the development of the economy, economic and political stability of the market, development of legislative base of market type, fiscal policy of the state; observance of current legislation and work with external bodies of the control; uncertainty and risk of the activity, and also other conditions specific to each concrete organization.

In general, the environment of the control can be subdivided in external and internal one. It is also possible to be guided by grouping of factors influencing financial and economic activity of managing subject (for example, general economic factors; branch factors; individual factors; the factors connected with features of economic activities; financial factors; specification and legal factors).

Effectiveness of the System of Accounting. It is possible to judge the efficiency of registration system depending on the level of the achievement of the following factors of the correctness of registration and processing of financial and economic operations of the organization:

1) whether really existing operations are reflected;

2) all real operations are fully reflected;

3) arithmetic accuracy - all operations are considered correctly;

4) entries on accounts - all operations are correctly carried on the corresponding balance sheet accounts;

5) formal permit ion - each operation should permitted formally or specially;

6) time definiteness - all operations are referred to the corresponding accounting period;

7) performance and disclosing of the data in the statement all data are correctly summarized and generalized, the established requirements are observed concerning the order and volume of disclosing of the

information in the statement.

An effective system of the accounting should not suppose the occurrence of mistakes and opportunity of abusing (distortions) by employees of the organization.

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