

# **Ministry of Education Republic of Azerbaijan**

## **The impact of internal control system on the financial management of an organization**

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## **ABSTRACT**

The control also helps to determine which of the methods used to achieve the goals turned out to be the most effective and which are unsuccessful and, thus, the firms determine in which areas they should expand, and in which they should cease their activities. In our study, we will define the place of management control in the organization management system, this is the first chapter. In the second chapter, we define the functions and the "habitat" of management control. The third chapter is devoted to the psychological characteristics of controlling activity. In the fourth chapter, we will consider the controlling system, together with an analysis of the economic activities of the enterprise.

Key words: Internal Control, Financial Management, Organization

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## **INTRODUCTION**

The activities of the organization are influenced by numerous factors of the external and internal environment, the effect of which is not always possible to

foresee with sufficient probability. Plans are not always carried out as planned. Management does not always manage to properly motivate people to achieve their goals. Environmental conditions change and the organization must adapt to them. With the help of control, restrictions are established, which preclude the possibility of actions that harm the organization.

The main task of control is to establish standards that should be followed when carrying out assignments, measuring actual results achieved, and making adjustments if the results achieved are significantly different from the established standards. The fulfillment by the managers of the control function begins simultaneously with the performance of the planning function in the process of elaborating the goals and objectives of the organization. Control is an integral part of the management process in any organization.

Well thought out plans and organizational structures can not always ensure achievement of the set goals due to changes in laws, technologies, competitive conditions and other factors of the external environment. In order to prepare and respond appropriately to such changes, organizations need an effective mechanism for timely assessment of the impact on them of these factors of change. Such a mechanism can be created on the basis of control.

The relevance of our research corresponds to the generally accepted opinion that without an effective internal control system there is no rational management system. At the present stage of developing a market economy, the internal control system is an integral part of the management system of many enterprises, especially public ones, whose shares are quoted on exchanges. For example, the Sarbanes-Oxley Act was adopted in the US, which, among other things, provides for the availability of publicly certified auditors' reports on the activities of its internal control system. At the moment, practical issues of internal management control, its organization and methods in general are becoming particularly topical.

The control also helps to determine which of the methods used to achieve the goals turned out to be the most effective and which are unsuccessful and, thus, the

firms determine in which areas they should expand, and in which they should cease their activities.

In our study, we will define the place of management control in the organization management system, this is the first chapter. In the second chapter, we define the functions and the "habitat" of management control. The third chapter is devoted to the psychological characteristics of controlling activity. In the fourth chapter, we will consider the controlling system, together with an analysis of the economic activities of the enterprise.

Within the framework of the set goal, the following tasks are solved in the work:

1. The company's financial management strategy is analyzed, within which domestic enterprises are currently operating.
2. The object and content of controlling is determined. Its tasks, principles and functions.
3. The main components of the company's financial strategy are considered.
4. Systems and methods of internal financial controlling are generalized.
5. An example of the organization of a financial management system in a construction company using control technology is given.

## **I. THEORETICAL BACKGROUND OF THE IMPACT OF THE INTERNAL CONTROL SYSTEM ON FINANCIAL MANAGEMENT OF AN ORGANIZATION**

### **1.1. The concept of internal control**

Internal control is a process carried out by the Board of Directors of the Company, the Audit Commission of the Company, the collegial and sole executive bodies of the Company, managers and employees at all levels of the Company management aimed at providing reasonable guarantees for achieving the Company's goals.

Internal control is a continuous and cyclical process within the general management system of the Company, and is an integral part of the Company's risk management system.

The internal control system covers all areas of the Company's activities, control procedures must be carried out continuously in all processes (lines of business) of the Company at all levels of management.

The purpose of the internal control system in the Company is to ensure reasonable confidence in achieving the goals set for the Company:(Statement of Accounting Standard, 2005:320)

- ensuring efficiency and effectiveness of the Company's operations, safety of the Company's assets;

- observance of the requirements of the legislation applicable to the Company and local regulatory acts of the Company, including when doing business and keeping records;

- ensuring the reliability and timeliness of accounting (financial) and other reporting.

Strategic objectives are not part of internal control. Setting strategy is a prerequisite for the implementation of internal control.

The internal control system should provide an objective, fair and clear picture of the current state of the Company, the integrity and transparency of the Company's reporting.

Tasks of the internal control system

- ensuring reliable, high-quality and affordable power supply to consumers;

- ensuring the safety of the environment and the safety of personnel and third parties when the Company performs its activities;

- ensuring the implementation of the Company's financial and business plans in the most efficient and economical way (by building effective processes (lines of business));



ensuring the development and implementation of effective control procedures that reduce the risks associated with the Company's activities to a level not higher than the preferred risk (risk appetite);

ensuring effective prevention, detection and elimination of violations when the Company performs its activities and conducts financial and business operations;(Pandey,2007:3)

ensuring the safety of the Company's assets, ensuring the effective use of the Company's resources, ensuring the protection of the Company's interests, counteracting the unfair actions of employees of the Company and third parties;

ensuring the prevention or detection of deviations from established rules and procedures, as well as distortions in accounting data, accounting (financial) and other reporting;

ensuring compliance with the requirements of legislation applicable to the activities of the Company, compliance with internal policies, regulations and procedures of the Company;

ensuring reliability, completeness, reliability and timeliness of the formation, delivery / presentation of information and all types of reporting of the Company, established by the applicable legislation and regulatory documents of the Company.

The following restrictions affect the Company's activities in the field of internal control and the effectiveness of achieving the objectives of the JMC:

Limitations of the external environment. Internal control operates at various levels and aims at achieving different objectives. Some events and conditions that have a significant impact on the achievement of goals are beyond the control of the Company.

Restrictions on the internal environment, including the effectiveness of corporate governance, the degree of adequacy of the objectives identified as a starting point for internal control, the judgment of the subject in making decisions on the choice of control measures, the human factor, the limitation of resources and the

consequent need to take into account the costs of internal control and the benefits of developing actions within any of the components of internal control.

## **1.2. Place and role of the internal control in the management system of the organization**

The main task of the organization management is to ensure the fulfillment of the above requirements.

The process of managing an organization, as is known, includes the following main stages:(Osuala, 2005)

1. Planning - the collection and processing of information, the development of management decisions.
2. Organization and management of the implementation of management decisions.
3. Accounting - collection, measurement, registration and processing of information related to the implementation of management decisions.
4. Analysis - decomposition of information obtained at the accounting stage into separate components; their study and evaluation for the adoption of optimal management decisions.

Each of these stages alternates with the control stages. Then follows a new cycle of continuous management of the organization.

Consequently, the control stage in the management process has a dual role. On the one hand, the control stages invariably alternate with other stages in the control process, as if penetrating into each stage. On the other hand, control provides an optimal control process at each stage. Therefore, the stage of control in relation to the rest should be considered as an ordering link in the management process.

Since various deviations of the actual state from the required state are inevitable at any stage of the control process, in order to have timely information on

deviations exceeding the allowed values, internal control is needed. (Adeniyi, 2003:15)

In Fig. 1 shows the relationship, interdependence and interpenetration of each element of the organization. Thus, internal control is: an integral element of each stage of the management process; a separate stage of the management process; Separate stage of the management process at all other stages.

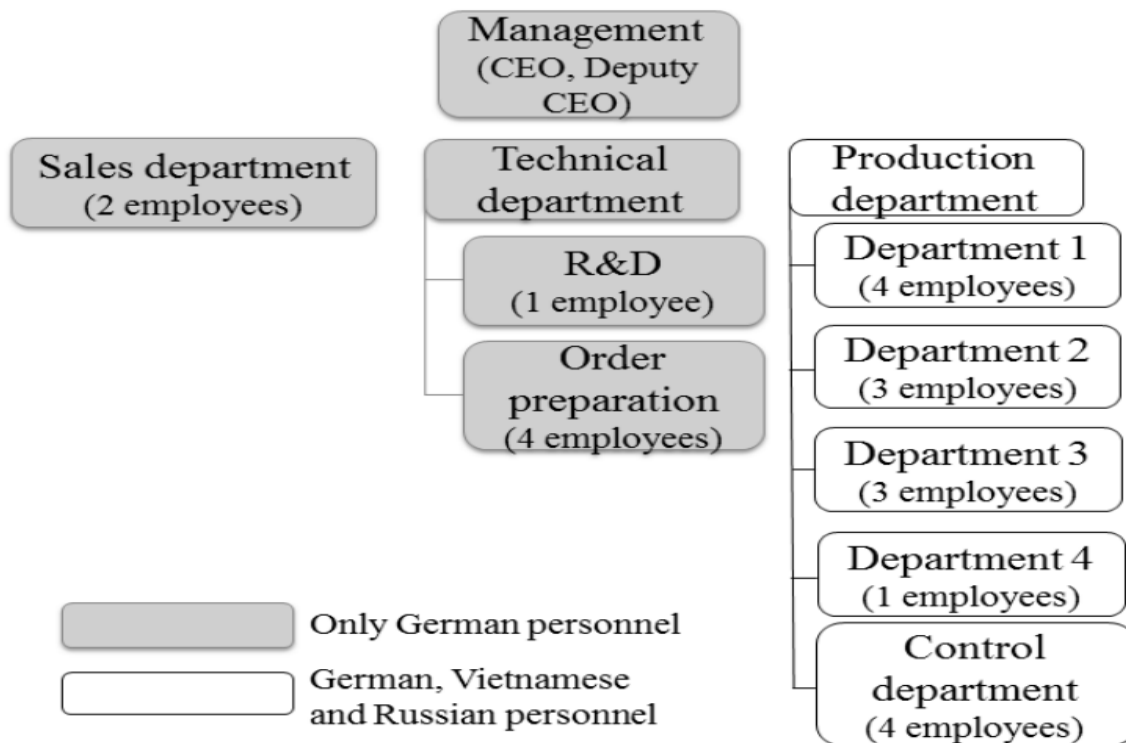
Consequently, the main feature of internal control is its dual role in the management of the organization. As a result of the deep integration of control and other elements of the management process, it is practically impossible to define the scope of activities and responsibilities for the employee in such a way that he treats one single control element without its interconnection and interaction with the control. Any management function is necessarily integrated with the control function. In the conditions of market relations, the focus is not so much on the final results as on the terms of their achievement.

The ability to identify the most important, priority, areas of production activity allows you to focus management attention on important areas, improve the effectiveness of control operations and works.

All this strengthens the importance of control in the financial management system. Functions and methods of financial management can be conditionally divided into two blocks: a block for managing external finances and a unit for intra-company accounting and financial control. We will consider only the functions and methods of the second.

**Fig. 1.**

**The place of in-house control in the process of managing the organization**



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We consider only the functions and methods of the second. The unit for intra-company accounting and control includes: control over the conduct of production

records; drawing up of the estimate of expenses, control over payment of salaries and taxes; collection and processing of accounting data for internal financial management and for providing data to external users; compilation and control of the correctness of financial statements; analysis of financial statements and use of its results for internal and external audit; an estimation of a financial condition of firm for the current period and its use for acceptance of operative administrative decisions for planning purposes.

### **1.3. Classification of internal control**

As a function of management, internal control, depending on the time of conducting is divided into preliminary, current (operational) and subsequent

Preliminary control is carried out before the adoption of managerial decisions and the implementation of economic operations. Management personnel and the chief accountant through preliminary visits and agreements for the receipt and release of tangible assets, the performance of work and the provision of services, the preparation of orders for the establishment of official salaries, wage premiums and the remuneration of employees of the enterprise, and the like. Preliminary control is required at all levels of government. The objects of preliminary control may be intra-economic plans, design estimates, documents for the release of inventory and finished goods, for the issuance of funds, contracts, etc. The purpose of the preliminary control is to prevent illegal actions of officials, it is economically inexpedient to conduct economic operations, to ensure economical and efficient expenditure of economic resources; prevent non-production costs.

The current (operative) control. Its purpose is to identify negative deviations in economic activity in the course of economic operations, during preliminary or subsequent monitoring there may be no evidence, to find intraeconomic reserves of further growth of production efficiency. In connection with this current control, it is necessary to pay special attention to the personnel of the state reporting entity who is

directly interested in improving the results of economic and financial activity.(Okoli, 2012: 72)

With the current (operational) control, indicators of operational reporting are analyzed, specialists of enterprises, as well as internal auditors and auditors, carry out thematic checks. Particularly effective is the combination of current control with the previous one, which is important for preventing non-productive expenses, preventing possible theft and loss of material resources and money.

Subsequent control is carried out after business operations on the basis of data recorded in primary documents, accounting registers and in financial statements. The purpose of such control is to check the appropriateness and legitimacy of economic transactions for a certain period, identify shortcomings in work, violations and abuses if they have been admitted. It helps to identify and mobilize reserves to further improve all production and economic indicators.

The main effectiveness and effectiveness of control is achieved by a consistent combination of preliminary, current (operational) and subsequent control

depending on the sources of information used in the performance of monitoring functions, internal control is divided into documentary and factual.(National Treasury publication, 2003)

Documentary control consists in establishing the reliability and legitimacy of business transactions according to the primary documentation, accounting registers and reporting, in which they are reflected

Actual is the control in which the quantitative and qualitative state of objects that are verifiable is established by inspection, inspection, measurement, recalculation, weighing, laboratory analysis, and other ways of verifying their actual state. The objects of control include enterprise funds, which include all non-negotiable and negotiable assets.

Documentary and actual control are closely interrelated, because only their joint conduct allows you to establish the actual state of the verification object. The combination of documentary and actual control is called a combined control.

Depending on the purpose, purpose and method of the organization distinguish between audit, audit, thematic examination, investigation and official investigation.

## **1.4. Principles of efficiency and basic requirements for the organization of internal control**

At any stage of the management process, deviations of the actual state of the control object from the planned one are inevitable. For timely information on the quality and content of such deviations, internal control is necessary.

Internal control of the organization is the implementation by the entities of the organization of such actions as:(National Treasury publication, 2003)

- a) determination of the actual state of the organization (object of control);
- b) comparison of actual data with the planned;
- c) assessing the identified deviations and the extent of their impact on the functioning of the organization;
- d) identification of the reasons for the detected deviations.

The purpose of internal control is the information support of the management system in order to obtain the possibility of making effective decisions.

The peculiarity of internal control is its dual role in the management of the organization. As a result of the deep integration of control and other elements of the management process in practice, it is impossible to determine the scope of activities for the employee in such a way that it refers only to one single control element without its interconnection and interaction with the control. Any management function is necessarily integrated with the control function. Therefore, theoretically considering each stage as a separate element of the control process, it can be assumed that the control element is present at each stage. For optimal progress of any of the stages of the control process, control over each of them is necessary.

At the planning stage, the following control functions are implemented:(Mu'azu, 2012:57)

Evaluation of the rationality of possible options for planning decisions;  
the compliance of planned decisions with the adopted installations and the intended targets, as well as with the overall strategy.

To ensure rationality and adequacy of the environment of the course of action itself and the overall strategy, to ensure compliance of management decisions with the very possibility of their successful implementation (in terms of the organization's capacities) control is also necessary. If you do not "include" the control element in the planning stage, the planning error at best will manifest itself at the stage of organization and regulation.

At the stages of the organization and regulation of the implementation of management decisions, it is necessary to monitor the correctness of the implementation of the planned decisions taken to achieve the required results. It is necessary to control the rationality of the organization and regulation of decisions taken.

At the accounting stage, control should be provided for:(Millchamp, 2002)

- 1) the availability and movement of property;
- 2) rational use of production resources in accordance with approved norms, norms and estimates;
- 3) the status of issued and received obligations;
- 4) expediency and legality of economic operations of the organization, etc.

Accounting data serve as an information base for monitoring. On the other hand, it is necessary to control the quality of the accounting itself.

At the analysis stage, information on the results of management decisions is evaluated on the basis of its decomposition into different components and their correlation among themselves. Control and analysis is deeply integrated. Control data are often the basis for the analysis. At the analysis stage, control functions are also implemented, for example, control of the level of supply and cost of sources of



formation. The methods of analysis used in the stages of control activity assess the degree of approximation of actual results to the final point of any management program, regardless of whether it is expressed in general or specific terms. Quality control of the analysis is a necessary step in assessing information on the results of management decisions.

Thus, the internal control of the organization is:(Leslie,1993)

- 1) an integral element of each stage of the management process;
- 2) a "separate" stage that provides information transparency for the quality of the management process at all other stages.

The monitoring function is deeply integrated with other control functions. At the same time, there is information integration within the control function. Integration of control and other functions at one level of management is horizontal integration, and information integration of control functions at different levels of management (control at the level of the workplace, brigade, site, shop, organization) is vertical integration.

As a result of horizontal integration, the coordination of individual controls is achieved with a view to solving any managerial problem or achieving a management goal. With vertical integration, the control function is implemented at different levels of management, but on the basis of the same information that is aggregated (aggregated). Vertical integration is necessary for control by a higher level (management) system.

#### Classification of internal control

To understand more deeply the essence of control as an important management category, to uncover the mechanism of functioning of the relations expressed by it, to reveal the specific features of its various components, it is necessary to classify it.

The most important classification aspect of internal control is formal. In the economic literature at the moment there is no generally accepted definition of the concept of the form of internal control and generally recognized allocations of its

forms in comparison, for example, with the forms of accounting - memorial, warrant, journal-order, automated, simplified.

As forms of the internal control of the organization, in our opinion, it is necessary to allocate:(Igweneagu, 2011:71)

- internal audit;

- structural and functional form of internal control.

The choice of form of internal control depends on:

- complexity of the organizational structure;

- legal form;

- types and scales of activity;

- the appropriateness of coverage by the control of various aspects of activity;

- the attitude of the organization's management to control.

The organization of internal control in the form of internal audit is inherent in large and some medium-sized organizations, mainly possessing the following characteristics:

- complicated organizational structure - the divisional, matrix or conglomerate structure of the organization;

- the number of branches and subsidiaries;

- variety of activities and the possibility of their cooperation;

- aspiration of the management bodies to receive a fairly objective and independent assessment of the actions of managers at all levels of management.

In addition to tasks of purely control nature, internal auditors can solve problems of economic diagnostics, development of financial strategy, marketing research, management consulting.

Internal audit institutions include audit commissions (auditors) whose activities are regulated by the current legislation. This institution is mainly distributed in joint-stock companies, limited liability companies and production cooperatives. (IBFC Augusto Training limited, 2004)

In many organizations there is no department (sector, bureau, group, etc.) of internal audit and audit committee (auditor). In this case, it is advisable to use the structural and functional form of the internal control of the organization to carry out internal control. The concept of "structurally functional form of internal control" reflects the necessary interactions of organizational units (linear-functional, divisional, matrix), corresponding to their control functions. For example, the exercise of control, which necessarily enters into the duties of any manager, should be included in the functions of any responsible person. This form, corresponding to the content of the primary stage of development of internal control, is used by all organizations along with more developed forms and independently of them.

## **1.5. The main stages of the organization of the internal control system**

The organization of an effectively functioning internal control system is a complex, multistage process that includes the following steps.

1. Critical analysis and comparison of the goals of the functioning of the organization, the previously adopted course of action, strategy and tactics with activities, size, organizational structure, as well as its capabilities, determined for the previous economic conditions.

2. Development and documenting of the new business concept of the organization (corresponding to the changed business conditions), as well as a set of measures that can lead this business concept to the development and improvement of the organization, the successful implementation of its objectives, and the strengthening of its market position. Such documents should be provisions on financial, industrial-technological, innovative, supply, sales, investment, accounting and personnel policies. These provisions should be developed on the basis of an in-

depth analysis of each policy element and the selection of the most appropriate alternatives for the organization.

3. Analysis of the effectiveness of the existing management structure, its adjustment. It is necessary to develop a provision on the organizational structure. It is necessary to clarify the plan for documentation and workflow, the staffing table, job descriptions indicating the rights, duties and responsibilities of each structural unit.

4. Development of formal standard procedures for monitoring specific financial and business operations.

5. Organization of the internal audit department (or other specialized monitoring unit). (Financial growth Solutions UK, 2014)

When organizing such a department, it is necessary to take into account the basic requirements for the effectiveness of its functioning.

There may be more stages in the evaluation of the control system, depending on the individual characteristics of the subject under review.

General acquaintance with the internal control system includes obtaining information about the specifics and scope of the entity's activities, an idea of its accounting system. The results of the initial acquaintance allow to make a decision about the possibility of using the internal control system in the audit.

If the auditor-inspector can not rely on the internal control system, he must plan his audit, so that his conclusions are not based on trust in this system. The low effectiveness of the internal control system should be reflected in the conclusion about the verification of the subject.

## **1.6. Legislative and regulatory framework for the organization of internal control in the enterprise**

When organizing the system of internal audit of holding structures, the stage of formation of the legal framework is of special importance (Millchamp, 2002).

Supporting the point of view of scientists such as A.M. Bogomolov and N.A. Goloshchapov (CBN,2010) it is necessary to note the following signs of intraeconomic regulation, relevant for the regulatory regulation of internal audit:

- consists of norms, i.e. rules of conduct of a general nature governing the most common relationships and apply to all subjects of internal audit;
- is a system of norms that regulate various aspects of the activities of the internal audit department;
- Norms are mandatory for all subjects, the regulation of which they affect, regardless of the degree of agreement or disagreement with them;
- the norms are fixed in writing;(Fairfax county of Virginia, 2008)
- norms express the will and interests of the founders of the internal audit system (administration, owners);
- enforcement is provided by administrative coercion, i.e. this implies that their failure to carry out a pre-known responsibility. This provision should be taken into account when entering into labor contracts with internal auditors, as well as in job descriptions, regulations on the internal audit department.

In our opinion, the structure of the regulatory and legal framework of the internal audit department should include the following elements:(Ewa,2012:32)

- Regulations on the Internal Audit Department;
- The working policy of the internal audit department;
- standards of internal audit;
- job descriptions of internal auditors.

The formation of the Regulation on the internal audit department can be considered as a stage of the organization of the internal audit department, which presupposes the definition of department duties, general goals and tasks of the department, the authority of employees, and the accountability of the department and its employees. This normative document acquires a particular urgency in complex structured economic entities, it separately specifies the interaction of the internal audit service and the departments and services of the inspected economic entity that

already has an internal hierarchical architecture of subordination and for which the audit of the internal audit department is akin to an external audit.

This stage of organization of internal audit at the enterprise should ensure the principle of independence of the internal auditor. The Regulation on the Internal Audit Department separately specifies the independence of the internal auditor from those persons of the company whose work it checks, and also specifies its accountability directly to the top manager of the managing (parent) company. It should be noted that in the holding structures there are often situations when internal auditors are considered as anti-crisis managers of broad specialization. In our opinion, this approach calls into question the effectiveness of the further work of the department. Naturally, if the internal auditor (or internal audit department) corrects mistakes independently, introduces new methods for optimizing the work of a particular enterprise that is part of the holding, then in the future he will have to control his own work, which violates the conditions of his objectivity. However, this should not lead to lack of control and irresponsibility in the work. The importance and principal importance of this stage are also expressed in the proportionality of compliance with the principle of isolation of the internal auditor against the background of compliance with the principle of his responsibility.(Ewa,2012:32)

It seems obvious that the more detailed the provision on the internal audit department, the easier it is to organize its work, consolidate the responsibility of employees and achieve real quality management. Therefore, we consider it expedient for economic entities with a complex and territorially remote organizational structure to allocate internal audit subsystems at this stage. For internal audit systems of functioning commercial organizations, we propose to allocate the following subsystems of internal audit:

- collection of control information;
- analysis of control information;
- Formation of the result information;
- storage of control information.

It should be noted that for the purposes of organizing internal audit of holdings and financial-industrial groups, it is necessary to envisage at least three options for the functioning of these subsystems, with the current version of the Regulation on the Internal Audit department fixed.

The first option provides that for each of the subsystems there are separate internal auditors with respect to all subjects of the holding and control objects.

Thus, it is assumed, for example, that some employees are engaged in the collection and partial aggregation of the necessary information for internal audit purposes, and further analysis is done by others. The advantage of this option is undoubtedly the possibility of using the maximum specialization of internal auditors with respect to audit procedures. From the minuses, we note that this organization of work does not allow internal auditors to focus on a specific participant in the group of companies and to understand its specifics. For example, consider in detail the functioning and effectiveness of ongoing business processes.

The second option assumes that all the allocated subsystems are in the functional duties of a particular employee, but in relation to a certain participant in the group or even to a certain range of control objects. In this case, the internal auditor considers only his objects as much as possible in detail, has the opportunity to focus on business processes, to study not only the organizational and financial, but also the technological aspects of the life of the object of control.(Eze, 2005)

The third option is a combination of the first and second approaches, depending on the features of the functioning of economic entities that are part of the holding, as well as the reliability of their internal control system. It seems that for enterprises belonging to the servicing sector of the holding, the second variant of the functioning of the internal audit subsystem will be more relevant, and for enterprises belonging to the core of the group of companies - the first option. (Igwenegwu, 2011:16)

The allocation of the control information collection subsystem is primarily due to the availability of different requirements for this or that information,

depending on the purpose for which purposes and tasks of internal audit it is used. Moreover, the various goals and tasks assigned to the internal auditor cause the use of various methods and methods of collection, and further analysis of control information.

The relevance of the subsystem for the analysis of control information arises from the objective need to provide management with the necessary control and analytical information. Modern conditions for organizing the work of holdings predetermine not only the availability of various requirements for this kind of information, but also a multitude of their combinations. Naturally, in each specific case, the subsystem of analysis of control information can include a variety of functions, operate with different control points, and use various methods and procedures for internal audit.

The subsystem of the formation of result information includes the functions of interpreting information regarding goals and tasks, as well as users. In the course of functioning of this subsystem, development of design decisions, recommendations, consultations is carried out.

Separate allocation of a subsystem of storage of the control information is caused by its extreme importance for holding in the part of the subsequent use that predetermines specific conditions of its storage and use.

The organization of internal audit on the basis of the considered subsystems proceeds from the fact that each of them has separate incoming information, a specific order and composition of methods and procedures for processing information, as well as a special order for the generation of output information. The presentation of internal audit as functioning subsystems fundamentally changes the functional stages of verification, the processes of communication and aggregation of information in the management system, and ultimately the effectiveness of the organization of internal audit, intraeconomic control and management system by complex structured economic entities towards streamlining.



The development of the Internal Audit Policy as an organizational stage presupposes the determination of the strategic moments of the functioning and development of the department. This document specifies the basic requirements for the professional qualities of internal auditors.

## **CHAPTER II. EMPIRICAL RESEARCH METHODOLOGY TO ANALYSE THE IMPACT OF THE INTERNAL CONTROL SYSTEM ON FINANCIAL MANAGEMENT OF AN ORGANIZATION**

### **2.1. Characteristics of Empirical Research Object**

The research work is organized by the departments: Accounting Financial Accounting, Accounting Management Accounting, Economic Analysis and Audit, Finance, Credit and Insurance, Financial Management and Banking, Statistics and Econometrics in conjunction with the Faculty deanery. It is carried out on the basis of the University: at the departments and / or in the laboratories of the faculty.

To lead the research are appointed head from among persons belonging to the teaching staff of the departments of the accounting and financial department.

Before the start of the research work, an introductory lecture is held, at which the trainees are explained the purpose, objectives, content, forms of the organization, the order of performing scientific research work and reporting on its results. Upon completion of the installation lecture, each student for the period of research is given a task for research work.(Chambers, 1999)

The task for research work is compiled for each student separately, in relation to the purposes of scientific research and includes all types of work that must be done by the student. The task for research work is developed by the head of practice. The

content of the task should take into account the specific conditions and opportunities for conducting research and at the same time meet the goals and objectives of the educational process. The assignment for research work should correspond to the abilities and theoretical preparation of the student.

A month before the beginning of the research work, students are required to file a written application to the department responsible for the organization of scientific research about the choice of the laboratory of the faculty and the consolidation of the head

The result of the research work is a report in the form of a scientific article (theses of the article, a scientific report).

Attestation based on the results of the work is carried out on the basis of the protection of a scientific article (theses of the article, a scientific report) or theses in the commission, including the scientific leader of the training program and the scientific leader of the research. Based on the results of the positive attestation, the student is given a differentiated score (excellent, good, satisfactory, unsatisfactory).

The evaluation according to the R & D is equated with the evaluations of the theoretical training disciplines and is taken into account when conducting the results of the intermediate (session) attestation of the students.(CBN, 2010)

Students who fail to fulfill the requirements of the program without due cause or who have received an unsatisfactory evaluation are expelled from the university as having academic debts in the manner prescribed by the University Charter.

## **2.2. Research Objective**

Leadership and control over the passage of research work are entrusted to the scientific supervisor.

General teaching and methodological guidance of research work is carried out by the department.

Scientific adviser:

- coordinates the assignment for research work with the head of the department;
- Carries out the necessary organizational measures for the fulfillment of the task of scientific research work;
- defines the general scheme of the research, the mode of work of the student and carries out systematic monitoring of the practice and work of students;
- provides consulting assistance to students on all issues related to the implementation of research and development of the report (articles, abstracts of the article, a scientific report).
- gives recommendations on the study of special literature and research methods.

Those studying during the performance of research work receive from the leader instructions, recommendations and clarifications on all matters related to the organization and conduct of work, reports on the work performed in accordance with the plan of R & D.

## **2.3. Significance of the Research**

As you know, external audit can "lean" on the results of internal audit, having studied its status and tasks with reference to a particular audited person, the object under study. Having analyzed all the procedures and taking into account the results of the investigation of the internal control system, one of the elements of which is internal audit, the external auditor can make his procedures deeper and better, i.e. it is much more effective to verify the specific object of your research.

It is necessary to take into account the development of the audit profession. Recently, both external and internal audit have undergone numerous changes - they are objective and understandable. First, there are changes in the economy, the requirements for enterprises are being transformed, new risks arise for each enterprise, and, of course, auditors (both external and internal) are obliged to keep pace with the times. Secondly, the changes relate to the legislation - the third

regulatory document was issued, which introduced a fundamentally different regulation of external audit in the Russian Federation. But the requirement to study the internal control system in its procedures, including internal audit, has not changed. These procedures were refined, and even their significance increased after the introduction of the International Standards on Auditing (ISA) in the legal field. The concept of internal audit is changing even more than external audit - its concept is changing. If earlier it was control activity and assistance to the executive body, today the concept of internal audit correlates with the element of the internal control system, and it not only includes control measures, but also aims to form an enterprise risk assessment, risk management, risk assessment system. External auditors in this case it is important to know the direction of work of internal audit and its status in the control system at the enterprise. (Arens, 1997)

The notion of internal audit changes, including in normative documents, and this issue will be discussed in more detail below. Significant changes have occurred in the methods and practical skills of both external and internal auditors. External auditors develop standardization of their activities - there are certain methods of audit companies for checking certain objects of accounting reporting and accounting. Standardization can be traced also to internal auditors, for them there are institutes of regulation of internal audit. The standards of work of both internal and external auditors are improved, but in accordance with their tasks. External auditors work within the framework of existing legislation, practice is introduced from International Standards on Auditing. As noted above, the internal audit system is now focused on risk assessment, i.e. The status of internal audit on a specific economic entity has changed. If earlier it was a control unit, at present it is a certain service that is subordinated, as a rule, to the higher body of the economic entity.

Consider interaction of the internal audit system with external auditors and try to disclose the issues of assessing the activities of internal auditors by external auditors to perform audit procedures.

## **2.4. The Empirical Research Data Sample**

Currently, internal audit services exist in many large and medium-sized enterprises, and are also being actively introduced in small enterprises. Recall that the criteria for classifying an entrepreneurial entity as a small entity are given in Federal Law No. 209-FZ of July 24, 2007 "On the Development of Small and Medium-Sized Enterprises in the Russian Federation" (Adeniyi, 2003:175). According to this law, small enterprises are organizations that:

the aggregate share of the participation of the Russian Federation, constituent entities of the Russian Federation, municipal entities, foreign organizations and citizens, public and religious organizations (associations), charitable and other funds, organizations that do not belong to small and medium-sized businesses, their authorized capital does not exceed 25 %;

the average number of employees for the preceding calendar year does not exceed 100 people; (American institute of certified public accountants, 2005)

the proceeds from the sale of goods, works, services excluding VAT for the previous calendar year does not exceed 400 million rubles.

In the Perm region, the number of small enterprises (without microenterprises) as of October 1, 2014 was 4,191 (American institute of certified public accountants, 2005). Therefore, the issue of organizing internal audit is of a massive nature and is very relevant for many small businesses.

There are many definitions of internal audit in official documents, some of which are given in Table. 1.

Analysis of the existing definitions of internal audit allows us to note the following disadvantages:

the definitions do not take into account the principle of the continuity of the activities of the internal audit service;

The absence in the definitions of the specification of the field of activity of the internal audit service. The definition specified in the International Standard on

Auditing (ISA) 610 implies a system of accounting and internal control, however, in our opinion, this area is not specified;

Only the definition of the International Institute of Internal Auditors provides for the provision of consultations aimed at improving the work of the organization. In the rest, there is no consultancy function.

The authors propose the following definition of internal audit. Internal audit is a continuous independent audit of the accounting and tax accounting and reporting systems carried out by the special division of the organization, as well as providing advice aimed at improving the organization's work.

IIVA organizes and holds thematic meetings for its members, at which topical issues of internal audit are discussed; organizes annual all-Russian conferences on internal audit; provides its members with an opportunity to get acquainted with modern methods and methods of organizing and conducting internal audit; gives access to an extensive information base on internal audit, internal control, risk management. IIVA also conducts seminars and corporate trainings on internal audit, which discuss the theoretical and practical aspects of internal audit.

The Institute of Internal Auditors participates as an expert organization in developing the legislative and regulatory framework in the areas of internal audit and internal control.

**Table 1.**

**Definitions of internal audit**

**Figure 1 Competencies Associated with IA-CM Levels**



It should be noted that the use of internal audit is becoming more active in Russian organizations as a means of reducing costs, eliminating inefficient business practices and reducing the risks of the organization. This is due to the fact that internal audit "keeps" all the units of the organization in "tonus", controlling the effectiveness of their activities to achieve the organization's stated goals.

The need for an internal audit organization should be evaluated from the point of view of expediency. If the management makes a decision on the formation of a division (service, department) of internal audit, it is necessary to determine the optimal number of its employees. This largely depends on the specifics of the organization, accounting policies, labor intensity and other conditions.

We have investigated more than ten small enterprises operating in the Perm region with similar parameters, namely: (Arens, 1997)

main type of activity: retail sale, construction, lease of property;

the average number is about 30 people;

the average volume of outgoing invoices and acts from 100 to 150 pcs. per month.;

exports and imports are absent;

there are no securities.

The methodology of forming the organizational structure and the number of the internal audit service was developed, which includes: the composition of the functions performed, the frequency of execution; the definition of labor intensity, reduced to monthly execution; the definition of labor intensity, reduced to annual execution.

As a result of research of theoretical bases and practical experience, the following composition of the functions of the internal auditor was determined:(American institute of certified public accountants, 2005)

assessment of the effectiveness of the accounting system;

reconciliation of conducted operations with planned data;

checking the correctness of the calculation of the amounts of payments;

reconciliation of accounting data with the auditor's calculations;

analysis of working documentation, primary documents, contracts;

assessment of compliance with legal requirements;

preparation of a daily report on the control of transactions and transactions;

preparation of a weekly report on the control of financial and economic activities of the organization;

horizontal and vertical analysis of indicators of financial statements, analysis of dynamics; verification of interrelations between the indicators of financial statements; identification of "weaknesses"; definition of materiality, risk assessment; drawing up a plan and a verification program; audit sampling;

analysis of the accuracy of data on accounts with accounting data, with the main book; verification of transactions with intangible assets, with fixed assets, R & D, with capital investments; checking operations with stocks, accounts receivable, financial investments;



checking of operations on received loans and loans;

verification of accounts payable; verification of settlements with accountable persons; checking payroll calculations for other transactions; verification of settlements on reserves; checking of future expenses; reconciliation of capital transactions; verification of the correct formation of revenue, cost, other income and expenses; verification of the correctness of the calculation and payment of VAT, personal income tax, insurance premiums, income tax, property tax, transport tax, land tax;

comparison of actual indicators with the auditor's calculations;

Identification of errors and assessment of their materiality; a summary of the results of the audit; analysis of financial results; preparation of the report on the monthly audit; (Adeniyi,2003:168)

preparation of the annual audit report;

consulting;

development of measures to improve the accounting, economic analysis and audit (Chuke,2001).

For the presented functions, the frequency of execution is determined: daily, weekly, monthly, yearly.

Theoretically and empirically, the labor intensity of the functions of the internal auditor for small enterprises with the parameters specified earlier was determined [8] (Table 2). The calculation was based on the conditions that the total number of working days in 2014 was 247 days, the average number of working days in the month was 21 days (247 days: 12 months).

## **2.5. Limitations of the Empirical Research**

The corporate governance structure of the company, as well as the impact of corporate governance on business performance, has recently become the subject of broad scientific debate. The undivided nature of ownership and management functions, although caused by objective reasons, however defies the classical theory of corporate governance (Ding,2006:13) . Since the early 80's. XX century. much

attention is paid to the empirical identification of the relationship between the number of shares in the hands of insiders and corporate efficiency. After the publication of the well-known work of researchers R. Mork, A. Schleifer and R. Vishnu the opinions of scientists about the influence of insider ownership on the efficiency of the company's activities were divided. A number of studies of the ownership structure of companies led their authors to the conclusion that it had no significant impact on company value or other performance indicators. Representatives of another point of view argue that insider ownership positively influences the efficiency of the company's activity. The third type of research revealed a nonmonotonic impact: it is positive for small blocks of shares in the hands of managers and is negative for large packages (IBFC Augusto Training limited, 2004:293).

One of the key factors influencing the effectiveness of corporate governance is the role of the board of directors and the role of an independent director, if one is still on the board of directors. Along with the contribution to increasing investment attractiveness, proprietary companies expect external directors to assist in developing a business strategy, developing relationships with potential investors and the outside world in general, attracting new large customers and funding sources. Nevertheless, a number of companies may involve an independent director solely on the basis of formal requirements.

Independence of directors is not only and not so much a financial problem, as many experts believe, as a socio-cultural one. For companies of the Anglo-Saxon world, the mismatch between the interests of individual shareholders and groups of shareholders, competition and the struggle between them, including in the format of the board of directors, are perfectly normal. A different picture is present in the companies of countries with undeveloped market economies, high corruption component and in countries with usurping power either in the hands of one person or a narrow, strictly limited group of people. There any deviation from consensus is perceived as a crisis in management (University of California,2003:66)

Modern development of the economy, increased competition, the presence of negative external and internal factors has become a serious incentive for the introduction in companies of a structure that has an independent assessment, which allows determining the current problems of the company and building a strategic development line that minimizes possible risks. Internal audit in accordance with the tasks entrusted to it by the functions, requirements to the level of competence of employees, is increasingly occupying this niche.

Nevertheless, it is quite difficult to calculate and justify the value of internal audit for a number of objective reasons (Osuala,2005):

Internal auditors, first of all, are engaged in evaluating the weaknesses of the organization's activities and presenting recommendations, and not in calculating the value of the results of their work;

the inconspicuous presence of the internal audit service often in itself prevents unwanted events (for example, fraud);

some, and sometimes most of the recommendations of the internal audit service are not quantifiable (for example, improving the image of the company);

the results of internal audit are often of an indirect nature, or there is a long period between the audit and the appearance of notable results.

Often the recommendations of internal auditors on the improvement of the organization's activities are limited only to the area in which the audit was conducted. In some cases, the tested sectors are not given the opportunity to consider the proposed improvements, although sometimes they could lead to an increase in the level of responsibility, as a result, they are therefore rejected. Practice shows (Osuala,2005) that in some cases it is much more effective to "show trust" to the areas that have been tested and allow them to act independently, rather than focusing on the direct contribution of the audit service to solving the problem. This will help increase motivation and personal interest in the implementation of new recommendations.

### **III. EMPIRICAL RESEARCH RESULTS AND FINDINGS**

#### **3.1. Organizational and economic characteristics of Agro-Azerinvest enterprise**

One of the main activities of Agro-Invest LLC is agro-production in the Belgorod region. The company is engaged in the cultivation of industrial crops:(Adeniyi,2003)

sugar beet

sunflower

fodder corn

LLC "Agro-Invest" is one of the leading companies for the production of cereal crops. The wide assortment and high quality of the offered products allowed the organization to become one of the leaders in the agricultural products market. For the period of existence, LLC "Agro-Invest" has turned into a strong, dynamically developing enterprise.

LLC "Agro-Invest" is allocated in field crop rotations to 2.5 thousand hectares for growing sunflower. LLC "Agro-Invest" sells sunflower for the production of pure sunflower oil of better quality. From sunflower produced in LLC "Agro-Invest" in Valuiki, Real-Invest CJSC produces high-quality sunflower oil of the trade mark "Krasny ryad".

We also cultivate corn, which is realized for the preparation of high-calorie feeds. By the content of proteins, proteins and nutritional value, this type of culture is superior to all cereals. Corn is used by ZAO "Real Invest" for poultry feeding during the production of chicken eggs of the "Red Row" trademark.

Growing of sugar beet is also included in the activity of LLC "Agro-Invest". Sugar beet is considered a valuable technical crop. After all, it is the main source of getting one of the most valuable food products - sugar. From the beet produced by the

company "Agro-Invest", TD "Kolos" produces sugar of the highest quality of TM "Red Row".

In order to increase the level of yield of agronomists, enterprises use all their knowledge and experience in the field of biology and agricultural technology of agricultural crops. For maintenance of agricultural production, LLC "Agro-Invest" has machine and tractor stations with a full set of agricultural implements and machines.

In addition to growing agricultural crops, Agro-Invest LLC sells sunflower, corn and sugar beet.

The main specific factor of agricultural production is land (natural resources). The earth is an indispensable attribute of human existence. And in agriculture, the land also acts as an object of labor.

The total land area is the territory assigned to the agricultural enterprise;

The area of agricultural land is part of the total land area used directly for the production of agricultural products. They include arable land, hayfields, pastures, lands under perennial plantations. The ratio of individual types of land to the total area of land or agricultural land is called their structure (Leslie,1993).

**Table 2.**

**The level of land supply of OOO Rusagro-Invest**

BEHAVIOUR	PARAMETERISATION (EXPERIMENTS)	DOMINANT EFFECT UNDER STATIC DEMAND	DOMINANT EFFECT UNDER DYNAMIC DEMAND
Unwillingness to persist with land uses that offer low returns (e.g. lack of dedication/ reliance on particular land use; motivated by economic concerns; innovative).	Raised abandonment threshold (2–5)	Reduced production levels, abandonment of relatively productive land under regionalisation especially with individual variation.	Increases productive efficiency as agents with higher thresholds retreat to most productive land
Unwillingness to relinquish land to more competitive agent (e.g. dedication to land use through sense of personal or cultural responsibility).	Raised competition threshold (6)	No clear effect beyond mixing of agents with different thresholds	No clear effect
Limited ability to search for cells on which to compete (e.g. imperfect knowledge of the 'world').	Lower number of searches permitted per time step (7)	Delays establishment of stable land use configuration	Agents more widely dispersed following demand level changes
Limited sensitivity to demand levels (e.g. production for personal reasons or over long time-scales; some trade of surpluses between regions).	Exponential demand functions (8)	Overall production levels increased and most productive land in use	Similar but weaker effect as under static demand
Ability to vary land use intensity (e.g. responses in inputs or labour to changing market conditions).	Extra agent types with differing land use intensities (9)	Cyclical competition for land	Cyclical competition for land
Ability to vary land use intensity and other behaviours	Extra agent types and parameterisations similar to Experiments 2–9 (10–13)	Lower intensities favoured by some behaviours; production levels decline. Exponential utilities drive low intensity agents out	As static, but more land under management
Ability to produce multiple services (e.g. decision to produce non-essential services or exploit full potential of land).	Extra, multifunctional agent types (14)	Increased (cyclical) competition, but higher overall production under regionalisation	Multifunctional agents drive out producers of single service for which demand is low
Ability to produce multiple services and other behaviours	Extra, multifunctional agent types and parameterisations similar to Experiments 2–9 (15–19)	Competition and production levels smoothed, smaller difference between globalised and regionalised cases. Multifunctional agents with high competition thresholds dominated and improved regional supply.	Abandoned land found in least productive areas under globalisation but in most productive areas under regionalisation. Exponential utilities maximise supply of services.

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From the analysis of Table 2 above it follows that during the period from 2009 to 2011, the area of agricultural land, as well as arable land, per one average

annual worker increased by 1.6 hectares, which in the reporting year was 19.8 hectares. These changes are caused by a decrease in the number of employees in the enterprise.

### **3.2. Analysis and evaluation of the internal control system of Agro-Azerinvest enterprise**

The main production assets of the enterprise are the value expression of the means of labor. The main determining feature of fixed assets is the way to transfer value to the product - gradually: during a number of production cycles; parts: as wear and tear. Depreciation of fixed assets is accounted for under the established depreciation rates, the amount of which is included in the cost of production. After the sale of products, the accrued depreciation accumulates in a special depreciation fund, which is intended for new capital investments. Thus, a lump sum of the advanced value in the authorized capital (fund) in the part of fixed capital makes a constant circuit, passing from a monetary form to a natural one, into a commodity one, and again into a monetary one. This is the economic essence of fixed assets. (Statement of Accounting Standard, 2005:320)

The main production assets of the enterprise are the means of labor participating in many production cycles, preserving their natural form and transferring the cost to the manufactured product in parts, as they wear out. The law of reproduction of fixed capital is expressed in the fact that, under normal economic conditions, its value entered into production is fully restored, providing an opportunity for constant technical renewal of the means of labor. At simple reproduction at the expense of means of a depreciation fund of the enterprise form the new system of the tools, equal at cost to the worn out ones. To expand production, new investments are required, attracted additionally from profits, contributions from founders, securities issues, credit, etc. With large scale of used fixed capital, large and large enterprises have the opportunity, at the expense of the amortization fund, to

finance not only a simple but also a significant the expanded reproduction of the means of labor.

Proceeding from the fact that the enterprise LLC "Agro-Invest" produces mainly sugar beet, it is worth considering the technology of its production.

Sugar beet - Sugar beet is the most important sacchariferous culture of the temperate zone. Modern varieties of sugar beet contain 18 - 20% sugar. Sugar beet is grown as a fodder crop. 100 kg of sugar beet roots contain 25 feed units and 1.2 kg of digested protein. The same number of hauls provides the yield of 20 feed units and 2.2 kg of digested protein.

Sugar beet is very demanding to the conditions of growth. For the full development of the plant, the sum of the active temperatures (above 10 ° C) 2200 - 2700 ° C is needed. Beet seeds can germinate at a temperature of 2-5 ° C, viable shoots appear at 6-7 ° C. but the optimum temperature for seed germination is 12-15 ° C. Growth and development of beet is best at a temperature of 20 - 22 ° C. Beetroot is a plant of a long day. Lack of light sharply reduces its yield and sugar content. The vegetative period of sugar beet in the first year of life is 160 - 170 days, in the second - 100 - 130 days.

Sugar beet consumes a large number of nutrients. The use of all types of fertilizers in the main zone of beet growing increases the yield by 50 - 90 c / ha and more. Fertilizers must be applied layer by layer so that during the first period it uses nutrients from the upper horizon, and as the root system grows, and from the deeper layers of the soil. This is achieved by introducing the main fertilizer from autumn to autumn plowing, row fertilizer in the spring when sowing and fertilizing during the growing season.

The best nitrogen fertilizer in the first stages of sugar beet development is sodium nitrate. Of phosphoric fertilizers, the first place in importance belongs to granular superphosphate. On gray forest soils and loam superphosphate can be replaced with phosphoric flour, increasing the dose of application by a factor of 1.5 -



2. Of potassium fertilizers, potassium salt, Cainite, containing impurities of sodium and magnesium, which are very necessary for beetroot, are especially effective.

After harvesting winter crops, plowing is used and chopping. Some farms, before plowing, use stubble plowing with disk choppers to a depth of 6-8 cm. When weeds appear, cultivation is carried out, as required, followed by harrowing. In the late autumn, it is necessary to have a plowing without harrowing to a depth of 10-12 cm.

A good spring pre-sowing soil preparation is necessary for sugar beet. To keep moisture in the soil, loosen and level the surface of the field, harrowing and plowing of autumn plowing are carried out early in the spring. In the case of loose soils and the comb-like state, the fields in the first row of the unit are equipped with loops, and in the second one - heavy or medium-sized harrows. When the soil is compacted and swim, the first harrows are heavy harrows, and behind them - trains.

Beet seeding should be carried out when the soil at a depth of 10 cm warms up to 5 - 6 ° C. With the progressive technology of sugar beet cultivation, beet seeders are used for precision seeding. The most common one-row seeding method with a row spacing of 45 cm. The norm of sowing single-seeded sugar beet on well-cultivated soils is 6 - 8 kg / ha. With poor agrotechnical field condition, the seeding rate is increased to 10-12 kg / ha. This is due to the fact that such fields require repeated mechanized tillage to control weeds. To form a normal seed density in this case, no more than 20% of the plants should be left of the total number of shoots.

To reduce the costs of manual labor in combating weeds, it is necessary to combine agrotechnical (mechanical) methods with chemical methods. For the destruction of weeds in beet crops, the herbicides eptam and tillam, which act on grass and dicotyledonous weeds, are most effective. Cereal weeds at the same time are destroyed by 80 - 90%, dicots - by 40 - 50%. Herbicides are brought before presowing cultivation.

Vegetative watering is carried out six to eight times in 15 to 20 days. The total water requirement for vegetation irrigation is 3.0 - 3.5 thousand m<sup>3</sup>/ha in the medium-

moisture year and 4 thousand m<sup>3</sup>ga in the dry year. Before every watering cut a small irrigation network, after irrigation during inter-row processing, it is closed.

By the time of technical ripeness, rows of sugar beets open, leaves pale, their mass decreases. The growth of roots and the accumulation of sugar in them slow down. After the opening of the rows, the pre-soil loosening of the soil to a depth of 10-12 cm should be carried out in the inter-row spacing. However, the beetroot is being harvested without waiting for the onset of the technical ripeness phase, which is usually associated with the start-up of sugar refineries (late August-early September). Currently, sugar beet harvesting is almost completely mechanized.

When growing sugar beet (as well as sunflower), industrial technology is widely used in many regions of the country. It includes the following agrotechnical methods of cultivation and harvesting (at the same time, manual labor costs are minimal):

- accommodation of landings for the best predecessors;
- system of improved or semi-steam basic tillage with application of optimal doses of organic and mineral fertilizers;
- high-quality early spring and pre-sowing soil cultivation;
- seeding with conditioned seeds in the optimal - short time; to obtain a given number of shoots, sugar beet is sown with single-seed seeds (sunflower - calibrated);
- application of an integrated system of measures to control weeds, pests and diseases using highly effective herbicides, pesticides and fungicides;
- mechanized care of crops, including the formation of density of plantations and harvesting;
- organization of self-supporting mechanized links.

Intensification of production (from Latin *intensio* - tension, strengthening and *facio* - doing), strengthening, increasing tension, productivity, efficiency - the process of development of social production, based on the rational use of technical, material and labor resources on the basis of scientific and technological progress.

Intensification of production - increase in production efficiency, based on:

- on applying the latest technology and technology, as well as advanced methods of organizing work;
- on the rational use of labor, material and financial resources.

The main direction of intensification of production is mechanization and automation of technological processes. Economic factors of intensification of production include the acceleration of turnover of circulating assets; decrease in the cost price of commodity output, growth of capital productivity.

Intensive production develops due to more efficient use of factors of production, the introduction of scientific and technological progress and the increase in intensity of production. Intensive production is achieved not by an increase in the volume of resources used, but by a more complete use of each unit of the resource potential.

There is a direct link between the technical level of production and the final results of the enterprise. The most important direction of scientific and technological progress at the present stage is mechanization and automation of production processes. Mechanization and automation of production processes is a complex of measures that provide for a wide replacement of manual operations with machines and mechanisms, the introduction of automatic machines, individual lines and industries. Mechanization of production processes means the replacement of manual labor with machines, mechanisms and other machinery.

Complex mechanization is a way of performing the whole complex of works that are included in this production cycle by machines and mechanisms.

The highest degree of mechanization is the automation of production processes, which makes it possible to implement the entire cycle of work without direct participation in it, only under its control.

The introduction of new machinery and technology, the improvement of the organization of production and labor at the enterprise lead to an economic effect in the form of increasing output, improving its quality, increasing labor productivity, reducing the material consumption of products, increasing the return on assets and

other positive economic phenomena, decrease in the cost price of production and increase in profit at the enterprise.

Acceleration of the NTP leads to the release of material, labor and financial resources at the enterprise. As a rule, this is achieved through the automation of production and the introduction of resource-saving equipment and technology.

The development of agriculture is carried out in two forms: extensive and intensive. Under extensive understand this form of development of agriculture, in which the volume of production increases due to the expansion of cultivated land, natural forage and the use of natural soil fertility on an unchanged technical basis. With intensive form, the volume of production increases as a result of improving the use of cultivated land, increasing its productivity through the introduction of scientific and technological progress, improving the forms of organization of production.

### **3.3. Development of recommendations for the improvement of the internal control system oAzerinvest enterprise**

The extensive route was important for increasing production in the early stages of agricultural development. However, the development of new lands continues even now. At the same time, the historical experience of the development of most countries in the world shows that the main and most promising direction in the development of agriculture is intensification.

Objective prerequisites for agricultural intensification are:

- Limitations of land suitable for agricultural use;
- development of productive forces, improvement of tools and means of cultivation of the earth;
- the social division of labor;
- The growth of the urban population, the need for agricultural products.

Intensification does not exclude the extensive development of land, the need for which arises in two situations: when it is impossible to cover the growing demand for agricultural products only through intensification; if the expansion of crop areas allows for an equal amount of capital and current costs to get more production than with intensification.

The predominance of extensive or intensive development of agriculture depends on the prevailing economic conditions - the availability of free land, the possibility of additional investment, demand for products, production efficiency.

In practice, the increase in production often occurs through the use of two forms simultaneously. It should be borne in mind that the extensive form of development of agriculture under certain conditions can be effective, therefore, extensive development is not identical with inefficiency.

Intensification of agriculture is the main form of expanded reproduction, carried out by improving the system of conducting the industry on the basis of scientific and technological progress to increase output from a unit of area, increase labor productivity and reduce costs per unit of output.

In determining the intensification, it is necessary to start from the characteristic threefold interrelation: costs - land - production. However, products can be obtained and with the negative impact of intensification on the environment, therefore one of the necessary conditions for this process is environmental well-being.

Consequently, the intensification of agriculture should be understood as an additional investment of material and sometimes live labor in the same area, carried out on the basis of improving technology and production technology in order to increase the volume of production while increasing the economic fertility of the land.

This definition reveals the material basis of intensification, which is made up of additional investments of quality tools and skilled labor. In the course of intensification, the costs of material resources (materialized labor) are increased, and living labor is reduced, so that the total labor costs per unit of output are reduced.

The additional investments should be understood as the expenditures of material assets and labor per unit area that exceed the level of costs in the base period or in the basic economy, are carried out with the goal of increasing the fertility of soils, increasing output from a unit area. In essence, the notion of "additional investments of material means and labor" implies a change in the forms of organization of production, the transformation of technology and technology.

Intensification of agriculture should be implemented not only through quantitative growth of resources, but primarily on the basis of their more rational use. Many agricultural enterprises use production resources inefficiently. In this regard, an important area of intensification is the use of intensive, resource-saving production technologies. Resource-saving technologies are aimed at reducing direct labor costs, material consumption of products and production processes, observance of environmental impact standards for land resources, obtaining maximum output and profit. Indispensable conditions for the introduction of such technologies are a high crop culture, observance of crop rotations, the availability of a system of machines and qualified personnel.

The main directions of improving technologies in agriculture are:

- optimization of the plant growing regime by introducing the necessary amount of fertilizers;
- use of high-yield varieties of agricultural crops;
- application of rational schemes of plant allocation, allowing more efficient use of land and machinery;
- reduction of the number of agrotechnical methods on the basis of their combination in combined aggregates (sowing and fertilization, etc.);
- delivery of operations within the framework of individual technological stages (harvesting grain, cleaning fields from straw, etc.);
- optimal division of labor between mobile and stationary processes, the transfer of a number of operations to stationary execution (grain refinement, processing of apples, etc.); rational use of material, labor and financial resources.

Expenses for labor payment of the company's employees per 1 centner of corn produced in 2011 amounted to 84.9 rubles, which is 46 rubles. less than the cost of the base year. For 1 centner produced sugar beet in the reporting year accounted for 27.1 rubles. labor costs, which is less than the cost of 2009 by 20.7 rubles. The number of means of payment per 1 centner of sunflower in 2011 amounted to 219.8 rubles., Which is 33.9 rubles. more than the base year indicator.

For 1 person-hour in 2011 produced: 0.88 centners. corn grain (more than in 2009 by 0.18 cents); 3.02 centners. sugar beet, which is more than in 2009 by 0.94 cu; 0.37 centners. of sunflower seeds, which is less than the base year indicator by 0.18 centners.

It should be noted that the labor intensity of the production of corn and sugar beet corn for the study period decreased by 0.3 and 0.15. In the production of sunflower seeds, the labor intensity in 2011 was 2.7, which is 0.88 more than in 2009.

Payment for one person-hour in the production of all three crops decreased compared to 2009: corn - from 100 to 74.8 rubles; sugar beet - from 100 to 81.9 rubles; sunflower seeds - from 103.2 rubles. up to 80.3 rubles.

Seed costs per 1 cent of the products received in 2011 also decreased: corn from 52.3 to 49.8 rubles; sugar beet - 11 to 8.4 rubles; sunflower - with 72.1 rubles. up to 59.2 rubles.

Consequently, high costs for sunflower production are covered by good harvests and low costs for the production of corn and sugar beet corn.

## **CONCLUSION**

The internal control system performs the following important tasks.

**Supporting the objectives of the company:** The main reason for the introduction and maintenance of internal control systems is to support and determine the degree of progress towards the achievement of the company's goals. Correctly designed and functioning internal control systems are the most important tool by which an organization can determine the progress achieved with respect to the company's objectives. Systems that do not perform this function are not cost effective.

**Reliability of financial accounting:** Monitoring systems should be designed to ensure the accuracy and integrity of data. The availability of reliable financial and accounting data at all levels is critical for the decision-making process in the organization. The right decisions can not be made on the basis of inaccurate and / or unreliable data.

**Ensuring asset accountability:** The main objective of an effective system of internal control is to ensure accurate accounting that specifies activities related to the company's assets. It is designed to help managers analyze the nature and type of assets, as well as determine the degree of risk associated with each asset or group of assets.

**Asset protection:** A key objective of the internal control system is to ensure that the value of assets is adequately protected. Internal control systems should be designed for periodic physical verification, confirmation of accounts, procedures for current evaluation, writing-off losses, damages or aging.



Legal and statutory objectives: When developing and maintaining an internal control system, external obligations must be met. The organization should monitor changes in legislative or legal requirements to determine how it is necessary to change the internal control system.

List the five main features of an effective system of internal control.

An effective system of internal control has a number of characteristics. They must be:

- simple and understandable;
- integrated with planning;
- cost effective;
- flexible;
- accountable;
- complete;
- accurate;
- providing information as often as possible;
- dynamic;
- providing objective information;
- a system for working with sensitive information;
- providing self-monitoring and early warning.

Why are these characteristics important? Let's look at each one in turn.

Simple and clear: Effective control should consist of simple, easily understood procedures that can be carried out by all personnel responsible for it. There should be a clear understanding of the reasons for control, what functions it is supposed to perform and how it contributes to the successful achievement of corporate strategy. If the control mechanisms are complex, there is a tendency to ignore them, they become the object of reductions, they do not understand them.

Integration with planning: Effective control is related to planning. The clearer and more precise the connection, the more effective the control system will be. The best way to combine planning and control is to account for control in the planning

process. This means that as targets are established in the planning process, standards are developed that will reflect how well the plans are implemented.

**Cost effectiveness:** Monitoring systems need to be constantly checked and evaluated to determine the total costs of their maintenance. The result is compared with the value of assets or the benefits that the control system gives.

**Flexibility:** The control system should be flexible enough to respond to changes. The organization should be able to effectively conduct unauthorized or unusual operations with its help. Monitoring systems should provide control access, which should not be used for other purposes, i.e. for solving applied problems. Continuous use of control access indicates that the system is inflexible.

**Accountability:** Control must be entrusted to the employee or organization that is responsible for implementing it. These employees need to understand the extent of their responsibility and the way in which this responsibility is shared among other control personnel.

**Completeness:** Monitoring mechanisms should be designed in such a way as to reflect the following: the complexity of the organization, the variety of operations, the scope of operations, the various methods used, and the types of controlled procedures. Many control systems fail for reasons related to the narrowness of their tasks and a lack of understanding of unusual operations.

**Accuracy:** Decisions made on the basis of inaccurate information are unsuccessful decisions. However, in practice, many managers make important decisions based on inaccurate information. The result of inaccurate information is inappropriate management actions and loss of resources.

**Timeliness:** Timeliness refers to the ability of the control system to regularly issue information. The higher the level of uncertainty and instability in the situation, the greater the need for regular information and frequent measurements.

**Dynamic:** Control systems should be largely dynamic in order to adapt to frequent changes in technology, processes, changing procedures in the company, market conditions or other organizational factors that may require their constant

updating. Some systems may remain unchanged throughout the time, while others may require regular and significant changes.

**Objectivity:** Control systems should provide as objective information as possible. Objective information is more useful than subjective, and allows managers to make better decisions.

**Control problems:** Internal control systems often fail or malfunction. This may be due to changes in technology, processes, procedures, personnel, or deliberate attempts to circumvent the internal control system. Internal control systems should provide communication channels for all employees at all levels of the company to use them for reporting in cases where other systems are used improperly.

**Self-monitoring / early warning:** Internal control systems should be self-monitoring. Some systems perform self-monitoring automatically, others require periodic testing. Such a verification process is important for the company in the event that it needs to maintain and modify its system. The greater the need for internal control, the more important it is to introduce work methods that identify the problem at an early stage. If possible, control systems should be installed in order to provide an automatic warning, and not depend on verification or audit.

(a) Operational control is associated with the processes of converting resources into products, for example, material control, quality control. Financial control deals with the control of financial resources when they enter the organization, move in and out of it. Structural control focuses on how the structural elements of the organization serve the purposes for which they are intended.

(b) The main characteristics of the internal control system are:

**Flexibility:** The system must adapt to changes in the organization and in operations that are conducted.

**cost effectiveness:** the introduction of a control system should not cost more than the benefits that it gives the organization.

**objectivity:** the most useful for managers is information without subjective assessments.

simplicity: it makes no sense to implement a control system that is so difficult to understand that employees begin to abandon its use or simplify it.

accountability: someone, an individual, a group or an organization, should be responsible for exercising control.

dynamism: systems can quickly become obsolete; can change the technology or method of operation of the company. A dynamic system can cope with these changes.

self-control: the control system should, where possible, cope with problems as they arise. The results of the evaluation or audit can be received too late.

integration: it is always better to develop standards at the same time as the plans, rather than trying to develop effective monitoring bodies after the plans have been developed.

As a manager within the human resources department, you have just completed a management development program that contains an explanation and analysis of the nature, role and influence of internal control systems. The Human Resources Director asked you to explain to the group of managers who do not have an accounting background, the following:

- (a) Differences between operational, financial and structural controls.
- (b) Characteristics of the internal control system.

Literature:

Institute of Internal Auditors (1983), Control: Concepts and Responsibilities, Statement of Internal Auditing Standards 1, July

Responses to the control task

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Questions about the quality of the audit and the factors affecting it are extremely important. If you can talk about the market of audit services, which are competing professional organizations, the demand for services will be determined primarily by the quality of services provided, which consists of a system of complementary elements. First of all, these are the professional qualities of auditors and their reputation, the necessary material base, organizational structure, a clear system of internal control and a number of others. Only a test carried out at a high quality level is for shareholders to confirm that they make decisions based on reliable information.

Faced with any specific problem in the field of finance, or simply trying to present financial consequences and possible economic alternatives in the sphere of

investing and financing the current activities of enterprises and corporations, financial work is carried out in three areas: first -financial planning, budgeting of incomes, expenditures and capital, the second - operational current activity on turnover management, the third - control and analytical work, consisting in the implementation of systematic control of execution of local and consolidated budgets, capital structure, effective use of fixed and circulating means, solvency and corporations balance liquidity. [1]

Control is one of the final stages of financial management of corporations, at the same time acting as a necessary condition for their management. Financial control as a subjective concept is a method of managing the financial resources of economic entities.(Adeniyi, 2003) In the translated economic literature, internal control is often identified with audit, while these are two different concepts.

Auditor activity is understood as an entrepreneurial activity for independent verification of accounting records and financial (accounting) statements of organizations and individual entrepreneurs. (American institute of certified public accountants,2005)

The term "internal control system" is given in the audit standard (standard) "Evaluation of audit risks and internal control exercised by the entity being audited". It means the totality of the organizational measures, methods and procedures used by the management of the audited entity as means for orderly and effective conduct of financial and economic activities, ensuring the safety of assets, identifying, correcting and preventing errors and distorting information, as well as timely preparation of reliable financial (accounting) reporting. (Arens,1997)

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