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S.V. Selyshchev

Candidate of Economic Sciences, assistant of the National Center of Accounting and Audit, National Academy of Statistics, Accounting and Audit

## EVALUATION OF FUNCTIONING OF THE INTERNAL CONTROL SYSTEM OF INTERNAL AUDIT OF INDUSTRIAL ENTERPRISE

**Abstract.** The basic approaches to the estimation of the internal control system functioning internal audit in the conditions of application of the method of normative accounting and control of expenses at the manufacturing enterprise are determined. An analysis of the accounting system of key business processes in the aspect of providing an effective internal control is performed, the inconsistency of which may be indications of the audit risk of distortion of credentials.

**Key words:** internal audit, internal control, production, normative accounting, audit risk, control system, cost price.

**Formulation of the problem.** Due to the reform of the Ukrainian economy, both internal and external conditions of the functioning of industrial enterprises have changed. The decision in such conditions should be the creation, development and adaptation of effective concepts of managerial accounting at the enterprises. Due to increasement and complication of requirements for business management, the system of internal control also complicates, and so determines the need to develop new and adapt the existing organizational and methodological approaches to internal audit.

**Analysis of recent researches and publications.** The following scientists devoted their works to the issues of internal audit and internal control : Kamenskaya T. O, Kulakovskaya L.P., Savchenko V.Ya., Sopko V.V., Redko O.Yu. and others. [1-10].

The purpose of the study is the assesstment of the functioning of the internal control system of the internal audit of the industrial enterprise.

**Presentation of the main research material.** In today's conditions, the need for increased efficiency and fast work over the organization of cost accounting at the

places of their occurrence, product types and liability centers through the implementation of internal audit is becoming more and more obvious.

An analysis of practice has shown that for industrial enterprises, providing of cost accounting is most effective. For the understanding by the internal auditor the risks associated with the effectiveness of the organization of the system of internal control the level of application of elements of the regulatory method of accounting for costs should be determined. The main components of it are:

- preliminary compilation of normative calculations on the basis of technically grounded operating norms of expenses on the main items of production costs in natural and in monetary terms and their use in accounting;

- accounting of changes of current norms regarding to implemented organizational and technical measures and determining the impact of these changes on the level of cost of production;

- accounting of deviations from the current norms of actual expenditures by the places of their occurrence, objects of accounting (types of products, works, services), articles of expenses, reasons and perpetrators (initiators);

- accounting of actual production costs with a subdivision of costs according to the norms, deviations from norms and changes in standards.

Such organization of accounting allows to provide an effective implement of the current control over the cost of production as actual costs in the current accounting are compared with the regulatory and detect deviations from the norms. The use of this information enables the auditor to determine on an operational basis the efficiency of the system of internal control and cost management of products.

As shows the practise, normative method of accounting for costs in organizations is used mainly as a way to calculate the cost of production. In the calculations, the costs are divided, as a rule, by the products in the context of costing items of expenditure with the unit cost of the norm, indicating the change in norms and deviations from the norms. In this case, the normative cost of individual products is determined on the basis of regulatory calculations and quantitative data on the release of these products.

Summing up the normative costs for all released products, the normative cost of all commodity output by items of expenditure is determined.

It is advisable for the auditor to investigate the fixation process in the calculation datas. Based on the sum of changes in norms and deviations from norms the actual cost of commodity products is established. The actual cost of each product is calculated by algebraic composition of the normative cost and taken into account for this product the amounts of deviations and changes in norms in terms of expenditure items using the formula:

$$SF = CH + IN / P \pm OH / P,$$

Where SF - actual cost of goods; CH - normative cost; IN - change of norms; OH - deviation from norms; P - number of products released.

Normative method of calculating the cost of production allows to calculate the actual cost of production and each unit of individual types of products in economically feasible way.

The main advantage of the system of normative method of accounting and control of expenses is detection of operational deviations of actual costs from the current norms of material costs, wages and other production costs, their causes and the effect on the cost of production.

The organization on separate areas of production of systematic monitoring by deviations from the existing norms allows to eliminate promptly the disadvantages. Practice shows that the methodics of normative accounting and control over expenses is universal. It does not contradict the existing methods of cost accounting and costing calculation, but, on the contrary, suggests the need to group the costs of certain objects of accounting.

The degree and correctness of the application of the method of regulatory accounting and control and on its basis - the rapid detection of deviations from the norms of costs is the main parameter for assessing the effectiveness of control over the reduction of production costs. In this case, the accounting of deviations is organized so that it is possible to detect deviations from their places of origin, causes and perpetrators.

The resulting information generated in the system of normative accounting and control over production costs is used in assessing the audit risk of the relevant production processes to manage the level of risk by setting tasks for individual units, establishing periodicity of tasks and the timing of their bringing to the executives - officials, as well as adjusting of accepted managerial decisions.

According to it, the accounting information can be subdivided into three types:

The first type is the information needed to capture the production process and the level of production costs, which does not require the reaction from management personnel, which is not monitored by the internal auditor and is directed directly to the organization's accounting department. Examples of such information can be information about actual production costs within the current cost standards. Such information is transmitted to computers that convert it and create consolidated information used for reporting and analysis.

The second type - information about deviations from the established norms, by which previously developed programs provide typical solutions for the elimination of deviations and automatic control of the production process. Such information is entered from the primary documents and is taken from electronic media in which the standard data is pre-entered. Any deviation of the actual data from the normative, causes the corresponding reaction, that is transferred by the controller in the form of, for example, an adjusted work program of workshops and sections. At this stage, it is necessary to evaluate the correctness of the work of such automatic deviation programs and the frequency of their application. In the latter case to analyze the causes.

The third kind is information about deviations from the established norms not provided by the program, by which can be made the decision of the head. Information comes primarily in the form of primary documents, accounting registers and other information carriers. Information that arrives is transferred to technical information carriers. Such information has to be processed with the participation of a specialist and internal auditor if the process is not pre-programmed or the program does not provide for this deviation.

With such an accounting organization, it becomes possible to track and control by the auditor the effectiveness of the system of internal control of production costs and cost of production by deviations when is considered and adopted the initial documentation, that reflects the costs within the existing norms and is fixed by the economic services of the organization. In units of the organization, all the attention of specialists (accountants, financiers, etc.) focuses on detecting deviations from norms, causes and perpetrators (initiators) of deviations and identifying the most significant deviations in order to make the necessary decisions.

Also attention must be paid to the difficulties associated with inflation, which impedes conducting of normative accounting. In the conditions of inflation, keeping a accounting over the normative method in cost indicators is quite difficult . More reliable are natural indicators, which should be basical. Values should be adjusted quarterly or monthly. The most significant factor of cost deviations will be inflation.

Normative cost includes only variable costs (basic materials, raw materials, technological energy, fuel, instrument wear, basic wages for part-time wages). Directly these costs require increased control over constant ones. The latter are accrued in equal amounts at regular intervals.

To assess the audit risk, it should be noted that the distortion of credentials associated with the deviation of actual costs in enterprises is most often on variable costs. Isolating them in the form of limited cost increases control over costs, simplifies their accounting and calculating, increases the accuracy of economic calculations.

Typical range calculation expenditure for industrial enterprises should include the following: the cost of labor, social insurance, social security and health insurance, raw materials, work and services, the cost on maintaining of fixed assets; costs on organization of production and management; other expenses; nonproductive costs.

Application of the typical range of articles taking into account the cost of production will allow enterprises, firstly, to identify elements of accounting for distribution and reallocation of net income from direct production costs of the company; Secondly, to increase control over actual production costs; Thirdly, to

improve and expand the economic analysis of the costs of production to identify the reserves of their reducing; in the fourth, a reasonable production cost information needed for scientific production management due to the development of market relations.

For this purpose, primarily are used internal reserves related to more efficient use of equipment, improving production technology, strengthening labor discipline, the widespread implementation of progressive forms of work organization, methods of implementation of working processes.

Among branches of economy, industry plays a leading role. Here is the highest level of mechanization, which creates real conditions for the accounting and control of interrelated technological processes at different stages of production. The most important source of increasing the efficiency of the industrial sector is reducing the cost of production. From its level depends the results of activity of enterprises, the pace of expanded reproduction, financial status of economic entities.

Detection of reserves for reducing the cost of production is possible on the basis of data obtained in the process of internal audit of the economic activity of the enterprise. At the same time studying the cost of production is extremely important. In analyzing the accounting and control system by determining the cost of a unit of output, the main factors affecting its change are identified. Factor analysis shows a risk of significant distortion associated with exceeding the actual cost over planned due to incorrect representation of the implementation of the planned production volume and the biased predictive values of labor costs and costs per unit of output. High growth rates of costs generally increase the cost per unit of output, thereby reducing the efficiency of production.

Particular attention should be paid by auditor for determination of the availability and degree of efficiency of the system of prevention and elimination of causes that cause excessive costs.

**Conclusions** The application of the normative method of cost accounting provides the greatest effectiveness of the internal control system of the industrial enterprise, which in turn allows to minimize audit risk associated with the reliability of the internal control system.

Internal audit is an important component of internal control. In order to ensure high efficiency of internal audit, an enterprise must create and recommend to the implementation the use sectoral and technological regulations and provisions.

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