Assessment of the internal financial control system’s modification results

Abstract. Introduction. Nowadays, in the rapidly changing economic environment, the structure and element correlation in the internal financial control systems cannot remain static. Purpose. Our target was to work out a set of indicators to measure the effect of internal financial control systems’ modification and develop quality criteria in order to assess the professional performance of internal financial control specialists.

Results. When evaluating a modified functional structure of the internal financial control, we propose to use a set of qualitative and quantitative indicators, including: adequacy and realism of expectations of a company’s management and owners; a number of reduced tax claims during the reported period; a number of financial audits and number of revealed and prevented financial risks per a single controller.

Conclusion. The suggested criteria can be indicators of the system of internal financial control modification's efficiency in conditions of new economic development and management.

Keywords: Internal Financial Control System; Control Procedures; Financial Control; Measurement Criterion; Management System

JEL Classification: M49

DOI: http://dx.doi.org/10.21003/ea.V157-0037
ment under the influence of various external and internal factors, it is always necessary to modify the existing services. And on this stage, there appears the problem of internal control system’s efficiency measurement.

3. Brief literature review. In the Russian Federation, financial and revenue authorities in their evaluation of internal financial controls' efficiency use the COSO model, which is widely accepted at the international level.

However, according to A. A. Bolshov (2010), «the issues of the influence of corporate financial control system on the performance of an enterprise is not sufficiently studied in works of foreign and Russian scientists, thus, the efficiency of an enterprise cannot be expressed in financial terms» [2, p. 5].

Significant contribution to the development and scientific substantiation of the enterprise's performance indicators system was made by some foreign scientists, such as F. Kaplan and D. Norton (2005) [3], K. Savarese (2001) [4], D. Parmenter (2007) [5], D. Han (1997) [6]. Among the Russian researchers of measurement of internal control efficiency, one should name V. D. Andreiv and S. V. Cheremshanov (2004) [7], V. V. Burtsev (2005) [8] and others.

4. The purpose of the article is to develop a set of indicators to assess the results of the modified model of internal financial control system.

5. Results. According to the carried out research, to increase the economic feasibility and efficiency of individual control procedures and the system of internal financial control in general, it is necessary to gradually transform the system which only states facts into the one dealing at the same time with both research and analysis [9, p. 50].

V. I. Evdoshchak and Yu. A. Manchinskaya (2015) suggest to reconstruct the system of enterprises' internal control on the actuarial basis of accounting with the priority of a new innovative system of accounts, the latter should take into consideration the effect of changes in internal and external economic environment in order to provide a business entity with the appropriate level of management [10].

The efficiency of an internal financial control system depends on a range of various internal and external factors. One of the most important factors is the scientifically based approach to the interaction of functional elements in the internal financial supervision. From a methodological viewpoint, this means that development of control procedures should be based on scientific principles of effective monitoring and successful practices of implementation towards systems of financial management.

According to Y. A. Pavlova (2010), «the choice of internal control forms depends from the organizational structure complexity; legal form of entity; types and scope of business performance; feasibility of supervision in different aspects of the activity; attitude of the management to controlling measures» [11, p. 42].

The method of effective functioning of an internal financial control system could be constructed as a union of theoretical developments of domestic and foreign scientific schools together with legislative, managerial and methodological rules of the efficient control procedures implementation into the financial and economic performance of business entities. The completeness and efficiency of these principles implementation into practical operation depends on several factors, among the most important ones are: mandatory (the system of state regulation of economic and financial relations) and sector (branch) factors.

The bigger the company, the more functions its departments have to fulfill. Whereas in small companies there are, as a rule, special internal audit departments, where relatively independent objectives are clearly defined for groups of controllers. These departments are focused mainly on the accounting process. According to V. V. Alekseeva (2013), «the accounting process is under the major influence of the degree of mechanization and automation, specific features of economic performance of an enterprise, and book-maintenance form and other factors» [12, p. 167].

In order to define the efficiency of internal financial control at enterprises, we shall apply the system principles of interrelations between control procedures over the company's cash flow and the results for production control, while the latter is focused on the evaluation of the effectiveness of stocks and costs rationing, their maintenance and economic usage, the ratio of costs and benefits, correlation of outflow and inflow of funds, the balance of receivables and payables [13, p. 33].

It is necessary to develop new basic control procedures in the spheres of settlement and payment operations for economic entities to improve the efficiency of control procedures. The most urgent changes in procedures are required for the following sections [14, p. 284]:

- control over financial results of economic performance;
- control over assets and finances;
- control over the use of the capital;
- control of business activity, financial and economic productivity of single structural business units.

In its economic content and the nature of relationships, internal financial control system varies according to state economic, financial, social and political environment. Therefore, the operation of the elements of the internal financial control system as well as the application of certain control procedures are very difficult for qualitative measurement in the sense their performance and strategic planning.

It is possible to plan the expected result only in respect of the controlled object's state change, but not specific test procedures, as definite are the subject, the object and the parameters of desired to achieve the objectives of the controlling.

O. V. Smetanko (2014) suggests that in the process of finding and developing key performance indicators, the head of internal control service should consider the following enterprise's features:

1) the key performance indicators are reasonable to be introduced in those companies where internal audit is focused on the system of internal control and accounting. This is, where each approach is used in the verification process;
2) indicators of value-oriented management system should be introduced at the enterprises, where in the system of corporate management there exist risk management targeted to control key business processes [15, p. 136].

It is difficult to measure or evaluate the internal financial control of industrial enterprises, as many operational processes are determined by the financial interests of the owners, so, the audit of financial performance is organized in a special way, focusing on internal targets and considering features of creation, increment and use of money value.

In order to define the efficiency of internal financial control system, it is necessary to use a set of interrelated qualitative and quantitative indicators to evaluate not only the control procedure, but the whole cycle of the control actions towards every single test object, for example - the movements of receivables and payables.

In this case, the reduction of this type of debt can be viewed upon as an estimate of the performance of economic services of the enterprise, but also the assessment of the effectiveness of internal financial control, evidence of their high connectivity within the experts' teams in economic services and the management of the company. Qualitative criteria for measuring the performance of specialists of internal financial control requirements shall be supplemented with specific measures. Especially important such instruments of measurement are for the restructuring of the enterprise management system, modification of its functional services depending on the changes in the external economic environment, legislation, area expansion, involving the circulation of foreign capital and for other significant properties. In large companies, as a rule, there is a quality development program for performance of internal financial control team. The quality improvement is obviously understood by us as a set of interrelated among them the arrangements to assess the effectiveness of applicable control procedures and on this basis compare the cost of control with its efficiency. By the fact of how small or how big such a gap can be judged on the efficiency of functioning of internal financial control system. Ronzhina, M. / Economic Annals-XXI (2016), 157(3-4(1)), 118-120
Into the list of performance efficiency indicators of the functioning of internal financial control, we should include, for example, the following indicators:

1. reduction of the number of tax claims during the reported period compared with corresponding periods before;
2. number of performed financial audits where there were detected and removed financial risks per one controller;
3. the percentage of implemented recommendations from controlling team, that allowed to increase the financial profitability of the capital;
4. direct reduction in costs/economy of the recommendations of controllers implementing during the reported period.

In this list of performance indicators, we consider two as the most significant:

1. The decrease in the number of tax claims during the reported period compared with previous periods;
2. The number of financial audits and the amount of detected and removed financial risks per a single controller.

It is quite simple to receive the value of the first performance indicator, as such statistics are conducted by the head of the internal financial control team in every company.

In most cases, only the record of the tax audits results is reported, but it is necessary to keep a special journal of records of the reasons for financial (tax) sanctions, the forecast value of tax bases according to changing tax regulations and options, the accounting policies of the company without the possibility of tax risks.

The second indicator - the number of conducted financial audits and the amount of identified and neutralized financial risks per controller (Efk) (EPC) is possible to calculate by the formula:

\[ Efk = \frac{\sum F \cdot A \cdot W - O}{N} \]

where Efk is general effect of financial control procedures; F - financial audits; A - revealed financial risks; W - cleared financial risks; O - number of participants in the control procedure for audit of a certain cash flow.

References


Received 17.12.2015

Ronzhina, M. / Economic Annals-XXI (2016), 1573(3-4(1)), 118-120