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**Internal Control and Internal Control System: On the Issue of Defining
Principles in the Context of International Business**

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The purpose of the article is to investigate, generalize, systematize, and classify the principles of internal control and the internal control system, as well as the construction and functioning of the internal control system, using examples from industrial enterprises and those operating in international business within the sphere of international economic relations. However, as the conducted studies have shown, their results-subject to certain transformations and accounting for specific features-can be extended to enterprises in other sectors of the economy. One of the most significant trends clearly emerging at the current stage of economic development is the comprehensive improvement of management quality at all levels. Key components of this process include enhancing the quality of control and the information used for managerial decision-making. This necessitates higher demands on the development of control theory and management theory as a whole to support practical business activities. In the course of the research, the main approaches to one of the key issues in internal control theory-the principles of internal control and the principles of the internal control system-were examined and summarized. As the studies revealed, there

is currently no unified viewpoint among specialists and practitioners in control and management activities, as well as experts in management and international management, regarding the composition, content, and classification of the principles of internal control and the internal control system. As a result of the research, the composition and content of the principles of internal control and the internal control system were refined. A number of new principles were proposed that could enhance the practical component of the internal control system and positively impact the development of control and management theory as a whole, as well as management theory at all levels, including international management. The outcome of the research was a classification of the principles of internal control and the principles of the internal control system.

Keywords: principle, internal control system, internal control, control, audit, management, international business, international management.

Introduction. Virtually all national economies, as well as the global economy, are experiencing the most acute economic crisis. The decline in economic indicators at both macro- and micro-levels continues and is rapidly approaching a critical threshold. First and foremost, this situation negatively impacts the foundation of the economy-business entities and enterprises operating in various sectors, including those in international business and international economic relations. Under these conditions, the quality of management at all levels, based on reliable, relevant, and high-quality information, becomes of decisive importance. From this perspective, internal control and the widespread implementation of internal control systems in the financial and economic activities of enterprises can have the most radical effect on overcoming crisis phenomena and transitioning to a stable innovative development path. However, to achieve this, it is necessary to resolve a number of theoretical issues and problems, including those related to the composition, content, and classification of the principles of internal control and the internal control system.

Problem Statement. The study of the features of the theory and practice of internal control, as well as issues related to the construction and functioning of the internal control system, has been undertaken by many domestic and foreign specialists.

However, despite the enormous importance that internal control holds in the modern business practices of enterprises and the global economy as a whole, many fundamental questions remain without unequivocal resolution and have not been defined with sufficient precision to this day. These include issues related to the list, content, and classification of the principles of internal control and the internal control system. The underdevelopment of theory in these areas has the most negative impact on the practice of management and the conduct of financial and economic activities by business entities. This state of management and control theory served as the prerequisite for conducting the present research.

The purpose of the article is to investigate, generalize, systematize, and classify the principles of internal control, as well as the construction and functioning of the internal control system.

Methods. Based on the article's objective and to achieve it, general scientific methods were employed: analysis, synthesis, induction and deduction, modeling, abstraction, generalization, comparison, chronological and systemic analysis. The methodological and informational foundation of the research consisted of materials from periodicals, scientific works, normative-legal acts, as well as reports and materials from EU organizations and other professional organizations of auditors and accountants worldwide.

Results. Internal control, as well as the formation and functioning of the internal control system, must occur in accordance with specific principles. In this work, we continue the theme initiated earlier. A significant portion of researchers do not distinguish between the concepts of "internal control" and "internal control system," equating them. This naturally leads to the conflation of the principles of internal control with the principles of the internal control system. The author clearly differentiates these two concepts and provides definitions for them.

From a general scientific perspective, principles are understood as the foundations of any theory or science that determine all subsequent assertions and serve as basic requirements that scientific assumptions, hypotheses, or theories must meet. According to another definition, principles represent the manifestation of objective laws in subjective form within public consciousness.

In our view, principles constitute one of the foundations in the study and implementation of internal control, as well as in the construction and functioning of the internal control system.

Achieving the objectives of control-and consequently, the objectives of management-is impossible without a clear definition of the principles governing its functioning and organization. There is currently no unified opinion regarding the essence and list of "principles of internal control" or "principles of the internal control system." Divergences in approaches to identifying the principles under study are evident, which, in our opinion, underscores the relevance of research in this direction.

Like any system, the control system adheres to general scientific laws governing its creation and functioning. Otherwise, it would merely be a collection of elements without connections or interactions, or some other novel formation. Compliance with these laws is a characteristic and feature of absolutely any system.

The principles of internal control-as an economic category, a field of knowledge, and a management function-are subdivided into:

- general scientific principles-used by a number of sciences (and some by all sciences);
- specific scientific principles-developed by the theory and practice of internal control specifically.

Based on the conducted research, the author proposes a classification of the principles of internal control in Table 1 and a classification of the principles of the internal control system in Table 2.

Table 1. Classification of internal control principles

| Groups of principles | List of principles |
|----------------------|---|
| General scientific | <i>philosophical principles, principles of construction and functioning of systems in the philosophical sense, as well as the following principles: quality and continuous improvement; evidence; systematicity; openness; efficiency; balance; hierarchy of goals; scientific character.</i> |
| Specific scientific | <i>deep understanding (for senior management); deep understanding (for the internal control entity); proactivity and strategic approach; political neutrality; self-efficacy; transparency; compliance of control forms and methods with business processes; feedback.</i> |

Let us dwell in more detail on the principles proposed by the author, which include the following:

- deep understanding (for top management). Control is one of the management functions and is intended to provide feedback between the subject and object of management, ensuring corrective capabilities for the management system, as well as creating, together with the accounting system, an information base for making managerial decisions. From this perspective, top management, which makes managerial decisions, must deeply and clearly understand the place, role, essence, structure, purpose, tasks, principles of organization and functioning, and interconnections (internal and external) of internal control. This will allow determining the direction of integrating the internal control system into the management system, the most effective ways of functioning, development, and improvement of internal control and the internal control system at the enterprise;

- deep understanding (for the internal control subject). Internal control and the internal control system operate within the management system, ensuring the fulfillment of tasks both facing the management system and those set by the management system in the course of the enterprise's activities. In the process of internal control, it is necessary to take into account all the specifics of the functioning of the object under review, the specifics of the management system, production and technological processes, both of the object of control and management, and of the entire enterprise

as a whole, as well as all external and internal factors influencing both the object of control and the control process;

– self-effectiveness. The internal controller must be the most highly qualified specialist, well-versed in all production, technological, managerial, financial-economic, and other processes occurring at the enterprise and the objects of control. During inspections, relying on their knowledge, skills, and abilities, the internal controller solves the tasks set before them, anticipating and preventing risks and challenges arising in the course of financial and economic activities and internal control. To fulfill the tasks and requirements set before them, the internal controller must continuously improve their professional and general level, self-confidence, outpacing in their development and improvement the processes they control, thereby increasing the efficiency and productivity of their activities;

– transparency. The results and materials of internal control are intended for various categories of users of this information with different levels of professional and specialized training. These results and materials also have decisive significance both for making managerial decisions and for the financial and economic activities of the enterprise as a whole. Due to these and a number of other factors, the reporting materials and results of internal control must be informationally transparent, open, and accessible for understanding by the entire set of stakeholders with varying levels of general, professional, and specialized training. The materials and results of internal control, in addition to their primary purpose-clear and precise reflection of the actual state of the control object, identification and explanation of deviations from adopted managerial decisions, and formation (along with accounting) of an information base for subsequent managerial decisions-must enhance trust in internal control, the internal control system, and the enterprise as a whole, contributing to the growth of the enterprise's competitiveness.

The principles of the internal control system, in turn, are divided into general scientific and specific scientific principles.

It should be noted that the principles of internal control extend to the internal control system.

Table 2. Classification of principles of the internal control system

| Groups of principles | List of principles |
|----------------------|--|
| General scientific | competence; objectivity; honesty; accountability; communication; permanence; personalization of responsibility; technological excellence; motivation; representativeness; social responsibility; legality; obligation; strategic focus; continuity; comprehensiveness; complexity; regularity (timeliness); planning; concreteness; effectiveness; efficiency; effectiveness. |
| Specific scientific | prudence; independence; positioning; organizational improvement; confidentiality; consistency; unification; ergonomics; interest and reliability; centralization of methodological guidance; completeness; elimination; simultaneity; equality and mutual control; priority of incoming control; priority of primary data control; delineation of powers and competencies; interaction of bodies of control subjects (divisions, persons); delegation of powers; documentary confirmation; prevention of concentration of control rights in the hands of one person; focus on risks; controllability; integrity. |

The principles proposed by the author include:

- communicativeness – in the process of conducting internal control, employees of the internal control system interact and communicate with virtually all personnel of the enterprise—from top management to direct executors, with all structural subdivisions, as well as with external stakeholders. In the course of control activities, to effectively and rationally solve the tasks facing them, it is extremely important for internal controllers to establish and maintain normal business relationships both among themselves (within the internal control system) and with the enterprise's personnel and external stakeholders, using effective means of communication;

- permanence – the internal control system must ensure a continuous control process, allowing no gaps either in chronological order, by control objects, or by processes occurring at the enterprise. Otherwise, there is a high probability that

significant distortions, deviations from adopted managerial decisions, emerging risks and challenges may be concealed precisely in these gaps, substantially distorting the actual state of the control object and the overall picture of the enterprise's financial and economic condition. The internal control system must ensure a continuous process of identifying and managing risks and challenges;

- technological excellence. Currently, scientific and technical progress is developing at an accelerating pace, with new technologies emerging that significantly and qualitatively change managerial, production, and information processes. Naturally, the control process should not lag behind; ideally, it should outpace the processes and innovations occurring at the enterprise. This applies equally to not only the technical and information components of the control process but also the scientific and methodological ones. The control methodology and control processes must be continuously improved and, to a certain extent, outpace the controlled processes. The internal control system should employ modern information technologies, technical means, scientific and methodological developments that meet contemporary requirements for managerial and control processes;

- motivation. Employees of the internal control system are the most highly qualified workers at the enterprise, controlling all processes occurring there and ultimately significantly influencing the final results of financial and economic activities. Due to these circumstances, a necessary condition for successful and effective control work is high motivation of the internal control system employees to achieve the highest performance indicators. In motivating controlling employees, an optimal combination of both material and moral incentives aimed at achieving the highest results is required. Top management must continuously stimulate employees of the internal control system to carry out effective activities aimed at achieving the enterprise's goals;

- representativeness. The control process and the internal control system should, where possible, cover all controlled objects and processes of the enterprise on a continuous basis. However, due to a number of reasons (impossibility of stopping

production; significant scales of controlled processes; limited resources allocated for control actions; time constraints; specifics of production, technological, and managerial processes, etc.), conducting continuous control is not feasible. In such cases, a sample is formed and subjected to verification, with conclusions about the entire population drawn based on the results of this verification. Accordingly, high requirements are placed on the formation of the sample. First and foremost, the requirements for a representative sample are mathematical in nature; however, in the control process, it is necessary to take into account the economic meaning of the controlled processes;

- social responsibility. Currently, the social and environmental consequences of enterprise operations are gaining particular importance. From this perspective, the internal control system occupies one of the leading positions in preventing negative consequences of enterprises' financial and economic activities in these areas. The internal control system bears responsibility for the impact of its recommendations, decisions, and actions on society and the environment through highly professional, scientifically grounded, transparent, and ethical behavior, and it must prevent and resolve conflict situations between structural subdivisions, within the enterprise, and neutralize external negative factors;

- prudence. The cornerstone of control activities and the internal control system is the strict compliance with legislative and regulatory documents at all levels of management, starting from the state level and ending with the enterprise's internal documents. One of the areas of activity of the internal control system is to prevent discrepancies between the regulatory framework and the enterprise's internal documents. Employees of the internal control system must strictly comply with laws and regulations in their activities, avoid any actions that could discredit their activities and the enterprise's operations, and not allow compromises regarding the quality of control activities;

- uniformity – the activities of the internal control system must comply with modern unification requirements to ensure a unified approach and understanding of

control actions, procedures, and results by all users of control information. Each control inspection should, where possible (taking into account the specifics and features of the control object and controlled processes), be carried out according to a single officially established methodology, which should ensure its orderliness, unambiguity, and comparability;

– ergonomics – one of the significant reserves for increasing labor productivity and quality in general, and in control activities in particular, is the creation of convenient, comfortable conditions that maximally correspond to the specifics of labor activity, both at the workplace and throughout the entire production process. A significant feature of the control process is that the employees performing it must have the most convenient and operational access to all internal and external information databases related to the enterprise's activities. Subdivisions and employees of the internal control system must be equipped with ergonomic workplaces.

The study of foreign scientific and specialized sources on the researched issues, primarily the Conceptual Framework for Internal Control, the Internal Control System in Banks: Organizational Foundations (Basel Committee on Banking Supervision), materials from leading audit firms, and works by specialists in this field, allowed for the following conclusions:

1) the state of the theory of "internal control" and "internal control system" worldwide generally correlates with the state of these same issues in developing countries, taking into account the economic condition and level of national economies at the current time;

2) the leading role of internal control in management and production organization in the broad sense is generally recognized, as is the exceptionally high role and significance of the internal control system in the financial and economic activities of enterprises and its influence on the financial and other results of these activities;

3) there is no clear understanding of what "internal control" and "internal control system" are, and consequently, there are no clear definitions for these phenomena,

which leads to the absence of a clear and precise understanding of the object, subject, methods, and principles of internal control and the internal control system. There is no clear demarcation between the concepts and spheres of functioning of internal control, the internal control system, internal audit, the internal audit system, the risk management system, the system for monitoring risks and challenges arising in the course of financial and economic activities, and responding to them;

4) in the absence of clear definitions of "internal control" and "internal control system," there is no clear understanding of the principles of internal control and the principles of the internal control system-specifically, no clear understanding of the composition, structure, content, ranking, or interconnections of the principles of either internal control or the internal control system;

5) the lack of a deep and clear theory on these issues leads to limitations and very serious negative consequences in practical activities;

6) further theoretical research in these directions is necessary to develop and deepen the theory of internal control, the internal control system, and the theory of control and management in the broad sense, with the aim of eliminating limitations and shortcomings and increasing the effectiveness of practical managerial and control (including audit) activities.

Conclusions. The conducted research has confirmed the exceptional importance of clearly defining the composition, content, and classification of the principles of internal control and the internal control system. Given that specialists, scientists, and practitioners have not yet reached a unified, or at least a definitive, opinion on these issues, it is advisable to continue research in these directions.

The principles of internal control and the principles of the internal control system can be ranked and constitute different specific weights depending on the enterprise, the level of management, and other specific circumstances of the application and functioning of internal control and the internal control system. However, it is precisely their correct and effective application that determines the results of internal control and the internal control system, and consequently, the results of the management system

and management as a whole, as well as the results of the enterprise's financial and economic activities, including in conditions of crisis and probable bankruptcy of enterprises.

The scientific novelty and practical significance of the conducted research, in our opinion, lie in the proposed classification of the principles of internal control and the principles of the internal control system. This, in turn, should have a positive impact on the quality and effectiveness of control activities and management as a whole.

The author does not consider the proposed classification of the principles of internal control and the principles of the internal control system, or even their composition and content, to be final and immutable, but views it as a starting point for further research. The directions for further research, in our opinion, may primarily include the composition and interconnections, mutual influences of the principles depending on specific conditions and the level of management, as well as their concrete implementation in the practice of management and control activities.

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