

strict regulation at the analysed period AIFs do not pose any dangers to the economy and financial market of Lithuania, it is important to further analyse the AIF activities and in case of necessity to improve the legal base in order to prevent the possible speculations and other negative types of AIF activities.

As a consequence of the recent global economic decline it was decided to put stricter regulations on the non-traditional investment instruments, AIFs among others. However, due to the small market and the insignificant size of AIFs registered in Lithuania the globally accepted regulation will not affect the AIFs functioning in Lithuania during the analysed period. Despite the fact that during the short-term and intermediate period shows only a slight probability of AIFs registered in Lithuania to emerge within the framework of the newly adopted directive on AIF managers, it is important to analyse the legal AIF regulation on a world-scale and implement respective improvements in the national legal base.

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EVALUATION OF INTERNAL CONTROL: RISK MANAGEMENT IN EXTRACTIVE INDUSTRY ENTERPRISES

В даний час в конкурентному світі технології стрімко розвиваються і змінюються, змінюються і потреби ринку, бізнес-процеси стають все більш складними, та стає все більш і більш складним контролювати підприємство і здійснювати його внутрішній контроль. Мета цієї статті полягає в проведенні аналізу системи внутрішнього контролю та його системи управління. Більш того, тільки ефективна система внутрішнього контролю робить позитивний вплив на всі інші системи управління компанією, і, коли компанія має ефективну систему внутрішнього контролю, вона може конкурувати з іншими компаніями, що працюють в галузі, і прагнути нових стратегічних цілей, поставлених управлінням.

Ключові слова: внутрішній контроль, оцінювання, ризик шахрайства.

В настоящее время в конкурентном мире технологии стремительно развиваются и изменяются, меняются и потребности рынка, бизнес-процессы становятся более сложными, и становится все более и более сложным управлять предприятием и выполнять его внутренний контроль. Цель этой статьи заключается в проведении анализа системы внутреннего контроля и его системы управления. Более того, только эффективная система внутреннего контроля оказывает положительное влияние на все другие системы управления компании, и, когда компания имеет эффективную систему внутреннего контроля, она может конкурировать с другими компаниями, работающими в отрасли, и стремиться к новым стратегическим целям, поставленным управлением.

Ключевые слова: внутренний контроль, оценивание, риск мошенничества.

In the nowadays competitive world, technologies are rapidly developing and varying, market needs are changing, business processes becoming more difficult, and it is getting more and more complicated to control the enterprise and to perform its internal control. Purpose of the article is to perform an analysis of internal control and its management system. Moreover, only the effective internal control system has positive influence on all other control systems of the company, and when the company has an effective internal control, it may compete with other companies operating within the branch, and to endeavor at new strategic goals set by the management.

Keywords: internal control, evaluation, fraud risk.

The internal control system is very important in all enterprises without any exception, be they large, medium or small [1]. This is why the purpose of internal control is to manage business risk, i.e. to find the coordinated methods and means of the system of internal control so as to mini-

mize the risk related to business environment, to the processes happening in the enterprise, and to generate the information that would be an essential background for making business decisions. Indeterminacy of these three types are common for every business, and managing to control

them, i.e. to avoid, decrease, accept or divert them to the required direction provide the organization with the guarantee of success of its performance and a competitive advantage. It must be emphasized that only an effective internal control in the enterprise can help to ensure its productive economic performance, guarantee that the laws, subordinate legislations and the enterprise's internal rules are being obeyed, to implement proper enterprise's capital safety methods, to avoid mistakes, to reveal indulgences, etc. However in nonfiction there is often expressed another non-traditional attitude stating that an effective internal control reveals the prospects of enterprise development and helps to notice threats to its enterprise existence, and so such a control becomes an important means of risk management.

Object of the research – internal control.

Purpose of the research – to perform an analysis of internal control and it's management system.

Research methods – in order to achieve the set purpose and meet the objectives, information source and information collection, grouping, comparison, systemization and summary methods of academic literature, legal acts and methodological resources were used.

Concept of internal control

As the competition is growing in the modern world, the technologies are rapidly developing and changing together with the market demands, and as the business processes are getting more complex, it is becoming more and more difficult to manage the enterprise and perform its internal control. Therefore the managers of extractive industrial enterprises need such a control management system that would allow managing the enterprise's activity effectively and securing the implementation of the ser goals and tasks. It is noticed that the extractive industry is one of the most important and significant for the national budget of the Republic of Lithuania, thus the internal control research in this area is important and meaningful not only for the enterprises, but also for the State. According to [2, 5, 7], the resources of earth entrails are one of main driving forces of society's economic and social progress, and Lithuania is not an exception.

As the competitiveness in modern world is getting stronger, the technologies are rapidly developing and changing, the market demands are changing, and the business processes are getting more complex, it is becoming more and more difficult to manage the company and conduct its internal control. Therefore the manager of any company needs such a control management system that would allow managing company's activity effectively, and to secure the implementation of set objectives and tasks [1]. It has to be noted that as the volume of internal control, its functions and roles are constantly changing, it is quite important to form general definition of internal control and to identify the place of internal control in organization. However, it has to be stressed that despite the importance of research object, this topic is not widely analyzed among the scientists. Therefore the identification of the place of internal control in the management structure of the company is becoming an important task when it is attempted to implement or foster effective internal control so that maximal benefit was achieved [2]. The results of a detailed analysis of the internal control conception enable to state that the very different definitions of internal control, made by different authors, still involve some main goals of internal control, which are to present reliable and detailed information, to protect capital and documents, to ensure an effective economic performance, obeying the accounting principles, the presentation of reliable financial reports, obeying the laws and subordinate legislation, the established rules of the enterprise, and an effective control of risk. The analysis based on foreign and Lithuanian data of the internal control conception research enables to present a resumptive definition of internal control: an internal control system is part of the enterprise management system, which ensures the implementation of the enterprise's goals, its effective economic-commercial performance, obeying the principles of accounting, and an effective performance risk control enabling to minimize the number of intentional and unintentional mistakes and avoiding frauds made by authorities or employees in the enterprise performance process (see Fig. 1).

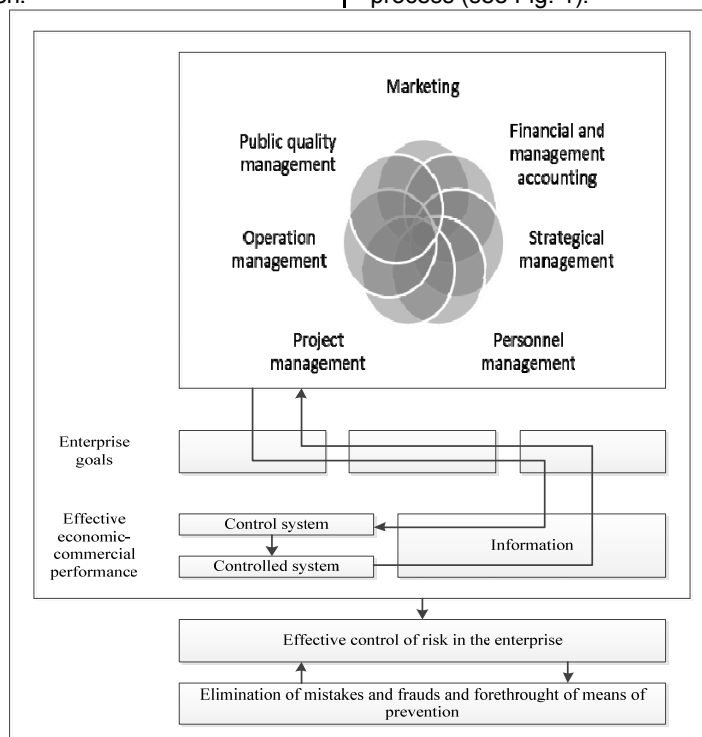


Fig. 1. The proposed structural scheme of the resumptive concept of internal control

Source: compiled by the author

Alongside quantitative indicators, in each enterprise, and especially in extractive industry, most attention must be paid to control mistakes and frauds and to project the means of prevention, they have to achieve and complete the effective and optimal internal control and accounting system. Whereas to implement aims of internal control can also be achieved by operatively applied and cherished internal control system which effectiveness guarantees not only precise goal achievement but also positioning in the market, optimizing the organization's performance effectiveness and profitability.

Risk evaluation in extractive industry companies

[6, 8] stress that only the effective internal control present in the enterprise helps to secure the productive economic activity, to guarantee that the laws, post-statutory acts and enterprise's regulations are followed, to implant proper protection methods of enterprise's property, to avoid mistakes, and to reveal misusing, etc. However, another untraditional attitude is also often encountered in the scientific literature, for example [4,7] state that the effective internal control reveals the enterprise's development perspectives, helps to notice the risk hazardous to enterprise's existence – in such a way this control becomes an important risk management tool.

It must be mentioned that in enterprises operating in extractive industry there is a specific accounting system which also influences the character of mistakes or frauds. Practice shows that the most common frauds are influenced by raw extraction specification. The accounting of

raw materials in extractive industry enterprises is quite difficult because these materials are not purchased or stored, so their amounts can be evaluated very differently. Besides, employees of extractive industry enterprises can embezzle raw materials and thus, abuse their accounting system. Accounting and its data cannot reveal such embezzlements, unlike in other types of enterprises; therefore, internal control in extractive industry enterprises is so important, and here the assessment of mistakes and frauds becomes the main task of an effective internal control [3]. To identify potential spheres of frauds in extractive industry enterprises and to project particular means of prevention so as to avoid them, it is most purposeful to ensure a good internal control; thus, identification of conditions that allow the emergence mistakes and frauds becomes a very important task of research. Foreign scientists and the International Association of Fraud Research have grouped the factors, conditions and events of the emergence and presented them in a fraud triangle. It is divided into three parts that consist of opportunities, motivation and realization. Those three elements together provide conditions for the emergence of mistakes and frauds. However, such a portraying without by the internal control system performed the assessment of risk affords little benefit. Such a portraying allows not only to identify the main fraud components of the triangle, but also to reveal their importance and place in the internal control system and more precisely in the assessment of risk, aimed to identify the conditions that favour the mistakes and frauds made by authorities or employees in of extractive industry enterprises (see Fig. 2).

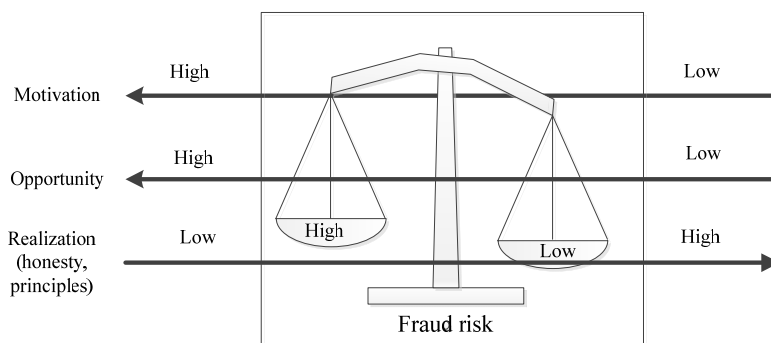


Fig. 2. Scales of assessment of fraud risk components

Source: compiled by the author

Motivation can be distinguished as the first element in the scales of fraud risk assessment. It shows whether an employee is prone to dishonest behaviour and gives the reason why the motivation normally is linked with greed and some exact life events, for example, abrupt need of financial resources caused by debts, wrong loans, drugs, alcohol or gambling, personal problems in the family and so on. The second element of the scales of fraud risk is the opportunity treated as a chance given to the employee who is planning to make a fraud. It is indicated regarding the person's position and delegation in the enterprise, access to the enterprise's capital and accounting records [5]. This is usually also related to the internal control existing in the enterprise: the more effective the internal control, the less the possibility to make a mistake or fraud. The third element in the scales of fraud risk is realization, although in the scientific works that analyse the fraud triangle and its elements it is indicated as rationalization and is treated as the ways an employee explains his dishonest behaviour.

Although the third element in the scales of fraud risk must be defined as realization, not the excusatory reasons but the employee's personal traits such as honesty or principles allow assessing objectively whether the employee is prone to make mistakes and frauds. Identifying and distinguishing the weaknesses that create conditions for mistakes and frauds enable to anticipate the limitations of some processes and also the problems arising in the internal control. To find out the problems that occur in the internal control system of the enterprise and that cannot be easily audited the essential condition becomes to evaluate the connections of assessment criteria, relations among mistakes and frauds, and weaknesses that create conditions for mistakes and frauds.

To manage risk successfully extractive industry enterprises firstly should identify and determine all the risks, that influence their performance, the types and also to assess the implemented means of risk management and their effectiveness. Supposedly, the risk management in every enterprise

must be identified with shareholders' property value increase because all enterprises without exceptions face the uncertainty and challenge to decide how much of uncertainty is acceptable to increase the shareholders' property value.

During this process the enterprise chooses the most appropriate risk assessment and management instruments, also risk management strategy that transfers risk in extractive industry enterprise to acceptable level (see Fig. 3).

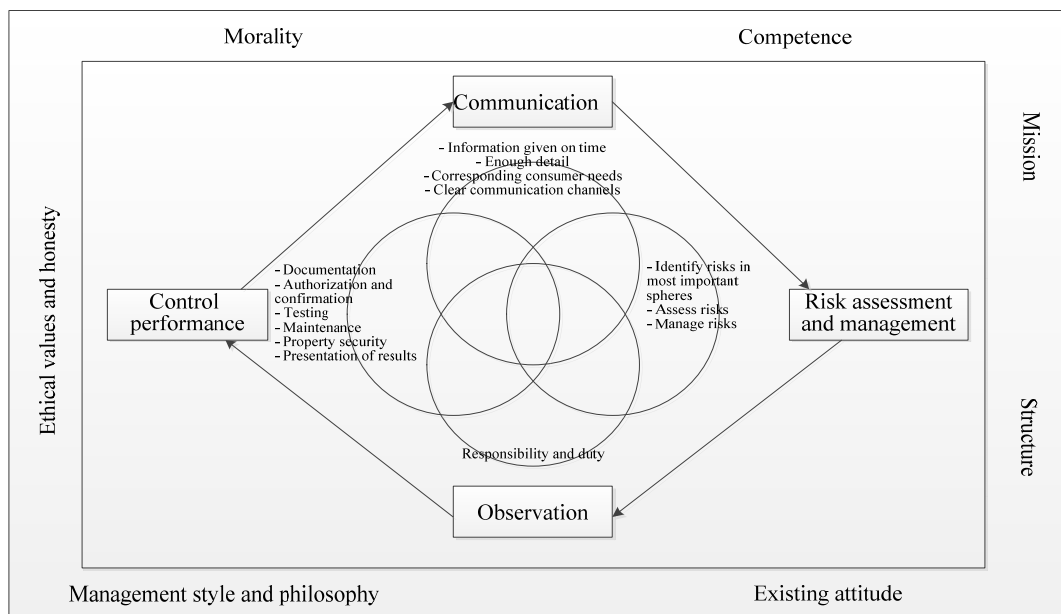


Fig. 3. Process of risk management in extractive industry enterprise

Source: compiled by the author

It must be mentioned that risk depends on many subjects thus it is usually quite difficult to assess it. This is the reason why analytics must coherently and constantly, incessantly analyse risk, its manifestation forms and probabilities while in business practise there are also formed some risk level assessment methods, formulas and rules. Their choice involves each unacceptable risk management establishment and assessment of their abilities therefore to each risk management possibility there must be made analysis of expenses – benefit.

Comprehensive analysis results of internal control enable to state that though different authors give different definitions of internal control there are still some general purposes of the system of internal control remaining, to ensure reliable and comprehensive information, to protect the property and documents, to assure effective economical performance, to ensure observation of accounting principles and presentation of reliable financial records, to assure obeying laws and executive acts, enterprise rules and to ensure effective control of risk.

The accounting particularity of the Lithuanian extractive industrial enterprises determines that the mistakes committed by the employees initiated by fraud are almost equal to frauds initiated by company or its management. Thus as the staff of the Lithuanian extractive industrial enterprises may initiate the frauds successfully, the persons executing internal control need big work experience in the enterprises of such kind, also they have to be well familiar and know the accounting particularity of such enterprises in relatively high interpretative level. The effective internal control system present in the extractive industrial enterprise may be-

come unsuitable or even ineffective when the circumstances change, thus the assessment of its effectiveness is one of the tools to improve the accounting policy, to protect the company's assets, and to secure the correct accounting and effective activity. According to the research results of extractive industrial enterprises, they have ineffective internal control system because the deliberate or unintentional mistakes are encountered in all the analyzed enterprises without any exception; the majority of analyzed enterprises encounter frauds initiated by the employees; the present frauds and mistakes allow making the presumption that at least one or more weaknesses exist, which create conditions for development of frauds and mistakes.

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