

## **A GENERAL ASSESSMENT OF THE INTERNAL CONTROL IN MINING COMPANIES**

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**ABSTRACT:** *The role of the internal auditor is to examine whether persons exercising internal control are able to carry out checks with ambition, with responsibility and be involved in some cases of fraud. To achieve the proper conditions, the side observant and constructive side of control is necessary to ensure the independence and authority or control bodies with responsibilities for control of the operation.*

**KEY WORDS:** *control, mining, assessment, objectives, audit.*

**JEL CLASIFICATION:** *B 21, M 42.*

### **1. INTRODUCTION**

Internal control systems have been recognized in the last 5-6 years as important tools in ensuring the performance of companies. An integrated internal control system, which takes into account all the internal functions of a company is quite rare in Romania. The exception is the large companies that have adopted the rules imposed by the Sarbanes-Oxley Act regarding the inclusion in annual reports of the company's management certifications that the financial reporting process have been established and implemented internal control rules.

### **2. LITERATURE REVIEW**

The present article takes into debate theoretical ideas of well known local authors in the audit and internal control area such as Bătrâncea I., Dumbravă P., Dănescu T. and others. The ideas of these authors and some others together with my

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own contribution also from previous articles were applied in an area with great economic and social issues such as the mining industry.

### **3. THE METHODOLOGY OF RESEARCH**

The research applied for this article is based on a study engaged during a longer period of time in various mining companies in order to be familiar with this economic sector and its challenges regarding the internal control. From the methodological point of view, my research uses mixed methods of research among which one of the most relevant is the complete method which involves breaking down the whole into parts, in order to see every step of the internal control applied in these kind of companies.

### **4. THE DISCUSSION BASE**

Internal control performed at mining companies is not limited to management control and preventive financial control, but has a wider coverage that covers the following: internally administrative control is exercised by persons with management or those which coordinate the work of departments; mutually-control is established between departments and employees, based on material and information flows of economic unity; internally accounting control is carried out at all stages of collection and processing, which is based on the principles of accounting. The basis of this control are correlations between synthetic and analytical accounts therefore of synthetic and analytical accounting, chronological and systematic correlations records and those of script data and factual reality.

Internal control conducted in mining companies aims to provide efficient leadership of the unit carried out on heritage integrity and quality of information provided by accounting, for which he requires a well defined organizational structure by which to separate the tasks and responsibilities incumbent upon every employee that each compartment has.

### **5. THE ASSESMENT OF INTERNAL CONTROL**

In analyzing the internal control to mining companies, we have an obligation to identify if they are to achieve the following objectives: if within a mining company organization have taken appropriate measures to highlight its needs; if the job duties are clearly defined and each employee knows his responsibilities; if they determine exactly the "job description" boundaries of competence and coordination and subordination; if there is information flow that developed rigorous procedures manuals.

If the unit is provided with competent personnel and integrity. This object is directly proportional to the level of seniority as a decision taken at a certain level of management will influence the behaviour of all staff subordinate. Must consider whether the responsibilities of the employees are satisfied and whether controls are performed hierarchical and reciprocal. So a possible role of internal audit is to assess whether persons exercising internal control are able to carry out checks with ambition,

with responsibility and be involved in some cases of fraud. This is because in the unit are three functions whose separation provides a check beside each hierarchical control between departments and employees.

Those responsible for internal control should follow when working if there is a documented system operations and that all operations are checked and properly accounted for. For a unit to be an appropriate documents necessary to issue, completion, verification and registration documents to be based on a procedure manual prepared in accordance with legal requirements and whose primary responsibility will be chief accountant. This in addition to following up the timetable compliance documents must appoint certain persons to carry out the substantive and formal documents.

All operations performed in the drive economic nature aim to achieve the following functions:

- the achievement of objectives - like mining companies achieve their objectives through departments or commercial department, personnel department, service department, financial-accounting etc.;
- the conservation of patrimony - is usually done by personnel with tasks on the storage and management of assets, cash management and assimilated values, management and storage management activities etc.;
- accounting - function exercised by employees in specific compartment or compartments.

Separation of duties between these three functions, thus not allowing a person to combine all three is a prerequisite for achieving effective internal control.

Most transactions involve at least two of these three functions and therefore an error will cause a mismatch between compartments and performers (except for cases of collusion or double error). For example, if a unit is applied intermittently inventory and if the same person is responsible to issue the order, receive the goods and make payment to the supplier, then that person is tempted to steal some goods or supplier can understand issue pay their bills and ask even if the goods have not been delivered.

To assess the effectiveness of internal control established in mining companies we have to be follow three criteria: the completeness and integrity of records; to be convinced that all operations have been accounted for, without omissions and without recording the same operation several times, control should be directed to: the existence and enforcement of numeric series of documents, including their record with "job with special forms"; how each control is exercised between the documents on which are recorded the same operation (ex.: tax bill and note the correlation between Reception on one hand and between invoice and payment order or receipt tax, how to keep track synthetic and analytical account records and the preparation of terms of payments and receipts on tax and contractual obligations).

Reality Records is needed to determine whether the accounting records may be justified by an operation reflected in a document and may be inspected, the inspector can use several techniques to verify the reality of this record: verification of compiling primary documents; verification of data entry by accounting forms of primary documents; control inventory deeds; monitoring income and expenditure in terms of reality.

To check the accuracy of records of internal control officer shall have the following issues:

- if the period is correct - In this sense is checked first and last documents of the respective reporting period to determine whether they were carried over between periods and analyzed for delineation of revenue and expenditure, the distribution of the difference in price, based on provisioning etc.;
- if transactions have been recorded in the appropriate accounts - Thus aims to correct counting of increasing or decreasing asset (property, stocks, etc.), or to increase or decrease liabilities (equity, debt) erroneous .Connection of the accounts can lead to distortion and masking indicators of fraud;
- if assessments and calculations were done correctly
- if the correct information was taken from current accounts in the financial statements Are prepared periodically (ledger, trial balance, annual financial statements).

To be sure that there are no errors in accounting amounts and calculations were done correctly, the controller calls the global comparisons and arithmetic checks. Global comparisons can be used when the same operations are subject to two amounts such as for example the output of a given management period and the entries in management, other departments or sales of consumer goods. The controls consist of restoring arithmetic calculations of primary documents, data acquisition module of primary documents in the summary, summary documents recovery calculations and comparing the results with each other.

Assessing internal control to mining company should we consider five categories of works that meet the following working steps:

The purpose of description of the data collection and processing is to determine its significance for each area (supply, production, sales, etc.), which are documents used for each significant area delineated in earlier stages of the audit, which is a form of accounting that uses the methods of obvious costs and costing, the works are executed by a computer, and what work is performed manually and correlations between these works.

To describe the information and determining company their circuit can use descriptive and graphical methods. The methods are based on descriptive narrative description of the procedures. This description in addition to detailing the procedures manual will be completed by the internal control questionnaire that meets all the people involved. Because there is a risk that some aspects are omitted, control questionnaires are prepared in advance and responses are entered on separate documents, which are called "Worksheets".

Graphic procedures called circuit diagrams are used to represent the flow of documents and all the controls that appear throughout this circuit. Procedures must be controlled throughout the financial year and special attention is given to the procedures in periods when some employees are on annual leave.

Tests of conformity are designed to determine whether the procedures set out above are applied properly and that the system thus described corresponds to the real one. At this stage there is no question of discovering errors in the operation of the system, but only to determine whether the system described is similar to the real one.

These tests are done together with the system description through the following ways: direct observation of how the work; the confirmation of the reports using procedures; the test games; by resuming the circuit of documents from their issue through to archiving.

Preliminary assessment of the risk of errors are a must after having obtained an adequate description of the system for collecting and processing accounting data, proceed to a preliminary assessment of the reliability of this organization in order to highlight the strengths and weaknesses of the accounting system procedures. Strengths consist of controls placed in stream data processing, which ensures the proper accounting. The weaknesses are the weaknesses of the system, which may give rise to risks of errors or fraud.

For preliminary assessment of the strengths and weaknesses of the system, proceed to: examination of the system; to highlight what is good and limitations of the system; putting performers' questions as "internal control questionnaires".

These quizzes allow the comparison of internal control theory described in textbooks with the existing procedures in the unit. Questions addressed by sector and track whether controls exist, are known performers and if the absence of these controls affects the quality of information.

For each area considered significant detecting potential risks are assessed using a "Synthesis of risk assessment of systems design." When internal control is missing and therefore no possibility of being detected errors affecting accounts officer can organize their own controls to assess the potential impacts on the reliability of the accounts.

Tests of permanence always seek that the procedures are implemented without some faults occur in the way of movement and bookkeeping documents. To check the operation of the internal control and risk detection system works proceed to the analysis controls for the prevention and detection controls provided by the firm.

Preventive controls are performed during the course of operations before proceeding to the next phase and usually before registration operation. These controls are materialized in a signature or endorsement on the documents.

Detection checks are performed on a group of operations of the same nature in order to find anomalies in the functioning or ensuring that these anomalies do not exist.

Evaluation and preparation of the final synthesis report implies that risks previously identified, will be summarized in a worksheet called "Summary assessment of internal control", with which it established the weaknesses of the system, the effect they have on the financial statements and the work program previously agreed. Responsible management of all observations indicate the manner in which the control internally and in some cases refuse to grant certification or certification sheet but with some reservations.

## **6. CONCLUSION**

The study conducted found that internal control program needs to include components closely related to mining companies, namely:

- a clear definition of responsibilities, resources and procedures, modalities and information systems, instruments and appropriate practices;
- internal dissemination of relevant information, reliable knowledge of which allows everyone to exercise their responsibilities;
- a system which aims on the one hand, analyzing the main risks identified regarding the entity's objectives and, secondly, to ensure the existence of procedures to manage these risks;
- appropriate control activities for each process, designed to reduce risks may affect the achievement of the entity;
- continuous monitoring of internal control device, and an examination of its operation.

The stated purpose of the internal control program within mining companies operation is to ensure consistency of objectives, identify key factors for success and communicate to the director of the exploitation real-time information on the performance and prospects. Control activities are an integral part of the management process by which a mining company aims at achieving goals. Control concerns the application of rules and procedures for internal control at all levels and functional: approval, authorization, verification, evaluation of operational performance, security of assets, segregation of duties.

Internal accounting and financial controls applicable to mining company to ensure that the accounts and financial prosecution of its activities to meet defined objectives. Accounting and financial internal control is a major element of internal control. It covers the entire process of production and communication of accounting and financial information and contributes to a reliable and conforms to legal requirements.

As internal control in general, it is based on a system comprising including the development and implementation of policies and procedures in the field, including supervisory and control system. Internal accounting and financial controls at mining company aims to ensure: compliance of accounting and financial information published with the rules applicable to them; application management guidelines developed in relation to such information; safeguarding of assets; prevent and detect fraud and irregularities in the financial accounting; reliability of the information disseminated and used internally for control purposes, to the extent that they contribute to the development of accounting and financial information published; reliability of financial statements and other information published annual market press.

I believe that a proposal for the internal control system of mining companies organization in general must be:

- a documentary on the principles of accounting and control of operations;
- circuits completeness of information regarding operations, rapid centralization and harmonization of accounting data, and controls the application of these circuits;
- clearly identify the persons responsible for developing accounting and financial information published or participating in the preparation of financial statements;
- access to each employee involved in the development of accounting and financial information to the information necessary internal control;
- establishment of a mechanism to ensure the controls;

- procedures to verify whether checks were performed to identify deviations from the rule and can be remedied, if necessary;
- there is a process that aims to identify resources necessary for the proper functioning of the accounting function;
- adjusting staffing and skills to the size and complexity of its operations, as well as the changing needs and constraints.

In terms of accounting rules, internal control in a mining company identified: - the existence of a manual accounting procedures; there is a procedure for the application of this manual; the existence of checks to ensure compliance manual; knowledge of accounting and tax law developments; specific checks on sensitive points; identification and treatment of anomalies; adapt software to the needs of the entity; compliance with accounting rules; ensuring accuracy and completeness of accounting records; compliance with the qualitative characteristics of information in financial statements to meet the needs of users.

The study conducted found that internal control program applies throughout the mining company operations, as follows: prior to performing operations in the preparation of the budget, which will allow further implementation of operations, budgetary control; during the operation, for example, in terms of percentage to determine the physical embodiment of the production; after completion of operations, in which case the check is intended, for example, to analyze the profitability of existing operations and to ascertain compliance or possible abnormalities that must be corrected.

Regarding the information system found that internal control program applied to a mining company concern matters such as: there is a documented IT strategy developed with the involvement of operational management; management involvement and awareness to face increased risks or computer generated; resource allocation system for demonstrating the ability to achieve objectives; recruitment of staff with a level of competence adapted technologies used and the existence of a continuous training plan must permit a refresher.

Specific risk elements identified from the information system of internal control in a responsible mining company in collaboration with the IT department is the assessment of issues such as: the dependence of its computer system entity with influence on the going concern when dependence is too high; the confidentiality of information handled by the system; bound by the provisions in force concerning taxation, protection of persons, intellectual property or regulations for specific sectors.

In conclusion I believe that the assessment of internal control in a mining company revealed the following: the existence of guidelines and procedures manuals; ensuring the development of internal control; ensuring the possibility of access to external control system; ensuring the possibility of confrontation with the reality of theoretical description.

As a result, internal control procedures identified in a mining company aim: on the one hand, the pursuit of business registration and operation staff in conduct defined by applicable law, values, norms and its internal rules, on the other hand, check if your accounting, financial and business management communicated accurately reflect the situation of exploitation.

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