Quality Assessment of the Internal Control of Foreign Trade Activity

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Submitted: Oct 11, 2013; Accepted: Nov 14, 2013; Published: Nov 23, 2013

Abstract: This article is to consider the content of quality assessment of internal control of the foreign trade activity and show the existing methods of the control. The components of the system of internal control of the foreign trade activity were characterized and substantiated using the national literature data and international experience. The procedure and the steps of the quality assessment of the internal control system of foreign trade activities of commercial enterprise included the compilation of the hierarchical list of criteria, grouping, selection of the key values, characterizing the best quality of the internal control system and the mathematical data delivery of the complex quality assessment of the internal control system has been suggested as well as an example of this approach has been considered.

Key words: Internal control • Foreign trade activity • The quality assessment system of internal control

INTRODUCTION

Internal control system as the widespread organizational structure is a group of departments with the professional employees possessing the appropriate powers engaged in informational interaction in the form of direct and feedback relations receiving the corresponding material and technical and information support and administrated by relevant executive authority.

There are two opinions of the theorists and practitioners regards to quality assessment control [1-8].

The first is that the general goal of internal control in a company is the reduction of the financial losses occurring due to different reasons. The more developed and structured the control system, the higher result of this system expressing in reduction of losses.

In this case, the search for the negative deviations from the standards (norms and rules) accepted at the company is the general goal of the inspectors. In practice, their activities are aimed at the search for two types of breaches: direct frauds and incorrect data on time, financial figures and the content of documentation.

The proponents of the second point of view consider the internal control conducted to identify the faults and shortcomings as ineffective tool for the company. They is purposed to determine the general reason (the roots) of identified problems, which are only the consequences of the problem. This approach will be implemented in horizontal analysis, i.e. the single problem must be solved and prevented globally within a company. Internal inspector is supposed an expert in administration and supplies the heads of a company by new knowledge improving the operation and functioning of internal procedures.

However, the high efficiency of internal control of foreign trade activity, transparency and consistency of the actions committed by the internal auditors, reduces the routine procedures of the control and improve their efficiency, validity and reliability of administrative information provided to the management, directly depends on the organization of the quality management system of internal control.

General: The International standard of quality control ISQC 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements” [9] indicates that the quality control policy and procedure must be fixed in the documents and explained to the employees in details. This explanation describes the quality control policy,
procedures and purpose emphasizing that each person is personally responsible for quality and will follow this policy and procedures. The company also recognizes the possible feedback from employees on the quality control system.

Components of internal control system, represented in international standards on auditing, are nearly correspond to the principles of assessment of the internal control system established by the Basel Committee on banking supervision [10]. In our opinion, although the general objectives of the Basel Committee are the introduction of unified standards in the banking regulation, the directives and recommendations on assessment of the internal control system efficiency developed by the Committee, can be used at the commercial enterprises engaged in foreign trade activity.

Monitoring of the quality assessment of the internal control system activities provides valuable information about the problems in the process of organization and the patterns for further improvements. The monitoring and the expert assessment reveal the shortcomings and weaknesses of this process to respond appropriately to eliminate it and are aimed at improvement of the quality of internal control. Complex analysis allows the identification of the scope of improvements of operative quality of internal control and ensures the achievement of the objective.

The theoretical quality assessment of the internal control system of the entities with foreign trade activities is complicated by the insufficient economic literature data and elaboration of the theory on efficiency of the control and general characteristics for commercial entities and trade enterprises. The existing methodological approaches to the assessment of internal control provide the insufficient and fragmentary data on determination of the quality level of the implementation of control measures.

Assessment of the efficiency of the internal control system is a conclusion on its efficacy and efficiency. The indicator of quantitative assessment of the efficiency of the internal control system is the ensemble average of the event or result. These estimates are typically based on the expert conclusions and subjective.

However, intensive development of the system approach to investigation and solving the problem of quantitative assessment of certain events and properties resulted in intensive implementation of the qualimetry methods for quantitative assessment of the events and properties and first of all, for quantitative assessment of product quality.

The possibility of implementation of the methods of qualimetry for assessment of the quality of the internal control system is stipulated by the following factors: single properties, which are the components of the hierarchical structure of the internal control system can retrieve the numeric values; there is an opportunity to develop a general and common assessment scale; each feature of the activities of internal inspectors can be determined by two numerical parameters - significance (importance) and assessment; sum of the properties of the activities of the similar internal inspectors is constant and equal to one. An assessment of the simple properties of the activity of the internal control system is understood as the estimates of individual indicators of their functioning and the calculation of the coefficients describing more complex properties of specific process. Therefore, a comprehensive assessment of the quality of the internal control system of the foreign trade activity was implemented using the methods of qualimetry through the following stages: preparation, determination of performance indicators and conclusion on the results.

The first step of the preparatory level is the compilation of a hierarchical list of criteria characterizing the quality of the internal control system of the foreign trade activity. After establishment of the list of criteria for the assessment of internal control of foreign trade activity, their hierarchical subordination was determined and criteria were grouped. The experts should select the basic values for each of the level of the criteria characterizing the maximum quality of the internal control system.

The next step is the determination of methods for collecting of information on the implementation of the criteria to identify the operation of internal control system. Collection of information by experts may be conducted through surveys, testing of internal control subjects of foreign trade activities, research of their reports, etc.

After expert analysis of collected information, the level of quality of implementation of the lower order factors is scored by appropriate estimate. The idea of scoring is that the expert or group of experts evaluates the specific features of both the employee and performed work by scoring in quantitative expression using the developed scale and single indicators of quality assessment. These indicators are calculated on the basis of a group of relevant criteria.

For each group of criteria, the experts calculate the weight numbers and the values of the quality of the i-th criterion of j-th group according to the formula (1):
Table 1: The matrix quality assessment of the internal control of foreign trade activity (by the example of company “xxx”)

<table>
<thead>
<tr>
<th>Criterion (or group)</th>
<th>Time period</th>
<th>Indicator of the quality assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$t_i$</td>
<td>$t_j$</td>
</tr>
<tr>
<td>Organizational level ($j_1$) The part of expenses on the organization and activity of the internal control system in the primary costs of sales of export products, % ($i_1$)</td>
<td>1</td>
<td>0.8</td>
</tr>
<tr>
<td></td>
<td>0.7</td>
<td>0.4</td>
</tr>
<tr>
<td>Risk management level ($j_2$) Number of cases of changes over the period conditions of foreign trade contracts, related with minimization of risks, unit ($i_9$)</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>The part of contracts under negotiation required the changes in the conditions of risk management among other contracts signed for the period of foreign trade contracts, % ($i_{10}$)</td>
<td>78</td>
<td>80</td>
</tr>
<tr>
<td>Impairment of assets as the result of incorrect implementation of the business process “Foreign trade activity”, thousand RUR ($i_{18}$)</td>
<td>68</td>
<td>185</td>
</tr>
</tbody>
</table>

A complex indicator of quality assessment ($K$) is 0.989, 1.732

\[
K_j = \frac{\sum P_{ij} \times V_{ij}}{n_j} \quad (1)
\]

where $K_j$ is an indicator for the quality assessment of the j-th group of criteria;

$P_{ij}$ – Estimate of the i-th criterion of j-th group;

$V_{ij}$ – Factored coefficient of the i-th criterion of j-th group;

$n_j$ – The number of criteria of j-th group.

For the calculation of the integrated indicator of quality assessment of the internal control of foreign trade activity, we used the following formula (2):

\[
K = \sqrt[n_m]{K_{j_1} \times K_{j_2} \times \ldots \times K_{j_m}},
\]

where $K$ is indicator for the evaluation of the quality of the j-th group of criteria;

$K_j$ – Indicator for the evaluation of the quality of the j-th group of criteria;

$m$ – Number of the j-th groups of criteria used for evaluation.

Analyzing the quality of the implementation of each evaluation criterion and each of their group, we have concluded on the quality of internal control of foreign trade activity and determined the unrealized potential of the quality of the I-th characteristic (the criteria) (Table 1).

Therefore, the complex index of the quality assessment of internal control of foreign trade activity of the considered company “xxx” during the analyzed period ($K_i$) is 0.989 at the acceptable maximum ($K_m$) = 1.732.
The possibility of evaluation of the implementation of each criterion and determination of its influence on the implementation of control measures allows the identification of shortcomings in the activities of the internal control of foreign trade activity and their influence on the quality of the internal control system of the company.

CONCLUSIONS

Integrated assessment of the quality of the internal control of foreign trade activity provides the owner of this business process with a clear understanding of the development of the control environment and uses it for development of other components of the system, concludes on its functioning and facilitates the assessment of the efficiency of the system.

Implementation of the developed and proposed methodological approach to the assessment of activity of the subjects of internal control will improve the efficiency of the system, the financial condition of the company, ensures the financial stability and the safety of property and information, compliance with internal procedures and regulations, increase their value and reduce the operational risks.

REFERENCES