

## **ASPECTS REGARDING THE IMPLEMENTATION OF INTERNAL CONTROL IN MINING COMPANIES**

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**ABSTRACT:** *Internal control is broadly defined as a process, affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives. Internal control means different things to different people. This causes confusion among businesspeople, legislators, regulators and others. Because internal control serves many important purposes, there are increasing calls for better internal control systems and report cards on them. Internal control is looked upon more and more as a solution to a variety of potential problems. Proper risk management and internal control could help mining companies understand the risks they are exposed to, put controls in place to counter threats, and effectively pursue their objectives. They are therefore an important aspect of a mining exploitation's governance, management, and operations as is shown next.*

**KEY WORDS:** *internal control, mining, performance, objectives, implementation.*

**JEL CLASIFICATION:** *B21, M42.*

### **1. INTRODUCTION**

This article's purpose is to emphasize the internal control applied into mining companies. Any entity works by carrying out related functions or activities related and aims at achieving the objectives set by the management of the entity.

In this sense the internal control of each function (activities, subtasks, and operations) is an integral part of the control system of the entity. If the latter is evaluated in a comprehensive way, the first is held in a specific manner, meaning that the entity's internal control elements have an effect on each activity, but to a different degree.

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I may say also that the evolution of the risks to the functions (activities, sub-activities, operations) and setting the related control activities are a major concern of management in a mining company. The director of the exploitation must have accurate knowledge of the positions of responsibility, in order to establish the necessary control activities to be implemented to ensure efficient operation.

These being said next I shall try to show the important role of the internal control for the general performance of mining companies.

## **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 own contribution 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 kinds of companies.

## **4. THE RESEARCH STRUCTURE**

### **4.1. Preparation and implementation of internal control - theoretical and methodological approaches**

The organization of control activities and their implementation style is based on the risks of each problem and everyone is responsible for their own activity, to which are added the risks related to the entity as a whole and its general management duties.

Implementation of internal control activities, whatever they may be, is necessary to define the mission and knowledge of the rules to be observed.

All functions (activities) within a mining company based on a policy and each charge should define and know the policy. Thus there is a policy for financial accounting function and another policy for human resource function.

Each policy will define the mission responsibility, establish actions to be undertaken, purpose and scope.

For the same function (activity) it may be a general policy and one or more specific policy function and the one in charge has the duty to establish internal control

activities to achieve its objectives, taking account of all these policies. the supervisor will take into account that people have different training, limited resources, systems that can not provide any information etc.

#### **4.2. Preparation of internal control in a mining company**

The evolution of the risks to the functions (activities, sub-activities, operations) and setting the related control activities are a major concern of management in a mining company. The director of the exploitation must have accurate knowledge of the positions of responsibility, in order to establish the necessary control activities to be implemented to ensure efficient operation.

Leadership functions in a mining company are responsible for compliance with the general objectives of internal control in a mining company, and in addition they will define the specific objectives of their mission, which will then be judged by internal auditors, given the following criteria to be met, namely: participate in the task entrusted to officials; to be distributed inside the function, given a pyramidal building objectives, which fully contributes to the overall objective; be measurable, expressed in real, achievable, quantitative or qualitative indicators of activity etc.; can be monitored through information system management; fall over time; be specific, clear, do not give rise to confusion.

Procedures and working arrangements at mining company exploitation should be defined and documented all processes and activities taking place in the organization.

Now we must realize that we are in the third millennium, we can work with managers who know everything because they perform those activities for 10 or 20 years or subordinates who do not know what is next in their line of duty without communicating with their boss.

Lack of formalizing their procedures means: to condemn a weak management control over the activities carried out; the lack of the essential memory organization without which it cannot operate; the private auditor indispensable reference system, which is based when procedures are formalized to assess differences to assess and make recommendations and conclusions.

Management's task is to define their own ways of working, to be formalized in simple and efficient procedures to achieve tasks and continually up date them.

Also, management in a mining company has a duty to make available to all employees the tools and force them to comply. In this regard, a major concern of every responsible of the function is the preparation and updating of procedures and work tools specific to the position coordinates.

Responsible functions in carrying out procedures must not omit control, which must be included in the flow process and in evolving risks in order to be reduced or extended to create the tool objectives.

Supervision of internal control is an activity often missed even by those whose responsibility it is. Many managers evaluate subordinates them based on trust they have in them, regardless that supervision is not synonymous with "lack of confidence" and often contribute to its growth.

Supervision does not mean: restoration work of employees; monitoring by all means of discovering errors; thorough examination and permanent.

However supervision means: a support act for the purposes of helping the employee to perform tasks demanding us to resolve conflicts and to identify weaknesses and strengths; an act of verification., to avoid the application or interpretation of procedures incorrectly; an act of evaluation, from time to time, at intervals of random, what is happening to avoid temptations and to stimulate improvement activities; a collegial act by which we show others that we care what they do, we want to know that their weight and performance are ignored and we want to capitalize every valuable initiative at all hierarchical levels. In practice it turned out that performing random supervision by responsible managers is highly beneficial.

To be effective, supervision activity of the internal control in a mining company must meet a number of conditions, such as: to leave evidence of its passage or a note, a visa, a report assessing the quality of management and evaluation of the frequency of acts of supervision; to be universal, in that it must consider any task, whatever it may be and whoever was performed. Supervision Act should not be the difference between the essential and less essential tasks. Often it appears that those who do not respect the work of supervision are just the highest hierarchical levels; to measure progress in tracking the targets, ensuring achievement of real elements and accurate information and communication through the mining entity.

#### **4.3. The implementation of the internal control in a mining company**

Implementation of control activities in a mining company involves the following steps:

- preparation of implementation;
- establishing internal control activities;
- hierarchy of internal control activities.

Consequently the implementation of adequate control in a mining company requires prior knowledge of the mission that has that function.

The internal auditor will need to appreciate acts of control activities and he will not be able to do this if it is not well be entrusted with the task function (activity). So first question will be,, that is your mission? "to understand the task you have been entrusted.

The person in charge to meet the mission needs to ensure the facilities and resources, to identify, and determine how we will use or, if it fails, it is his duty to modify the content of the mission statement that cannot be fulfilled.

Hence, the less chance of implementing the most suitable control activities are the missions policy is set and cannot be identified specifically means and resources.

Meanwhile mandated cannot be fulfilled at any cost, because there are limits to be considered, and some may not be exceeded under any motivation, namely budgetary limits set by the laws and the professional conduct of the mining company.

This provision sets out a framework for action which cannot be performed, and internal control should one consider, technical limitations, in terms of a fiscal timetable

to be respected, the legal obligations on contracts, terms of achieving requested financial loans etc.

All these limit causes constraints that he is bound to consider. On this, the responsible in the mining company must first know them, to evaluate and assess the existence possibilities of achieving the mission in these circumstances. Only at this stage will pass charge to fix general control activities, which are then updated regularly to ensure the operation and effectiveness of the function (activity).

Internal control activities set for implementation, which will be identified by the use of internal control questionnaires (CCI) in a mining company operation, give coherence and internal control system can be grouped into the following six categories: objectives; means; information systems; organization; procedures; supervision.

In internal audit of the mining company, when there are found weaknesses or errors dysfunction, auditors will always find the root cause in the absence or bad functioning of internal control activities of the six listed above and the procedural chain implemented by the responsible office.

The objectives are to charge the function (activity) first task that must be met by specifying the object of his mission, which means fixing a policy action.

Popular wisdom says that "he who has no goals are unlikely to achieve" why setting goals should be a primary motivation.

Objectives set out in a mining company should be within the overall objectives of internal control are widely recognized, namely: security of assets; quality of information; complying with the directives; optimization of resources.

Deviations arising from these principles constitute weaknesses, failures or errors of the internal control system in place and approved by the head office, just as the absence of a failing business objectives across the mining company.

Means allow responsible achievement. An issue that must always be to the mining company director's attention that means adapting to the targets. In many cases the analysis of these issues in the past revealed serious irregularities and failures inevitable sources of inefficiency.

From spot verification showed that checking the existence of means and their compatibility for control objectives are important activities in the chain of responsibility established procedures. Regarding the means, we must consider:

Auditors are responsible for assessment of the mining company's information systems both in terms of costs and in terms of their usefulness and efficiency.

To build an effective organization believe that it is appropriate to consider the following issues: organizational chart to know who leads and who is led; job description for each employee to know their duties and tasks incumbent and limits the power of action; the material to create the environment to conduct business and also provides physical protection of goods and persons, and support institutional culture of the organization.

In this perspective, internal control system implemented in a mining company will include the following:

**Table 1. Structure of the internal control mission in a mining company**

<b>Objectives</b>	<b>Means</b>	<b>Information system</b>	<b>Organization</b>	<b>Procedures</b>	<b>Supervision</b>
- number of annual interventions stoppage of work; - number of annual interventions without stoppage of work; - average annual interventions.	- specialists trained to troubleshoot IT systems; - existence of entirely Storage component parts; - adequate budgets for direct procurement of emergency - budget for annual preventive technical maintenance; - training in information security.	- periodic preventive maintenance information; - statistical information about the number and duration of interventions - financial information on expenditures and their classification in budgets; - qualitative information about training provided by - specialists in IT and troubleshooting; - annual statistical statement on special events.	- compartment is formed, for example, in people for - each of the three shifts; - state location of computer systems; - the job, the equipment to be monitored continuously; - safety equipment are available.	- manual operation; - user; - safety manual.	- standing by the head of department; - daily turn the head; - weekly discussion with all staff.

This approach coincides with the hierarchy of the organization, where management is generally more interested in control activities from the top of the list incumbent, while line management is more concerned with control activities in the second part of the list.

Thus we can divide the two categories of control activities from a mining company as follows: control activities incumbent general management: objectives the means; information systems and what controls activities of particular interest to line of management: organization; procedures; supervision.

Control activities pertain to all employees of the mining company, but according to their functions, some will be more concerned with those directly responsible.

Control activities presented are interrelated and mutually reinforcing, contributing to the coherence and prioritization to be given to the assembly and ensure relevance and effective to the organization.

After the officer or manager tool set components of internal control, the control, must act to implement them. In this respect there is a way to implement control

activities through a risk-based approach, similar to internal audit methodology through the following steps: analysis of training implementation; identify specific control activities; assessing the consistency of implementation.

Internal controls specific functions within a mining company are of great diversity and is characterized in that it can be grouped into six general groups of internal control activities or objectives, resources, information systems, organization, procedures and supervision.

Example of specific internal control activities, grouped into six categories: goals - average annual number of inspections; means - there warehouse stock materials for the production of basic safety; information systems - monitoring of expenditure budget; organization - the unification of the two compartments; procedures - update tendering procedure due to legislative changes; supervision - weekly analysis in budget expenditures approved classification.

Specific control activities carried out at a mining company can be classified as: identification of internal control; verification documents, inspection documents, notes, reports, analysis etc.; internal control guidance: procedures, circuit documents, training, approvals, visas etc.; active control: control documents, visas, inspections etc.; internal control execution; internal control management and others etc.

Identifying specific internal control activities from a mining company activity is done by following the following steps:

The division of function (activity, process) in subtasks or elementary tasks to identify risk areas and build internal control questionnaire (CCI). The responsible office will prepare a list of its subtasks sequentially possible. The detail remains responsible choice, but as the division will be deeper, the internal control activities implemented will be more rigorous and effective.

For example, dividing the subtasks to work "Salaries" includes: preparation of documents for employment; establishment of the salary; registration in labour wage elements; update the program database for salaries; payroll, payroll preparation and centralization entitlements; drafting ordering of payment; the visa preventive financial control; drawing mark on deductions; payment order processing payment of the salaries; drawing cash payroll checks by cashier; drawing up the payment for deductions from wages and obligations to the budget; record in accounting.

Payroll activity was divided into 12 tasks or subtasks basic, but could be and more and in fewer, depending on the desired level of rigor.

Risk identification and evaluation subtasks of each activity are not rigorous scientific activity but random, with a certain degree of approximation. Thus, in all cases where it is possible to quantify, it is better to produce, but in most cases identification and risk assessment is a qualitative assessment which will inevitably lead to the identification of the blurring effect of the control risks.

Risk identification and assessment of their subtasks is carried out at a mining company operation by the questions we ask ourselves about what would happen if an activity (process) would perform badly or would not perform at all. The answers to these questions can be as many risks identified. This phase is recommended to be carried out in teams of 2-3 people who know better function (business process).

Next, for each of the risks identified will be achieved. Their assessment to determine the level of risk, namely: severe (S), medium (M) or low (L).

This assessment, of all efforts, shows a degree of subjectivity and approximation, except where risks can be quantified. Example of work "Salaries": to establish employment paperwork subtask following risks: incorrect or incomplete data entry on behalf surname, title, legal basis, appointment date (G); Lack of written procedures (G); v) the subtask Payroll preparation and entitlements centralizers establish the following risks: lack of procedures for new employees (M); failure to update procedures and legislative changes (G); incorrect update program changes the legal wages (G); not finding any errors regarding the amounts granted to employees (M); the subtask visa preventive financial control have established risk: absence or failure to update written procedures (S). The subtask registration books I set the following risks: lack of written procedures for recording accounting (M); failure to update registration procedures in accounting (G); failure to record chronological order the wage (S); not finding possible errors due to failure or to achieve the deficiencies of hierarchical control (G).

Looking at this stage, I noted that the risk assessment depends on the relativity of internal control and especially the professionalism involved.

Identification of control activities in a mining company is to find, for each of the above risks, the appropriate control activities. This gives a theoretical list of control activities required to achieve control of each elementary task.

From this study it is important to consider the relative nature of this procedure, in the sense that risk can never be completely eliminated, but we can only try to reduce the probability of the following reasons:

- always will control the risk, and the risk inherent implementation in the activity itself, which will normally have imperfections. At the same time control the risk will increase with developments and changes in the function (process) if it is not constantly updated;

- improving the control function (process) will be conducted by the internal audit function within the entity, but do not forget that it faces the risk of audit. Therefore, we appreciate the importance of identifying and quantifying the risks overwhelming functions (activities) analyzed, followed by prioritization and ranking them in order to limit the major risks issue.

Depending on the risk assessment, control activities in a mining company should be thorough, accurate, sufficient, and we must confine ourselves to a reasonable barrier to a simple and basic right to avoid these risks.

In this phase will be made incremental subtask list, complete list of control activities necessary to avoid serious risks set.

As mentioned, the risks cannot be completely eliminated but can be only limited the opportunity to appear. There will always be an inherent risk control for the internal auditor that may evolve if, as time goes on, unless risk analysis is updated to adapt to the control activities.

Classification of control activities established to limit the risk on the six groups they belong to, the objectives, resources, information systems, organization, procedures and supervision.

**Table 2. Example of internal control simple procedure on "Salaries"**

<b>Objectives</b>	<b>Means</b>	<b>Information Systems</b>	<b>Supervision</b>
- analysis of the job description;	-verification of training;	- analysis of the causes of lack of procedures; - organization: change all documents drawn incorrectly; - surveys to determine to what extent the upgrade file; - procedures: file compared to the competition; -check in the procedure in practice;	- knowledge of legislative changes

A specific internal control activities will be grouped in a mining company in six general categories of activities to assess their consistency, we used to develop findings like: certain specific control activities will not seem consistent compared to the general procedure and will be resumed them only the first or second phase; other categories of specific control activities may seem very simple, which suggests that something was missed and some very loaded, which could mean that it went too far with rigor. In this case it is recommended reopening to achieve a reasonable situation, all agreeing that in the risk control there can be no "ideal".

Subsequent the internal auditor will evaluate the internal control system of responsibility and will give an assurance of its functionality but also after crossing the internal auditor remains a risk, audit risk, which cannot be overtaken, given the same relativity to the internal control activity.

### **3. CONCLUSION**

The organization is a fundamental problem of the management from the mining companies and experience shows that there are models that can be applied because of the wide diversity of activities, nature of employment, legal structure etc. and not least because of the culture.

The one responsible for the control activity in the mining company must monitor compliance with recognized principles of organization, namely:

- adaptation, which is a concern of the general manager of an organization to achieve effective, appropriate to the entity in order to avoid excessive centralization or decentralization or organization motionless to change;
- objectivity in the organization, which means that organizational structures should not be built by people leaving work to avoid disruption or disappearance of a person;
- separation or segregation of duties - a principle which, once complied, we provide greater security and means that certain tasks that are incompatible can not be performed by the same person.

At a mining company tasks impose some separation unanimously recognized that sometimes stop producing undesirable lack of vigilance, namely: the authorization

or decision; bookkeeping function; the financial position of payment; the ownership of means; function control.

Making a real separation of duties can put some special problems, especially in mines where staff is increasingly reduced.

Human resources, is perhaps the most crucial issue in the internal control activity, but rather viewed in terms of quality than quantity. Many control activities are compromised in the absence of competent personnel, and it was often the cause of inefficient serious anomalies etc. The issue of human resources should be treated with specific reference to the recruitment, training the permanent and professional ethics. All these are issues involving financial efforts supported calls for and often depend to a large extent the culture of the organization such as:

- funds materialized in operating budgets and corresponding investment objectives, which always raises the issue of employment in this budget targets set when we do not want to change objectives. Internal auditors, on missions undertaken should examine the relationship between goals or no function and approved budgets. You also need to consider that there can be objective, for example, quality, fulfilment of which is not directly related budgets;
- technical means, which refers to the management and information systems, commercial or industrial techniques, without which the objectives cannot be achieved.

Information systems that we find in all activities as an integrated set of enterprise are both information systems and the IT systems.

Information systems covers that all activities must be established to enable effective monitoring and include financial and accounting information systems. Information systems are part of the automated information system, so the auditors must have independent targets.

Information systems must meet a series of conditions to meet the internal control requirements, namely: be reliable (credible); easy to be verified; be exhaustive; be available when needed; be useful and relevant.

Information systems fall within the entity communication system to inform all staff as required and include: management control system; budgetary control system; statistical reporting system etc.

In the internal control developed in a mining company the relationship between objective and mission is to be fulfilled directly, because the goals are fixed according to the mission so that cannot be accurately defined objectives with a mission, and vice versa, a mission with objectives;

- in turn, targets, once fixed, conditionally define the means to be implemented, and it provides a rigorous identification and their calculation;
- based on defined media will proceed to organize their implementation of the cost calculation;
- information system is recommended to contain all the elements needed to monitor objectives and to ensure that resources identified that will be implemented within the organization by eliminating unnecessary elements;
- working procedures will be considered along with information systems for supervision activity;

- finally, all these control activities must necessarily take into account the constraints arising from the regulatory and internal arrangements.

Interdependence, complementarity and coherence of internal control activities from a mining company are very important and will always be in the attention of the person responsible for implementing their own internal control activities, but is also constant concern to improve the internal auditor in the evaluation of the functionality of the internal control system of the organization.

Analysis of actions taken in the preparatory phase of the internal control from a mining company is to review the definition of the mission, assessing the chances of achieving it and identify rules that must be followed. Knowing its task function problem that if the mission is not clearly defined or the impression of contradictions must necessarily eliminate these doubts in order to move forward. In turn this will lead to redefine the mission and eventually to eliminate contradictions in order to avoid any surprises in the future.

Appreciation chances of achieving mission of internal control in a mining company is to conduct an inventory on which to identify what is implemented and what is missing. Inventory is recommended to prepare the more independent person, who then faces to be sure not to miss anything. Findings arising from the inventory of the existing situation can lead to the revision of the terms of mission, to extend the mission, when the information available beyond what is required to achieve its mission or purpose restriction when the items you have available are insufficient and not can be completed.

Identifying the rules, you must observe all responsible missions is accomplished based on the identification of what they need to know to find out what he knows and does not know. This is necessary to avoid the risk to implement control activities that have not mastered, and thus contribute to the failure of rules, which may have serious consequences even for the mining company as a whole.

Analysis previously conducted in a preparatory phase involves reviewing the general policy and specific policies from a mining company and acknowledge the limited framework of the mission and work that cannot be overcome, the role to ensure we implement control activities thoughtful, rational and effective that removes ambiguities from the activity.

Bearing in mind the relative nature of internal control charge function in a mining company will stop after two or three attempts, but then, depending on the changes, update the risk analysis and thus the procedure. This will do not reach a perfect internal control system, but to succeed by adapting constantly updates the control activities of the office.

However, internal auditors can achieve a constant improvement of internal control system better than anyone else on missions because of the accurate and rigorous methodology that they carry out.

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