

## **GENERAL ASPECTS REGARDING THE INTERNAL CONTROL OF ASSETS IN THE MINING SECTOR**

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**ABSTRACT:** *In certain situations, the improper operations are obvious, for example, the unauthorized acquisition by employees of personal goods or, more importantly, theft of money by recording a fictitious purchase in the purchase log, remains the concern of high level management, which can avoid certain internal rigor. If the control mechanisms aimed at detecting inappropriate or non-existent operations are inadequate, then a thorough examination of the supporting documents, inspection of the respective assets is required.*

**KEY WORDS:** *control, management, assets ,process, mining.*

**JEL CLASSIFICATIONS:** *B21, M42.*

### **1. INTRODUCTION**

The performance of the activity of an entity requires the existence of a technical-material basis in which the fixed assets have an important economic role and have a significant share, in the most frequent cases.

In defining fixed assets, consideration must be given to defining an asset according to IFRS and the purpose for which it is used.

An asset is a resource controlled by the entity as a result of past events and expected to generate future economic benefits for the entity, and the cost of which can be reliably evaluated.

The purpose of using the fixed assets is the sustainable use, generally, for a period of more than one year.

The fixed assets are represented by assets, held by an entity for a period of more than one year, generating future economic benefits for the entity.

Due to the fact that the fixed assets are used in a sustainable way, they depreciate, lose their value, due to physical or moral wear, as well as the various

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economic, social or political factors, requiring the adjustment of the value or their reassessment in order to be able to be recognized in the annual financial statements, at present value.

In order to be recorded in the current accounting and recognized by the annual financial statements, an asset, as well as any other assets of an entity must be evaluated.

Valuation is the process by which the values at which the structures of the financial statements will be recognized in the Balance Sheet, the Profit and Loss Account and the Explanatory Notes are determined, assuming the choice of a certain valuation basis.

According to the legislative framework and the specifications in the specialized literature, the assessment of fixed assets is made at the following times, and at the following values:

- At the entry of the fixed assets in the entity:

At the entry or accounting value: which differs according to the method of procurement, namely:

- those purchased with the onerous title are valued at the purchase price or purchase cost, which includes in addition to the price paid to the supplier and the non-recoverable taxes, the costs of transport-supply, as well as the consumption of resources to put the immobilization in a state of use or entry into management entity;

- the fixed assets obtained from own production are evaluated at the cost of production.

- Valuation of fixed assets at the time of inventory

The valuation of the assets and liabilities during the inventory is made according to the norms issued for this purpose by the Ministry of Public Finance.

The valuation of the fixed assets on the occasion of the inventory is made at the present value, of known utility and under the name of inventory value, established according to the utility of the fixed assets, their condition and the market price. For depreciable assets for which depreciation has been calculated and adjustments have been made for impairment, the assessment is made at deducting from the carrying amount the amount of depreciation and adjustments.

According to International Accounting Standards, assets should not be recorded at a higher value than their recoverable amount.

When it is found that the carrying amount of an fixed asset exceeds the recoverable amount, therefore the value that should be recovered by using or selling the asset, the difference must be recognized as a loss of value. In such situations: the value of the fixed assets must be reduced to the recoverable value.

- Valuation at the close of the financial year (at the balance sheet date)

At the close of the financial year, the assets are valued at the balance sheet value, represented by the amount with which they are recognized in the annual financial statements.

The present value of an immobilization is established according to the inflation rate communicated by the National Statistical Institute, with the possibility of adjusting according to the concrete conditions in which the respective immobilization is found.

- Valuation of fixed assets upon exit from the entity

At the date of exit from the entity or when it is put into consumption, the assets are evaluated and deducted from management at their entry value or the value at which they are recorded in the accounting. The assets recognized less under management are taken from the record at the date of their absence.

When the assets are discharged, the adjustments for impairment or loss related to them are resumed.

Depreciation is the process of gradually recovering the depreciable amount of a good, as a rule, over its useful life, by including in the expenses of the exercise a part of the depreciable amount in the form of depreciation. So depreciation is a process and depreciation is the result of this process.

Depreciation occurs in the case of intangible and tangible fixed assets that have a useful life and are used in several operating cycles (financial years) when, as a result of their use, the (irreversible) depreciation of their initial value is recorded.

The irreversible impairment of the value of an asset by its use should not be construed as a loss of value but rather as a transfer of the value of the respective asset over the goods, works and services realized with its help.

The depreciation of the depreciable assets is calculated on the basis of an amortization plan, from the month following their putting into operation and up to the date of the full recovery of their entry value, according to their useful life and conditions of use.

## **2. TESTING THE INTERNAL CONTROL MECHANISMS AND THE SUBSTANCE OF THE OPERATIONS WITHIN THE MINING COMPANIES**

From a conceptual point of view, tangible fixed assets are presented in a nuanced way by the specialized literature and by the different existing financial reporting frameworks. The nuances are recognized in the field of financial information as elements that can induce erroneous perceptions, the professionals in the field being asked for their attenuation. There is a first difficulty of internal control, but this is not specific to the fixed assets, but is found in all the balance sheet items and the processes carried out within an organization. In general, tangible assets are considered assets with the following characteristics:

- are held for use in the production of goods or in the provision of services, to be rented to third parties or to be used for administrative purposes;
- are elements controlled by the entity and from which, during their use, it is expected to obtain economic benefits;
- it may be used over several periods. The recognition of a property, plant and equipment is realized by estimating the future economic benefits, as a result of its use, rental or holding, a projection that takes into account that the entity can obtain advantages associated with the asset, taking into account the associated risks.

The person in charge of the control in the mining operation will have to identify the appropriate financial reporting framework, to ascertain the references to the fixed assets and to evaluate if they are put in place by the company administrator. As an exception, if you notice deviations from the benchmark, you can accept them to the extent that they are sufficiently well disclosed, argued and provide better financial

information - as it is possible to happen now with the assessment on the balance sheet of advances paid in foreign currency for the purchase of fixed assets.

The complex content of fixed assets already determined by the categories included: tangible and intangible fixed assets, both with depreciable and non-redeemable shades, ongoing fixed assets and financial fixed assets, the last two individually representing sufficiently complex challenges for those responsible for internal control.

On the other hand, the approach of the control process is influenced by a lot of variables, among which the profile and extent of the mining company. This panorama is in the range of:

- auditable unit, according to the reference, but appreciated as being small, in which the number and value of operations in the field of fixed assets are so small that they can be reflected by accounting without difficulty, and the appreciation of the related information is very within the reach of professionals;
- organization with frequent operations in the field and of values more than significant.

Internal control manifests itself in its plenitude within entities that tend towards the described upper limit, in which the principles and practices of corporate governance are ubiquitous.

We already consider that the examination of fixed assets is a combination of approaches based on the evaluation of processes (entries, uses, depreciation, maintenance, modernization, etc.) and those directed to the control of stocks (initial and final balances, control over them, evaluation and proper presentation).

However, it is not possible to conceive a universal treatment in this sense, the practitioner is the one who will have to find the optimal balance or combination between the two perspectives, so that the reasonable assurance is obtained in the most efficient way.

Normally, the fixed assets will have to be controlled in the mining operation other than the current assets accounts, for the following reasons:

- as a rule, there are fewer inputs and outputs of the current year compared to current assets, but given the company's profile, they remain within the frequency limits,
- the entry into the company is mainly related to the commissioning, which can be realized more or less in the interest of the company,
- often, the value of any particular operation is significant, their cumulation being more than significant; corroborated with the fact that the tolerable error affected by the global significance threshold is generally very low, it causes the controller to declare an extremely low detection risk,
- the asset will probably be used, kept and reflected in the accounting records for several years.

Due to these characteristics, in the control of the production equipment the focus falls on the verification of purchases made in the current year, rather than on the account balance carried over from the previous year. In addition, the fact that these assets have a considerable estimated useful life requires the existence of accumulated depreciation and amortization accounts, which are verified as part of the control of the

respective assets. Finally, the equipment can be sold or disposed of, resulting in the recording of a gain or loss that the controller is obliged to check. Rarely enough, but it happens, the fixed assets can be donated or ceded for free.

For a synoptic exhibition, we identify the relationships in which the fixed assets are located within the mining processes and approached by the persons in charge of the control within the missions: sales-receipts, salaries-personnel, purchases-payments, stocks-deposits, capital-raising-repayment, house- the bank. It can be observed that the fixed assets relate directly or indirectly to all these cycles, the situation being suggestive for the importance and the difficulty of providing insurance regarding the quality of the information regarding these assets.

For example, during the sale of fixed assets, the controller will probably have to implement all the recommended procedures for evaluating the sales-receipts cycle, thus obtaining and providing assurances that the process, including the results, is presented according to the applicable financial reporting framework. The discussion can be developed on any of the illustrated relationships, and if we extend the reasoning to the whole of the fixed assets and "look" only at the real show and in the field of standardizing the financial reporting offered by external fixed assets, we can come up with some hypotheses regarding the complexity, even the difficulty of the control step.

Testing the internal control mechanisms and the substance of the operations within the mining operations

Narrowing down to the mining area, one of the most consistent relationships is established between the fixed assets and the buy-payments cycle, which is why it is recommended to control these assets integrated into this circuit, but still far from including it.

As a result, the tests of the purchases of fixed assets or the appreciation of the specific rigor and the substantial tests of the related operations concern three of the economic functions related to the cycle, namely: the processing of the purchase orders, the receipt of the goods and the finding of the debt. It is not neglected the field of payment of debts related to the process, to which we make brief references.

To systematize the description, we have to illustrate the methodology of designing the control mechanisms tests and the substantial tests of the operations related to the purchase of fixed assets. As can be seen, the process is aimed at establishing the procedures that will be used by the auditor, whether or not to use the survey and what size the sample will have, how its elements will be selected, time and person programming, etc., understanding the internal rigor.

In a first stage, the control officer obtains an understanding of the internal control of the purchases of fixed assets, or of the specific internal rigor, by studying the internal rules and regulations within the mining operation regarding the acquisitions, the organizational charts, the sequential diagrams of the client, interviews of the customer, to the relevant personnel, the elaboration of the internal control questionnaires and the repayment of the circuit of certain documents determined by the purchase of fixed assets.

On this basis, the examiner makes a series of incipient findings on the specific control environment, regarding the management's assessment of the risk related to the acquisitions, on the information and communication, regarding the specific control and

supervision activities. These findings are documented, and based on them the process of designing control mechanisms and substantial operations tests is started.

Normally, certain economic functions, within the process of acquisition of fixed assets, correspond to certain key internal control mechanisms. These refer to: the authorization of the purchases, the separation of the management of the goods received from other functions, in general, the segregation of tasks, the timely registration and the independent verification of the operations.

Appropriate authorization of the purchase of fixed assets is essential, as it ensures that the purchased assets correspond to the mining exploitation objectives. Most companies allow a general authorization of the purchases of goods necessary for the basic exploitation activity. For example, purchases of fixed assets over a predetermined cash limit required the approval of the Board of Directors; items purchased relatively frequently, such as computers, furniture, etc., are approved by certain members of the executive management.

After the supply request is approved, a purchase order for the respective goods must be initiated. The purchase order is issued on behalf of a supplier and requires the delivery of a specified item, at a certain price, at / or up to a certain date.

We do not develop here the selection of the asset provider and the control of this operation, which is itself a sufficiently complex problem, implicitly risky for the management and, in particular, for the person responsible for the internal control. If the appraiser is suspicious of the non-performing selection of the asset providers, he must expand the mission area to obtain the evidence needed for clarification.

Frequently, companies set up supply departments to ensure the procurement of goods of adequate quality and at a minimum price. For a good internal control, the supply department should not be responsible for authorizing purchases and receiving goods. All purchase orders should obtain identity through proper numbering and include sufficient information.

Mining operators must have a person in charge of receiving the goods, who must draw up a receipt report as a justification for receiving and verifying the purchased goods. Normally, a copy of this document is given to the person taking over, and another copy to the department responsible for accounting records of assets and liabilities.

In some companies, the registration of the debt related to a purchase is made at the moment of receiving the fixed assets, and in other companies, it is deferred until the invoice of the supplier is received.

In both cases, the debt record department usually carries the responsibility of verifying the correctness of purchases, both in form and in substance. This internal verification is done by comparing the detailed information from the procurement-investment program, the contract, the purchase order, the receipt report and the supplier's invoice, in order to determine whether the descriptions of the goods, prices, quantities, payment conditions and expenses of transport from the supplier's invoice are correct.

An important control mechanism, established in the accounting departments of fixed assets and related debts, is to require that employees who operate purchases in the information system do not have access to money means, easily tradable securities

or other assets. The documents and the appropriate operative records, the procedures for keeping the corresponding accounting records and the independent audits are also control mechanisms that are necessary in the functions related to the management of the acquired assets.

It is noteworthy that most of the times, in the case of fixed assets, the reception of the acquisition is related to the commissioning and / or the delivery into use, which, besides taking over the management, also implies the connection with the objectives of the company, both by those who design and carry out such operations, as well as those who independently verify them.

The most important control mechanisms for payments include: the signing of the payment documents by an appropriately authorized person, the separation of the tasks related to the signing of the payment orders, those related to the record of the purchased assets, the availability and the debts, as well as the careful examination of the documents that remain. at the base of the phrase "good payment" by the person in charge at the time of signing.

We appreciate that a description of the key internal control mechanisms, even brief, would not be balanced if we did not present the main instrument by which the record of the fixed assets is realized, respectively the systematic file of the fixed assets. In order to make a relevant study of the control of the production equipment, it is necessary to understand the contents of the systematic file of the fixed assets.

This file consists of a set of records, one for each item of fixed assets that are provided by the company. In turn, each record contains descriptive information, the date of acquisition, the initial cost, the depreciation for the current year and the cumulative depreciation of the asset in question. The sum of all the records in the systematic file is equal to the large book balances of the accounts in question.

### **3. CONCLUSION**

What does it really mean to financially control a problem, such as depreciable property, plant and equipment in the case of mining? This requires you to issue an opinion, in other words, to decide on the transactions, transformations and balances, of millions of lei, that are reasonably correct presented in the company's financial statements. In other words, the person in charge of control must be aware of the difficulty, the public responsibility, the moral, legal and psychological burden that his approach has.

By presenting only part of what is meant by the control of depreciable assets, we cannot conclude without underlining the multitude of renunciations of the various approaches required in the course of a real mission, thus giving us the opportunity to present the correct way forward for such a mission.

For completeness, the way forward would be to control the exits, uses and financing of the fixed assets, in each case pursuing the same objectives. Further, the assertions of the management regarding the balances are to be monitored: their existence, their rights and obligations, the completeness, the evaluation and the allocation of the fixed assets at the end of the financial year. It is continued with the examination of the presentation and description, sometimes of the disclosure, through

the financial statements of the corresponding suggestive synthesis of all that means and involves the depreciable assets for the company.

The situation, as we have shown, becomes much more complex if we extend the control to all the assets represented as a whole. We appreciate that, by displaying the most important internal rigor, what their evaluation consists of, as well as the substantial tests of the operations in a sequence, we have managed to highlight the extent, complexity and associated risks, respectively of the architecture of the internal control of the fixed assets in the case of mining companies.

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