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## **DEVELOPMENT OF THE STRUCTURE OF CONTROL SUBJECTS IN THE SYSTEM OF INTERNAL CONTROL OF A PROPRIETOR AT COAL BRANCH ENTERPRISES OF A NON-STATE SECTOR**

**Objective.** *The purpose of the article is research of the structure of control subjects in the system of internal control of a proprietor at coal branch enterprises of a non-state sector.*

**Methods.** *The following methods were used in the course of research: supervision, grouping and generalization (for information acquisition as for organizational-legal forms of activity of private coal enterprises, their owners and existing managerial system at a corporative level); model building (for formalization of an existing and proposed system of the subjects of control); generalization and concretization (for specification of an objective, tasks and authorities of the control of subjects at a corporative level).*

**Results.** *In the course of research the necessity of development of the structure of controlling subjects of coal branch enterprises through control insufficiency at a corporative level of management was educed and separation of control-advisory committees for increase of control functions of a proprietor in such structure was proposed.*

**Academic novelty.** *The structure of control subjects at a corporative level of coal enterprises management, which is promotive of efficiency upgrading of organizations and control action was improved.*

**Practical importance.** *The obtained results are directed to increase of control functions of a proprietor of coal branch enterprises for provision of stable and effective functioning of an enterprise and achievement of a corporate objective.*

**Key words:** *internal control, control subjects, coal branch enterprises.*

Functioning of any economic entity is based on building of efficient facilitating mechanisms of achievement of management objectives, one of which is internal control of an enterprise. Reliably built system of internal control is able to amalgamate and coordinate interests of proprietors and executives in realization of statutory objectives of self-accounting and profitability of an enterprise.

Actuality of this question is increased for coal enterprises through stimulation of privatized processes in the branch which is characterized by change of proprietary form from the state one into the private one and is accompanied by building of a new system of enterprise management in which a subsystem of internal control requires

special attention, as such that is able to raise effectiveness of management of an enterprise.

Among the authors who devoted their work to research and building of models of internal control organization at a corporative level the most substantial contribution was made by: C.V.Bardash, F.F.Butynets, N.G.Vygovska, T.O.Kamenska, V.F.Maksymova, Ye.V.Mnykh, L.V.Napadovska, S.M. Petrenko, B.M.Sokolov, L.O.Sukhareva, V.O.Shevchuk, [2-7] and others.

Although, consideration of the described issues remain operative including specificity of functioning of coal branch enterprises of a non-state sector.

For achievement of the article's objective let's describe a task list:

1. Research of organizational-legal forms within which coal producers of a non-state sector operate.

2. Separation in the structure of internal control of a proprietor the system of control subjects and substantiation of recommendations as for its improvement.

According to the data of the Uniform state register of enterprises and organizations of Ukraine the coal branch enterprises of private form of ownership (activity category – 05.10 Coal mining) are established in the form of economic companies. In accordance with the data of a table 1 we can see that overwhelming majority precisely 55% are limited liabilities companies, 35% - joint-stock companies of public type and 10% - companies of supplementary liability.

Table 1 – Distribution of Donbas mines under organizational-legal forms (made under the data of the Uniform state register of enterprises and organizations of Ukraine)

Organizational-legal forms	Name of a coal enterprise	Number of mines on the enterprise
Public Joint-Stock Company	PJSC “Lysychanskvuhillia”	4
	PJSC “ Colliery Group “Donbas”	2
	PJSC “Krasnodonvuhillia”	5
	PJSC “DPEK “Mine “Komsomolets Donbasu ”	1
	PJSC “Mine “Zhdanivska”	1
	PJSC “Mine n.a. A.F. Zasiadko”	1
	PJSC “ Colliery Group “Pokrovske”	1
Total mines – 15		

Continuation of a table1

Limited Liability Company	LLC “DPEK “Dobropilliavuhillia ”	5
	LLC “Sverdlovantratsyt”	5
	LLC “Rovenkyantratsyt”	6
	LLC “Donprombiznes”	1
	LLC “Vuhledobuvannia”	1
	LLC “Donvuhlerozrobka”	1
	LLC “Eksymenergo”	1
	LLC “Nadra Donbasu”	1
	LLC “Tekhinovatsiia”	1
	LLC “Mine “Sadova”	1
	LLC “Mine “Rassvet-1”	1

Total mines - 24		
Company of supplementary liability	CSL “ Colliery Group “Chapaieva”	3
	CSL “Mine “Bilozerska”	1
Total mines - 4		
Total number of mines of a non-state sector - 43		

The peculiarity of functioning of coal branch enterprises is that mines as the producers of a branch product and principal enterprises of the branch can function as independent enterprises (7 mines) as well as they can not have the status of a legal entity and function in the form of a separate subdivision (36 mines) within an enterprise that joints coal producers (mines), coal-oil-gas refineries (coal-preparation plants) and coal building enterprises (shaft contracting enterprises, mine equipment plants).

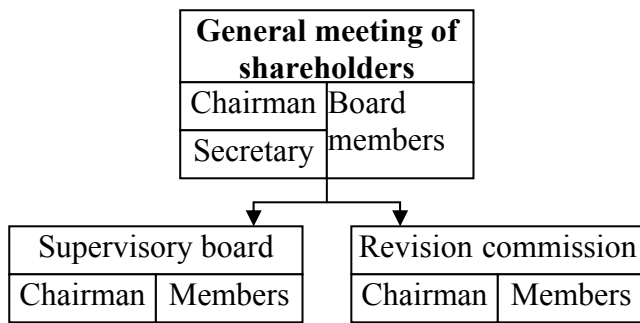
It should be noted that majority of coal branch enterprises of a non-state sector are the members of vertically-integrated companies owning a controlling stock interest or the most part of the company (Table 2).

Table 2 – Information on the companies-proprietors of Donbas mines.

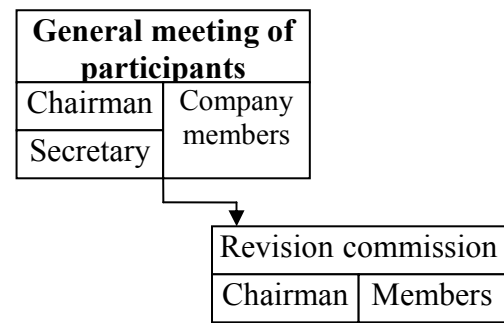
Company-proprietor	Number of mines being the members of the company
LLC “Metinvest Holding”	5
DTEK Holdings B.V.	18
Holding “Coal Energy S.A.”	9
Holding “SadovaGroup”	2
Total mines:	34

Owners of other mines are the large-scale domestic enterprises. The companies put up the capital in development of coal branch enterprises and are interested in its effective use, stable activity and profit earning from the put up capital. The executive bodies for execution of operative management are formed at enterprises, though the strategical management of enterprises remains in authorities of the owners of enterprises exclusively as well as control as one of the important subsystem and functions of management.

Let's turn attention to organizational structure of a managerial system at a corporative level that built at coal branches enterprises at present (picture 1 and 2).



Picture 1 – Structure of the management system at a corporative level of coal branches enterprises– joint-stock companies



Picture 2 – Structure of the management system at a corporative level of coal branches enterprises – LLC, CSL

Organizational management structure of economic enterprises is typical and meets the existing legislation, specifically the norms of the Economic Code of Ukraine, the Law of Ukraine “On economic enterprises”, the Law of Ukraine “On joint-stock companies” [8-10].

Though in our opinion there is a lax control over activity of a company at a corporative level under such structure. The Revision commission as a controlling body is obliged to carry out mandatory inspection of the company’s activity under the results of a year and has a right to carry out initiative inspections in the course of the year [9-10]. Control actions of the Revision commission are characterised by a retrospective control of activity for the purpose of a conclusion preparation as for confirmation of validity and data integrity of financial reporting as well as for presence of the educed facts of law violations and approved regulations within carrying out of activities, order of account maintenance and reporting submission. The General meeting has no right to approve financial reporting of the company without conclusion of the Revision commission. Under such conditions a fact of the received financial results is only stated (and for the most of coal branch enterprises it means losses) and necessity of carrying out line-of-duty investigations according to the fact of the detected violations. Such control is inefficient. It is critically important not to state a fact of loss ratio of enterprises but to assume measures as for prevention of such state.

As researches conducted by the authors have shown, one of the causes leading to losses and damages is a lack of measures as for identification and management of risks. And coal branch enterprises prone to sufficiently large number of risks. Apart of general risks (such as risk of indefiniteness of external environment, political instability, recession, inflation, competition etc.) to which the economic entities prone to, the authors marked the principal but not exhaustive list of specific risks peculiar to activity of coal producers such as:

- risk of failure to achieve annual prearranged highlights;
- labour protection risks;
- risks of assets safety;
- risks of resources deficiency (material, credit, labour);

- risk of increase in expenses for production-support work in conjunction with specificity of coal production, modification of mining-and-geological conditions, necessity of output expansion;
- lag in technique and technology risks;
- technological risk;
- transport risk;
- ecological risks;
- regulatory risks (through regulation of price formation at the markets of coal and electric energy by the state);
- risk of internal tension growth of employees;
- risks related to operational process under various directions of activities.

So, we deem it necessary to establish the Audit committee attached to the Supervisory committee (internal audit service), the task of which should be supervision the system of internal control at an administrative level and management of risks of activity of a coal enterprise. Exactly at a corporative level the measures as for identification and control of risks should be developed and implanted.

Besides the question of provision of an appropriate level of labour and environment protection was and is still important for coal branch enterprises and consequently separation of the committee of described issues attached to the Supervisory board is reasonable.

There is also sense in selection of a body which would control and regulate activity of an executive board for a period between holding of the general meeting of participants with separation of analogous control-advisory committee for the economic entities of limited and superadded liability.

And subsequently a recommended structure of a management system at a corporative level for coal branch enterprises is shown in the pincture 3.

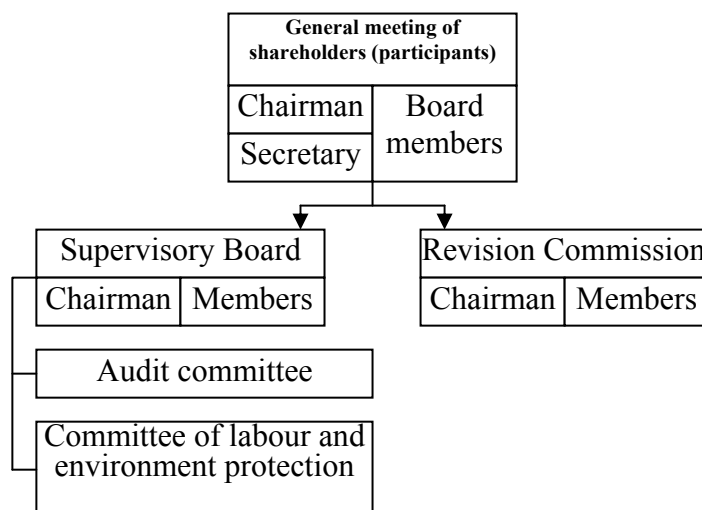


Figure 3 – A recommended structure of the managerial system at a corporative level of economic companies of coal branch.

As a result of development of such structure of the managerial system at a corporative level the subjects of a control subsystem of a proprietor are the

Supervisory Board, the Revision Commission, the Audit Committee (internal audit service), the Committee of labour and environment protection. Purpose, task and authorities of control of the separated committees are shown in the table 3.

Table 3. – Information on control subjects at a corporative level of economic companies of coal branch.

	Audit committee (internal audit service)	Committee of labour and environment protection
Purpose of control	Information acquisition as for state and results of an enterprise activity for solution of a question as for necessity of development and implementation of recommendations as for improvement its financial position, increase of profitability, competitive ability and prevention of crisis events.	Information acquisition as for state of labour and environment protection of an enterprise for solution of the question as for necessity of development and implementation of a level of accident prevention, labour and environment protection.
Control tasks	<ul style="list-style-type: none"> <li>- internal control supervision at an administrative level;</li> <li>- execution of inspection of a company's activity;</li> <li>- identification and management (including control) of risks for providing of a proper level of economic security of an enterprise;</li> <li>- furnishing of recommendations as for an auditor election for confirmation of financial reporting auditing services.</li> </ul>	<ul style="list-style-type: none"> <li>- supervision the system of environmental management and labour protection at an administrative level;</li> <li>- execution of inspection of the state of accidents prevention, labour and environment protection;</li> <li>- development and control of measures and procedures execution in the sphere of labor safety, environment protection;</li> <li>- identification and management (including control) of risks in the sphere of accident prevention, labour and environment protection;</li> </ul>
Control authorities	<ul style="list-style-type: none"> <li>- inspection and monitoring of business accounting system;</li> <li>- inspection, monitoring, estimation of efficiency of internal control system of the executive body;</li> <li>- control over discipline of implementation of proprietors' decisions and activity of structural subdivisions of enterprises;</li> <li>- development and implementation of the measures as for management (including control) of risks at an administrative level and reduction of risks influence up to the acceptable level;</li> <li>- reserves search of management system improvements under the results of control and analysis;</li> <li>- development of recommendations as for elimination of discrepancy for enhancement of activity efficiency under the results of control;</li> </ul>	<ul style="list-style-type: none"> <li>- development of an enterprise Policy in the sphere of labour and environment protection, control of observing to its regulations;</li> <li>- check, monitoring, estimation of adequacy and effectiveness of the acting system of labour protection and environment protection;</li> <li>- carrying out of behavioral road safety audit;</li> <li>- holding of ecological audit;</li> <li>- development and implementation of the measures as for minimization of risks influence in the sphere of accident prevention, labour and environment protection;</li> <li>- investigation of fatal cases and other cases of industrial injuries;</li> <li>- projects development as for possibility of enhancement of efficiency of the work of system of labour and environment protection under the results of control and introduction</li> </ul>

		of alterations to a management system, if required; - development of recommendations as for elimination of discrepancy for enhancement of efficiency of the functioning of the system of labour and environment protection under the results of control
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It stands to mention the importance of interaction of the Audit committee (internal audit service) and the Revision Commission which is one of the most determinative factors of work effectiveness of the system of internal control at a corporative level. These controlling authorities are not duplicating one another but are complementing. Although the Revision Commission executes retrospective control, it has the exceptional authority secured in legislation to counsel under the results of verification of economic and financial activity of an enterprise, without which the general meeting has no a right to approve an annual financial reporting. Separation of the Audit committee (internal audit service) will afford an opportunity to raise effectiveness of work of the Supervisory Board through estimation and control not only the enterprise activity made by the committee, but also its environment with identification of risks and weak pockets, and also development of a complex of the measures of risks management. And consequently the Audit committee (internal audit service) has to enhance control functions of management at a corporative level for improvement of financial position, negotiation of crisis events and their prevention in the future.

In spite of discordance of opinions of scientists as for variations of subordination of the internal audit service of executive directorate [2, c.364-373; 4, c.22-33], chief financial executive [2, c.364-373], a proprietor [5; 11 etc.], we shall agree with the last one and mark the necessity of subordination to the most superior body – management of a corporative management level for provision of a determinate level of independence in information acquisition as for current state of administrative management of coal industry. At that the more number of territorial separate subdivisions as parts of a coal enterprise the most acute need of organization of internal control including control of a proprietor becomes.

Therefore the authors have considered organizational-legal forms of activity and organizational structure of management of coal branches enterprises at a corporative level and it was established that coal enterprises of a non-state sector act as economic companies: public joint-stock, limited and superadded liability. The active legislation regulates questions of control system construction at a corporative level; however research of the practice of financing of coal branch enterprises afforded an opportunity to state the fact of control insufficiency at a corporative level and conditioned development of recommendations as for enforcement of control functions. Specifically, it was proposed to separate control-advisory committees among the subjects of internal control of Supervisory board in the form of Audit committee (internal audit service) and Committee of labour and environment protection, that will allow to enhance control functions of the Supervisory board for

provision of stable and effective functioning of enterprises and achievement of activity objective.

The perspectives of the following investigations in this direction are solution to questions of coordination of the activity of control structures at corporative and administrative levels of management of coal branch enterprises.

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