

IMPLEMENTING INTERNAL CONTROLS IN LOGISTICS COSTS

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Abstract: According to the various studies the logistical costs in the company are very high. The logistics costs need to be recorded and monitored by the management and employees. These costs are direct and indirect, the last ones need better clarification by the company. In the paper we emphasize the role and the examples of internal controls in managing logistics costs. They have to be written in company's internal rules and realisable. If the company have no internal controls it means a greater risk of incorrect and ineffective management, frauds, ineffective use of resources, incorrect and unreliable information and data.

Key words: logistics costs, internal controls, management, accounting, company, responsibilities, payment.

**ОСУЩЕСТВЛЕНИЕ ВНУТРЕННЕГО КОНТРОЛЯ ЛОГИСТИЧЕСКИХ
ИЗДЕРЖЕК**

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Аннотация: По данным различных исследований, логистические затраты в компании являются очень высокими. Затраты на логистику должны быть зарегистрированы и контролироваться руководством и сотрудниками. Эти затраты являются прямыми и непрямыми, компании необходимо лучше классифицировать последние. В статье мы подчеркиваем роль и примеров внутреннего контроля в управлении затратами на логистику. Они должны быть написаны на внутренние правила компании и реализовываться. Если в компании нет внутреннего контроля, то это означает повышенный риск неправильного и неэффективного управления, мошенничества, неэффективного использования ресурсов, неправильной и недостоверной информации и данных.

Ключевые слова: логистические затраты, внутренний контроль, менеджмент, бухучет, компания, обязанности, оплата.

We believe that the internal auditors give lack of attention in the review of logistics costs. Various studies indicate that the logistical costs in the company are very high. Average logistics costs represent 12 to 15 per cent of global gross domestic product, on a global scale it is 3000 billions of euro (Kramar, 2006). In the US, for example, companies spent 554 billion dollars on transportation, 332 billion

dollars for the storage and inventory costs and more than \$ 40 billion for administration and communication, which is for managing logistics process-a total of 921 billion dollars (Stock, Lambert 2001, p. 5). For comparison, the total expenditure of transport in the European Union amounts to approximately EUR 1,000 billion. The Research conducted by Herbert W. Davis (2014) showed that logistics-related costs for the average company make in 2014 almost 10 % of sale and they increased by 11 % from 2013 to 2014.

Logistic costs can be classified as funds, which are designed or are intended to achieve the objectives (Horngren 1991, p. 25). Profession defines the term of cost as a money or monetary value of compensation, which is intended for goods or services, by which a legal entity should be provide their current benefits or benefits in the future (Hansen 1992, p. 25). With knowledge of the cost, legal entity will create information, which are fundamental for inventory valuation and measurement of income statement , further decision-making and planning process and to exercise control over individual point of responsibilities (Durry, 1994).

According to the prescription costs are divided into direct and indirect costs. Various authors claim that the direct costs are ones who are directly attributable to the individual product / service or organizational unit. It can be attributed directly to costs carrier. Indirect costs are those who, are involved in the creation of a single unit of products / services, but also support other products or units and can not be directly attributed to a particular product / service or organizational unit (Kavčič, 2010) . They are affiliated with several cost centers and distributed with the relevant keys. The problem of indirect costs in the company's operations reflected in the calculation of the price of the product, when we want to find out how much the production of a certain product costs (Kavčič, 2010, p. 26)

Direct logistic costs could be grouped into the following categories (Horvat, Antoni, 2016):

- Transportation costs
- Warehousing costs
- The cost of inventories
- Staff costs
- Administrative costs and
- Other costs.

According to research of Herbert W. Davis from 2014, largest share of total logistics costs represent transportation costs (up 47%), warehousing costs (up 24%), inventory costs (21%), and the rest are administrative and other costs.

Indirect logistics costs can be seen in the following business functions (Horvat, Antoni, 2016):

- purchase,
- sales,
- production,
- research and development,
- finance and accounting,
- human resources and
- information function.

Any management is responsible for the legality of logistics operations and regarding to this with the prevention and detection of business, which is non-compliant with legal norms. Management in doing so can help by the logistics activities with the following policies and procedures (Koletnik and Kolar 2008, pp. 110–111):

- To monitor regulatory requirements and provide methods that enable compliance with legal regulations;
- To care for proper arrangement and operation of internal control;
- To develop, publish, and respect a code of business behavior of all employees in the company;
- To provide staff development and an understanding and respect the code of behavior;
- monitor compliance with the code of business behavior and disciplinary action against employees who do not abide;
- To employ appropriate expert to assist in setting up and monitoring of the prescribed solution;
- To care for an updated list of important rules and interpretations that must to be respected in the business.

Laws and rules are these, for example:

- Legal rules and regulations: Laws and related regulations such as principles od foreign trade;
- The internal rules and policies: internal policies, financial plan of logistic costs, strategic plan of logistic costs, contracts, ...

The monitoring of logistic costs by the company ensures that the company avoids hidden costs. The internal rules and financial plans for monitoring logistic costs assure that these costs are used in that extent and for such purposes as it planned.

INTERNAL CONTROLS OF LOGISTICS COSTS

Recording logistics costs is in the domain of accounting. Company can regulate the accounting of logistics costs with at least two internal rules: accounting rules and instructions on bookkeeping's evidence. If the company does not have the abovementioned internal rules, there is a risk that internal controls are not set. And this means a great risk for incorrect and ineffective management as well as unintended use of company's private financial resources. The internal control system comprises a system of procedures and methods with the objective to assure compliance with the principles of legality, transparency, efficiency, effectiveness and management economy. Related to internal control, appears that internal auditing provides autonomous assessment of financial management and control systems as well as counselling to the company leader on how to improve their efficiency. The management is accountable for setting the internal controls and internal auditing.

This accountability can be legally sanctioned by paying a financial penalty (Horvat, 2007).

The internal rules regulate the preparation of bookkeeping documents, the accountability for their preparation, movement, regulate the duties and the organization of accounting in the internal rules and the accountability of responsible person in the rules. The contents and volume of internal rules in the field of accounting or the accounting rules are not prescribed. The accounting standards indicate only the requirements that a company has to define in its internal rules. The company decides autonomously on how to define provisions, in what form, and what the institution additionally defines in the accounting rules (Horvat, 2007).

Internal auditors commonly found the different shortcomings in the recording of logistics costs. Following, we are showing the examples how to monitor these costs (Horvat, 2007):

1. To explain the reasons for stating an excess of expenses over revenue in balance sheet and statement of revenue and expenses. Causes should be enumerated; the causes can be for example insufficient funds of the founder, unforeseen costs of the market activity;

2. To gather the data of on unpaid receivables and the measures for their payment or the reasons for not paying them. Original receivables can be subsequently reduced by valuation adjustments, if it is reasonably expected that they will not be settled by their due date or in their full amount. The revaluation of receivables from operations due to their impairment means the formation of valuation adjustments and receivable write-offs. The necessary receivable write-offs must be justified by relevant documents. Valuation adjustments are formed in percent to total receivables, a group of receivables or an individual receivable. At the end of the financial year the receivables balance should be broken down and disclosed as receivables from the founder (value) that refer to the financial year, and the expected payment date, and other receivables that are already due but not settled yet (reasons for them, measures);

3. To explain the data on liabilities that are due by the end of the financial year and the reasons for not paying them. There can be various reasons for not paying already due liabilities: difficulties with liquidity, inadequate payment terms ... It is appropriate to disclose liabilities to the founder and other liabilities that refer to business relationships with customers and other budgetary users;

4. To explain the sources of funds used for investments in tangible fixed assets, intangible fixed assets and long-term investments and the reasons for important changes in fixed assets.. Sources that should be stated can be budget funds, donations of legal and natural persons, an excess of revenue over expenses, depreciation funds, financial leasing, raised loans and similar. Purposes or the types of investment can be: the purchase and renovation of equipment and buildings, land purchase, purchase of intangible fixed assets, investments by types, locations and other;

5. To monitor free cash flow investments. It should be stated where free cash flow investments were made, under what conditions and for how long;

6. Types of items that are included in the amount stated in off-balance-sheet accounts records. It should be explained which these items are, the purpose, scope and causes for off-balance-sheet records. Data are shown in the off-balance-sheet records if they state events that currently have no influence on items in the balance sheet or the statement of revenue and expenses; however they are important for the assessment of used foreign assistance funds, for eventual future liabilities, business processes controlling and for informing. These also comprise events stated in off-balance-sheet records, which at the accrual cannot have the nature of balance sheet items that would have influence on assets, liabilities, revenue and expenses;

7. Data on important tangible fixed assets and intangible fixed assets that are already fully written off but are still used for performing the activity. The type or list of important equipment that is still used despite being written off should be stated, the reasons for using these assets, their share in the total equipment and similar.

The main internal control weakness is that it is usually performed by the accountant, who also prepares statements of account and budget. Notwithstanding, the rules for performing internal control can be set in the internal rules act such as for example accounting rules and rules on inventory check. The internal rules should define at least the sections of internal control, time-frames and accountabilities.

In Table 1 we mention a practical case of employees at company who are accountable for the preparation of bookkeeping documents of logistics costs, which are the basis for booking in books of account, and for their timely and correct issuing:

Table 1 – The example of the responsibilities of employees

<i>Type of document</i>	<i>Person responsible for preparation</i>
<i>Pro forma invoice or invoice for logistics services</i>	<i>accountant</i>
<i>Pro forma invoice or invoice for the sale of material, fixed assets, etc.</i>	<i>accountant</i>
<i>Account of default interest, claims, costs of reprimands</i>	<i>accountant</i>
<i>Cash book (expenditure, receipt)</i>	<i>secretary</i>
<i>Account of salaries /copyright contracts / employment contracts</i>	<i>accountant</i>
<i>Depreciation account</i>	<i>bookkeeper</i>
<i>Contracts on deposits</i>	<i>financial manager</i>

Bookkeeping documents are the basis for accruals or their consequences, they are basis for material financial liabilities of the company. The role of employees to monitor these costs is very important for booking the real data in financial statements (Table 2).

Table 2 – The example of the monitoring by the employees

<i>Bookkeeping document</i>	<i>Person authorized for controlling bookkeeping documents - position:</i>
<i>Received invoices and pro forma invoices of logistics costs</i>	<i>financial manager</i>
<i>Loan contracts, deposits</i>	<i>member of the management</i>
<i>Regular and default interest account</i>	<i>financial manager</i>
<i>Daily extracts of balance on subaccount of treasury single account /transaction account</i>	<i>financial manager</i>
<i>Employment contracts, copyright contracts, etc.</i>	<i>manager</i>
<i>Education contracts</i>	<i>human-resource manager</i>
<i>Depreciation account</i>	<i>bookeeper</i>
<i>Cash book</i>	<i>manager</i>

The abovementioned accountable persons with their signatures confirm the adequacy, the regularity, accuracy and legality of bookkeeping document as documents that prove accruals. The person accountable controls above all (Horvat, 2007):

- whether the accrual was in the form and scope indicated in the document,
- whether the document has all documents that prove accruals enclosed,
- whether the prices in the bookkeeping document are correct and in compliance with the agreement or contract,
- whether deductions are correctly stated,
- whether VAT is accounted for correctly,
- whether the payment period in the document corresponds to the agreed payment period,
- that the bookkeeping document does not include costs contrary to the agreement,
- formal accounting control of a document regularity...

The efficiency of control measures can be established only if the implementation can be supervised. Therefore control tasks of employees must be recorded in documents. If logistics costs are not regulated by internal rules, this means a greater risk of incorrect and ineffective management, non-attainment of company's objectives, ineffective use of resources, damage to assets as well as incorrect and unreliable information and data.

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