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FINANCIAL CONTROL AND THE FINANCIAL CONDITION OF A BUSINESS ENTITY

ФІНАНСОВИЙ КОНТРОЛЬ ТА АНАЛІЗ ФІНАНСОВОГО СТАНУ СУБ'ЄКТА ГОСПОДАРЮВАННЯ

Summary. *Ukraine's wartime economy presents enterprises with a fundamentally new set of financial management challenges: disrupted operational chains, volatile cash flows, elevated debt burdens, and heightened*

demands for financial resilience. Against this backdrop, the coherence between financial control and financial condition analysis has become a prerequisite for sound managerial decision-making — yet in practice, these functions often operate in isolation, which prevents adequate managerial response to deviations.

The purpose of the study is to provide a theoretical synthesis of approaches to defining the nature of financial control and the financial condition of a business entity, and to substantiate their functional interrelationship within the financial management system.

The study is based on methods of systemic analysis, comparison, and generalization. The information base comprises works of domestic and foreign researchers, the COSO Internal Control framework, and methodological guidelines of the Ministry of Finance of Ukraine.

The causal relationship between financial control and financial condition is revealed through four management channels: revenues and expenses, cash flows, accounts receivable and accounts payable, and capital structure. A three-level model for integrating control and analytical procedures is proposed, establishing a feedback loop between the dynamics of financial condition indicators and weak zones of the control environment — thereby transforming financial analysis into a diagnostic tool for assessing control quality.

Promising directions for further research include empirical verification of the model using data from real enterprises, development of diagnostic tools, and quantitative assessment of the impact of control procedures on the dynamics of financial stability.

Key words: *financial control, enterprise financial condition, financial condition assessment, internal control, profitability, liquidity, financial stability, management cycle.*

Анотація. *Сучасні умови господарювання в Україні формуються під впливом тривалої економічної нестабільності, логістичних обмежень та інфляційного тиску. Воєнні ризики зумовлюють нестабільність грошових потоків, зростання кредитного навантаження та підвищені вимоги до фінансової стійкості підприємств. За таких обставин фінансовий контроль та аналіз фінансового стану часто існують відокремлено, що унеможливлює повноцінне управлінське реагування на відхилення.*

Мета дослідження — теоретичне узагальнення підходів до визначення сутності фінансового контролю та фінансового стану суб'єкта господарювання й обґрунтування їх функціонального взаємозв'язку в системі фінансового управління.

Дослідження ґрунтується на методах системного аналізу, порівняння та узагальнення. Інформаційну базу склали праці вітчизняних і зарубіжних дослідників, рамкова концепція COSO та методичні рекомендації Міністерства фінансів України.

Розкрито причинно-наслідковий механізм взаємодії фінансового контролю та фінансового стану через чотири канали управління: доходи та витрати, грошові потоки, дебіторська і кредиторська заборгованість, структура капіталу. Запропоновано трирівневу модель інтеграції контрольних та аналітичних процедур, яка встановлює зворотний зв'язок між динамікою показників фінансового стану та слабкими зонами контрольного середовища — перетворюючи фінансовий аналіз на інструмент діагностики якості контролю.

Перспективи. Перспективними напрямами є емпірична верифікація моделі на даних реальних підприємств, розробка діагностичного інструментарію та кількісна оцінка впливу контрольних процедур на динаміку фінансової стійкості.

Ключові слова: *фінансовий контроль, фінансовий стан підприємства, оцінка фінансового стану, внутрішній контроль, рентабельність, ліквідність, фінансова стійкість, управлінський цикл.*

Problem Statement and Its Relevance to Scientific and Practical Objectives. In the current landscape of enterprise financial management, the effectiveness of enterprise governance is closely linked to the alignment between financial control and financial condition assessment. In practice, however, these functions often operate in isolation: control is limited to the formal monitoring of procedural compliance and transaction accuracy, while financial condition analysis is reduced to the calculation and interpretation of reporting indicators. As a result, managerial decisions are made without a full understanding of the causes of deviations or the quality of the underlying information base. Only the integration of control and analytical procedures helps ensure data reliability, timely identification of problems in revenue generation, expenditure, and cash flows, and the establishment of effective feedback for adjusting a company's financial policy.

Accordingly, the substantiation of an integrated approach to the interaction between financial control and financial condition analysis within a unified financial management system is both a relevant scientific and practical objective.

Review of Recent Research and Publications. The theoretical and methodological foundations of enterprise financial condition assessment are addressed in the works of domestic scholars, including O. Tereshchenko, L. Lihonenko, I. Parasii-Vergunenko, and M. Bilyk, which reveal the economic substance of an enterprise's financial condition, substantiate approaches to its assessment, and define a system of indicators covering liquidity, solvency, financial stability, and profitability [1–4].

In contemporary research, the financial condition of enterprises is primarily examined within an applied managerial context — particularly through

financial risk analysis, forecasting, and the application of analytical assessment tools. These issues are addressed in the works of T. Kovalchuk, O. Tereshchenko, A. Verhun, K. Semenova, S. Nazarenko, and others [5–10].

Issues of financial control also feature in the academic literature. The work of S. Bardash examines the role of financial control in ensuring the financial stability of enterprises and its relationship with financial performance outcomes, including its function as a monitoring component within broader financial management frameworks [11].

Despite existing research, the topics of financial condition and financial control are largely examined in isolation: the mechanisms by which the control environment influences the formation of liquidity, financial stability, and profitability indicators remain insufficiently systematized. This gives rise to the need for a systematization of four management channels as points of interaction between the control environment and financial condition indicators, as well as for the development of a three-level model for integrating control and analytical procedures — one that, unlike the COSO Internal Control framework, which focuses on building a control system as such, establishes a feedback loop between the dynamics of financial condition indicators and weak zones of the control environment, thereby transforming financial analysis into a diagnostic tool for assessing control quality.

The available research therefore provides a theoretical foundation, yet does not ensure a comprehensive understanding of the mechanism of interaction between financial control and financial condition within a unified financial management system. This is what motivated the selection of the article's objectives, object, and subject.

The object of the study is the financial activity of business entities within the contemporary economic environment. The subject of the study is the theoretical foundations and mechanism of interaction between financial control

and the financial condition of an enterprise within the financial management system.

Objectives of the Article. To substantiate the integrated approach to financial control and financial condition analysis, the following research tasks are addressed:

1. to reveal the substance of financial control and financial condition as interrelated elements of the enterprise financial management system;
2. to substantiate the process-outcome nature of their interaction;
3. to identify the key channels through which financial control influences the formation of liquidity, financial stability, and profitability indicators;
4. to develop a conceptual feedback model between the quality of the control environment and the assessment of financial condition.

Main Body of Research. Financial control and financial condition are connected by the logic of "process → outcome → feedback." Financial control is oriented toward ensuring the soundness of financial and operational decisions, adherence to internal procedures, and the effectiveness with which financial resources are formed and utilized.

Financial condition reflects the outcome dimension: as of a given date or over a period, it accumulates the consequences of managing assets, liabilities, equity, and cash flows. In I. Blank's framework, financial condition encompasses (a) the state of capital and the capacity for self-development, and (b) the balance between assets and capital along with the efficiency of their use [12]. This means that financial condition is not an isolated characteristic; rather, it is the summation of recurring financial processes (resource formation and utilization) and the quality of managerial decisions. It is precisely this "process–outcome" distinction that suggests the causal relationship between the two.

The critical link in this relationship is the information base. Financial statements contain data on financial condition and performance, meaning that the

quality of analysis depends on the reliability of accounting information. In academic sources, it is emphasized that accounting serves as the source of information about an entity's property and financial condition, while control contributes to the reliability of that information.

In practical terms, weak control procedures over accounts receivable, inventories, cash, or expenses lead to distortion of liquidity, turnover, and profitability indicators. As a result, analysis may reflect not the actual financial condition, but the consequences of errors or managerial shortcomings. In this sense, the assessment of financial condition simultaneously serves as an indicator of the quality of internal control.

This logic is consistent with the COSO Internal Control framework — a widely adopted model that structures internal control around five interrelated components: control environment, risk assessment, control activities, information and communication, and monitoring. Unlike purely compliance-oriented approaches that treat control as a set of formal procedures, COSO emphasizes its systemic nature and role in achieving operational and reporting objectives. It is also acknowledged that internal control provides only reasonable assurance, not an absolute guarantee against misstatement [13].

The causal mechanism operates through four management channels, which simultaneously serve as objects of financial control and as determinants of financial condition:

First, revenues and expenses. Control procedures related to contracts, pricing, cost of goods sold, expenditure authorization, and confirmation of work performed affect the reliability of financial results and, in turn, profitability and efficiency indicators. Within the COSO internal control framework, control activities must be directed at reducing risks to acceptable levels, and the components of the system must operate in an integrated manner to achieve reporting and operational objectives [13].

Second, cash flows and liquidity. Ex ante and concurrent control of payments, limits, and budgets, as well as monitoring of counterparty reliability (including an assessment of their financial condition as an element of preliminary control), influence the enterprise's ability to maintain continuity of payments and sustain liquidity. V. Oparin explicitly notes that preliminary control is designed to evaluate the appropriateness of transactions and associated risks, including verification of the counterparty and its financial condition [14].

Third, accounts receivable and payable. Control over contracts, credit limits, maturities, and provisions for expected losses substantially influences default risk, affects turnover and net working capital, and forms the basis for assessments of solvency and financial stability. Approaches that treat financial condition as the capacity for self-development and the fulfilment of obligations logically presuppose control over precisely these "risk accumulation zones."

Fourth, capital structure and financial stability. Decisions regarding debt financing, management of interest payments, and control over the targeted use of borrowed resources are reflected in autonomy and leverage indicators, as well as in the capacity to withstand shocks. Since financial condition is associated with the balance between assets and capital, control over investment and financing decisions significantly shapes the trajectory of financial stability.

Consequently, each financial indicator corresponds to a specific control domain: a decline in liquidity correlates with the control of cash flows and accounts receivable; a fall in profitability correlates with the control of costs and margins; an increase in debt burden correlates with the control of capital structure.

Thus, financial control serves as the input mechanism ensuring the quality of financial processes and information, while financial condition serves as the output indicator signaling the effectiveness or ineffectiveness of the control environment and management.

The causal mechanism of the relationship between financial control and financial condition described above is summarized in structured form in Table 1.

Table 1

Systematization of the Relationship Between Financial Control and the Financial Condition of an Enterprise

Management Channel	Object of Financial Control	Key Financial Condition Indicators	Systemic Outcome
Revenues and expenses	Contracts, pricing, authorization, cost of goods sold, transaction confirmation	Financial result, profitability, operational efficiency	Reliability of financial results and improvement of operational performance
Cash flows	Payments, budgets, limits, counterparty verification	Liquidity, solvency, cash flow	Maintaining business continuity
Accounts receivable and payable	Maturities, credit limits, provisions	Turnover, net working capital, solvency	Reduction of default risk and stabilization of turnover
Capital structure	Debt financing, interest burden, targeted use of funds	Autonomy, leverage, financial stability	Optimization of financial structure and risk reduction

Source: developed by the author

With the aim of practical integration of financial control and financial condition assessment, a three-level model is proposed that reflects the causal logic of the management cycle and can be applied within the basic functions of financial management.

The primary level focuses on controlling the formation of financial indicators: proper documentation, authorization and segregation of duties, compliance with procedures, timeliness of transaction recording, asset safeguarding, and control of payments and limits. This is where "data quality" is established, without which the analytical level loses its reliability. In the COSO methodology, this domain corresponds to control activities, information and communication, and partly to monitoring, all of which ensure the overall functioning of the system [13].

The analytical level involves assessment of the financial condition using a system of indicators (liquidity, solvency, stability, profitability, turnover),

interpretation of their changes, and identification of key drivers. Importantly, in contemporary approaches, financial condition is understood as an integral category rather than a "collection of figures"; the analytical level should therefore conclude with a generalized assessment of the risks and reserves of financial stability [15].

The managerial level encompasses decision-making on the basis of analytical findings: adjustment of financial policy, budgets, credit policy rules, working capital management, investment priorities, financing structure, and risk limits.

Within this logic, financial condition serves as a signal, and the managerial decision represents a "response" that returns the process to the primary level in the form of updated control procedures, regulations, performance benchmarks, and lines of accountability. The described interaction is schematically represented in Fig. 1.

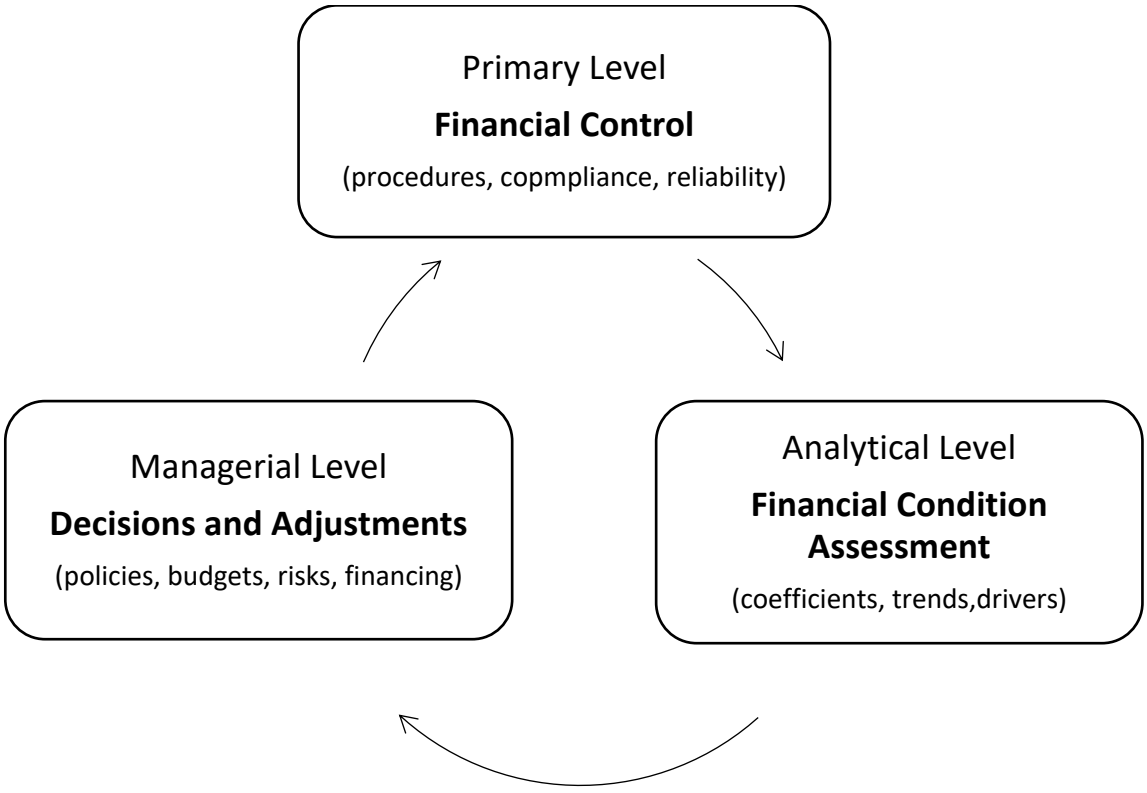


Fig. 1. Three-Level Model of the Interaction Between Financial Control and Financial Condition Assessment

An important element underpinning the operability of the model is its risk-based orientation. The risk-based approach to internal audit planning, the development of which is supported by the Ministry of Finance's methodological guidelines, can serve as a "methodological bridge" between control and financial condition: control resources are directed toward the processes with the greatest potential impact on liquidity, solvency, and financial stability [16].

To illustrate the proposed mechanism, consider a hypothetical manufacturing enterprise that recorded ambiguous dynamics in its key financial indicators during the reporting year (Table 2).

Table 2

Diagnostics of Weak Zones in the Control Environment Based on Financial Condition Indicators of a Hypothetical Enterprise

Indicator	Prior year	Reporting year	Change	Signal per model
Current ratio	1.9	1.2	−0.7	Channel: accounts receivable
Accounts receivable turnover (times)	8.4	5.1	−3.3	Channel: accounts receivable
Return on sales, %	5.8	7.3	+1.5	
Equity ratio	0.61	0.54	−0.07	Channel: capital structure

Source: developed by the author

Note: all data are simulated and refer to a hypothetical enterprise constructed solely for illustrative purposes

Return on sales rose from 5.8% to 7.3%, which at first glance suggests a positive trend. At the same time, the current ratio fell from 1.9 to 1.2, and accounts receivable turnover declined from 8.4 to 5.1 times per year. According to the proposed model, this combination is an indicator of weakness in control procedures specifically within the accounts receivable channel: revenue growth

is being achieved through a relaxation of credit policy — without adequate control over limits and repayment terms — which drains liquidity despite improving profitability. The decline in the equity ratio from 0.61 to 0.54 additionally points to the financing of cash gaps through borrowed resources without control over their structure and targeted use. The managerial response, as prescribed by the three-level model, involves: at the primary level — the introduction of credit limits and monthly monitoring of the accounts receivable register; at the analytical level — factor analysis of the impact of settlement terms on liquidity; at the managerial level — revision of credit policy and limits on short-term borrowing.

The example above illustrates the diagnostic potential of the proposed model: deviations in financial condition indicators serve as the starting point for identifying weak zones in the control environment and determining the appropriate managerial response at the relevant level.

Conclusions and Prospects for Further Research. Financial control and financial condition represent interdependent categories that form a closed management loop: control is designed to ensure the orderliness and reliability of financial processes, while financial condition tends to consolidate their outcomes into a system of indicators and serves as the basis for subsequent managerial decisions. The integration of control and analytical procedures within the three-level model makes it possible to conceptually align the process of generating financial information, its evaluation, and managerial response — consistent with contemporary approaches to internal control and risk-based management. The study has certain limitations: the model has been developed at a theoretical level and requires verification using data from real enterprises. Promising directions for further research include a quantitative assessment of the impact of control procedures on the dynamics of financial stability, adaptation of the model to the specifics of enterprises in different industries, and the development of diagnostic

tools for identifying weak zones in the control environment based on the results of financial analysis.

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