

# Internal control procedures

[Business](#), [Accounting](#)



The internal control system should be designed to detect and prevent fraud, errors and omissions, and material misstatements, but it can only provide reasonable assurance that the financial statements are free from material misstatements. The best designed internal control system will not prevent management override or collusion. The internal controls system is only as good as the management support behind the system; this includes training employees and actively monitoring the controls. Management should be investigated, explained and corrected as appropriate.

Each of these internal control procedures are the responsibility of management. Each control should be evaluated based on risk and a cost/benefit analysis. There are several effective low cost procedures that can be implemented. These control procedures, when operating effectively, will provide reasonable assurance that mistakes will be either prevented or detected. Examples of controls that would have ensured that the prepaid adjustments were made would be to compile a check-list of recurring monthly journal entries, then as part of the financial statement review process, this check-list should be reviewed by management.

At each financial statement date, each balance sheet account is reconciled; this will ensure that each balance is supported. All reconciliations should be reviewed and approved by management. Finally at each financial statement date, flux analysis should be performed by comparing the actual results with both prior period actual and the budget. All variances within a tolerance threshold defined by control procedures are manual processes, which can be implemented with proper staff training. Symptoms of a lack of internal control

include failure of management in exercising proper due care and proper staff supervision.

These symptoms can be identified by missing documentation and identified errors in the account balances; and the lack of a company-wide ethics policy. (Herrera, 2010) Another symptom is that there is an identified lack of segregation of duties; which means that staff members have access and are performing tasks that are in contradiction to the normal assigned duties. We identified that the adjusting entries for prepaid insurance were not recorded for the first 3 months of the year. For the first three months, expenses were understated which means that net income was overstated, also current assets were also overstated.