# Free case study on internal control

Business, Company

LJB Company needs to be cognizant of the Sarbanes Oxley Act provisions which demand for the application of corporate ethics even in the area of internal controls. For that reason, before the company goes public, it must take note of the demands by the Securities and Exchanges Commission in respect of public companies. Additionally, the policies and operating framework of the company must conform to the standards set out by the Sarbanes Oxley Act which in summary demand for sufficient internal controls to be implemented by public entities.

Some of the new internal controls that the company would have to incorporate include the maintenance of proper and sufficient records. Public entities by their nature demand for proper records of each and every transaction. Such information is essential for the purposes of taxation, accountability, among others. In the same vein, the entity needs to consider the practice of corporate governance responsibility. In this approach, the internal control in place must seek to meet the needs of the following three, people, planet and profit.

One right thing observed relates to the use of pre-numbered invoices. This in effect reduces the chances of forgery and creates a state of accountability. Such is an appreciated internal control which addresses the record maintenance principle as well as the internal verification principle. Equally, the intended introduction of the indelible ink machine to print checks is a welcome internal control mechanism. This is because the system would necessarily retain the record of checks released which is the main mode of payment, in turn addressing the principle of record maintenance. In addition, the use of the safe to store the checks during the weekend is welcome. This goes along with the principle of physical controls.

However, despite the concerted efforts to have the company get it right, it is regrettable that some activities are being carried on poorly against the spirit of internal control principles. Foremost, the accountant is multitasking in a way that threatens the independence and internal verification principle. He is the same guy who makes the purchases and similarly makes the payment. In the same context, it is him who makes all payment with the checks system. This approach should be solved by divorcing the payments department from the purchases department. This would create some independence and equally addresses the segregation of duties principle. Secondly, the petty cash is accessible to all employees. This is against the principle of establishment of responsibilities. The company may assume that petty cash is little money and hence not important. However, cumulatively, petty cash amount could determine whether the company makes a loss or a profit. In addition, prudence demands for the efficient use of company resources even if insignificant. It would be necessary to have a cashier specifically responsible for the management of the petty cash as well as records appertaining to use of the organizational petty cash. Thirdly, the computer controls of the company are poor. Interestingly, the company uses a common password for all employees. This is not advisable and should be replaced with a system that gives each employee a unique password. In addition, the company should install filtering software that would not allow access to pornographic sites. Instead, an attempt to access such sites automatically sends a prompt to the network administrator.

In conclusion, I recommend that the company shifts its internal control approach. It must ensure that the principles of segregation of duties, record maintenance, independence and establishment of responsibilities are enshrined and practiced.

# References

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