Discrepancies in corporate world

Business, Management

What are some of the issues plaguing the profession? Not all managers are knowledgeable in finance and accounting and don't fully understand how their decisions impact the financial statement.

Recent illegal events in our corporate system have left the public feeling wary, threatened, and lacking confidence in financial reports issued by managers and executives. A company's internal accounting policies and procedures need to be under constant scrutiny.

Even with today's state-of-the-art technology, much remains to be studied regarding internal controls and their effectiveness.

The prevention of financial statement distortion is an on-going dilemma in the accounting phase of the corporate system. Many reasonable practices and procedures have been suggested, but they have been untested as to its prevention reliability because of the cost involved.

The internal auditor must be aggressive, and the external auditor must be equally aggressive and ethical to reach the goal of an undistorted and accurate financial statement and accompanying documents to substantiate all recorded transactions. Both should assume the role of financial detective.

What conflicts of interest are defined

Conflicts of interest appear in different areas of corporate activity because each level of an organization will perceive their findings from a different perspective.

When internal auditors report to a higher executive in the organization, or directly to the Board of Directors, it's rational to assume their findings will be more accurate and detailed, therefore preventing irregularities.

The auditor's perceived personality in the company can affect how the accuracy of policies and procedures are practiced. An internal auditor who performs in an assertive manner with management and staff increases the probability of fewer inaccuracies and distortions. This pertains to both internal and external auditors.

A highly visible auditor with a strong work ethic can also deter the gathering of incomplete or distorted information. An aggressive external auditor can also request signed documentation from the company president at different levels of the accounting investigation to prevent any rising conflicts.

A greater conflict arises when management will receive a bonus based on Net Income Before Taxes (NIBT) hitting its targeted goal. Adequate data must be submitted in the 'allowance for doubtful collections on notes receivable' account. A distorted write-off in this account can greatly affect the NIBT, therefore guaranteeing an executive bonus.

The internal auditor's perception of the company can alter his reported findings.

The policy pertaining to providing unsecured loans to company executives can also present a conflict of interest situation.