

# The importance of a control system within the business.

[Business](#)



As the owner of Millennium Land Developers, it is your responsibility to ensure that the business has a good internal control system. As they flow through the entire business to:

- Help align objectives of the business: To make sure everything is covered in the reporting procedures and the activities currently undertaken by the business are in line with the objectives of the business.
- Safeguard assets: Makes sure the physical and monetary assets of the business are safe from theft, errors and fraud.
- Prevent and detect fraud and error:

Enabling the internal control system quickly identifies fraud and errors when they occur.

- Allow action to be taken against undesirable performance: A method of dealing with dishonesty or fraud if detected
- Reduce exposure to risks:
- Ensuring proper financial reporting: Maintains complete and accurate financial reporting requirements by management and legislation and minimizing lost time by fixing mistakes and ensuring resources are efficient and mistake free when allocated
- Completeness: That all the required information are included in the business reports. These include transactions and records.
- Accuracy: Making sure that the right amounts are recorded into the correct accounts
- Authorization: Makes sure the correct level of authority deals with approvals, computer access and payments etc.
- Validity: That the documents for the activity performed have incurred the liability
- Existence: Makes sure the existence of an asset or liability has been received. Whether or not a purchase has been received for goods or service.
- Error handling: Makes sure that any errors in the system have been identified and processed
- Segregation of duties: Maintains certain duties are performed by different positions and kept separate.
- Presentation and

disclosure: Ensures the financial reports are in line with regulations and principles. A good system of internal controls will help the business in numerous ways. These - Error Reduction: With a good system of internal controls, it will ensure that mistakes will be minimal and this will save time and money for the business. - Protection for staff: With an internal control system, staff will have the protection of the system to back them up if in any way there is a dispute with an action.

The employee can say that he/she acted in the way noted by the internal control system and acted within their limits resulting in the business not being able to blame the worker. - Detection: A good internal control system will deter future criminals committing a crime against the business such as fraud, as there is a higher chance of being detected and getting caught.

There are four steps in setting up a Internal Control System. Plan- determine what controls are required to run the business. Do- Implement the planned controls

Check- monitor the performance of the controls Act- modify the system to take account failures or changes in circumstances, etc I suggest to start at the low end of procedure these include: - Password access to computers - Balancing ledger accounts To set up a internal control system, you have to identify any events that will impact the business negatively such as loss of sales, computer system failure or a fire. After that, establish the problems that these events will have on the business and attempt to solve them, ( unhappy customers or failure of the business).

After deciding what is required to prevent the occurrence of the event, detect if any event has occurred and to reduce impacts upon the business. The records of these events will be used in case anything like this ever happens and can be identified to act on the situation. As the owner, you have the responsibility and accountability for Bank reconciliation statements enable the business to compare the business bank account records to the bank's records of the accounts balance in order to uncover any possible mistakes.

Because there is a difference between the time data is entered into the bank system and when data is entered in the individual's system, there are sometimes a difference between account balances. The goal of reconciliation is to determine if the difference is due to error rather than timing. I highly recommend to do a bank reconciliation monthly as you can be more confident that your current records are correct and it is easy for your tax agent to prepare the businesses income tax return or activity statements faster. Any extra transactions that go through the accounts can go through unchecked and end up costing the business money.

Such as: Interest charges, bank fees or direct credits or debits. A cash budget is an estimate, for a future period of cash receipts and cash payments. The cash budget shows how in the future you will be able to pay any debts and expenses. A properly prepared cash budget will show how cash flows in and out of the business. It is also used in planning the businesses short term credit needs. Any financial institution will expect you

to prepare a cash budget before making any capital expenses for any purchases of new assets, or any expansion of the business requiring a loan.

For example, a preliminary cash budget will estimate how you will be able to spread the payments to any creditors throughout the year. As a result to this planning, less bank credit will be needed and overall interest costs will be minimized. Any credit-granting firms favor businesses with a budget when a loan is requested. Without proper planning there is a chance that you might not be able to repay loans on schedule and this will incur over due payments. Once you have carefully worked out a cash budget, you will be able to compare it to the cash inflows and out flows of he business.