

## Chapter 4 Internal Control & Cash

- **Lapping** - takes lots of ingenuity
- **Internal Control**
- 1. **Safeguard Assets** - A company must safeguard its assets , otherwise its throwing away resources
- 2. **Encourage Employees to follow company policy** - Everyone in an organization must work toward a common goal
- 3. **Promote Operational efficiency** - You cannot afford tow waste resources , Eliminate waste, and increase your profits
- 4. **Ensure Accurate , Reliable Accounting Records** - Good records are essential. You could be losing money on every product you sell - unless you keep good records for the cost of your products
- 5. **Comply with legal requirements** - Sarbanes-Oxley Act makes companies subject to the law

### SOX Provisions

- Public companies must issue an internal control report, and the outside auditor must evaluate internal controls
- Public Company Accounting Oversight Board oversees the auditors of public companies
- An accounting firm may not both audit a public client and also provide certain consulting services for the same client
- Stiff penalties await violators - 25 years in prison for securities fraud

### The components of Internal Control

- Control Environment
- Risk Assessment
- Control Procedures
- Monitoring of controls
- Information system

- **Control Environment**
- The “tone at the top” of the business, the owner must demonstrate the importance of internal controls if he or she expects employees to take the controls seriously
- **Risk Assessment**
- A company must identify its risks.
- Companies facing difficulties are tempted to falsify the financial statement to make themselves look better than they really are
- **Control Procedures**
- Are the procedures designed to ensure that the business’s goals are achieved
- **Monitoring of Controls**
- Companies hire auditors to monitor their controls .
- Internal auditors monitor company controls to safeguard the company’s assets and external auditors monitor the controls to ensure that the accounting records are accurate.
- **Information System**
- The owner of a business needs accurate information to keep track of assets and measure profits and losses
- The person in charge of writing checks is called the **treasurer**
- The chief accounting officer is called the **controller**
- **Separation of Duties**
- 1. **Separate Operations from accounting** - Accounting should be completely separate from the operating departments , such as production and sales
- 2. **Separate the custody of assets from accounting** - The treasurer of a company should handle cash , and the controller should account for the cash. Neither person should have both jobs
- **Audit** – is an examination of the company’s financial statement and accounting system

- Audits can be either internal or external
- **External auditors** – hired to determine that the company's financial statements agree with generally accepted accounting principals
- **Internal auditors** – employees of the business that ensure that employees are following company policies and operation are running efficiently
- **Documents** – provide the details of business transaction
- **Fidelity Bonds** - the bond is an insurance policy that reimburses the company for any losses due to employee theft
- Mandatory Vacations and job rotation improves internal control
- **E-commerce pitfalls include:**
  - Stolen credit-card numbers
  - Computer viruses and Trojan Horses
  - Phishing expeditions
- **Security Measures**
  - Encryption
  - Firewalls
- **Encryption** – rearranges messages by a mathematical process
- **Firewalls** – limit access into a local network
- **The documents used to control a bank account include the :**
  - Signature card
  - Deposit Ticket
  - Check
  - Bank Statement
  - Bank Reconciliation