

Week 5 - DQ 1

What is the control environment? How does the control environment affect a company's internal controls? What are the negative and positive elements of a control environment? What are two examples of strong and weak internal controls in organizations where you have worked or have first-hand knowledge? How are these different? How would you describe the key internal controls that should be in place to protect cash in a cash rich environment such as a merchandiser? What are the key internal controls that should be in place to protect inventory for a merchandiser that sells highly desirable and very expensive inventory, such as jewelry? Would this be different if the business had a less desirable and less expensive inventory? Explain why or why not.

Response #1

A control environment is the "responsibility of top management to make it clear that the organization values integrity and that unethical activity will not be tolerated" (Kimmel, Weygandt & Kieso, D.E. 2010). A company must adhere to the six principles of internal control activities in order to have a successful control environment. The positive aspects of a control environment are that it "safeguards its assets, enhances the reliability of its accounting records, increases efficiency of operations and ensure compliance with laws and regulations" (Kimmel, Weygandt & Kieso, D.E. 2010). The negative aspect of a control environment is that the opportunity for fraud is always present. At my job we have strong internal control when it comes to segregation of duties and weak internal control when it comes to establishment of responsibility. Even though my job is good about hiring a lot of people to encourage the segregation of duties in certain departments there is what one may call a task list of things to get done. This list may be for five supervisors who work in the same department and all will pass blame why the work was either not completed or done incorrectly. In a cash rich environment there should definitely be segregation of duties, establishment of responsibility, document procedure and independent internal verification. One very key important control for highly expensive inventory is establishment of responsibility. If someone forgets to lock the jewelry case, it would fall on the person whose responsibility that was and possibly make it easier to determine fraud. Less expensive merchandise also requires the same amount of control as expensive items and maybe even more. I say this because highly expensive items tend to be harder to steal anyways than less expensive merchandise

Response #2

The control environment is a structure within your company. It affects many business activities. It would include integrity, ethics and the organizational aspects of the business. Auditors would come into your business and audit the activities that go on within your business. Monitoring all the policies and procedures is one thing to look at.

The auditors will check financial paperwork. They need to make sure everything is honest and accurate. All state legal requirements must be met.

The positive elements of a control environment are the processes you use. It is very important to have strong internal controls. We have financial goals that we must meet. We have to be effective and organized. If you don't have strong control environment you will run into problems so the negatives are pretty powerful. You really don't have a choice for success you have to control this aspect of the business and structure. Evaluating the overall effectiveness will help to see and understand the control environment.

I have been with a company that didn't have any policies and procedures. Everyone just did what they wanted. The company ended up closing since there wasn't any structure no support and no consistency. Then I have been with other companies that followed everything in the book about the company they work for. You would get the support you need and your audits and training would be much easier.

Cash has to be protected many times it will be tied up in inventory. So it is important to analyze