



## **Report on Internal Controls for ABC Company (PSO Fuel Station)**

In most of small businesses where owners become victim of fraud, owners trust one person and handover all of financial transactions to this person. This way, he can control everything and do whatever he wants for his own interest. Studies show that even a very honest and sincere employee can commit fraud if he is not afraid to be caught. Unfortunately the time owners come to know about the fraud, it is already too late.

Working in your organization ABC Company in recent week, I have observed a few serious flaws in internal controls. To overcome such flaws, internal controls are required at system (QuickBooks) level and at operational levels. I have activated many important controls at system level. But to implement at operational level, your cooperation is needed. Your immediate intervention is requested by making the following decision so you do not become victim of fraud that can easily take place in your organization.

1. Mr X should pay bills and update books of accounts only. Require Mr.Y to handle receipts of receivables and follow-up with credit customers for recovery.
2. For daily expenses, petty cash funds must be issued to Mr.X. No cash other than funds of petty cash should be kept in office. All of cash generated from sales or other activities must be deposited in the bank daily. Conduct cash count at day end and also conduct unannounced cash count during the day to ensure that petty cash balance is equal to what is recorded in the books.
3. Limit the petty cash replenishment amount to a total that will require replenishment at least monthly and reconcile the petty cash fund before replenishing it.
4. Require voucher for all petty cash disbursements with the date, amount received, bill (if possible), purpose or use for the funds, and name of the employee receiving the funds listed on the voucher. This voucher will require approval from Mr Y first before disbursement by Mr.X.

5. Require a person (e.g Mr.Y) to arrange cellphone numbers of all the credit customers and make phone calls to them to confirm if they really owe the amount we have in our books. The same practice is to be done for suppliers.
6. Petrol and diesel must be purchased from PSO. In special cases, if purchases are made from any other source, authentic (Pakki) invoice is required for payment and *only Cross Cheque/Payorder/Demand Draft* are issued against such purchases.
7. Require a person to physical measure the stock level in tanks at least weekly to ensure that stock level in QuickBooks and in tanks matches.
8. Require accounting department employees to take vacations one by one. An accountant handling responsibilities of other accountant can identify problematic area in the work of accountant on leaves.
9. Require bank reconciliation to be prepared by the person other than the one making payment (e.g Mr Y).
10. Require monthly independent check of work being done, for example, by a third party.