

**An Appraisal of the Accounting
for Control in an Organization:
A Study on Selected Areas**

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Declaration

I hereby declare that,

1. The project report submitted is my original work while completing a degree at East West University.
2. This report never has been, and never will be reproduced for any other BBA course or any other purpose.
3. This report does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
4. I have acknowledged all of the main sources of help.

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Letter of Transmittal

May 31, 2021

Dr. Anup Chowdhury

Professor, Faculty of Business Administration

Subject: **Submission of Project Report**

Dear Sir,

With due respect, as per the requirements of submitting a project report for completion of the BBA program, I would like to present to you my project report on “**what is the importance of accounting for control in business organization**” That I complete under your instruction. I would like to thank you for giving me the opportunity to work on such a topic for which I have learned so many things and gathered a vast knowledge about “Accounting control system in businesses” of Bangladesh. This project report is part of my BBA program, so it is very important for me. To make this report, I have gathered all the required data, documents from various trustable sources and tried my level best to analyze all the data and documents and put it on my report.

Your acceptance and appreciation are very important and it will inspire me a lot. I have my best endeavor in preparing this report and have the pleasure to submit it. I hope that my endeavor will serve the purpose. The knowledge and experience I gain during the report preparation, it will immeasurably help in my future professional life.

I hope that this report will meet your expectations. I will be obliged if you kindly approved this project report.

Sincerely yours,

Shafi Uddin

2017-1-10-127

Department of Business Administration

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I take this opportunity to convey our sincere thanks & gratitude to all who have directly or indirectly helped and contributed towards the completion of this project report.

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EXECUTIVE SUMMARY

Accounting is very important topic in business. Almost all the businesses follow accounting rules and regulation in order to maintain proper financial transaction. But not all the company maintain accounting controls for their business.

In this report I have discussed about the accounting control tools and procedues. I have also discussed what the advantages of using accounting controls are and what the disadvantages of not using accounting controls are.

There are many businesses in our country which are not keeping proper accounting tools. For that these businesses are getting enough efficiencies. To know further information I have analyzed one organization.

For preparing this project I have gathered information from internet and survey. I have made some queries about accounting control practices in businesses.

I have made some recommendation which will help business owners to understand the importance of accounting control for businesses. If the business owners follow those accounting control tools for their business, it will be very efficient for their business.

CHAPTER 1
INTRODUCTION

1. INTRODUCTION

1.0 Background of the Study

In order to generate and store accounting related information reliably and effectively every organization needs an accounting control system. Thus, the control system depends on the size and nature of an organization. The accounting control refers to the set of procedures, and principals that are responsible for the collection and processing of data to produce information useful to decision makers in planning and monitoring of business regular activities. Primarily, the system deals with financial information and concerned with classifying and recording transactions in a monetary term. Therefore, accounting system for control is mainly concerned with classifying, recording, interpreting and reporting to legal owners so that they can evaluate the performance of the business.

The organization to have better development, an effective accounting system is very crucial which is the topic of the researcher. An effective control system should have appropriate measure of data, standard implementation methods, qualified accounting personnel, updated technologies to control and should comply with General Accepted Accounting Principles (GAAP). This assists in one way or another to achieve the overall objectives of the organization.

So, the organization to be more successful and responsible for their day-to-day activities, the practice of effective accounting control should be considered in a highly position.

1.1 Research Question

“What is the importance of accounting for control in business organization?”

1.2 Objectives of the Study

1.2.1 Broad Objectives

The broad objectives are accounting in controlling an organization.

1.2.2 Specific Objectives

- ❖ Define an accounting control system and describe its implementation.
- ❖ Define internal control.
- ❖ Identify the principles of internal control.
- ❖ Explain the practice of internal control principles to cash receipts.
- ❖ Define computerized accounting.
- ❖ Explain the practice of computerized accounting to the revenue and collection cycle.
- ❖ Journalize and post transactions in a manual accounting system that uses special journals and subsidiary ledgers.

1.3 Justification of the Study

From the sequence of our analysis, it seems that for the increase of efficiency of a firm, the accounting control system can play a vital role not just for the big firms but also for the small and medium enterprise's. It can act as the most cost-effective and worthwhile mediums of providing employment and growing. At present, most of the organizations have computer-based accounting systems and they are continuously trying to develop it through different measures. Among different problems the financing is measured as one of the vital problems. Existing studies about accounting control systems are not adequate. Hence, a detailed study regarding the use of accounting in controlling business is of great importance. This study is an attempt towards this end.

1.4 Methodology of the Study

Both primary and secondary data have been used here in this study for making the report fruitful. As my related topic is more narrative, I have used the primary source as the main source of information.

1.4.1 Study Design

A study design provides guidelines, logical and systematic plans for the detailed study. It specified the objectives of the study. The methodology and techniques to be adopted for

achieving the objectives. It constitutes the blueprint for the collection, measurement and analysis of the data.

1.4.2 Sources of Data

The data used to furnish this report has been collected from the Primary sources & secondary sources.

1.4.3 Secondary Sources

- ✓ Textbooks, Academic journal and professional journal.
- ✓ Internet website.

1.4.4 Data Collection Instrument

Different types of computer software are used for reporting the gathered information from analysis, such as Microsoft Word, Microsoft Excel and Data are analyzed using my own judgment.

1.5 Limitations of the Study

- The study was limited by the availability of the data and the available data also could not be verified.
- In most cases, I did not have much options to furnish data with the verification.
- Some of the supplied information were contradictory to protect the organizational loss.
- In order to collect information, I faced difficulty because of the excessive nature of confidentiality mentioned by the officials.
- Some parts of the report are not in depth for maintaining confidentiality.

CHAPTER 2
REVIEW OF LITERATURE

2. REVIEW OF LITERATURE

2.0 Theoretical Literature Review

Examining the literature concerned with ‘the appraisal of accounting for control in an organization’ conclude the rareness of available studies in this particular area of research. One reason for this is that this area of research is relatively advanced. Also, most of the studies in this field are disclosed on a micro level and linked with consolidated studies from the fields of computer science, and sometimes engineering and are available in the form of reports or descriptive studies, and rarely tentative ones.

Starting with *Buttross & Ackers, (1990)*, directed a theoretical study in which they provided security controls checklist that could be used to help the internal auditors in evaluating computer security. The checklist included 4 security controls categories and these are organizational controls, software controls, hardware controls, and data integrity controls. The following section will be showing the more available studies;

Henry, (1997), took a survey on 261 corporations of United States to identify the nature of their accounting control systems. In his study, there were presented 7 security methods and those were data encryption, data backup, password in access, protection towards viruses and authorization for changes, physical system security and periodic audit. The study results showed that 80.3% of the firm’s backed up with accounting control systems, 74.4% of the firms secure their accounting systems with passwords, of which only 42.7% used antivirus in their systems. The results also mentioned that less than 6% of the companies used data encryption and nearly 45% of firms endured some sort of periodic audit.

Romney & Steinbart, (1999), listed 12 points of general controls to attain controls effectively and these are developing security plans, project development controls, physical access controls, segregation of duties, data storage controls, data transmission controls, logical access controls, documentation standardization, system downtime minimization, protection of security networks, disaster recovery plans (DRP) and internal controls. These provided an

applied justification for each control and detailed the threats that could be averted. Furthermore, *Boockholdt, (1999)*, classified the controls into two main sections and which are;

I. Fixed Responsibilities

- **Network Administration:** Selecting and updating network communication software.
- **Database Administration:** Selecting and updating software, limiting access to data, maintaining efficiency.
- **Personnel Help Center:** Answering the question of users through personal computers by maintaining scheduling maintenance.

II. Contingency Plans

- **Applicants Screening:** Technical knowledge and experience becoming outdated quickly.
- **Information System Management:** Reviewing software acquisition and decision.
- **Standard Configurations:** Approving personnel and their computer those have valid access.

Accordingly, both *Romney & Steinbart, (1999)* and *Boockholdt, (1999)*, have similar ideas but with different classifications related to areas, and again sometimes different for names and terms (e.g., ‘contingency plan’ instead of ‘disaster recovery plan – DRP’).

And this report depends largely on Romney’s categorization, and formulates a detailed procedure list for each category.

CHAPTER 3

DISCUSSION

3. DISCUSSION

3.0 An Overview of Accounting for Controlling

Accounting control system is designed to ensure that all employees perform their task honestly and ethically. It specifically deals with the truthfulness of internal financial information and the correctness of financial reports. The implementation of effective accounting control procedures helps to form a culture of ethical financial management.

I) Control of Cash

The control of cash is one of the most vital features of accounting control system. It allows only a few trusted employees to make cash deposits, and requests these employees to make deposits as soon as possible. The employee needs to keep records of all the deposits, both internal records and bank deposit slips in order to compare them to the bank statement respectively. Firm needs to keep cash in a secure location as well as the cash registers with individual authentication. So that business can know who opened which register and when. So, Approval is mandatory from the prescribed employees for all cash disbursements, accounts payable, payroll and refunds.

II) Separation of Duties and Responsibilities

The business needs to assign separate cash management among various employees from various departments. For example, do not permit the same personnel who makes bank deposits to run the cash register. Again, do not let the same personnel who makes orders to suppliers to sign on cheques towards the suppliers. Ensure that the reporting of cash is spread out enough to avoid any sorts of collusion. So, it can be controlled by providing some to front-line managers, some to mid-level managers and some to upper-level managers.

III) Audits

Sometimes demand for third-party accounting audits to have a look into the financial control systems. Only allow those auditors who have no material connection to the company or

workers. A business firm needs auditors to discover the real financial picture. There is a good chance of a third-party auditor to determine financial mismanagement which can prevent business from experiencing any court cases or financial losses in the near future.

IV) Proper Documentation

Every business requires to make and store duplicates of all cash receipts, invoices, registers, null or void cheques and any further documentation that concerns with transactions. Use these credentials as a trail of paper in case of investigation of losses and in case of dissimilarities between internally generated records and statements of bank.

V) Information Security

The business needs to use software security as well as electronic devices to measure the safety of financial information. Have to keep important data and documents in safe and secure place. To protect financial data and company network hire a network administration team or specialist. Those who do not have physical or electronic access to financial data cannot access, alter, replace, destroy or steal any data or financial information.

3.1 An Overview of BDrental Company



BDrental, a car rent company, will be the most successful company in Bangladesh. It will provide a vast variety of vehicles to individuals, institutions, organizations and to the visitor who comes to visit in Bangladesh. It will be providing comfortable vehicles service to the people of Bangladesh in all provinces. Later they will also be providing vehicles used for special purposes, such as wedding ceremonies, tours etc.

The company started to provide online booking all over the major cities of Dhaka to facilitate its customers. Bdrental has been providing quality car on rent to prestigious companies and government bodies. The motto of the company is to provide best quality services to its customers and their major strengths are;

- 1) **Quality:** Company encounters its specifications and delivers reliable, comfortable and standard vehicles, and maintains quality services. In their collection, they have sedan, SUV, luxury cars and many more.
- 2) **Green Revolution:** BDrental company follows the international going green policies in maintaining its service. Thus, the strategies will be providing a cost saving service for its customers as well as it will bring no harm to country's environment.
- 3) **Online Connectivity:** The company has provided the facilities easy in reservations and booking through online(website) over the major cities of Dhaka-Chittagong.
- 4) **Customized Service:** The company provides customized service i.e. (drop at Agrabad, Chittagong), (return after 2 hours) etc. according to the specifications of the clients.
- 5) **Marketing and Innovations:** The company's marketing strategies and its innovative policies and services attract customers and satisfy their quality standard needs and wants.

3.1.1 Vision Statement

The vision of BDrental is to become the most trusted rent-a-car company of Bangladesh. In their website, they have addressed that "You can rely on our car rent service 100%"

3.1.2 Mission Statement

They will provide a variety of comfortable and cost-efficient vehicles to middle and elite class people of Bangladesh. While working in a highly ethical manner, they will be providing an opportunity of growth to their employees and will be giving value to their shareholders and investors by using funds in most profitable manner.

3.1.3 Memorandum of Association

The following data in this section are collected from company's website.

- ❖ The name of the company is "BDrental rent a car Pvt. Ltd."

- ❖ The office of Bdrental company is situated at 3rd Floor in 38/A, Dhanmondi 9/A, Dhaka 1209.
- ❖ The objective of the company is to provide vehicles on rent on monthly, weekly, and daily basis to individuals, organizations, institutions, and visitors all over Dhaka.
- ❖ The liability of the shareholders is limited up to the nominal value of the shares they have obtained, whether paid-up wholly or not.

3.1.4 Article of Association

The following data in this section are defined based on assumptions.

- **Members:** The proposed members of the company to be registered are 15 members.
- **Votes of the Members:** Every associate of the company will hold one voting right and every participant will get least one vote.
- **Directors:** The name and number of the first directors shall be determined by the writer of the memorandum of association, however, that such number will not in any way be less than as specified in ‘section 174 of company ordinance 1984.’
- **Power of the Directors:** The business shall be managed by the directors, who may exercise all such powers of the company.
- **Chief Executive Officer (CEO):** The CEO will be elected by the directors at such terms, remuneration and conditions as they may find fit.
- **General Meetings:** The annual general meeting will be held every year at the end of the year. The supportive meeting can be called by the directors. The CEO of Bdrental service will be the chairman of the summit. The least members required of the meeting will be 10 members, but the directors have the right to assign any individual as the chairman of the conference.

- ***Procedure at General Meetings:*** Every associate will be providing early notice about the meeting at minimum 12 days prior of the meeting date. The invitation will be consisted of the agenda of the meeting, the time and the place of the meeting and if any other thing is required by the directors.
- ***The Seal:*** The directors shall preserve the seal in the safekeeping. It shall be used as the signature of the company and shall be used on all necessary documents of the company.

3.1.5 Departments of the Company

I) The Department of Accounting

In accounting department, the head would be the Chief Accounting Officer (CAO) and he would be responsible for;

- Forming policies for accounts maintenance,
- Approving the orders (quantities) of purchase,
- Communicating with upper-level management,
- Motivating and maintaining good relationship with subordinates

II) The Department of Finance

In this department head would be the Chief Financial Officer (CFO) and he would be responsible for;

- Arranging and managing the credit policy,
- Finding suitable contracts for getting loans,
- Mobilizing the surplus funds,
- Setting safety stock or margin on inventories,
- Providing payments and clearing debts in time.

III) The Department of Sales and Marketing

In this department, the head would be the Marketing Manager and he would be responsible for;

- **Market Research:** refers to identify the changes in needs and in demands of the present and potential customers.
- **New Products Development:** identifies the needs and acts according the Industry.
- **Advertisement of Products:** refers giving a know-how to the customers about existed and new products and services.
- **Setting Price:** is in accordance with the industry's needs and wants.

3.2 Internal Control System of BDrental Co.

3.2.1 Internal Controls

Internal controls' policies and procedures are the guidelines which is followed by businesses in order to get protection from internal threats; such as misuse of funds. A proper internal control help and protect business firms by;

- ✓ Identifying fraudulent, thefts, and errors,
- ✓ Reducing the misuse or waste of assets,
- ✓ Diminishing the possibilities of misstatement of the financial statements,
- ✓ Providing effective and efficient operations, as well as,
- ✓ Keeping a sound and reputable position.

3.2.2 Internal Controls' Components

Internal controls use the following five components; and these are; *(I)* Control Environment, *(II)* Information and Communication, *(III)* Risk Assessments, *(IV)* Control Activities, *(V)* Monitoring.

3.2.3 Components of Internal Controls for BDrental

Now, Let's design and apply these five components for 'BDrental' company.

3.2.3.1 Control over Environment

The control over BDrental's work environment should be ethical and the decision should only be coming from top level management to bottom. The board of directors would give proper direction and that would get applied by the personnel in their assigned duties and responsibilities.

However, all the employees of Bdrental would be accountable for their actions and have to give justification of any misdeeds.

3.2.3.2 Information and Communication Control

It is basically related to the flow of information about the internal controls. The board of directors would form necessary plans and procedures to guide BDrental company and regulate its system. The CEO would be responsible for controlling all activities and have to perform leadership and direction towards senior management. However, the responsibilities of senior management would be realizing internal controls' policies and procedures. Accordingly, the responsibilities of mid-level management and first line employees are to applying internal controls.

Again, Taking the control of the flow of information and accuracy of the transaction. The BDrental organization will record day to day transactions on correct amounts, proper classification, specific accounting periods and financial statements.

3.2.3.3 Assessments of Risk

The assessment of risk is related to the identification and management of risks. The most common risks related to protecting the BDrental's assets and preventing misstatement of the organization's financial statements. These risks occur when the business starts to grow, hires new employees, introduces new services and activities.

3.2.3.4 Control of Activities

It includes the actions BDrental company will apply to deal with the business uncertainties.

- Make the insurance of cars.
- Use the GPS system.
- The company will protect their assets (vehicles) from loss or unauthorized use by executing controls to minimize opportunities for the employees or others to misuse them.
- The management would do accurate financial reporting of the organizational activities.

- So, for solving this, we'll reconcile the bank statements from time to time, remove variances, review reports and most important is to compare physical inventory (tires, materials, tools, office equipment inventory) with the accounting records.

3.2.3.5 Control and Monitor

Monitoring internal controls is a process that assesses the quality of the BDrental's service over time. Also, still some duties (management related) can't be completely separated (as we have low employee strength initially).

3.3 Responsibilities of Internal Control

The responsibility of internal control is the general concern towards all members of organization. The following three sets are describing responsibilities relating to internal control structure.

- ✓ The management holds absolute responsibility for forming and continuing an effective internal control structure through leadership. For example, management establishes ethical behavior and integrity within the organization.
- ✓ The board of directors deliver guidance to management as they have a working knowledge of the company's functions. They help and protect the company from managers who desire to override some control procedures for dishonest purposes. An efficient board often discovers fraudulent who has access to the internal auditors of the company.
- ✓ Auditors inside the organization evaluate the effectiveness of the internal control structure and identify whether the company's policies and procedures are being followed. The employees are the vital part of communication network which allows an internal control structure to work effectively.

CHAPTER 4
AN INSIGHT INTO ACCOUNTING CONTROLS

4. AN INSIGHT INTO ACCOUNTING CONTROLS

4.0 Concept of Accounting System

4.0.1 The Accounting System

Accounting system is an irreplaceable tool in business decision making process and every company uses accounting system. It is generally accepted so companies have to reveal financial and management information to the economic users. Account is an important part of every company; thus, businesses are required to keep proper books of section (section 123 of the company's code (1963), Act 179).

“Accounting can be split into two basic categories: those which apply manual accounting and those which prefer computerized accounting system.” (Max Weber, 2010)

4.0.2 Importance of Accounting System

The accounting system plays a significant role in both big and small businesses. It helps the business holders, managers, investors and stakeholders to know the performance and position of their business. Accounting provides vital information of business such as, cost and earning, profit and losses, assets and liabilities, etc. By the use of accounting system, a business can gather data and make reports that will also be helping in taking crucial decisions.

Furthermore, this accounting system helps businesses to keep records of their inventory, so that business can know how much product were sold and how much leftovers in the inventory as well as when to make order. So, the accounting system protects business from the fraudulent activities and keeps record of everything business transaction.

4.0.3 Purpose of Accounting System

Accounting system is also stated as language of every business. It is used for decision making and provides data towards different users. The main purposes of accounting are;

❖ *Record of Transaction*

The most first and foremost role of accounting system is keeping records of transaction. Business owners can look into this record whenever required. So, by using accounting system a business can record all the financial data and transactions accurately and systematically.

❖ *Business Performance*

To know the current performance and position, business can take help of accounting system. By using this system, business can make financial reports of a certain period of time. Hence, the business can also compare their current business reports to their previous year's report and by this comparison they can understand whether they need improvement and where they lack behind. Again, the business can also compare its business performance with their competitive rivalries.

❖ *Controls*

Accounting controls are the measures and controls implemented by a business that leads to increased efficiency and compliance across the business and confirms that financial statements are correct when presented. So, By the use of accounting controls and its system the chances of thefts, fraudulent, errors, and misstatement is reduced at its best.

❖ *Planning and Budgeting*

The business owners' need to allocate their business resources such as surplus cash in more profitable projects. Here, the use of accounting system helps business to find out the most suitable project for making investment. By using AS, business can find out which of their business division is performing well and which one is not currently performing up to the mark. So, that business can take necessary adjustments by allocating less investments towards those projects. Henceforth, if a business' particular product is deteriorating due to lack of promotions,

then the business can allocate necessary budgets for assessing the marketing campaign of that particular department or product.

❖ *Funding and Financing*

Sometimes the business seeks for capital and starts looking into different financial institutions. These financial institutes ask businesses about their profile such as, financial reports and ratios in order to know their capacities and capabilities.

❖ *Legal Requirements*

Every business is formed and act according well-established laws. In this case there is also some legalisations which are to maintain disciplined, accurate and error-free records of financial transactions of businesses.

4.1 Accounting Information System

For increasing the efficiency of accounting system, it should be viewed as a system which is consisted of three phases mentioned respectively;

- 1) Inputs that include accounting data through documents,
- 2) Electronic operation and
- 3) Outputs which are the information and the accounting results

Romney and Steinbart, (1999), Al Meleji, (2003), Seif and Qasim, (2011), define accounting is an information system using unit operations to generate the appropriate information. That information includes data collection (data recording), maintaining data storage and preparing of quantitative information as information generation. From the above concept, it is clear that accounting information system (AIS) is a structure that a business uses to collect, store, manage, process, retrieve and report its financial data so that it can be used by any interested parties for decision making through different main parts such as people, procedures and instructions, data, software, information technology infrastructure and internal controls.

In short, the accounting information system is a process in which financial information are collected, processed and summarized into financial statements (Balance sheet, profit and loss accounts, and cash flow statement) and reports.

4.2 Concepts of Accounting Control

4.2.1 The Accounting Control

Accounting Controls are the sets actions and procedures adopted by business which ensures increase efficiency and compliance across the business and confirms that financial statements are accurate when presented to auditors, bankers, investors, and other stakeholders.

So, Accounting controls are the procedures and the guidance which are applied by an entity for the assurance, validity and accuracy of the financial statements. But these accounting controls are useful for compliance and as a safety measure for the company and not to comply with the laws, rules and the regulations.

4.2.2 Types of Accounting Controls

There are three major accounting controls; and those are;

1. Detective Controls

Detective controls intended to find out any current practices that don't align with the policies and procedures in place. The goal here is to seek out any areas that are not working as they ought to, if employees are accidentally or purposefully practicing inappropriate or illegal actions, or detecting any errors in systems or accounting practices. As Examples, the controls would include inventory checks and internal audits.

So, the detective controls are applied irregularly and are more of audit nature to identify errors or discrepancies.

2. Preventive Controls

In doing business, the preventive controls are put in place to avoid any inaccuracies or incorrect practices. These are the policies and procedures that all personnel must abide. As

example, preventive control would be limiting management's participation in the preparation of financial statements.

So, the controls are applied daily within the organization to stop the errors or discrepancies for happening in the first place.

3. Corrective Controls

Corrective controls are put in place to correct faults which are found through detective controls. These can also include solving any issues made on the audit process which has been finished by an accountant. For example, in journal, the bookkeeper has debited Mr. Tonoï instead of Mr. Robin for \$800. later, this error was recognized and the modification entry is to debit Mr. Robin and credit Mr. Tonoï, each by the same amount.

So, Corrective controls that come to rescue when both preventive and detective controls have failed to prevent a mistake.

4.2.3 Advantages of Accounting Controls

Followings are some of the advantages of accounting controls.

- ✓ Accuracy of financial statements and funds application,
- ✓ Efficient use of the resources for the intended purpose,
- ✓ Identification and rectification of any discrepancy identified,
- ✓ Helpful in audit facilitation,
- ✓ Saving of cost and resources,
- ✓ A strong foundation for a more significant growth.

4.2.4 Disadvantages of Accounting Controls

Followings are some of the disadvantages of accounting controls.

- ✓ The high cost of maintaining controls and standards,
- ✓ Sometimes irritating and time-consuming for employees,
- ✓ Duplication of work,

- ✓ Overdependent for financial statements and audit.

4.3 Concept of Financial Controls

4.3.1 The Financial Control

The financial control is all about proper utilization of the financial resources and it is based on the different law and regulation as well as organization policies in order to avoid misuse and misappropriation of resources.

On the other hand, a work of Anfayo, A. M. D. (1994) defined that financial control is “a process of assuring that cash is used properly and for authorized programmers, i.e., involves observation and measurement by comparing actual performance against the planned and correcting variances”.

So, Financial control is defined as “the process of ensuring that cash and other financial resources of government are in accordance with the legislation, regulation and accounting manual which constitute legal and administrative framework of a particular entity”. (Buhari, Badara, 2012)

4.3.2 Financial Controls’ Procedures

To manage the risk of failure of financial operation processing, both manual and automated control procedures are realized at key stages of the following process;

- Review and Approval on initiating transaction
 - Review and approval of purchase requisition,
 - Review and approval of expenditure reimbursement,
 - Review and approval on transfer of cash or expense,
 - Review and acceptance of contract or sponsor,
 - Review and approval of using financial information.
- Verification of Asset receipt
 - Review and certification of receiving receipt

- Review of post transaction
 - Review of transactions appearing in the general ledger,
 - Review of monthly purchasing card's transaction,
 - Review of payroll and distribution reports,
 - Review and certification of financial data or information edited (doubt of transaction) or omit (error of report).
- Reconciliation of balance
 - Monthly reconciliation of summarized ledger balance to debtor account's balance,
 - Monthly or quarterly reconciliation of petty cash account.
- Analysis of balance
 - Review of unusual fluctuation of entertainment allowance and expenditure,
 - Analysis of difference of material budget to actual expense.
- Security access
 - Require of password in accessing information
- Development of security plans
- Protection of client/server networks
- Segregation of duties
- Project development controls
- Physical access controls
- Logical access controls.
- Data storage controls.

- Data transmission controls
- Standardizing documents
- Minimizing system interruption

4.4 Integrated Financial Management System

Integrated Financial Management system (IFMIS) provides an integrated computerized financial package to increase efficiency and transparency of public resource management by automating the budget management and accounting system for the government.

IFMIS has become a core component of business to promote financial reforms, to promote efficiency, security of data management and comprehensive financial reporting (Boockhol, 1999).

The integrated financial management system ensures that all users across the board adhere to common standards, guidelines and procedures which leads to reduced corruption and improved public finance management (PFM).

4.5 Concept of Computerized Accounting Controls

4.5.1 The Computerized Accounting System

The computerized accounting system is an accounting information system that processes the financial transactions and events as per Generally Accepted Accounting Principles (GAAP) to produce reports as per user requirements.

Every computerized accounting system, manual or automated, has two aspects;

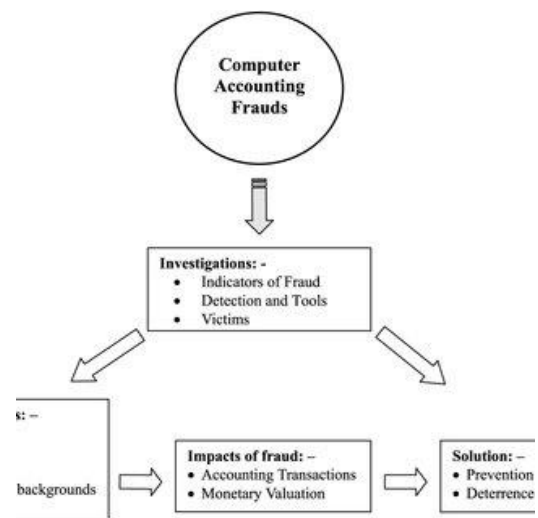
- 1) First is that, it has to work under a set of well-defined concepts called accounting principles.
- 2) Second is that, it has to follow a user defined framework for maintenance of records and generation of reports.

So, the computerized accounting system exists when one or more computers are involved in the processing of financial information, including quantitative control of data, whether those computers are operated by the entity (audit) or by a third party (audit).

4.5.2 Computerized Accounting Controls

Computerized accounting is an integrated highly applicable control that can process business and operation with its performance enhancing features which incorporates accounting, inventory, reporting and statutory processes. The computerized accounting system controls a board area of business and those are;

- Inventory control
- Production planning
- Budgeting and Variance analysis
- Plant capacity utilization
- Quality control
- Market research
- Purchase accounting
- Sales accounting
- Payroll accounting
- Information management, etc.



4.5.3 Features of Computerized Accounting

The computerized accounting applied working environment will have the following noticeable benefits;

❖ Fast, Simple, Powerful and Integrated

The computerized accounting is designed to automate and integrate all the operations of business, e.g., purchase, sales, finance, manufacturing and inventory.

❖ Complete, Visibility and Scalability

The Business will get greater visibility in regular business operations and complete access onto important information. Computerized accounting can adapt the present and future needs of the business, irrespective of size or structure.

❖ **Customized and User-friendly**

The computerized accounting allows the company to access the data in many ways which makes work a pleasure. According to the need of the business a software can be tailored.

4.5.4 Advantages of Computerized Accounting System

- ✓ Accuracy
- ✓ Flexibility
- ✓ Speeding up the process
- ✓ Reduced error
- ✓ Easy access
- ✓ Scalable
- ✓ Automation of ledger posting to trial balance, subsidiary ledger
- ✓ Eliminating duplication of work
- ✓ Immediate availability of information
- ✓ Better quality of work, clean and neat
- ✓ Improved efficiency
- ✓ Minimization of frauds

4.5.5 Limitations of Computerized Accounting System

- ✓ Security breach, hacking
- ✓ Increases unemployment
- ✓ High cost in maintenance
- ✓ Requires performing skills
- ✓ Frequent update and interruption

4.5.6 The Prepackaged Accounting Software

The prepackaged software are generic accounting systems purchased from the market rather than developed in-houses such as: tally software (ERP), spreadsheet package (MS Excel). These software are easy to use, relatively inexpensive and readily available. The installation

process is very simple and the vendor provides regular updates. The network version is generally available which works on client-server architecture. It is provided with manual guide and proceeding instruction on how to run the software.

CHAPTER 5
AUDIT & ACCOUNTING CONTROL

5 AUDIT & ACCOUNTING CONTROL

5.0 Audit/ Audit System

The audit term generally is referred to financial statement audit. The objective of a financial audit is to examining and evaluating the financial statements of an organization to ensure the financial records are a fair and accurate representation of the transactions they required to represent. Audit can be directed internally by employees of the firm or externally by an outside Certified Public Accountant (CPA) firm.

5.1 Types of Audits

5.1.1 External Audits

An external audit is an assessment that is led by an independent accountant. It is most frequently projected to result in a certification of the financial statements of an entity. This certification is required by certain investors and debtors, and for all publicly-held businesses.

External audit control follows a group of standards which are different from the company or groups' signing them to do the job. There are other types of external audits that may be targeted at certain issues regarding a client's accounting records, for example an examination that occurs for identifying the existence of fraud.

So, External audits consist of a evaluation of both financial statements and a company's internal controls.

Benefits of External Audits

- The correctness and completeness of accounting records of the client;
- Whether the client's accounting records have been arranged in accordance with the applicable and appropriate accounting framework; and
- Whether the client's financial statements show fair results of its financial position.

5.1.2 Internal Audits

An internal audit is an independent, objective oriented and referred activity conducted to bring values and improvements in an organization's operations. It helps a business entity to achieve its purposes by using a disciplined, systematic process to estimate and increase the effectiveness of managing uncertainties, controlling, and governing developments.

The purpose of an internal audit is to make sure compliance with laws and regulations and to provide maintaining accurate and timely financial reporting and information collection. It also delivers a service to management by recognizing flaws in internal control or financial reporting prior to its evaluation by external auditors.

So, Internal audits assist as a managerial tool to improve and protect organizational value by ensuring an independent and impartial assessment of operational efficiencies and controls.

Benefits of Internal Audits

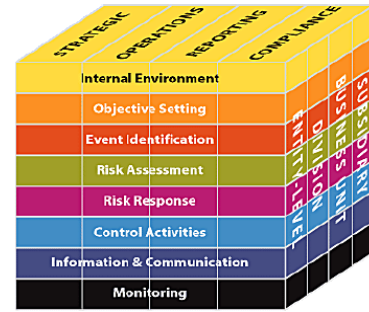
- Offers a substance for positive change.
- Offers resolutions to improve efficiency.
- Identifies and communicates risk exposure.
- Provides cost effective management advisory services.

5.2 Audit Controls

The internal audit control affects the constitutional structure of an organization in several ways and at different levels of aggregation. In an organization, all the employees have responsibility for internal control to some extent. Almost all the employees collect information which are used in the internal control or shared to other activities needed to effect control. Also, all workers should be responsible for cooperating rising problems in operations, noncompliance with the code of conduct, or other policy obligations or illegal activities.

5.2.1 COSO

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a voluntary private-sector organization, recognized in the United States, devoted to providing guidance to executive management and governance entities on critical aspects of organizational governance, internal control, business ethics, risk management, fraudulent, and financial reporting.



COSO has represented a common internal control model against which companies and organizations may measure their control systems. The COSO framework includes various key concepts:

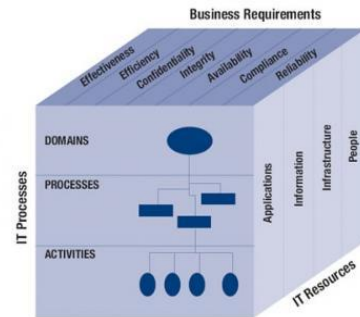
- ✓ Internal control is a process and a measure to end, not an end in itself.
- ✓ Internal control is affected by people. It's not just a policy, guidelines, and methods, but people at every level all over organization.
- ✓ Internal control can be anticipated to deliver only reasonable assurance, not absolute assurance, to an entity's management and board.
- ✓ It is geared to the attainment of objectives in one or more distinct but overlapping categories.

So, the COSO framework defines internal control as a process, affected by an entity's board of directors, management, and other personnel, considered to provide "reasonable assurance" regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of organizational operations
- Compliance with applicable laws and regulations
- Reliability and fairness of financial reporting

5.2.2 COBIT

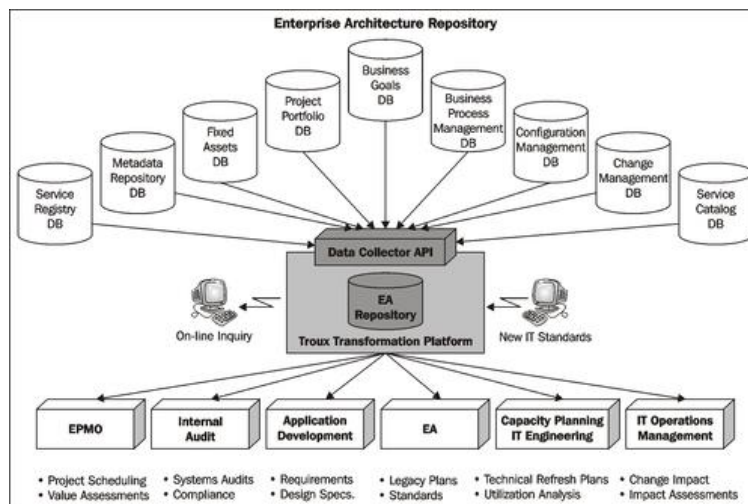
Control Objectives for Information and related Technology (COBIT) is a progressive globally recognized set of guidance constituents for information and technology governance planned to assist in the operation of effective information and technology governance throughout an organization.



For a successful business delivering information and technology resources against business requirements, the management should place an internal control system or control framework in place. The COBIT control framework contributes to these needs by:

- ✓ Creating a link to business requirements
- ✓ Delivering a set of business processes for the management of resources
- ✓ Detecting the major IT resources to be leveraged - These are displayed in an Enterprise Architecture repository.
- ✓ Defining the management control objectives to be considered for each process

The COBIT Version 4.1, is much more aligned to Enterprise Architecture than earlier versions. In the COBIT Cube diagram above, the IT resources are the same as the (current state and future state) Enterprise Architecture model.



5.2.3 Separation of Duties

Segregation of duties confirms separation of different activities and labels authority and responsibility over transactions. Segregation of duties reduces the risk of both inaccuracy and inappropriacy of actions.

The important foundation of segregated duties is that an employee would not be in a position to initiate, approve, and review the same action. As well, the reporting of accounting or the balance reconciling function, and the asset (e.g., money, inventory) management function should be distinct among individuals. If these duties are performed by the same individual then are called as incompatible duties.

5.3 Audit Procedure

The audit procedure has four stages, each one of these are requiring the participation of audit clients.

- Firstly, during the planning the auditor work with the client to understand and learn about the business areas so that can evaluate the processes and controls presenting in different places.
- Secondly, the fieldwork is consisted of specific testing scenarios or certain steps to detect and classify areas need for improvement.
- Thirdly, the announcement of the results takes place through a transparent reporting process, and
- Lastly, the follow-up, is where the auditors come back to the client after a determined period of time to reconsider the progress made against the agreed upon management action plans.

Client Involvement

The most important items needed from the client for a successful audit are assistance and good communication with the auditor. Followings are some specific examples of what the client can do to facilitate the audit process:

- ✓ Establish and maintain required controls;
- ✓ Share your concerns with the auditor;

- ✓ Schedule personnel for audit activities such as interviews, observation, or walkthroughs.
- ✓ Be proactive, monitor and report progress of your corrective actions to the auditor.
- ✓ Make the pertinent data, records, and technology resources available to the auditor(s);
- ✓ Review preliminary findings and provide written responses regarding corrective actions and specified time frames;
- ✓ Review the audit objectives and scope presented for your area, and ask questions if you don't understand why certain activities have been included or excluded;

CHAPTER 6
RECOMMENDATION & CONCLUSION

6. RECOMMENDATION & CONCLUSION

6.0 Findings

Risk Assessment Procedures & Audit Techniques

The risk assessments methods are characterized by the application of control and audit procedures using the computer as an audit tool. These are known as CAATs and are normally placed in many areas of business organization;

➤ Audit Software

Computer application programs are developed, modified and performed by the auditor to interrogate a client's computer files for efficient testing. These are further categorized into:

- I. ***Package Application Programs:*** These used applications are pre-prepared programs designed for which the auditor will specify comprehensive requirements. These programs are performed on various kinds of computer systems. So, the auditor will be performing data processing functions which includes reading computer files, accessing financial information and performing calculations.
- II. ***Purpose-Written Programs:*** These programs are performed on certain functions based on the auditor's preferences. The auditor may have less or no scope but to have this software developed. They cannot be adapted to the client's system which can bring higher cost.
- III. ***Enquiry programs:*** These are the programs adapted for audit purposes and often used to group and print data e.g., accounting software which may have search facilities on some modules, or that could be used for audit purposes such as searching for all customers with credit balances or all inventory items exceeding a specified value.

By using this audit software, auditor can examine large volumes of data and bring results that can then be investigated more. The software consists of program logic needed to perform most of the functions essential in case of an audit, such as:

- ✓ Sample collection;
- ✓ Reporting items;
- ✓ Comparison between files;
- ✓ Analyzing, summarizing and classifying data.

➤ **Data Testing**

It is consisted of techniques used in directing control procedures by accessing data as a sample of transactions and activities and comparing the results attained with predefined results. However, the main objective is to test the operation of application controls. In this respect it is ideal to form the dummy data to be processed, a fact that might take in many error conditions, in order to ensure that the client's application controls can identify particular problems.

The errors that might get occurred;

- Supplier account codes that do not exist;
- Sales invoices that contain addition errors;
- Employees earning in excess of a certain limit;
- Submitting data with incorrect batch control totals. The data without errors will also be included to ensure that the 'correct' transactions are properly processed.

The data assessment can be executed 'live', during the client's regular production run, but the main difficulty with this activity is indicated by the risk of corrupting the client's main files. In order to prevent this risk, it is necessary to run an integrated facility test. But it is better to perform a distinct run outside regular operation and processing or using copies of the client's main files. In this case, the risk of corrupting the client's files is prevented, however the level of assurance is not guaranteed.

➤ **Other Methods**

There is a growing number of other methods that can be used. The main ones are:

I. Integrated Trial Capacity

In this trail method data assessments were executed first on the dummy records, such as departments or customer accounts to which the dummy data can be processed. These can then be ignored when the client records are reproduced, and reversed out later.

II. Embedded Audit Monitor

It practices auditor's own programs which are embedded into the client's application software. The embedded code is planned to accomplish audit functions and able to turn on at designated times or applied each time the application program is initiated. Embedded facilities are used in order to collect and store information relating to transactions at the time of processing audit review. The designated transactions are reported to audit files for following inspection, often called as system control.

6.1 Recommendation

Impact of Accounting System on the Business Control

The fact that most of the organization are using computer-based accounting system does not alter the key stages of the review process. This explains why references to the computer-based systems have been included into the following:

(i) Planning

It represents one of the characteristics of the review and control process that needs to be considered in developing the overall strategy.

(ii) Risk Assessment

The application allows to identify the information system as one of the five components of internal control. It is compulsory to have an understanding of the information system, including the procedures within both IT and manual systems. In other words, if the business relies on internal control in assessing risk at an assertion level, it is necessary to understand and trial the controls, whether these are manual or automated.

(iii) Testing

This stage is very important regardless of the accounting system (any other internal reporting system); therefore, it is useful to design the compliance and substantive tests that reflect the strengths and weaknesses of the system. When testing a computer information system, it is likely to use a mix of manual and computer-assisted review and monitoring tests. 'Round the machine' vs. 'through the machine' approaches to testing.

6.2 Conclusion

Now a days it is very easy to keep records of financial transactions. Business owners don't have to write it down on paper to keep the financial records. They can just download accounting software in computer for their business. If someone doesn't have computer, they can easily download mobile application on their smartphone and easily record all financial information.

There is several accounting software for the computer and smartphone. Some of the business owners have already started using the software where they are easily monitoring their profit and loss account with these applications. The application also shows how much account's receivables do business have and how much account's payables do the business have. These applications keep record of inventory, when to reorder, whom to pay, from whom to getting paid and many more all this information will assist business to organize and grow more.

In the end, I will highly recommend to all business holders to adopt the accounting systems to record their daily financial transactions and accounting controls to monitor them properly. The accounting and its control will help business to make any important decision and to operate their business efficiently.

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