

Unit-2

Internal Control

What is Internal Control?

The control is a continuous process. It is a part of the routine in all types of organisations whether small or big. The word 'control' itself is disliked by one and all, nobody likes to be controlled by others no matter how small or big employee he may be.

- ❖ Changes in conditions may affect the effectiveness of internal control system.

Definition

The whole system of control, financial and otherwise, established by the management in order to carry on the business of the enterprises in an orderly and efficient manner, ensure adherence to management policies, safe-guard the assets and secure as far as possible the completeness and accuracy of the records.

Internal Control comprises of the plan of the organization and all the co-ordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data to promote operational efficiency and to encourage adherence to prescribed managerial policies.

- ❖ Internal Control can be defined as a system designed, introduced and maintained by the company's management and top-level executives, to provide a substantial degree of assurance in achieving business objective, while complying with the policies and laws, safeguarding the assets, maintaining efficiency and effectiveness in regular operations and reliability of financial statements.
- ❖ The internal control structure of a company consists of the policies and procedures established to provide reasonable assurance that specific entity objectives will be achieved.
- ❖ **American Institute of Certified Public Accountants (AICPA) says;**
The plan of organization and all of the coordinate methods and measures adopted within a business safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to preserved managerial policies.
- ❖ In small business organizations, generally, the owner-manager controls the total activities of his business by his personal supervision and direct participation.

For example;

- ❖ The owner generally purchases required business materials and other properties.
- ❖ He himself gives the appointment of employees, completes the contract with them through discussion and also keeps constant watch over their activities.
- ❖ He himself signs cheques for payments in different heads.
- ❖ Since he signs all the cheques, he can easily have an idea of what commodities, assets, and services he is signing for.
- ❖ But with the expansion of business, the appointment of additional employees and officers is needed and the scope of business also widens.

Objectives of Internal Control

- ❖ To ensure that the business transactions take place as per the general and specific authorisation of the management.
- ❖ To make sure that there is a sequential and systematic recording of every transaction, with the accurate amount in their respective account and in the accounting period in which they take place. It confirms that the financial statement fulfils the relevant statutory requirements.
- ❖ To provide security to the company's assets from unauthorised use. For this purpose, physical security systems are used to provide protection such as security guards, anti-theft devices, surveillance cameras, etc.
- ❖ To compare the assets in the record with that of the existing ones at regular intervals and report to the charged with governance (TCWG), in case any difference is found.
- ❖ To evaluate the system of accounting for complete authorisation of the transactions.
- ❖ To review the working of the organization and the loopholes in the operations and take necessary steps for its correction.
- ❖ To ensure there is the optimum utilization of the firm's resources, i.e. men, material, machine and money.
- ❖ To find out whether the financial statements are in alignment with the accounting concepts and principles.
- ❖ An ideal internal control system of an organization is one that ensures best possible utilization of the resources, and that too for the intended use and helps to mitigate the risk involved in it concerning the wastage of organization's funds and other resources.

Purpose of Internal Control

Let us now understand the purpose of Internal Control from different points of view.

From Auditor's Point of View

It is very important from the Auditor's point of view to study and evaluate the system of internal control. To obtain an adequate understanding of the internal control system, that must be tested. The Auditor has to determine whether audit is possible, if yes, then he should determine the scope of audit.

From Client's Point of View

- ❖ Internal control system provides reliable and accurate data that is necessary for decision making and to run business activity efficiently.
- ❖ Adequate internal control system safeguard business assets, in absence of it, assets of the company may be stolen, misused or accidentally destroyed.
- ❖ Internal control system within organization is necessary to discourage and stop non performing business activities and to protect business from wastage in all aspects of the business.
- ❖ Internal control system insures that rules and procedures are to be followed by business personnel.

Why Internal Control Becomes Essential

- ❖ The internal control system differs from one business organization to another depending on the nature and size of the business.
- ❖ To achieve the objective of a business proper execution of business activities in the light of prevailing laws and socio-economic conditions of the country is called an internal control system or structure.
- ❖ The internal control system is introduced to avoid errors and frauds and for systematic control of business activities.

Scope of Internal Control

Following are the main areas which are generally covered by a good internal control system –

- ❖ **Cash** – Here, internal control is applied over payments and receipts of an organization. This is to safeguard from misappropriation of cash.
- ❖ **Control over Sale and Purchase** – With proper and efficient control system for transactions regarding purchase and sale of material, handling of material and accounting for the same is must.
- ❖ **Financial Control** – It deals with the efficient system of accounting, recording and supervision.
- ❖ **Employee's Remuneration** – Internal control system is applied to preparation and maintenance of records of employees and the payment methods also. It is also necessary to safeguard against misappropriation of cash.
- ❖ **Capital Expenditure** – Internal control system ensures the proper sanction of capital expenditure and also the use of it for the purpose intended.
- ❖ **Inventory Control** – It covers the proper handling of inventory, minimization of slow moving items or dead stock, proper valuation of stock, recording of it, etc.
- ❖ **Control over Investments** – internal control system is applied to the proper recording of transactions be it purchases, additions, sale or redemption, income on investments, profit or loss on investment.

Characteristics of Internal Control

- ❖ **Experienced, Qualified and Trustworthy Personnel**
The personnel should be well qualified, experienced and trustworthy and this helps in providing better services than competitors. This also ensures in having a better internal control on pilferages.
- ❖ **Division of Duty**
The duties are segregated to improve the efficiency, quality and for controlling the pilferage.
- ❖ **Leadership**
Board of Directors, General Manager and other managers and supervisors must lead the person by communicating the policies of the hotel to one and all and encourage the person to have the best output and control.
- ❖ **Organisational Structure**
The chain of hotels or hotel as the case may be must have a clear organisational structure and the personnel must know from whom to take orders and whom to report.

❖ **Sound Practice**

These are policy measures generally set up and implemented by the board of directors and other senior executives in order to create an environment which facilitates internal control.

❖ **Authorise Personnel**

The management must authorise clearly the personnel for taking the certain decision. For example a person should be authorised to extend the discount, cancel a bill, extend complimentary food/room, etc.

❖ **Records**

The records must be maintained to ensure internal control. The records like guest registration cards, bills, K.O.T's, control sheets, etc. Are not only maintained, checked, verified but are also stored for future references.

❖ **Manual Procedures**

Each job should be reduced to writing. Log books must be maintained in each department. The manual procedures should list the details of each position including how and when to perform each task.

❖ **Control**

Control includes security services and measures for protecting assets, stores, guest's valuables, etc. The security services, as far as possible, must be hired from professionals.

❖ **Budget**

The Budgets like short-term, long-term, specific budgets, etc. Must be made for sale, cost, production etc. The budgets must be achievable but not achievable so easily. The goals of the hotel must be clearly mentioned and the goals must be made not only for sale, cost etc. but must also be made for controlling pilferages.

❖ **Reports**

For each job reports, must be made and circulated among the executives of the hotel for information and control.

❖ **Independent Checks**

The personnel responsible for performing the jobs should not be asked for the internal checks but internal checks must be performed by different personnel either from the permanent personnel employed in the hotel or sometimes maybe hired from outside.

Internal Control and Auditor

An Auditor should ensure that certain rules and procedures are followed by the business unit he is working on, in spite of the fact that a sound system of internal

control is as sole responsibility of the management. The Auditor can simply guide or help the management if he is asked to do so, because he has no authority to prescribe such rules and procedures. The degree of reliance on the system depends upon the effectiveness of internal control system; therefore, the Auditor should review and evaluate the internal control system of an organization to prepare his audit Program.

Review of Internal Control System

Internal control system should be reviewed by the Auditor before star audit as described below –

- ❖ Reviewing the system of accounting entries, whether recorded as per accounting standard or not.
- ❖ To frame audit program according to present circumstances.
- ❖ Frauds, errors and mistakes are likely to be located or not.
- ❖ To review existence of internal audit program and to check the efficiency of internal control system.
- ❖ To review the reliability of reports, records and certificates as presented by the management.
- ❖ To check if there is any possibility of improvement in existing internal control system.

Elements of the Internal Control System

- ❖ **Environment control:** The attitude, alertness, and work-zeal of directors, managers and shareholders are reflected through environmental control.
- ❖ **Accounting system:** Accounting system means some procedures and recordings with which identification of business transactions, classification, summarization, statement preparation and analysis for timely presentation of correct information are performed.
- ❖ **Control procedure:** The additional policies and procedures adopted by the business authority for ensuring the achievement of the specific goal of a business organization are the controlling procedures.

These control procedures are:

- 1. Proper delegation of power,**
- 2. Segregation of responsibility,**
- 3. Preparation and use of documents,**
- 4. Adoption of adequate security measures to protect the properties, and**

5. Independent control over the execution of activities.

An internal control system, not only prevent fraud forgery but also fulfills other objects:

1. The business organization implements its policies complying with the prevailing laws of the country.
2. Employees and officers discharge their assigned responsibilities to increase efficiency in the execution of work.
3. Financial statements provide correct and reliable information maintaining proper accounts.

In light of the above discussion, it can be briefly stated that the overall policies and plans adopted by the management for the proper execution of business activities are called the internal control system.

Components of Internal Control System

1. **Controlling the Environment:** The control environment is the basis of other elements of all other components of the internal control system. Moral values, managerial skills, the honesty of employees and managerial direction, etc. are included in the controlling environment.
2. **Risk assessment:** After setting up the objective of business, external and internal risks are to be assessed. The management determines risk controlling means after examining the risks related to every objective.
3. **Control activities:** The management establishes a controlling activities system to prevent risk associated with every objective. These controlling activities include all those measures that are to be followed by the employees.
4. **Information and communication:** Relevant information for taking decision are to be collected and reported in proper time. The events that yield data may originate from internal or external sources. Communication is very important for achieving management goals. The employees are to realize what is expected of them and how their responsibilities are related to the activities of others. Communication of the owners with outside parties' like's suppliers is also very important.
5. **Monitoring:** When the internal control system is in practice, the organization monitors its effectiveness so that necessary changes can be brought if any serious problem arises.

Responsibility for Internal Control System

It is the general responsibility of all employees, officers, management of a company to follow the internal control system.

The under-mentioned three parties have definite roles to make internal control system effective:

1. **Management:** Establishment and maintenance of an effective internal control structure mainly depends on the management. Through leadership and example or meeting, the management demonstrates ethical behavior and integrity of character within the business.
2. **Board of directors:** The board of directors possessing a sound working knowledge gives directives to the management so that dishonest managers cannot ignore some control procedures. The board of directors stops this sort of unfair activity. Sometimes the efficient board of directors having access to the internal audit system can discover such fraud and forgery.
3. **Auditors:** The auditors evaluate the effectiveness of the internal control structure of a business organization and determine whether the business policies and activities are followed properly. The communication network helps an effective internal control structure in execution. And all officers and employees are part of this communication network.

Types of Internal Control System

1. **Preventive Controls:** These controls are introduced in the firm to stop errors and irregularities from taking place.
2. **Detective Controls:** These controls are implemented to reveal errors and irregularities, once they take place.
3. **Corrective Controls:** These controls are designed to take corrective action for removing errors and irregularities after they are detected.

The type of internal control system implemented in the organization will be based on the company's nature and requirements.

The following are the main types of internal control:

- 1. Organisation**
- 2. Division of duties**
- 3. Supervision**
- 4. Physical Control**
- 5. Financial Accuracy**

1. Organisation:

- ❖ The management must make the organisation chart of all the departments.
- ❖ The authorities, responsibilities, reporting to, must be clearly identified, each job must be clearly described and specified.
- ❖ In case of delegation of power, it should be in writing with the approval of superiors. It must be clear to superiors that the authority/power can be delegated to subordinates but the responsibility cannot be delegated.
- ❖ 3 The superiors are always responsible for the deed and misdeeds of subordinates.
- ❖ In larger hotels a lot of power is delegated to juniors because one person cannot perform all the duties.
- ❖ In smaller hotels the owner himself supervisors almost everything. The organisation chart of a hotel may differ from hotel to hotel, depending upon the size of the hotel, policy of the hotel, mechanical devices available, etc

2. Division Of Duties:

The duties among different employees must be divided to have an effective control but in smaller hotels, the broad division of duties may not be possible. For example, in a large hotel the bill clerk and cashier can be a separate person; this will have a control of one person over other and fewer chances of cash pilferage.

3. Supervision:

The supervisors must authorise/approve all the transactions of the hotel. All cutting/overwriting must be countersigned. The power of the supervisors must be specified in writing to avoid confusion.

4. Physical Control:

- ❖ In hotels, the security is assigned to an outside agency so that security guards and hotels staff do not become friendly.
- ❖ All the departments, when not in operation must be locked and key, after sealing, must be kept with the security officer.
- ❖ The employees must use only staff gate for coming and leaving the hotel.
- ❖ This gate must be manned by a security officer round the clock. Each staff member must be checked physically to ensure that they are not taking away hotel's property, maybe by mistake, like matchboxes, hand towels, knife etc.
- ❖ The stores must be locked after normal working hours and no unauthorised person should be allowed to enter.
- ❖ The cash book, keys, cheque, books, etc. Must be kept in safe custody of the responsible person.

5. Financial Accuracy:

- ❖ The totals, calculations, pricing of each bill must be checked for its accuracy.
- ❖ The overcharging and under-charging are very bad for the hotel.
- ❖ The bank account must be reconciled on weekly basis.
- ❖ The checks and K.O.T.'s must be numbered. At the end of every month ledgers must be balanced and trial balance prepared.
- ❖ To ensure the effective control, the staff must be regularly trained. It is rightly said that training is a continuous process; every employee must be trained for a minimum of 100 hours in a year.
- ❖ The new employees must be imparted training before putting them on the actual job.
- ❖ The old staff knowledge must be updated and in case of shifting to new systems/methods the staff must be trained and motivated.
- ❖ The supervisors and management must ensure that the systems developed by the hotel must be followed by everyone and this will always ensure the perfect internal control.

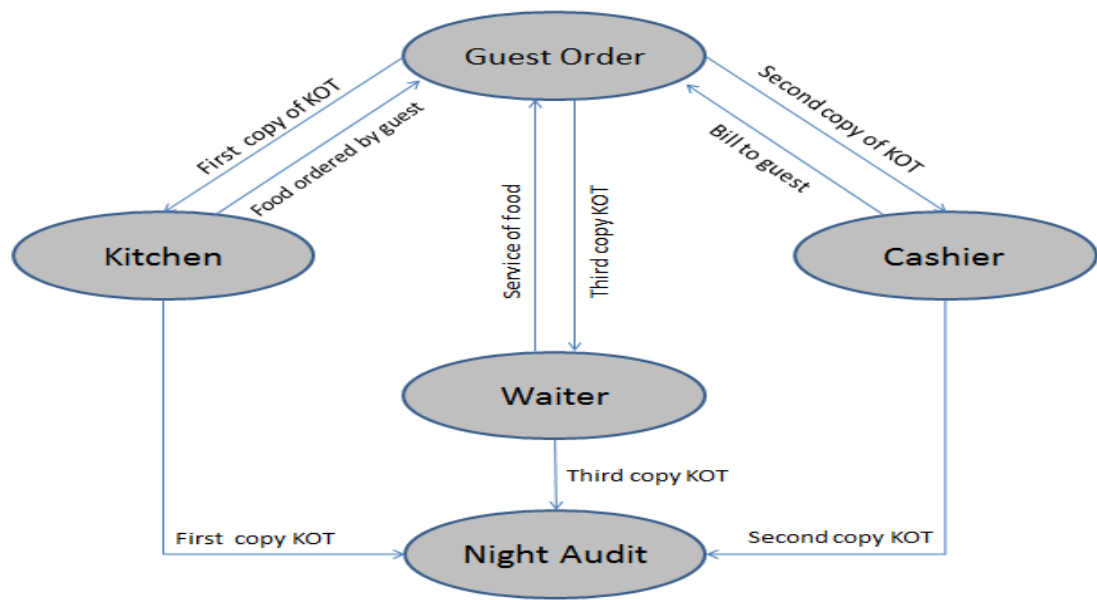
The Instruments Used for Food & Beverage Service Control

- 1. Kitchen Order Ticket (KOT)**
- 2. Restaurant Check**

- 3. Restaurant Sales Summary Sheet**
- 4. Kitchen Summary Sheet**
- 5. Guest Weekly Bill**
- 6. Visitor's Tabular Ledger (V.T.L)**

1. Kitchen Order Ticket (K.O.T):

- ❖ KOT is a written document which is given to the kitchen in exchange of any dish or any item picked up from the kitchen.
- ❖ KOT is prepared by food service personnel to intimate the food order of the guest to the kitchen staff.
- ❖ It helps in serving the right order to the right person.
- ❖ The KOT consists of details such as table number, covers, name of the waiter, date, time, items ordered, and its quantity.
- ❖ Usually, all the KOTs are serially numbered for control purpose. The food check may be duplicate or triplicate depending on the size and style of the organization.
- ❖ The Four Copies of K.O.T are made. The Order is taken by the captain on K.O.T.
- ❖ The original copy of the K.O.T is given to Aboyer (Barker) to place the order.
- ❖ After the food has been picked up by the pick-up waiter, this copy of the K.O.T is kept in the locked K.O.T Box, which is taken by the control department at the end of the day or shift for control purposes.
- ❖ The first carbon copy is given to cashier so that he can make the check. The second carbon copy is given to pick up waiter so that he can pick up the food from kitchen.
- ❖ The last copy is kept at the side board (Dummy waiter) for the reference of captain or stewards and this helps in service.



SPECIMEN OF KITCHEN ORDER TICKET (K.O.T.)

Name of the Restaurant				K.O.T. No. 34543	
				Date	
				Time	
Table No	Waiter No	No. of Pax	Check No.		
S. No.	Quantity	Particulars			
Please do not pay on this					
					Captain's Signature

2. Restaurant Check

- ❖ Restaurant check is either prepared by cashier or waiter but is usually priced and totalled by cashier.
- ❖ To pick – up the food, the check is shown by pick up waiter and the check items are ticked by barker before giving the food.

check, along with cashier's signature and stamp, is returned to the waiter and this is his proof that he returned the check to the cashier.

- ❖ In case the this check is lost than the responsibility is fixed on cashier or waiter and who-so-ever is held responsible, is required to pay the price of the check and a fine of Rs. 1000.
- ❖ The restaurant sales summary sheet is prepared in duplicate and a copy each is send to the accounts department and a control department.
- ❖ In case guest settles his bill in cash than the amount received is shown in the cash column and discount allowed is shown in the discount column.
- ❖ In case the guest settles his bill by signing (either as a hotel resident or as a credit card/ debit card holder) than the total amount is shown in the ledger column and in the remarks column the Room Number, Name of the Guest, Credit Card Number / Debit Card Number and other details are entered. Cashier signs in the Signature column.

RESTAURANT SALES SUMMARY SHEET

Restaurant Name Date

{ Dr. } { Cr. }

C. No.	T. No.	No. of Pax	Time	W. No.	SALE						Cash	Dis	L	Rem	Sig
					Food	Bev	Liq	Tob	Vat	Service Charge					

Restaurant Manager Head Cashier Cashier

Note : C. No. = Check Number, T. No. = Table Number, Bev. = Beverage, Liq. = Liqueur, Tob. = Tobacco, Dis. = Discount, L. = Ledger, Rem. = Remarks, Sig. = Signature (Cashier's)

4. Kitchen Summary Sheet

The Chef prepares a Kitchen Summary Sheet with the help of K.O.T's. This is also known as Kitchen Cost Sheet. This summary sheet is prepared in duplicate and a copy each is sent to the Accounts Department and the Control Department.

KITCHEN SUMMARY SHEET

Name of the Kitchen Date

Shift

S. No.	Item	Opening Stock	Indent / Purchased	Total	Closing Stock	Consumption

Chef's Signature

GUEST ACCOUNTING includes both Guest Weekly Bill and Visitor's Tabular Ledger.

5. Guest Weekly Bill

- ❖ For each resident of the hotel, a guest weekly bill/ guest bill is prepared.
- ❖ All debit and credit vouchers along with room tariff are posted in this bill and as soon as guest desires to check put this bill is presented to him for settlement.
- ❖ For control purposes, a copy each of this is sent to control department and accounts department. But the original copy, in case of cash payment, is given to the guest as his receipt.
- ❖ In case of guest signs, the bill than original bill copy is sent to the company for collection by accounts department and the bill is

transferred to ledger accounts and transferred to accounts department for collection.

GUEST WEEKLY BILL

ABC HOTEL
NEW DELHI

T. NO.
FAX NO
E MAIL

SERIAL NO. 23465

ROOM NUMBER
 NAME OF THE GUEST MR. /MS
 Nationality
 Designation
 Office Address E. Mail T. No.
 Permanent Address E Mail T. No.
 Date and time of arrival Date and time of departure
 Type of Room Number of Pax
 Rate Apartment Board
 Telephone meter reading: Closing (-) Opening (=) Consump-
 tion.....
 Plan Billing Instructions
 Credit Card Card Number
 Date of Expiry
 Booked by

DATE														
DAY	Rs.	P.	Rs.	P.	Rs.	P.	Rs.	P.	Rs.	P.	Rs.	P.	Rs.	P.
APARTMENT														
BOARD														
BED TEA														
BREAK FAST														
LUNCH														
DINNER														
TEA / COFFEE														
SNACKS														
FOOD SUNDRIES														
SOFT DRINKS														
WINE/BEER														
HARD DRINKS														

SALES TAX/VAT														
LUXURY TAX														
SUR-CHARGE														
TELEPHONE														
LAUNDRY														
TOBACCO														
FLOWERIEST														
NEWS STAND														
V.P.O.														
MISCELLANEOUS														
TRANSFER														
DAILY TOTAL														
BALANCE B/F DR														
CR														
GRAND TOTAL DR														
CR														
DEPOSIT/CASH														
ALLOWANCES/DISCOUNT														
LEDGER														
TRANSFER														
BALANCE C/F DR														
CR														
TOTAL DR														
CR														

Checked and found correct.

Please forward the bill to

.....

Cashier

Signature of the Guest

Note : Bills are payable on presentation. Personal cheques are not accepted.
 Please ask for a cash receipt along with a copy of the bill. No tipping please.

NOTE : G.R. No. = Guest Registration Number, VAT = Value Added Tax, V.P.O.
 = Visitors Paid Out, Dr = Debit, Cr = Credit, B/F = Brought Forward, C/F = Carried
 Forward.

- ❖ Except for front office cashier, who may be required to make petty cash payments on behalf of resident guests against visitor paid out, no other cashier is authorised to pay from the cash sales.
- ❖ All cash must be kept under lock and key and under the supervision of the cashier.
- ❖ The cash bank/float given to the cashier is also controlled and a check is kept on the same
- ❖ The cashier should take proper precautions when dealing with foreign currency
- ❖ Whenever the guest pays in cash the cashier has to make a cash receipt and hand it over to the guest.
- ❖ The cash collected everyday should be sent to the bank for deposit.
- ❖ Cash control is important from the point of view of hotel as credit sales are usually discouraged.

Cash Receipt & Payment/Disbursement

It is very important to control the cash receipts and cash payments/disbursements. No doubt in hotel industry it is becoming more and more common to settle the bills through vouchers/credit facilities extended to regular customers and through credit or debit cards but still a good number of guests settle their bills in cash. Moreover, the cash is received throughout the day and night and at various cash counters spread in different parts of the hotel.

Cash Receipt

Cash receipts must be controlled from the point of sale till is banked. The following steps are followed for its control:

- ❖ Checks must be prepared for each cash receipt and a proper receipt must be handed over to the guest.
- ❖ The checks must be numbered and tearing, cutting or cancelling of the check must be signed by an authorised manager.
- ❖ All checks must be entered on the Sales Summary Sheet.
- ❖ The total cash received must be deposited in the bank immediately after the shift is over or instantly when there is cash more than the recommended cash in the cash chest.

- ❖ The cash should be deposited by each cashier himself or it should be deposited by the Front Office Cashier. But the Front Office Cashier must issue a receipt to each cashier on receiving the cash from them.
- ❖ The cash so received by Front Office Cashier must be shown in the Cash Book.
- ❖ Each cashier should be given a float/imprest for paying the balance to guests or for en-cashing foreign currencies (Only Front Office Cashier is authorised to accept foreign currency from guests).
- ❖ The float so handed over to the cashiers must be checked both at the end of the shift and during the shift (surprise check).
- ❖ The cashier should not be allowed to keep the float with them after the shift is over and the float should be deposited with the Front Office Cashier or should be handed over to the next shift's cashier (in case of room service or coffee shop)
- ❖ The allowances/discounts/complementary should be only extended and signed by the authorised personnel.
- ❖ The unused checks must be kept under lock and key and the serial numbered checks are issued to the cashiers against their signatures.

Cash Payment/Disbursement

- ❖ This includes control over purchases, expenses and salary payments. As far as possible the cash payments should not be encouraged.
- ❖ All payments must be made by cheques. As far as possible the hotel must avoid making cash payments, however, petty payments may be made, in cash by a petty cashier.
- ❖ The cheque must be kept under lock and key and cheque payments must be made after verifying bills, supply order, purchase order, invoice, store keeper's report, and etc.
- ❖ Salary should be disbursed by making direct payments to the employees' account opened in the hotel's bank. Before making the salary payments the attendance from the department and time office must be taken into account.
- ❖ For larger amount cheques, if possible, two authorised persons must sign the cheque.
- ❖ The cash book must be kept ready up to the moment and must be signed daily by an authorised person.
- ❖ The bank reconciliation statement must be prepared on a weekly or fortnightly basis.

PROTECTION OF HOTEL FUNDS:

- ❖ Cashiers should make frequent money drops to have minimum cash in hand.
- ❖ Cash drawers should be accessible to only one cashier at a time and should be kept closed when not in use.
- ❖ Alarm systems should be installed in all areas of the hotel where cash transactions take place.
- ❖ A consistent system for handling bank deposits and money pickup should be developed and followed.
- ❖ Staff handling money like the cashier, security etc should be appointed only after strict scrutiny and cross checking with their previous employers. They should be rotated from time to time and a new combination of staff should be used.
- ❖ They must also be trained to react in emergency situations.

Major Types of Frauds

The internal control system is not only designed to prevent and detect fraud, but also to prevent and detect an error which is usually more common than fraud. Though it is very difficult to list down all kinds of fraud, in fact, every moment somewhere in the world, a new type of fraud takes place. Some of the common frauds are:

- ❖ **Failure to make K.O.T.**
- ❖ **Failure to make Check.**
- ❖ **Failure to record sales in Sales Summary Sheet.**
- ❖ **Under recording to sale**
- ❖ **Picking up of food without proper check**
- ❖ **Collecting payment from guest without check**
- ❖ **Charging incorrect room rent**
- ❖ **Selling room without registration**
- ❖ **Payment of bill twice**
- ❖ **Receiving a bill without goods**
- ❖ **Receiving bills twice for one supply**
- ❖ **Receiving goods and bill without any purchase order**

- ❖ **Allowance or discount allowed without proper authorization**
- ❖ **Ghost payrolls**
- ❖ **Full payment made for substandard goods received**
- ❖ **Stealing hotels inventory and assets**

Limitations of internal control

A system of controls does not provide absolute assurance that the control objectives of an organization will be met. Instead, there are several inherent limitations in any system that reduces the level of assurance. These inherent limitations are as follows:

1. **Collusion** - Two or more people who are intended by a system of control to keep watch over each other could instead collude to circumvent the system.
2. **Human error** - A person involved in a control system could simply make a mistake, perhaps forgetting to use a control step. Or, the person does not understand how a computer system is to be used or does not understand the instructions associated with the system.
3. **Management override** - Someone on the management team who has the authority to do so could override any aspect of a control system for his personal advantage.
4. **Missing segregation of duties** - A control system might have been designed with an insufficient segregation of duties so that one person can interfere with its proper operation.

Consequently, it must be accepted that no system of internal controls is perfect. There is always a way in which it can fail or be circumvented.