

Tightening the Internal Controls

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Introduction

XYZ Ltd is a company engages in distribution of pharmaceutical products to pharmacies, groceries, hospitals and doctors. The distribution channel directly operates with credit and cash sales through sales agents and cash collectors.

Sales system are mainly operated as credit and cash sales through agents and cash collectors. Collectors are responsible of collecting the cash.

Discussion of the Issue

Company's policy has offered 40 days credit period to its customers on credit sales and the cash collectors have the sole responsibility of collecting the cash amounts whenever they come due. However in certain situations customers pay the outstanding amounts before the credit period. In such situations, cash collectors used to keep such money in their personal accounts till the due date, without handing over them to company immediately.

It is found that one cash collector had misused the collected cash and has issued a postdated cheque (serial no-812902 7135 071 000000 and no 812910 7135 071 000000) from his personal bank account by addressing to the company's bank account, Indicating relevant amounts and dates. However the cheque was banked on the due date and it was dishonored due to lack of funds in cash collector's personnel account. The issue was identified in bank reconciliation process and then critically analyzed by the management and investigated the reasons behind the dishonored cheques.

Implication of the Issue

The impact of this issue has created problems in working capital management cycle of the company due to not having an optimum level of cash required, in its day to day business operations. Also it has provided a wrong image to the management on loyal customers to the organization. Due to lack of Internal Controls of handling the sales procedures, it has opened up with opportunities to large scale frauds within the company, resulting in huge financial losses.

Conclusion and Recommendation

As per our conclusion following remedies can be provided in order to overcome the issue pertaining.

- It can provide with discounts to such customers by indicating the discount figure in both copies of the invoices, so that the management can identify that the cash has already received and collectors has to be penalized for delayed settlement.

- It should identify a system of stamping a seal “PAID” in both the original invoice and the copy, when customers make immediate cash settlements or settlements before the credit period of 40 days.
- Appointment of a 3rd party person to monitor the outstanding balances of customers and to monitor cash collectors will enhance the tightness of internal controls.
- It is required to prepare the reconciliation of cash collection on daily basis in order to maintain the proper control over cash collection.