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**TAX/AUDIT/MANAGEMENT CONSULTING/
DIGITAL OPTIMISATION/TRAINING**

**WEEKLY ARTICLE:
IMPORTANCE OF
INTERNAL CONTROL
FOR BUSINESS**

A company establishes internal control system as a measure against wrongdoing and as a tool to protect the company's interests. Internal controls ensure a company complies with its internal policies, values and other external regulation of both the Federal and State laws and regulations in the management of financial and non-financial data. Strong internal controls can improve operational efficiency and ensure accurate financial reporting during internal or external audits. In this article, we explain the benefits of internal controls and provide you with 12 reasons why they are important to your business.

What are internal control system?

Internal control system are accounting and auditing processes used in a company's finance department that ensure the integrity of financial reporting and regulatory compliance.

Internal control system help companies to comply with laws and regulations and prevent fraud. They also can help improve operational efficiency by ensuring that budgets are adhered to, policies are followed, capital shortages are identified, and accurate reports are generated for management decision.

Also, internal control system are procedures and processes put into place by a company to prevent fraud, promote accountability and ensure the integrity of financial data. Internal controls are unique to every company and designed according to the company's size and structure. Effective and efficient internal controls aim to meet company objectives and protect the company's interests. Internal controls not only address risks to the company, but also reduce unnecessary cost or efforts.

The core purposes of internal controls are to:

Explain the process in which internal controls are carried out

Identify risks

Mitigate risks

Control the sharing of information

Evaluate effectiveness of internal controls

What are the benefits of internal controls?

Internal controls provide cohesion and consistency to establish order and protocol within a business. Business owners establish protocols and set boundaries around how the procedure is followed and regularly review controls for efficacy and accuracy. An established internal control process outlines how the company handles financial transactions as well as the assignment of administrative and management tasks. When protocol and procedure are clear, employees understand what is expected of them and how to complete day-to-day tasks.

Reasons internal controls are important to protect your business, clients and assets:

1. It establishes the processes

Internal controls outline employee protocol and procedures so employees are not left guessing how to perform their job duties or which procedure to follow. Changes to internal controls are reported to employees so they are promptly informed of changes to improve efficiency and reduce errors. Internal controls are stringently documented to improve employee understanding and compliance of protocols which can increase productivity and boost morale.

2. It improves process performance

As processes are implemented, the continuous monitoring of their effectiveness helps management make decisions about whether the process is working or if it needs additional attention. When processes are improved, so is the accuracy of financial reporting which management may rely on to make informed business decisions or judgments.

3. It improves operational efficiency

Internal controls can improve the efficiency of operations by removing unnecessary or duplicate steps in a procedure or process. This might include automation of manual controls or combining functions cost-effectively. Improved operational efficiency allows management to receive timely information to verify current operations are meeting the company's objectives.

4. It keeps duties separated

Internal controls ensure the separation of duties to avoid conflicts of interest and reduce the chances of financial mismanagement. Separating duties establishes a system of checks and balances so no one person has access to every piece of information.

5. It mitigates business risk

One function of internal controls is to limit the company's losses due to misappropriated or mishandled funds by employees or management. Internal controls reduce loss by identifying fraud or financial loss through theft or other illegal means. This may include controlling the reconciliation of bank statements as well as conducting internal audits to safeguard inventory and assets. Some internal controls may require the approval of vendors or employees before work begins.

6. It reduces errors

Internal controls help in the reduction of errors by defining protocols and procedures to reduce employee mistakes and make improvements as needed. The company reduces income losses and marks on its reputation by effectively training employees to reduce errors or misunderstandings. Internal controls such as employee training may begin with an orientation and continue with ongoing training programs such as learning a new computer system or work process.

7. It improves accountability

With internal controls that designate roles, key members are responsible for monitoring and reporting throughout the year so errors are identified and improvements implemented promptly. Accountability is achieved when clear protocols as to how data is transmitted, recorded, shared and reported are outlined. Improved accountability means the company stays in compliance with regulatory and statutory filing requirements.

In conclusion Internal Control activities aim to deter errors or fraud from happening in the first place and include thorough documentation and authorization practices. Separation of duties, ensures that no single individual is in a position to authorize, record, and be in the custody of a financial transaction and the resulting asset.

For more enquiry on how to establish Internal Control System for your business, kindly contact us at SOW Professional Services Ltd

► Office Address

- 17, Olumoroti Jaiyesinmi Street, Gbagada Phase II, Lagos, Nigeria.
- 21, Lord Emmanuel Drive, Off Jogunomi Street, Akpasak Estate, Uyo, Akwa Ibom, Nigeria

► Online Address



07038254989



08152451523



@sowprofessional.com



@sowprofessionalltd



www.sowprofessional.com



care@sowprofessional.com

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