

## CONCEPT: LIMITATIONS OF INTERNAL CONTROLS

- No system of internal controls is perfect. Fraud can still occur for several reasons:
  - **Human Element** – Employees may be careless or indifferent towards internal control procedures
  - **Collusion** – two or more employees working together to commit fraud
  - **Executive Override** – top level executives are usually the final verification on a transaction
    - A low-level employee needs authorization from the CFO for a transaction
    - The CFO can authorize his own transactions; say, for a personal jet ski
  - **Size of the business** – small businesses may not have enough employees to properly segregate duties
    - The cost (i.e. hiring more employees) may outweigh the benefit (i.e. internal control)
- For these reasons, we say that effective internal controls provide \_\_\_\_\_ over:
  - The **safeguarding** of assets
  - The **reliability** of financial information