

CONCEPT: PRINCIPLES OF CONTROL ACTIVITIES

● **Control Activities** are the foundation of a company's internal control efforts to reduce fraud. The six principles are:

- **Establishment of Responsibility** – only ____ person should be responsible for a given task
- **Separation of Duties** – more than one person is necessary to complete a task

Example: One employee _____ goods, _____ receipt of goods, and _____ supplier

Possible fraud:

- Employee orders from a particular supplier because they are _____, rather than price or quality
- The company may pay _____ or inaccurate invoices because the invoices are not verified
- The employee could _____ goods from the company

Possible solution: _____

- Ordering Goods → Receiving Goods → Paying Supplier

- **Documentation Procedures** – use pre-numbered documents and make sure all documents are accounted for
- **Physical Controls** – safeguarding physical assets
 - Safes; locked warehouses; passwords; alarms; sensors on merchandise
- **Independent Internal Verification** – a separate employee periodically _____ another employee's work
- **Human Resource Controls:**
 - **Bonding** – obtaining insurance for employee's who handle cash as protection against employee theft
 - **Mandatory vacations** – fraud is usually discovered while the employee is on vacation
 - **Background Checks** on employees reduce the risk of hiring risky employees