
**INTERNAL CASH MANAGEMENT AND CONTROL
INCLUDING IMPLEMENTATION OF A SOFTWARE
PROGRAM**

Case: ABC Ltd



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ABSTRACT

The following thesis was commissioned by the ABC Ltd to conduct the research concerning the financial loss problem, including search and implementation of a suitable software program, which would comply with the requirements of the company. ABC Ltd is an English language school, which operates in England, France, and USA. The primary objective of this thesis was to investigate the current situation, and based on the analyzed data, to develop and recommend ways to improve the company's activities in the future.

The theory applied in the thesis is devoted to the problem and consequences of weak internal cash management, internal control, absence of software program and small business issues. Cash management and internal control theory was used to understand how the poor management could result in financial loss. Other theory sources on this topic were used to identify the ways to solve existing issues and also look and compare how other small entities are coping with similar problems.

Two research methods were used to collect the information. First of all, the author interviewed the Operations Manager, who is directly connected with the subject of the project. Secondly, as the other research method author has chosen participant observation, it was more practical than other methods and more applicable to the current problem.

The main results pointed on several kinds of problems that exist and are not being taken care of so far. The major problems that the author could identify were weak internal cash management, absence of suitable accounting software and lack of internal control. In addition, due to seasonality of the business, the company was not able to find professional accountant or at least student with financial background for several years in a row.

Finally, the author introduced a development plan. It included the development of the Cash Reserve Fund handling procedure, implementation of internal control activities and integration of the software program, together with the hiring proper specialists to save time and money.

Keywords Internal cash management, internal control, small business entity, software application, the Cash Reserve Fund

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1 INTRODUCTION

1.1 Background information

The importance of internal control and cash management in the company, even small, cannot be neglected. Each year it saves for companies a great deal of money and helps to keep records in order. It is widely known that no matter what is the size of the organization, any business entity would only succeed if it controlled and managed its cash resources appropriately. Among other aspects, the inflow and outflow of cash are of a prime importance in any business because those areas are susceptible to fraud, theft and misstatement most of all. This situation occurs because the majority of the organization's top managers nowadays tend to neglect importance and strength of internal control. However, means of internal control influence the level of success and effective management of cash resources of the business entity.

This thesis is valuable to the commissioning organization as it emphasises the importance of the internal control and cash management in the small business companies. One of the purposes was to find a correlation between poor internal control and financial loss in the company. In addition, the author searched for the most suitable software application to handle Cash Reserve Fund expenses and developed Cash Reserve Fund handling procedure. Consequently, the thesis could be used by the company to achieve stated objectives and the suggested development plan is aimed at improvement of the problematic side of the business. Establishment of mentioned above procedures is crucial and will provide a sustainable internal environment for the company as a financial loss the company is experiencing now would be eliminated.

It is necessary to explain, that the issue investigated in the current thesis is concerning the petty cash fund, which is appropriated for every school, not overall company's cash fund. However, as the fund is £15,000, it is not reasonable to call it petty cash, hereby, the term Cash Reserve Fund was introduced. The author did it, in order to emphasise the significance and the complexity of the issue.

The current thesis consists of six chapters. First chapter is an introduction of the topic, commissioning company, and grounds for choosing a topic and methodology that were used to conduct the research. Chapter two is regarded as the theory of cash management and internal control. Chapter three discusses the current situation at ABC Ltd. Based on information provided in section three, in the chapter four, the author stated challenges that are currently faced by ABC Ltd. Chapter five is a development plan that is designed as improvements for ABC Ltd company internal control and cash management. Section six is the concluding part, where the main outcomes have been outlined.

One of the reasons for choosing the topic was the interest of the author in the field of internal control, cash management and accounting software applications for small business companies. Another reason was that the author has been working in the company for one season and had identified the problems and possible solutions for them, which would be easily expressed in the form of the research. Moreover, as the company has real existing problems, the future possibility to apply recommendations that the author prepared for the company, contributed to the topic formation. In the beginning, the issue was impossible to identify at all, as the management of the company did not have a clear indication on what has to be developed for the company. The importance of internal control, cash management and the necessity of an implementation software program was emphasised, and both parties agreed on the topic.

ABC Ltd, in particular, has encountered problems related to financial loss due to several factors as absence of internal control, fraud, human error, and poor cash management. In addition, after one-month internship in the commissioning company, the author discovered identified issues intensely using different research methods.

ABC Ltd performance has been declining over the last eight years. Evidently, this became the reason why the management has decided to start developing improvements inside the company, in order to minimise risks and prevent the business from bankruptcy. As it was not overall accounts' loss, management of the company ignored such a kind of a loss, year by year, until it became a serious obstacle for the company's well-being. Now, such problems could affect at low responsibility for ABC Ltd clients, and therefore, consequences could not only be a collapse, but what is more hazardous - loss of the market share.

1.2 Introduction of the commissioning organization

"Learning languages is an important part of ABC LTD experience. It is also an important part of each student's future. Our activity programme is designed for students to have a great vacation... a holiday they will treasure all their lives. Step into an exciting new world and as for many students, one summer is not enough... They have to come back to savour that unforgettable ABC LTD experience." (ABC Ltd , front page, 2014.)

ABC Ltd is an English language residential summer school provider, offering intensive English language and activity programmes to international students. ABC Ltd operates in England, France and USA. In England, the company collaborates with two old and very famous schools - in Queenswood and Downe House. For the period of 4-5 weeks, ABC Ltd rents those schools' premises every summer.

The English courses run by ABC Ltd at Downe House and Queenswood aimed to be the intensive language courses school for teenagers (from 6 to 18) in Britain. Each group consists of seven students in each class. The company has a policy of full immersion and intensive communication

between students and teachers. The school is very international, with over than thirty different nationalities. Students, usually, live in comfortable and homely residences with their house parents. (EnglishUK, front page, 2014.)

The business was set up in 1996 and during 18 years, it could expand to four schools that every year gather more than 400 students each. The company has a decent reputation among its clients. It has agents in Russia, the majority of Western Europe countries, Brazil, Japan and China.

1.3 Purpose, objectives and research question

Cash management and internal control are important issues in every company. Control of cash affects company's profitability. No matter what is the size of the business, it is necessary to develop and follow effective policy of cash management. In addition, one more important field is internal control. Some businessmen consider that only large companies tend to use internal control mechanisms inside the company, but as practice show us, it is important in every company.

The thesis was conducted for an English small business entity ABC Ltd where the author has been working as a Finance Manager. This project was developed for two schools that are located in London, England. Nevertheless, the main findings could be used by any school within the frames of the case company.

After implementation by management of developed marketing strategy that helped to attract more students during last several years, company faced with difficult and disordered control of money that it received from its students and also the Cash Reserve Fund which is devoted for school needs. As the company does not have any software program except excel and does not have any control mechanisms, it becomes harder to control the clients' cash and company's money. Due to the disorder, company experienced financial loss and mess in accounts. The fund needs adequate supervision. Therefore, the management of ABC Ltd responded to the question of how a small business entity can maintain sustainability through controlling the school's finances by the decision to create a procedure of handling the Cash Reserve Fund and evolvement of procedures of internal control. The system should be able to keep records concerning the Cash Reserve Fund expenditures in a simple and reliable manner, produce all the needed statements and reports for the company. It is considered to decrease or eliminate loss at the end of the period, make financial reporting from school to the management of the company transparent and in time.

The purpose of the present thesis is to analyse the current situation in the company. The way the business deals with internal control and cash management, what kind of software application it uses and what were the challenges for this particular company. After analysis the author intend to find the solution that suits the needs of the business. That would be search and implementation of the software application, Cash Reserve Fund handling procedure and internal control procedures. The purpose of the application

is to make an order in accounts of the school and avoid financial loss in the end.

In order to fulfil the purpose of the research, a number of objectives have been established. Firstly, theory of cash management and internal control is to be reviewed. This will provide with the ultimate understanding of the importance and the use of internal control, cash management and the connection between them. Secondly, the current state of the procedures in the ABC Ltd is to be evaluated. This is to be achieved through in-depth interviews with Operation Manager in ABC Ltd and participant observation. Thirdly, based on the interviews and the theory, contemporary challenges facing ABC Ltd are to be analysed. Fourthly, considering the results of the study, the development plan for the company concerning the dealing with Cash Reserve Fund management, internal control and implementation of a software program is to be developed and then presented to the commissioning organization.

The completely formulated thesis Research Question goes as follows: 'How to improve internal cash management and control, including implementation of a software program in ABC Ltd?'

To answer this research question a list of conditions was taken into account. First of all, the current situation in the company was explored by reviewing the theoretical framework that covers cash management, accounting, internal control and internal audit. Speaking about empirical part of the thesis, the author has chosen qualitative research method. It includes interviews with company representatives and participant observation. Methods that were selected, made possible the receiving of the detailed information about cash management and control in the case company.

Consequently, the objective of this bachelor`s thesis is to find and develop the most-effective policy of internal control and suitable software solution to control cash and provide all ABC Ltd stakeholders with the necessary documentation.

1.4 Research methods

In order to achieve stated above objectives, the author used a number of methods. In order to conduct research for the thesis, a secondary research has been done through the review of the literature sources devoted to the raised problem as cash management and internal control, a number of relevant online sources as journals and articles on internal control, Cash Reserve Fund management and software applications have been gone through. Furthermore, professional magazines and reports from the leading consulting companies as KPMG have been revised and taken into account. Before conducting primary research, it is crucial to go through secondary to obtain understanding and theoretical background of the research topic. Primary research includes interviews with company representatives and participant observation.

While conducting the business research, data collection and data analysis are divided into two categories: quantitative and qualitative. The quantitative research is based on numerical data; qualitative research is based on non-numerical data, for example, on opinion or other personal judgements concerning the matter. It is an obtaining an in-depth understanding of the situation presented by informants. (Wolsh, interview 05.05.2014.)

Quantitative data is any data collection method, like questionnaire or data analysis procedure, such as graphs or statistics, which involves the generation or usage of numerical data. Qualitative research, vice versa, is data collection technique as interview or data analysis procedure as categorising data that produces or uses non-numerical data. Although, qualitative research is, usually, referred to words, it can sometimes deal with types of data such as pictures and video clips (Saunders, Lewis & Thornhill 2009, 151.)

Therefore, focus groups, in-depth interviews, content analysis and evaluation all together are a different form of approaches that refer to qualitative research. In this thesis, the author has chosen interview as the primary way to collect all the necessary data about the current situation in the company and the second, efficient method is the observation. It was reasonable to combine internship and research process at the same time, for more productive results.

1.4.1 Interview

First of all, it is extremely important to have an interview when analyzing the current situation in the company. Because there is a need to develop a plan of what the company may need and what management is expecting to find out with the help of the research project. The author has chosen an in-depth interview as a research method for getting detailed data.

Before conducting an interview, it is crucial to identify the purpose of the interview and according to this; the proper type of the interview has to be chosen. Referring to Mark Saunders, Philip Lewis and Adrian Thornhill book, an interview is "a purposeful discussion between two or more people." When using an interview, it could help to collect contemporary and trustworthy data, which is always reliable and up-to-date. In addition, it is a very convenient way to collect data that are relevant to the research questions and objectives. Besides, even if the research question is not formulated or there are some difficulties, in-depth interview can easily help to achieve this aim. (Saunders et al., 2009.)

It is possible to find various types of interviews, and classify them in different ways. Interviews may be highly formalized and structured, using standard questions for every research participant (often called a respondent), or they may be informal and unstructured conversations. In between there, are intermediate positions. One typology that is commonly used is related to the level of formality and structure, whereby interviews may be categorized as:

- Structured interviews.
- Semi-structured interviews.

- Unstructured or in-depth interviews. (Saunders et al., 2009, 320).

There are different types of the interview, first one, developed by Healey and Rawlinson (Healey 1991; Healey and Rawlinson 1993, 1994), divides standardized and non-standardized interviews. Another typology, presented by Powney and Watts (1987), refers to a different typology: respondent (participant) interviews and informant interviews (Saunders et al., 2009, 320).

Structured interviews are commonly questionnaires that are based on pre-determined set of questions. Interviewer read each question and then record the answer on a standardized schedule, usually with pre-coded answers. The primary aim of such interviews is to collect quantifiable data that is why they are often considered as “quantitative research interviews”. (Saunders et al., 2009, 320).

When we compare semi-structured and in-depth interviews with structured, it is easy to notice that they are not standardized at that extent. In semi-structured interviews, researcher has a list of questions to cover, but such kind of the interview of a high flexibility and questions can vary from an interview to interview according to the situation. That means that the researcher can skip some questions in different interviews in order to have the possibility to change the flow of the conversation, to ask further questions in relation to the research topic. Besides, additional questions are essential if the researcher needs to explore the topic in details within the frame of a particular organization. All this can be done to direct the conversation to a certain context. To affect the flow of the interview, researcher can change the order of questions. The ensuing discussion means that all the information will be recorded or perhaps notes would be taken during the conversation. (Saunders et al., 2009, 320-321.)

Unstructured interviews are informal. Researcher would use them to explore in depth the whole area of interest. Moreover, an interviewer would not have prepared a list of questions, and he needs to have a clear understanding of what he is going to investigate in order not to go too far from the stated problem or topic. The respondent is given a chance to talk freely about the research area that is why this kind of interview is called “non-directive.” It has been named as an informant interview because an interviewee takes the leading part in that process and directs the interview. (Saunders et al., 2009, 321.)

1.4.2 Observation

Another method, which has been used by the author to conduct research for the thesis, is the observation. Observation is a neglected aspect of research. It adds richness and reliability to the collected data. Observation includes the systematic observation, recording, analysis and interpretation of people's behavior. According to the author of the book, observation methods were divided into participant observation and structured observation. (Saunders et al., 2009, 288-300.)

According to the authors, participant observation belongs to the qualitative research, and it pays attention to the meaning that people give to their actions. Opposite, structured observation is of quantitative type, which means number and frequency of the actions are counted. (Saunders et al., 2009, 288).

A sound research design, which is based on clear research questions and objectives and using participant observation normally, is highly systematic, even though predetermined structure may not be that high. One of the strongest sides of that method is responsiveness. Speaking about structured observation, this method is systemic and well predetermined. The researcher is more detached and interested in quantifying behavior. This particular method has a disadvantage, because its main function is to present data about frequency of events rather than explanation why did those events happened. (Saunders et al., 2009, 300.)

When describing in more details the participant observation, there are four types of the observer's roles, namely:

- Complete participant (the researcher attempting to become a member of the group in which he is performing research without revealing his initial purpose);
- Complete observer (the researcher does not take part in the activities of the group and does not reveal his purpose to the group);
- Observer as a participant (the researcher role is 'spectator', and the group members know that they are being inspected);
- Participant as an observer (a researcher discloses the purposes of the research process and participates in the activities) (Saunders et al., 2009, 293-295.)

The first two parts (complete participant and complete observer) suppose that the researcher dissembles his purpose and identity. If the researcher has chosen those roles, observation could be more objective, because the group does not know about the work being conducted. Hence, the behavior of the members would be more relaxed and close to the day-to-day situation. However, there is a problem from the ethical point of view. The researcher is spying on group members, and it could take a lot of time to gain trust from group members. Last two roles (observer as participant and participant as an observer) contribute in deeper and detailed exploration of the process because the researcher has the opportunity to have discussions and consultations with group members. Moreover, data received from observation could be divided into: primary, secondary and experiential. Primary observations include taking notes of the events. Secondary observations are observers' statements about the events, and they include the interpretations. Experiential data consists of personal judgment of the researcher. Factors that have influence on the role of the observer are:

- The aim of the research.
- Time that the observer has to conduct the research.
- Whether a person is flexible (right for a participant observer role).
- Access to the organization.
- Ethical traits of a person. (Saunders et al., 2009, 295- 296.)

To sum up, before conducting the research, the observer has to choose the role according to his own perceptions and take into account the research purpose, subject of the study, available period of time, personal characteristics and ethical traits.

1.4.3 Research process

The purpose of the conducted study was to understand the current situation concerning the cash management and internal control in the case company ABC Ltd. In addition, to develop a plan to improve the situation by introduction software application, which can facilitate an efficient cash management and ability to create suitable financial statements. Secondly, the development of the Cash Reserve Fund handling procedures and requirements for internal control procedure, to make it smoother. In-depth interview and participant's observation have been chosen as the most suitable research methods.

One of the first research methods was participant observation. The author during one month had been working as Financial Manager in the commissioning company. The duties of Finance Manager directly involved dealing with accountancy of the school, interaction with the senior accountant, reporting to the Financial Director and participation in the project with the purpose to choose and integrate software application that would facilitate cash control of customers' and company's money and issuing financial statements for stakeholders (management and clients).

The author started to gather all the necessary information before the beginning of the internship, because the company needed some data concerning the current issue of the company. Even though the company was organized more than fifteen years ago, they did not need to employ a full-time accountant because the business is seasonal and every year they invited different person, regardless his or her background or experience. It is worth mentioning that author is writing about school accountant. Speaking about senior accountant of the whole company, there was a full-time accountant to whom the school accountant should report at the end of the period. She was responsible for making the reports concerning VAT, salaries, pensions, etc. in her office for several schools, which all together are a company. Absence of a qualified accountant and proper internal control procedures, or at least, student with financial background and using MS Excel application instead of a proper software program have led to the mess in accounts and financial loss.

Therefore, from 2014 the company's management made a decision to implement suitable software application and find an employee with financial background who can easily cope with duties to avoid financial loss. The management realized the necessity for a stronger control over cash. To define the needs of the business and to develop effective policy of internal control, the best solution was the in-depth interview. First of all, it would allow obtaining the necessary data, through the prepared set of topics and questions. Secondly, it assumed flexibility and helped to ask extra questions and got information that was more detailed. Finally, it was more suitable for

the current research, because the interview was held personally, and the author could hold such a kind of interview periodically, during an internship in the company.

As a result, the interview was held with the operations manager K. Wolsh at all stages of the working process. Establishing the contact was quite easy because the company itself is interested in the development of the project and possible improvements, which have been already made and those which the company intended to make.

The discussion helped to reveal the reasons why the company needed an instrument to control the cash, what were the requirements for this tool and what has been done and what is planned to be done. Combination of the research methods mentioned above (observation and interview) ensures that the research is reliable.

2 INTERNAL CASH MANAGEMENT AND CONTROL

Despite the fact that the business is small, it requires great attention and control from the management team. Even if the company has an accountant who is dealing with general accounts of the four schools, every school itself is in a high need of qualified professional who is going to make things in order, to prevent any misstatement, fraud and control the situation. At the first glance, it seems that there is no need for such a person inside the school, but after careful investigation, some problems were detected. First of all, the author disclosed information why such kind of small business needs proper bookkeeping procedures, then theory concerning internal control has been explored and presented, and finally, Cash Reserve Fund management theory was discovered and introduced in the theoretical part of the thesis. Besides, one of the purposes of the thesis was to show that financial loss is directly connected with poor financial management, and it provokes fraudulent activity; this is evident from the following chapters.

2.1 Why do we need proper records?

The organisation's management team should not neglect proper accounting system, as it could assist avoiding financial problems such as fraud or financial loss, in the future. It is almost impossible for a businessman to survive in a contemporary high-competitive world without knowing how much cash the company has and what the profit or loss on sales is.

All the information needed to manage a business well is close at hand. The bills to be paid, invoices raised; Cash Reserve Fund request forms and bank statements alone are enough to give an accurate picture of performance. All that needs to be done is for that information to be recorded and organised so that the financial picture becomes apparent. (Barrow 2002, 190.)

Not only the owner of the company, needs proper financial records. Bankers, shareholders, tax inspectors and other stakeholders are those people who may ask for the documents when needed. Accounting sometimes is considered as routine work – especially if the manager thinks that he is quite right with things like production or sales even without a proper bookkeeping system. The type of records the business will need to depend on several factors, as the size of the company, the volume of bookkeeping works the proprietor is going to do, type of the business and type of trade the business is conducting. (Taylor 2001, 13-19.)

2.2 The Cash Reserve Fund management

Cash Reserve Fund is widely used by organizations of all sizes and forms, but management needs to be aware of related risks with keeping the records of expenses and internal controls in place to address those risks. (Danka 2012.)

Cash Reserve Fund is the most liquid asset of the company which is jeopardized to misappropriations and fraud, if business processes and controls

are not established. It includes currency and coins, which are kept on hand in the office. Cash Reserve Fund is the current asset; it is included in total cash account but not reflected on the balance sheet. In order to disclose the balance, companies have to have a general ledger account for the Cash Reserve Fund. (GAAP rules for Petty Cash funds n.d.)

2.2.1 GAAP rules for the Cash Reserve Fund

The Generally Accepted Accounting Principles (GAAP) were developed by the Federal Accounting Standards Board, which public accountants frequently use. Commonly, businesses refer to the GAAP to ensure correct usage and ethical standards for financial accounting procedures. It is widely known that companies organise the Cash Reserve Funds to cover small, but significant business expenses, mainly daily. Such kind of expenses appears in the ordinary course of operations. The GAAP Cash Reserve Fund rules consist of policies that are enabled to provide careful recording of transactions, tracking disbursements and preventing misstatement of accounts and the fraud. (GAAP rules for Petty Cash funds n.d.)

The GAAP rules recommend that Cash Reserve Fund has to be kept in a safe or locked box (drawer) with documents that confirm transactions, for example, receipts. The company should name a Finance Manager of the Cash Reserve Fund and appoint a different person in order to authorize or approve expenses of the funds. It is recommended that a third person must be designated to be an accountant in order to reconcile the Cash Reserve Fund and other accounts at the end of the period. (GAAP rules for Petty Cash funds n.d.)

Although the company's Cash Reserve Fund is susceptible to fraud and misstatement, and in most cases, it does not get enough attention during internal control procedures because this type of an asset has relevantly low material value. To have the Cash Reserve Fund is a real alternative to another means of payment, because it can cause difficulties as delays in payment, entry of services and products. It also causes waste of resources to check the book of entries. Moreover, banks charge additional payments to conduct a transaction. (Danka 2012.)

Management bases the decision of how much money to keep in the Cash Reserve Fund on the amount which the company needs during the period, usually it is one month. Frequently, management determines the allowable uses for Cash Reserve Funds. For example, purchases as office supplies, transport expenses, postage and delivery fees. (GAAP rules for Petty Cash funds n.d.)

The Cash Reserve Fund is created by withdrawing cash from a bank account of the company and opening a corresponding account which is called a Cash Reserve Fund imprest account – it is attached to the organization's general ledger to record and control the funds. It is crucial to open different a different to separate this issue from the general ledger. Although Cash Reserve Fund has little monetary value, it is a sensitive subject and requires adequate internal controls. (Danka 2012.)

After the company has created a general ledger account for Cash Reserve, it should give to the Finance Manager a paper with the stated amount of the Cash Reserve Fund. When creating a separate Cash Reserve Fund account, the business can reconcile the Cash Reserve Fund account with other accounts that make the work easier. The Finance Manager should keep the fund in a safe unique location. The Finance Manager needs to fill in and submit the form in order to make a replenishment of the Cash Reserve Fund. The submitted request form should comply with the condition that the remaining sum in the fund, the documentation which confirms expenses and the requested additional amount all together equal the total amount for the Cash Reserve Fund in the beginning of the period (established amount). (GAAP rules for Petty Cash Funds n.d.)

Finance Managers encloses all the receipts that have been received from all disbursements. Keeping a ledger allows to track all expenses and supplies with information that is needed for recording transactions and reconciliation of accounts. Request forms that include all the necessary data as employee's name, date, description of the request purpose and amount of money required to provide information to the Finance Manager and help to track expenses. The employee has to return a request form to the Finance Manager with receipts and other supporting documents. (GAAP rules for Petty Cash Funds n.d.)

The money, which compose the Cash Reserve Fund, is recorded in the journal as a debit to Cash Reserve Fund and as a credit to cash. Cash Reserve Fund disbursements have to be recorded in the appropriate expense accounts during the whole period. The management has to replenish the Cash Reserve Fund every particular period before conducting the company's financial statements in order to make a balance between the sums of money recorded in the Cash Reserve Fund account. The Cash Reserve Fund general ledger account has to be recorded as a current asset on the company's balance sheet. (GAAP rules for Petty Cash Funds n.d.)

The way in which management is dealing with the Cash Reserve Fund shows an approach, which is used for an organizational internal control, as Cash Reserve, carries risks connected with monetary value of an asset. (Danka 2012.)

What concerns risks, the Cash Reserve Fund is incidental to risks of keeping cash against its possible benefits. Specialists of internal control need to take into account potential risks, which include:

- Wasting resources on unnecessary activities that are not compatible with the company's objectives.
- Misappropriation of funds: sometimes employees spend money for their personal expenses or take some cash at the beginning of replenishment and give it back when the company is reconciling the fund.
- Human error: when expenses are adjusted at the end of the period, there is a risk that the employee's error could be not noticed until the adjustment date. (Danka 2012.)

Internal auditors should understand in details the control procedures for keeping Cash Reserve Fund, so they can ensure that proper controls have been undertaken to eliminate the risk of fraud and misstatement. Although every organization has its internal control systems, the majority of the principles are common. (Danka 2012.)

The most widely used system for handling the Cash Reserve Fund is an imprest system. It works with the principle that the maximum amount of money, which could be devoted is based on the frequency and amount of daily expenses. As an example, the company may establish the £15,000 Cash Reserve Fund and use this fund to pay all qualified expenses. On the date of reconciliation, all expenses that have been paid are reimbursed back to the Cash Reserve Fund. Hence, if £2,000 are remained that means, that £13,000 have to be added to the fund to replenish it to the initial £15,000. (Danka 2012.)

What is concerned the disbursement of the Cash Reserve Fund, an appointed employee has to prepare a pre-numbered document, which is entered in the system with particular information and then authorised by a separate nominated specialist in order to ensure segregation of duties. Both of specialists should refer to the supporting documentation (bills, invoices and receipts) to verify the disbursement. The report should be directed to the Finance Manager of the Cash Reserve Fund who approves it and supporting documentation to confirm the identity and dual authorization and then disburses the cash with approval. If it is an advance payment, invoices and receipts will appear after payment has been made and be reconciled to the amounts advanced. If any unused cash remains from the paid Cash Reserve Fund document, it has to be added back into the Cash Reserve Fund by issuing a pre-numbered and approved replenishment document (with approval from the fund's Finance Manager to verify that the money has been received by the Finance Manager and is included in the Cash Reserve). (Danka 2012.)

Now we refer to the control procedures. Most of the controls in the Cash Reserve Fund handling process are easy to describe and identify. Pre-numbered documents, segregation of duties during the disbursement process, supporting documents to confirm the identity of each expense and appointment with the specialist receiving the money and replenishment of Cash Reserve Fund on a monthly basis. Additionally, different internal controls can be implemented in order to make the process more efficient. (Danka 2012.)

The employee who prepares the documentation of the Cash Reserve Fund should manage sequentially numbered forms and a journal that reflects the amount of cash currently held by the Cash Reserve Fund Finance Manager. Then, the Finance Manager should reconcile the sum in the document with the amount that is actually available to the Cash Reserve Fund imprest account. Periodically, an independent designated employee should conduct a revision of Cash Reserve Fund on hand by comparing the actual cash and documents against the entire imprest balance. This procedure ensures the

sum of both is equal to the total Cash Reserve Fund that was initially disbursed. (Danka 2012.)

Cash Reserve Fund and all the accompanied documentation have to be kept in a secure place like a safe or locked drawer under limited access by designated employees. The employee is overseeing the Cash Reserve Fund process should establish a maximum limit for individual Cash Reserve Fund expenditures. The imprest limit also should be reviewed periodically assuming the frequency of Cash Reserve Fund replenishments. Imprest limit can be increased in case if replenishments frequently occur. Otherwise, if replenishments are not that frequent, the imprest limit has to be lowered. (Danka 2012.)

A well-managed Cash Reserve Fund function often goes together with a strong internal control environment. Despite the limited financial materiality, the fund includes significance that goes beyond its size. A regular audit of the Cash Reserve Fund function can help ensure the cash is used correctly, stored appropriately, and handled by authorized employees. (Danka 2012.)

2.3 Internal control

What does the term internal control mean? Internal control includes all the related methods and activities adopted within an organization to safeguard its assets and enhance the accuracy and reliability of its accounting records. (Internal control – Integrated framework. n.d.)

According to ISA 315, the term internal control is the process designed, integrated and maintained by business owners and management to provide reasonable assertion concerning the achievement of the objectives set by the entity. It is connected to financial reporting, performance efficiency, and compliance with laws and regulations. (ISA 315, 2009, 264.)

There has been a growing trend in the nature and importance of internal controls over the last two decades. This trend has begun due to increasing in numbers of financial frauds. (Singleton 2008, 37.)

Internal controls are established to keep the company on the right direction towards profitability goals and achievement of its mission, and to minimize all possible risks. Internal controls provide efficiency, reduce risks of asset loss and manage to ensure reliability of financial statements and compliance with laws and regulations. (Internal control – Integrated framework. n.d.) Effective internal control could be achieved through the integration of the process into a company's operations. It is important that the internal control should not be seen as a business' anxiety, but as the means by which business opportunities are maximised. Sound internal control supports entrepreneurship; it does not replace it. (Internal control – a practical guide, 1995, 3.)

2.3.1 Internal control systems

The owners of the company are responsible for ensuring that the company's systems of risk management and internal controls are effective. Internal controls are essential to the management because they:

- Help to identify the business objectives and ensure that the activities conducted by the company are in line with the business's objectives.
- Safeguarding the assets means that the company's tangible and intangible assets are strongly protected from theft and fraudulent activities.
- Preventing and detecting the fraud and error.
- Allowing preventive actions to be taken to protect the company from misleading performance - authorisation is required as a method of dealing with fraud, dishonesty or incompetence when detected.
- Reduce exposure to risks – minimising the chance of unexpected events.
- Providing proper financial reporting – maintaining accurate and complete reports required by legislation and management, and minimising time lost correcting errors and checking the resources are correctly and efficiently allocated. (CPA Australia, 2008, 7.)

Examples of internal controls:

- Controls of the documentation – ensuring sequential numbering of documents (e.g. cheques).
- Independent check – re-check totals, review spreadsheets.
- Automated controls – limit inputs to the system, check dates.
- Validation checks – check amounts on invoices are signed off.
- Segregation of duties – receipting separate from banking cash.
- Exception routines – spot checks.
- Physical controls – limited access to equipment, Cash Reserve.
- Rotation of duties – Cash Reserve, receipting.
- Approval authority levels – purchasing authority levels for staff.
- Assignment of responsibility – clear ABC Ltd of responsibility.
- Management supervision, monitoring and review – regular checks, review of personnel.
- Employee knowledge and skills – staff must be adequately trained in their job.
- Compulsory annual leave – ensuring that all staff takes their annual leave gives another staff member a chance to review what the person has been doing.

Depending on the level of the importance of internal control, a company may use a number of control processes in combination. For example, if the business has to work with a large amount of money every day - it might combine daily cash counts and reconciliations with segregation of duties and physical controls on access to the cash. (CPA Australia, 2008, 12.)

An understanding of internal control helps the auditor to identify potential misstatements and factors that affect the risks of material misstatement and also, to develop further procedures of the audit. (ACCA, 2014, 159.)

ISA 315 (Revised) identified and assessed “the risks of material misstatement through understanding the entity, and its environment point out that there is a direct relationship between an entity's objectives and the controls

it implements to provide reasonable assurance about their achievement. Many of these controls will relate to financial reporting, operations and compliance, but not all the entity's objectives and controls will be related to the auditor's risk assessment". (ACCA, 2014, 159.)

Having determined which controls are relevant, and are adequately designed to aid the prevention of material misstatements in the financial statements, the auditor can then decide whether it is more effective to seek reliance on those controls and performs tests of controls in that area, or more efficient to perform substantive testing over that area. (ACCA, 2014, 159.)

ISA 315 (revised) is determining and assessing potential risks of material misstatement through understanding how the company and its environment deals with the whole area of controls. Internal control has five elements:

- The control environment
- The entity's risk assessment process
- The information system relevant to financial reporting
- Control activities
- Monitoring of controls

An understanding of the design of internal control, and its implementation would be easier if the auditor went through each element in details. (ISA 315:2013, 879-881)

2.3.1.1 Control environment

The control environment is the framework inside which controls operate. The management of the company determines the control environment. It is the basis for all other parts of internal control, which provides discipline and structure and the vision of the management how authority and responsibility should be assigned to employees.

“Control environment includes the governance and management functions and the attitudes, awareness and actions of those charged with governance and management concerning the entity's internal control and its importance in the entity.” (ACCA, 2014, 160.)

The overall control system is not ensured by control environment only; it includes a number of different factors, but this environment could be a significant factor when risks of material misstatement are assessed. A weak control environment jeopardises the effectiveness of controls. Management attitude towards control environment is an important factor of identification of control effectiveness. Controls tend to operate better in an environment when they are treated as a significant part of the process. Additionally, consideration of the control environment means that certain controls as internal auditors, budgets actually exist. (ACCA, 2014, 160.)

The control environment establishes the atmosphere of the company, influences the attitude towards control of its employees. It is the basis for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethics and expertise of

the people from an organization; management approach and operating manner; the way the management assigns authority and responsibility and organizes and develops its people; and the attention and guidance which board of directors provides to employees. (Internal control – Integrated framework n.d.)

The given further table illustrates the elements of the control environment that may be relevant when achieving an understanding of the control environment. (ACCA, 2014, 160-161.)

Communication and enforcement of integrity and ethical values	Essential elements which influence the effectiveness of the design, administration and monitoring of controls
Commitment to competence	Management's consideration of the competence levels for particular jobs and how those levels translate into requisite skills and knowledge
Participation by those charged with governance	<ul style="list-style-type: none"> - Independence from management - Experience and stature - Extent of involvement and scrutiny of activities - Appropriateness of actions and interaction with internal and external auditors
Management's philosophy and operating style	<ul style="list-style-type: none"> - Approach to taking and managing business risks - Attitudes and actions towards financial reporting - Attitudes towards information processing and accounting functions and personnel
Organisational structure	The framework within which an entity's activities for achieving its objectives are planned, executed, controlled and reviewed
Assignment of authority and responsibility	How authority and responsibility for operating activities are assigned and how reporting relationships and authorisation hierarchies are established
Human resource policies and practices	Recruitment, orientation, training, evaluating, counselling, promoting, compensation and remedial actions

Table 1. Elements of the control environment. Source: ACCA, 2014.

2.3.1.2 Entity's risk assessment process

Different risks that the entity faces from internal and external environment should be assessed. A condition to risk assessment is established objectives that are connected on distinctive levels. Risk assessment is the identification and analysis of relevant risks that prevent achievement of the objectives, form the basis for determining how the risks should be managed. Economic, industrial, regulatory and operating conditions are subjected to changes, hence identification tools are needed to recognise and deal with the special risks associated with change. (Internal control – Integrated framework n.d.) It is stated in ISA 315 that the auditor should have an understanding of whether the entity has a procedure for:

- Identifying business risks relevant to financial reporting objectives.
- Estimation of the significance of the risks.
- Assessment of the possibility of risks' occurrence.
- Decision about actions to address those risks.

In the case if the organization has such a procedure, the auditor should realize all the stages that it includes. If the system is not established, the auditor shall discuss with management relevant business risks that have been identified and how they have been addressed. (ACCA, 2014, 161.)

2.3.1.3 Information system relevant to financial reporting

It is necessary to identify, capture and communicate significant information in that form and schedule that permits people to implement their responsibilities. The information system related to financial reporting is a component of internal control that includes the financial reporting system, which contain operational, financial and compliance-related information that enables it to control the company's activities. Those reports include not only internally generated data, but information about external events as well, conditions and activities, which are necessary to present to the company to make the decision-making process and external reporting more efficient. Proper communication also has to take place across the whole organization from up to down and backwards. Employees should receive a clear message from top management that control responsibilities are an important part of the business activity and should be treated seriously. They must understand their role in the internal control system and have understood how their individual role effects and goes together with other employees' work. They must have a means of communicating significant information upstream. In the end, it is crucial to have communication with external stakeholders such as customers, suppliers, regulators and shareholders. (Internal control – Integrated framework n.d.)

For the auditor, it is essential to understand information system relevant to financial reporting objectives, which includes the following areas:

- The types of transactions, which the company does that are significant to the financial statements.
 - The procedures, within both IT and manual systems, by which those transactions are initiated, recorded, processed, corrected, transferred to the general ledger and reported in the financial statements.
 - The related accounting records, supporting information, and specific accounts in the financial statements, in respect of initiating, recording, processing and reporting transactions.
 - How the information system highlights events and conditions that are necessary for the financial statements.
 - The financial reporting process should conduct the company's financial statements, including significant accounting estimates and disclosures.
 - Controls surrounding journal entries, including non-standard journal entries used to record nonrecurring, unusual transactions or adjustments.
- (ACCA, 2014, 161.)

2.3.1.4 Control activities

Control activities include procedures and policies that guarantee that management directives are carried out. They help to ensure that necessary ac-

tions have been taken to address risks in order to achieve company's objectives. Control systems implemented throughout the entire organization at all levels and contained the whole set of functions. (Internal control – Integrated framework n.d.)

Control activities include measures to prevent, detect and correct errors. Examples include activities relating to personnel, authorisation, performance reviews, information processing, physical controls and segregation of duties. (ACCA, 2014, 162.)

Approval and control of documents.	Supervisor should approve the transaction.
Checking the arithmetical accuracy of records.	Invoices should be added correctly.
Maintaining and reviewing control accounts and trial balances.	Control accounts bring together transactions in individual ledgers.
Reconciliations	Reconciliations involve comparison of a specific balance in the accounting records with what another source says the balance should be. Differences between the two figures should only be reconciling items.
Comparing the results of cash, security and inventory counts with accounting records	For example, in a physical count of cash reserve, the balance shown in the cash book should be the same as the amount held.
Comparing internal data with external sources of information	Comparing records of goods dispatched to customers with customers' acknowledgement of goods that have been received.
Limiting physical access to assets and records	Only authorized personnel should have access to certain assets.

Table 2. Examples of control activities. Source: ACCA 2014

Personnel need to be competent and reliable, with clearly established ABC Ltd of authority and responsibility, which are stated in job descriptions and procedures manuals. It is necessary to update the job descriptions in order to ensure that employees realize their duties they are expected to perform. (Internal controls, Claremont, 2013, 4.)

Segregation of duties is one of the most important internal control, which is widely used in various organizations. It means that different people are involved in the accounting process. This makes it more difficult for fraudulent transactions to be processed, because employees would have to collude, to make a fraud. Moreover, it is also more difficult for accidental errors to be handled (the more people are involved, the more checking is done). Segregation should take place in different ways:

- Segregation of functions. The key functions that should be separated are the carrying out the operation, recording that transaction in the accounting software and maintaining control of assets that arose from the transaction.
- The various steps in carrying out the transaction should also be segregated.

- The carrying out of various accounting operations should be segregated. The same employee should not record transactions and carry out the reconciliations at the period-end. (ACCA, 2014, 162.)

Segregation of duties appears to be impossible to implement due to the size of the staff. That requires the implementation of compensating controls to ensure that objectives are achieved. The cost of implementing a particular control should not overlap the expected benefit of the control. Quite often companies do not have enough resources to implement an adequate control. In this case, reconversion of responsibilities could be all that is necessary to accomplish the objective. (Internal controls, Claremont, 2013, 5.)

One of the most important protective measures is the physical restriction for safeguarding company's assets, processes and data. Documentation and record retention are created to ensure that all transactions are properly recorded and retained. (Internal controls, Claremont, 2013, 4.)

2.3.1.5 Monitoring of controls

Monitoring of controls is conducted in order to assess the effectiveness of internal control procedures over time. It includes assessing the design and operation of controls on a timely basis and taking necessary corrective actions modified for changes in conditions. (ACCA, 2014, 162.)

It is essential for the internal control system to be monitored; it helps to assess the quality of the organization's performance over the period. This is achieved with the help of continuous activity monitoring and independent evaluations. During the time when company conducts its operations, the ongoing monitoring occurs. It consists of regular management and supervisory activities while employees are performing their duties other actions are undertaken. The scope and frequency of separate evaluations will depend primarily on a risks' assessment the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported from down to top, with serious matters reported to top management and the board. (Internal control – Integrated framework n.d.)

2.3.2 Internal controls for small business

The case company which has been taken as the basis for the current research, belongs to small business type. For such a kind of companies, the problem of internal control is always on the surface and requires a lot of attention.

Those controls that are suitable for large companies are neither practical nor appropriate for a small company. For a small business, the most important form of internal control is generally the close involvement of the directors or proprietors. It is important to note that close involvement by management will allow them to override control, and if they want, to exclude transactions from the records. Auditors may have problems not because there is a lack of control, but due to the evidence that is necessary to proper control procedure is insufficient. Segregation of duties will often appear inadequate in

enterprises having a small number of staff. Scale of the operation determines the importance of organization and management controls. (ACCA, 2014, 163.)

The proprietor carries the responsibility by increasing his daily integration in the process in order to compensate the lack of control. This involvement includes physical, authorisation, arithmetical and accounting controls as well as supervision. It is important to emphasise that in a well-managed small company, there will definitely be an internal control system. Besides, companies must comply with relevant legislation devoted to the maintenance of a proper accounting system. If the manager of a small business is not the owner, it is not obligatory for him to be responsible as an owner-manager would. If this is the case, the auditors have to ensure the appropriateness of controls exercised by the shareholders over the manager in assessing internal control. (ACCA, 2014, 163.)

In small companies, communication between management and employees may not be in documentary form, but this communication could be informal but effective. Management has to emphasise the importance of integrity and ethical behaviour by verbal communication or by setting own example. Hence, attitude, awareness and management policy towards control should enable auditor's understanding of a smaller entity's control environment. Although size and economic state of smaller businesses often are limited the opportunity for formal control activities, there should be some evidence available in relation to internal controls. Basic internal control activities exist for the main transaction cycles, for example, revenues, purchases, and payroll. (ACCA, 2014, 163.)

Small businesses are the most susceptible to fraud because they do not have adequate internal controls. Furthermore, small business companies have limited resources that affect the quality of internal control. The next issue is if the owner himself does not think that internal control is necessary, it is obvious that his employees would do the same. Business owners have a critical influence on behaviour and the tone of the culture. Enron was a good example extreme case of the management setting a risk-seeking tone and establishing a high-risk culture. (CPA Australia, 2008, 5-6.)

2.3.3 Internal controls and employee fraud prevention in small business

Small businesses are exposed to risk of fraud because of the lack of internal controls. There are often no checks, and a single operator can handle accounts receivable, bank reconciliations and payroll. In most cases, internal controls can help to prevent the business from fraud losses. (Mahany 2012, 30.)

Employee theft is one of the most serious problems faced by small business nowadays. The consequences of employee theft on smaller firms can be devastating. Most small-business owners are not sensitive enough to the threat that this form of theft represents and tends to regard it as a cost of doing business. Internal issues, especially employee theft tends to be ignored unless serious problems arise. (Snyder et al. 1989, 48.)

The implementation of appropriate internal control systems is a fundamental and important step in reducing employee theft. Internal control systems must be used in a consistent manner, in the same way, to every stakeholder of the organisation. Effective internal control starts with an appropriate environment within the company that supports and reinforces such values as honesty and integrity. Small-business owners have to communicate in a suitable way with employees concerning what theft is and possible consequences for those committing the offence. Good internal controls can help to increase productivity by minimizing waste, unintentional errors and fraud. In addition, internal controls make it difficult for dishonest employees to flourish by increasing the odds that a thief will be caught. On the other hand, if owners and managers become too control conscious, they can do harm to their businesses. (Snyder et al. 1989, 49.)

Fraud is a risk that almost every business could have. Small businesses are particularly vulnerable to fraud, especially occupational fraud because they often lack the resources needed to provide thorough oversight of the business. It could affect small business even more often than it could affect large companies, because the lack of resources hinders small businesses' ability to implement internal controls and hire additional personnel in order to segregate incompatible duties. It also occurs due to the overwhelming amount of trust that small businesses afford their employees. The most common reason losses happen is that only one person is responsible for the business's financial management. This absence of separation of duties in the business's financial management gives the individual both access to and custody of the business's assets providing an opportunity to commit fraud. (Hrncir, T. 2012, 61-63.)

Many small-business owners prefer to focus on the operational side of the business. They delegate to one employee to have control over all the financial aspects of the business. To avoid becoming a victim of fraud, small businesses can take steps such as demanding accountability from their employees and instituting internal control procedures that can assist in minimizing the chances of fraud going undetected. Many small-business owners think that internal controls are an inexpensive luxury that they cannot afford. Many internal control systems are common sense ideas formalized to protect not only the business assets and income, but also a set of guide-ABC Ltd to create a consistent, known set of employment expectations and business behaviour. (Hrncir, T. 2012, 67.)

2.3.4 Limitations of accounting and control systems

It does not matter, what kind of internal control system is used it only can provide the management with reasonable assurance that stated objectives were reached, due to the limitations listed below:

- The costs to establish internal control procedures not overlapping the possible benefits.
- The potential for human error – a sound system can become fatigue, carelessness, or indifference.
- Collusion between employees.

- The possibility of controls being over-controlled by management.
- Controls being designed to manage only with routine transactions and to ignore non-routine. (ACCA, 2014, 164.)

Moreover, for smaller companies, it is a question of resources. The expertise may not be in the entity and resources associated with time/labour may be constrained. Moreover, even large companies may have less-than-optimal resources, due to lean budgets, a slowing economy, and so forth. (Singleton 2008, 38.)

Management of the companies often overestimates the internal control systems. They consider that an internal control would ensure the organization's success. Unfortunately, it could only assist in reaching the primary business objectives. It could provide management with the relevant business information about the company's progress towards the achievement the stated goals. However, internal control would never turn weak manager into an excellent one. Gaps in government policy or programs, competitors' behaviour or economic situation can be out of the management's control. Internal control cannot ensure success or survival, but it could provide the reliability of financial reporting and compliance with laws and regulations. It could provide management with reasonable assurance regarding the achievement of an entity's objectives. The possibility of achievement is affected by limitations inherent in all internal control systems. It is known, that judgments in decision-making can be faulty, and breakdowns can occur because of simple error or mistake. Moreover, controls can be jeopardised by the collusion of two or more employees, and management can override the system. (Internal Control – Integrated Framework n.d.)

2.3.5 The evaluation of internal control components

2.3.5.1 Tests of control

Tests of control are tests conducted to get audit evidence about the effectiveness of the:

- Accounting and internal control systems, the suitability of its design in order to prevent, detect or correct a misstatement at the assertion level.
- Operation of the internal controls.

Tests of control may include the following:

- Inspection of documents' supporting controls or events in order to obtain the audit evidence that internal controls have performed efficiently (for example, verifying that the transaction has been authorised).
- Inquiries about internal control that determine who performs each function.
- Repeat of control procedures, as bank reconciliations, to ensure the company correctly conducted them.
- Examination of evidence of management view. (ACCA, 2014, 171.)

2.3.5.2 Deficiencies of internal control

It is widely accepted that the reasonable way to deal with internal control deficiencies is to express them in a written form to those people who are connected with company management. The most suitable way is to write a report to management, using guidance of the International Standard on Auditing 265 (Communicating deficiencies in internal control to those charged with governance and management). ISA 265 state that the objective of the auditor is to communicate appropriately concerning identified deficiencies in internal control. A deficiency in internal control appears when the control is created and integrated in such a way that it is difficult to detect and correct misstatements in the financial documents on a timely basis. A significant deficiency in internal control, usually, appears to be the auditor's professional judgement concerning the problems, which are of sufficient importance to attract the attention of management. (ACCA, 2014, 172.)

ISA 265 states that the auditor should identify the existence of the deficiencies and if those deficiencies are crucial for internal control procedures. The significance of a deficiency depends on whether an error has occurred and possibility of an error occurrence. ISA 265 has examples, whether a deficiency is of a high significance:

- Deficiency has an impact on material misstatements in the financial statements.
- The subjectivity to fraud or loss of assets of the company.
- The susceptibility and complexity of determining estimated amounts.
- The volume of activity that has happened.
- The importance of the controls to the financial reporting process.
- The cause of the exceptions identified due to the deficiencies. (ACCA, 2014, 172.)

The ISA also describes characteristics of significant deficiencies in internal:

- Evidence of ineffective aspects of the control environment.
- Absence of a risk assessment process.
- Evidence of an ineffective entity risk assessment process
- Evidence of an ineffective response to identified significant risks
- Misstatements that were not paid attention, and they were not prevented or corrected by the entity's internal control.
- Revising of previously issued financial statements that included a gap for simple commitment of a material misstatement due to fraud or error. (ACCA, 2014, 172.)

3 CURRENT SITUATION

3.1 Interviews and observation

The author had conducted two interviews with the Operations Manager of ABC Ltd before the internship project started. The main purpose of the first meeting was to explore the current situation and to assess the potential usefulness of the thesis that would be conducted for a particular company. In addition, the purpose of the interview was to identify existing problems the company had and discuss it in details. The interview was aimed at the representatives from the management team who had been working in the business for a long time and knew all the issues and difficulties and who could give the author all the necessary information. Such a kind of method gave an opportunity to understand the current processes in the company. The author has prepared thirty-nine interview questions concerning different areas and based on the received answers, the author could subdivide them into several sectors, according to the stated problems. The first part contained general questions about the company, employees and potential problems connected with them. The second part included questions about the Cash Reserve Fund management, clients' accounts management and existing internal control procedures. Finally, the third section was devoted to the current software application which company used and what kind of an accounting program the company would like to utilise instead of existing one. In addition, it was important to identify, what sort of functions a new software program should have. Would it be beneficial for the company to implement that software solution?

The second interview assisted in the collection more detailed information on the current situation about the company and procedures that existed inside the company. The author has not used any prepared questions as the interview took the form of informal meeting and conversation. In addition, the author used observation, as the second method, to explore the situation in details. The majority of the recommendations, outcomes and conclusions had been made based on the observation method.

Now we can proceed to a more detailed description of the current situation in the company and an explanation of the questions of the interview and the results. The author held an interview with K. Wolsh; she is the Operations Manager in ABC Ltd, and she has been working in the business for about 11 years. Interview questions are available in Appendix 1.

3.2 General information about the company and employees

The form of the business of ABC Ltd is Limited Trade Liability Company, and this organisation operates on the market for 18 years. The company started from courses organized for a few students and could expand to four big schools in three different countries. Every year around 1500 students from all over the world are being attracted to study in those schools. There

are more than 500 employees as general staff, and teachers are employed. (Wolsh, interview, 20.03.2014.)

The business is seasonal. Generally, courses start at the beginning of July and last for four-five weeks. The minimum is two weeks. Among all the staff, only three specialists are working full-time; they are Operations Manager, Senior Accountant and of course the Director of the company. The company hires office staff and teachers temporarily for up to five weeks. According to an interview the author has conducted, the company has a constant problem concerning proper employees. As the business is seasonal, hiring and retaining part-time workers is challenging enough, especially when they are being paid for the part of the year, hence to build a sense of loyalty is a very difficult task. "We cannot invite good long-term employees because we have nothing to offer them for the rest of the year." (Wolsh, interview 20.03.2014.)

What concerns the full-time employees, during for the rest of the year, they are involved in doing marketing projects in order to attract as many students as possible. In addition, Operation Manager is employing new people, conducting interviews with potential staff members because it is very important to choose proper teachers for students and people who will take care for children for more than one month. This is important, because children are all from 8 to 17 years. (Wolsh, interview 20.03.2014.)

For the decent amount of the companies, turnover is a major problem. During the short period, the manager must motivate employees, give them incentives and try to make them feel like a part of the company, what sometimes is a quite challenging task. Speaking about employees, the company every year hires different people, mostly students, often without proper background. For some positions, it is not critical, but for such positions as Finance Manager, Logistics Manager it is critical to invite a professional or a student with appropriate background. Employing appropriate employees could help to reduce human error percentage, and for the company, this kind of problem became a serious reason to start looking for qualified workers. Last year, the company suffered the loss for more than £10,000 and among various reasons, human error was indicated as a possible cause for that loss. Every year, starting from the beginning of February, K. Wolsh, Operations Manager in ABC Ltd initiates searching for the candidates for different positions for four schools. Typically, the company invites students or specialists who have already graduated from their universities. The company is using different web platforms to conduct such a kind of search. Most of the employees are from Ireland and United Kingdom. Furthermore, the company is interested in Russian-Speaking employees because about 35% of students are from Russia, especially for schools in England. (Wolsh, interview 20.03.2014.)

Moreover, the company does not organize any training for the staff, mainly due to the reason, that almost all members of the staff are in different countries and the person who provides them with guide ABC Ltd is extremely busy. Employees and the management have a chance to communicate only two or three days before the work starts. Additionally, the company does

not have any job descriptions to send to the employees with detailed information of their responsibilities. The company is planning to organize training procedures for the staff starting from the next year, but it is necessary to develop a job description before the training.

The company's Finance Department has only the Senior Accountant, who runs overall activity of the organization, but in every school, the company employs new specialist or student every year for the position of the Finance Manager. Speaking about duties and responsibilities of Financial Manager, he or she has to:

- Set up the financial desk in the office.
- Control and organise the Student Bank.
- Control Cash Reserve.
- Organise the tuck shop float and control the tuck shop profit.
- Collect the students Security Money, label it, stores it in a safe and returns it at the end of students' stay.
- Maintain statements of the students' financial movements. This is to be printed out and sent home when the student departs.
- Record and document all students who have been pre-paid for excursions.
- Supervise activity staff during the check-in process. Manage/collect the money given by the students upon arrival.
- Count all cash in student bank and Cash Reserve Fund once a week with the assistance of the Centre Manager.
- Maintain and file all receipts and approval forms for Cash Reserve.
- Run the finance office during the hours allocated for students to check finances or request money.
- Work with the House Parents to manage the money request forms and organise the cash for each house parent. (Wolsh, interview, 20.03.2014.)

Furthermore, it is worth mentioning that this year, due to the world financial crisis and not prosperous economic situation all over the world; number of students was 1.5 times less than previous years. Due to this fact, the Director of the company had to reduce staff with one-week notice. He explained this situation with the fact that the school in the last two week would have just 100 students; the company does not need that many teachers and staff. Obviously, the consequences were predictable: low morale, lack of motivation and overall depressive atmosphere have taken place, because when employees were hired nobody informed them about this possible cut-off.

This is all the information about the employment situation in the company. According to the data received, the author could identify that the company has problems with attracting and hiring people with proper professional background, absence of training and high level of human error during the work process. A more detailed examination of issues would be in Problem Statement chapter.

3.3 Cash management and internal control procedures

The area of cash management and internal control is the most problematic one and requires a lot of attention. According to an interview with Operation

Manager and during the observation process while conducting the internship project, the author could have found out that every year the company ends up with financial loss. This is the main problem; the second problem is that the company does not have a proper accountancy system that would be suitable for that kind of company's need, and Cash Reserve Fund handling procedures to control and manage the cash resources.

When referring to the cash resources, we do not mean overall cash of the company, but the amount of money – the Cash Reserve Fund which is given to every school from the company's bank account in England, in order to deal with everyday expenses. Normally, the Cash Reserve Fund should be a small amount for meaningless needs, but in this particular company, it is a lump sum of money, around £15,000. Generally, the company spend the Cash reserve Fund on:

- Tickets to the entertaining activities.
- Dinners during excursions for students.
- Wage advances for staff and teachers.
- Excursions for students.
- Transfer expenses (airport) of students who are arriving and departing.
- Supplies for the office.
- Supplies for students' activities.
- Transfers to the cinema, bowling, Thorpe Park and musical.
- Wage advances for staff and teachers.
- Tuck Shop float.
- Telephone costs.
- Mobile phones for emergency staff.
- Publications, subscriptions.
- Refreshments or meals in connection of business meeting or events.
- Other daily expenses and emergency.

The company does not set up budgets every year, as it is impossible to predict how much money, the school would need for a particular year and what kind of expenses it is going to have. Otherwise, the company needs sufficient control procedures and software application to avoid employees' fraud or misstatement of accounts.

Moving to the part how the company is dealing with the Cash Reserve Fund, the author found out that the company has a very basic system of control. First of all, the Cash Reserve Fund has to be counted and kept in the safe. In case if someone needs money, that person has to fill in the request form, then Centre Manager has to sign the request form and give it back to Finance Manager, after Finance Manager receives the receipt all the necessary information has to be recorded in MS Excel. Every week the Cash Reserve Fund has to be counted, and all the required reconciliations have to be made. Moreover, every day, Finance Manager receives instructions from Senior Accountant via e-mail concerning operations that have to be made with Cash Reserve. Secondly, every time when students go to the cinema, bowling, Thorpe Park and musicals, they have to pay to the school by cash, that kind of transactions also have to be recorded. In addition, students also pay for pro-sport activities; the procedure for those transactions is the same. Of-

ten, either the school or students owe each other money for courses or students did overpayment before, such kind of operations also has to be reflected in the journal. All in all, it became quite difficult and time - consuming to deal with all those transactions without suitable software application, because MS Excel application could not manage with all types of transactions in one file, as it becomes too complicated and increases the potential for human error or misstatement. Consequently, the company needs something simple and at the same time practical and useful for daily operations as stated above.

Moreover, at the end of every week, Finance Manager has to prepare the financial report and present it to the Director of the company. It is the basic report, showing amount of the Cash Reserve Fund left; profit gained from excursions, activities and the Tuck Shop revenue and profit.

As the company uses simple MS Excel, where it is quite difficult to keep all the records in order. Additionally, it is a very elemental system, and that is why the company had financial loss several years in a row. In addition, human error problem was pointed out as the most frequent one and employee's fraud possibility as the fund is not secured enough and there are no suitable instructions and documentation how to keep all the records. In other words, every year, a new employee work as he/she could without any appropriate instructions. In order to minimise such a kind of a problem, the company needs to think about changes of software application to avoid in the future mismanagement of accounts.

It is worth mentioning that except Finance Manager, nobody in the school could help with controlling the Cash Reserve Fund. It makes additional difficulties for the Finance Manager, and it does not comply with internal control rules. That is why the Director of the company admitted last year, that the school needed reliable and simple mean of control the Cash Reserve Fund and integration of affordable software application in order to avoid financial loss, because in the current business environment, the company cannot afford itself to have a loss in such an enormous amount. It is too risky for the company to neglect this problem year by year.

Again, the company does not have any internal control procedure; management has never thought about that because business is not that big to have internal control systems even quite basic one. The company has just Finance Manager, who is dealing with everything, starting from client's accounts and completing with the Cash Reserve Fund. Speaking about Cash Reserve Fund, it is small in amount but big in complexity. Every school has £15, 000 and several years in a row; they experienced loss for about £10, 000. As it was realized during detailed analysis conducted Senior Accountant last year, the majority of problems were caused by non-tracking transactions of the company's money. They spend money but often they do not care what money has been spent on. That forced the company to start development of a new system, because that amount in the end also included the profit of the school and if the company experienced loss year by year, it can quickly go bankrupt in a couple of years.

Besides, it is also worth mentioning that, the Finance Manager operates not only with Cash Reserve Fund but also with students' accounts. It is called clients' account management. First of all, students have to give £100 as deposit money, it is totally refundable at the end of the studies, in case if the student did not break anything or some incident would not happen. Secondly, the school collects students' money and keeps it in their accounts for safety and control reasons. The process is quite simple, as soon as the student wants to take some money, he or she has to come together with the house parent, quickly sign the form and money would be given. Every school has the right to do this type of procedure, because the students' rooms have no locks, and it is unsafe to keep money on their own. Moreover, young students, they do not realize the value of money and can easily lose it. Overall, to keep students' money in order the school has to create an account for every person and keep all the records. Nowadays, the school is using MS Excel but is looking for more convenient software application.

"We are not a bank, but we need to run a system like a bank. We need to produce bank statements to all students at the end of the studies, to make this process automatic. So that students could understand and see every transaction they made" (Wolsh, interview 20.03.2014.)

The software program or development particular forms in MS Excel is reasonable recommendation from the Operations Manager, it would help to keep everything in order and be professional towards all the stakeholders of the organization. In more details, the author represents the solution of this problem in the Development Plan chapter.

3.4 Software application

What is concerned about software application, which the company is using now, as it was stated above, the company is making financial statements using MS Excel application. Financial Manager creates the Cash Reserve Fund disbursement forms in Excel and does accounting of students' money. Besides, the financial report for the Director of the company is implemented in MS Excel as well.

Detailing the advantages of MS Excel application for the company, we can outline several of them:

- The application is cheap.
- Easy to enter and format data.
- Familiarity to most of the users.
- The application has formulas.
- It is possible to edit the spreadsheet.

Unfortunately, this application has some disadvantages for the company:

- Loss of data.
- Sometimes difficult to use.
- Lack of the audit trail.

The most important disadvantage is that the person can change any number at any time. When a number looks incorrect, it is impossible to identify who made the mistake and why this number is wrong. That is why the company needs different software application, to make tracking of data in the spreadsheets more accurate and unachievable to change. This also concerns students' accounts; the company needs a software that could track students' money and create financial statements as a bank, but in the simplest way. Students need that, their parents also need that, and the company itself is interested in an accurate and complete system, because disregarding could lead to serious consequences as loss of customers, negative feedback and spoilt reputation among other language schools.

What concerns requirements for a new software program, it is crucial that the program should be visible and transparent. Second critical condition is a security of entry control – to prevent unauthorized transactions. Besides, in order to reduce human error and fraud, the company is seeking for a software with electronic input of receipts – it allows to control for branch and local managers. The company wants to minimize the potential for mistakes, reduce handling errors. In addition, the primary goal of the company is to reduce fraudulent claims and theft. Besides, it would be a great advantage if the application could be centrally managed, for more control from senior management. Additionally, one of the most important features of desired application are accurate summaries as closing balances, and cash left statements. The software should be simple, understandable and with detailed guidance from representatives, on the order to make training for future employees smooth and efficient. Purchasing software application without proper training or guidance is not what the company needs; hence, one of the requirement is training a session from the software provider. (Wolsh, interview 20.03.2014.)

When choosing brand new software instead the old one, budget is an important aspect. Now the organization came to that stage when the scale of financial loss significantly overweight any possible expenditures on new software application, but potential benefits would easily compensate those business expenses. Moreover, for those requirements that management of the company set, there are plenty of different software applications with affordable price. The company has a sufficient budget for purchasing software application, according to described conditions. (Wolsh, interview 20.03.2014.)

In addition, not only the budget is significant when we are thinking about software change. The second problem is that how the software program is going to be integrated with existing applications and of course, how employees would react on that kind of change. Since the Cash Reserve Fund is almost independent, it does not require to be in intense collaboration with the accounting program which Senior Manager uses. Furthermore, what concerns employees and their attitude to change, as a business is seasonal, every year we have new specialists, and all the necessary training and guidance would be provided. Generally speaking, we see only positive results from the implementation of a new accounting tool. (Wolsh, interview 20.03.2014.)

Mentioned above requirements were only for the Cash Reserve Fund. Students' accounts do not affect financial state of the company at that extent that is why on the current stage the company does not need any particular program for students' accounts. Of course, if student's money is missing the company has to investigate that case, and if it was the school's fault, the Finance Manager has to refund all the missing amount at the expense of the company's finances. Concerning students' accounts, the Finance Manager can keep working with Excel application. The only thing needed is the development of the reliable spreadsheet for tracking students' money and the development of financial statement layout. Restriction of access to the spreadsheet is among the requirement of security control. (Wolsh, interview 20.03.2014.)

This spring the company considered the possibility of implementation of the new software program, but that attempt has failed. Integration has failed because the company does not have proper specialists who could understand and explain the basic instructions concerning the usage of that software. Moreover, the software itself was entirely improper; it could only badly imitate what the company needs in reality, even the interface was totally different from what it should be. Additionally, the program was too expensive. It was reasonable to pay that amount of money if the management could be completely sure that it would help to solve the current issue. However, the management is hesitating as it could lead to undesirable circumstances. (Wolsh, interview 20.03.2014.)

Finally, after conducting the research, the author explored the current situation in the company and have identified existing problems that the company has. The more detailed explanations and analysis of the existing problems would be given in the next chapter.

4 ANALYSIS OF THE CHALLENGES AT ABC LTD

The methods used for the collecting of the data for the current thesis were explicitly discussed in the introduction chapter. The author has chosen methods, which assisted in gathering of all the necessary information, which was needed for the author to conduct the research. In order to analyse the received data, the author would discuss the findings related to the research question. The primary aim of this analysis is to compare the theory concerning internal control and cash management with the current situation inside an organization, processes which are practiced now in the company. By doing this, some possible failure points might be detected, from where suggestions on how to improve the internal control and cash management should arise.

In this chapter, the author would introduce an analysis concerning problems that the company had at the moment and made all the necessary conclusions. In order to conduct the research, the author used an in-depth interview as a research method to analyse data from the respondent. In this case, the primary research method used was the qualitative research where the author held an interview with the Operation Manager from the case company. The second method was the participant observation. During an internship in the case company, the author could collect all the additional information about operations with Cash Reserve Fund, which was needed for the research and the development of the recommendations. During the research, the author could identify several problems that exist in the company. Briefly, those issues mostly related to internal control procedures, Cash Reserve Fund handling procedures, absence of a reliable software application, MS Excel issues, and high susceptibility to human error, fraud and employment problems.

4.1 Employment situation

According to the conducted interviews and participant observation method, the author could identify a quite significant problem with the employment situation in the company. The company has more than 500 employees in all four schools. The business is seasonal; that means those people work in the company just for several weeks in the summer. Only three employees work in the company on a full-time basis. Every year the organization faces the same problem – to find and hire proper employees. Usually, the company invites students, or undergraduates with no experience and sometimes with different background, not connected with the required one. Speaking about teachers, all of them are professionals; the problem is only with office staff. That is an issue for the company, as, they were hiring students with no appropriate experience to the position which do not have any supervision, which means the possibility of error or misstatement increasing as the new employee does not get any guidance, as it happens in large or at least medium-sized companies.

To find the needed specialists the company published announcement on different websites, also, the Operational Manager collaborated with various universities in order to invite students to work in the summer language

school. It is relatively hard to retain people year to year, due to the seasonality of the business. Despite the rather good conditions, employees tend to search for full-time jobs rather than being interested in such a kind of work.

For this particular company, the turnover is a problem, especially for certain positions. Lack of proper motivation from the management side led to increasing of turnover, growth of the human error percentage. In a number of years in a row, the company experienced loss for more than £10, 000 and among different reasons, human error and fraud together with poor cash management and absence of internal control were indicated as possible causes for that loss.

Absence of proper training for the staff is also a problem, mainly due to the reason, that almost all members of the staff are in different countries and the person who provides them with guide ABC Ltd is quite busy, and they have chance to communicate only two or three days before the work starts. The company is planning to organize training procedures for the staff starting from the next year, but it is necessary to develop job descriptions before the training, as it is difficult to conduct control without proper reference on the job description.

One more addition to the above-stated problem concerning employees' issues is the low workers' morale, because the management treated them in a dishonest manner. It concerns sudden cut-off due to the reason of decreasing number of students during last week. Teachers and some part of the office staff had to change plans in a few days, that issue caused a great amount of difficulties what reflected on the whole company's performance.

4.2 Cash management issues

What the cash management and internal control are concerned, those areas are the most problematic and require a lot of attention and development of real, up-to-date procedures. According to an interview with Operation Manager and during the observation process while conducting the internship project, the author could have found out that every year the company ends up with financial loss. Why had that been happening eight years in a row? Main reasons are the absence of the Cash Reserve Fund handling procedure, internal control procedure and suitable software application to keep Cash Reserve Fund expenditures in order. At a first glance, it actually seems very complicated, time-consuming and unnecessary, which is why the management of the company has not taken any actions, as they thought that the business is small and does not require such a kind of changes.

First of all, there are problems with the Cash Reserve Fund handling procedure – the company does not have any at all. Operational Manager gives all the necessary instructions in the form of consultation, rather than as written a manual to which an employee can refer any time. The company devotes £15,000 as a Cash Reserve Fund and does not provide employees with any instructions towards management and control the resources.

Another problem the company has is how it deals with the Cash Reserve Fund. During the observation and the interview, the author found out that the internal control procedure has many deficiencies. It would be more representative if the author listed all the drawbacks that could possibly affect the company's performance:

- Non-tracking of transactions – due to the big amount of money requests, or simply work overload the Finance Manager did not enter transactions and receipts into a spreadsheet. Other employees also contributed to such a kind of misstatement by non-providing Finance Manager with receipts.
- Misstatement of accounts. Former Finance Manager used more than twenty different Excel sheets with almost the same information; it was very confusing to identify where the information was up-to-date and reliable. That information was impossible to check and reconcile with other documents.
- Absence of Cash Reserve Fund handling procedure. That creates misunderstanding between all the parties involved in the process. As nobody knows the proper method, and act accordingly to their own perception concerning how the work has to be done. Which is not always right.
- One of the most serious misappropriations was that the Finance Manager mixed students' money with Cash Reserve Fund that created such a disorder in accounts and during counting the cash so that the company ended up with a loss more than £10, 000. Because students' accounts must be balanced, that did not happen last year that is why the company needs to withdraw the money from their Cash Reserve Fund account and compensate the loss for students.
- As there were no procedures for the Cash Reserve Fund withdrawals, all the employees did not realize the importance of request forms and collected the signatures from Centre Manager, and were trying to avoid that procedure.
- The absence of the proper layout for students' accounts financial statements also contributed to the misconduct and human error.
- Time-consuming process of creating financial report for the Director of the company, especially if the Finance Manager needs to reflect all the expenses and activities that contribute to the increase/decrease of the Cash Reserve Fund.
- Absence of proper layout of the spreadsheet for the Cash Reserve Fund management that creates difficulties both for the Finance Manager and Senior Accountant, as she has to manage financial statements of four Cash Reserves from different schools.

The company currently uses MS Excel to handle the Cash Reserve Fund records, to produce all the necessary financial statements and reports, which recently became quite difficult to keep all records in order. That could be the reason for human error and fraud problem. Those issues have been pointed out as the most frequent ones, to minimize such issues that led to the loss, the company needs to think about to change the accountancy software application in order to avoid in the future mismanagement of financial statements

Furthermore it is essential to provide all employees involved in Cash Reserve Fund management with sufficient training, concerning a new implemented software program. Besides, the program should be secure enough and do not allow the user continually to change the records. That would be the most important factor while searching for a reliable application. The company does not need complicated software application, which would require serious training, updating and implementation issues. Finally, the software market is flooding with different sort of applications for different purposes so it would be relatively easy for a company to find a program they need.

When the author discussed with the interviewee the current state of affairs in the company, one of the most important aspects was raised. This is the budget, for such a kind of new implementations as software program and possible increase in salary for employees with sufficient background. The author was refused to have access to Financial Statements of the company, but Operation Manager assured the author that the company has the sufficient budget for salary extension and new software application.

To sum up, the company definitely has issues with cash management and internal control. It would be better if it installed software application where the Finance Manager could record all the expenses for more careful control and order. Job descriptions have to be provided together with Cash Reserve Fund handling procedures to the Finance Manager and other employees, beforehand.

4.3 Different methods of using the Cash Reserve Fund account

A financial statement that has different payments referred to "miscellaneous expense" or to "Cash Reserve" asset account is misleading or incorrect. The goal of using the Cash Reserve Fund is to record all cash expenditures as expenses, in the appropriate period. Quite often employees make a mistake as recording it to the Cash Reserve Fund account while the account is set up as an asset account without any records concerning actual expenses. This overstates assets and understates costs. (Snyder 2008.)

The company had been trying different methods of Cash Reserve Fund handling, but none of them was successful enough.

There are three different methods, which are used to record the Cash Reserve Fund disbursements. First of all, we can refer to the traditional method using a cash box. The fund is set up with the purpose to pay for all the miscellaneous cash requirements for a month. The Finance Manager has to cut a check, payable to the vendor, and coded to the Cash Reserve Fund account — an asset account. This entry is going to be made just one time to the Cash Reserve Fund account; other future records would refer to the expense accounts. The Finance Manager cashes the check in the bank (for example, £10,000) and places the money in a cash box where it can be locked up and kept secure. When an expenditure is made, a receipt is placed in the cash box to account for the money paid out. (Snyder 2008.)

According to the procedure described by Snyder (2008) the money remaining in the cash box plus the receipts always compose £15,000. If an employee needs a cash advance, he has to fill in the form for the amount withdrawn. The cash in the cash box plus receipts or another confirming documentation and request forms always equals £15,000, the balance of the fund. When an employee returns with a receipt and change, the request form has to be replaced with the receipt and change. In this way, the amount in the Cash Reserve Fund always balances to £15,000. Periodically, the receipts are summarized by expense account, and a check is issued to replenish the Cash Reserve Fund. The amount of the check is equal to the amount that is necessary to bring the fund balance back, in the case of ABC Ltd it is £15,000. This check is coded to each expense account, in a separate transaction, and not to the Cash Reserve Fund account. While the payee on the check is a vendor, the amount placed in the expense accounts would be based on the summary of receipts. The receipts are then stamped PAID in order to prevent employees to use them again. Any shortage is coded to the cash over and short account, recording for all to see exactly when and in what amount of any shortages occurred. (Snyder 2008.) That method was unsuitable enough for the company as the company did not have a software program to keep the records. Moreover, the Senior Accountant and the Finance Manager are different people working in separate departments, so the process would be extremely difficult to control.

The second method is computer method using a cash box. The most difficult part of the traditional approach is summarising and categorizing the receipts. This method uses a computer software to keep records, summarize and categorise expenses by making transactions. Cash box is also used with that method. The fund is established in an amount sufficient to pay all the cash requirements for a period. The check that is payable to the vendor coded to the Cash Reserve Fund account — an asset account. Differently from the traditional method, all future checks for Cash Reserve Fund should be recorded to the Cash Reserve Fund account. The money is placed in a cash box, where it can be locked up and kept secure. When a transaction is made, a receipt should be recorded in the Cash Reserve Fund account register as an expense. The end amount in the cash box now equals the amount in the computer's Cash Reserve Fund account register. If an employee needs a cash advance, the Finance Manager needs to sign the form for the amount withdrawn. Receipts and money in the cash box will vary, but it always equals the register balance. When an employee returns with a receipt and change, the receipt is recorded in the register, and the change is returned to the cash box. In this way, the amount in the Cash Reserve Fund always balances to the computer's register, and expenses are kept in real time. To replenish the Cash Reserve Fund, the Finance Manager needs to deduct the difference between the normal fund balance and the balance in the cash box. Cut a check payable to Cash Reserve Fund and code the check to the Cash Reserve Fund account. This will restore the fund balance to £10,000 in the register and the cash box. Any shortage in the cash box is a difference between the amount in the register and the amount in the cash box. It needs to be recorded to the cash expense account, and provide documents when and in what amount this shortage is. (Snyder 2008.) This method was the most suitable for the company. It meets security and accounting requirements.

Unfortunately, the organization could not find a proper employee to handle the procedure hence, the attempt to introduce something really reliable has failed.

The third method is computer method without a cash box. Sometimes, the owner of the company or designated employee spends their money for necessary business expenses. Hence, no Cash Reserve Fund is set up. If these disbursements are infrequent, all what is required is a payment receipt made to the person who made a payment. This check should be recorded in an expense account with the sum of money, which was paid. This method has the advantage of total absence of shortages, only expenses that are recorded will be reimbursed. The Cash Reserve Fund account is used to track and record costs as they happen. Besides the Finance Manager always knows the exact amount that should be refunded. When a reimbursement document is cut, it should be recorded in the Cash Reserve Fund account. (Snyder 2008.)

The mentioned above method would not work for the ABC Ltd as the company has numerous payments every day, more than ten with amounts more than 100 GBP. Not every employee could have such an amount of money in hand. Finally, that way only increases the potential for fraudulent activity. Moreover, in case if the company has a lot of transactions, it would be more reasonable to use the Cash Reserve Fund account to keep records as they occur and trace a single receipt to reimburse multiple expenditures. In this case, the Cash Reserve Fund account will have a negative balance as each expenditure is recorded, until the moment of reimbursement; then the balance would be zero again.

It is worth mentioning that the last method presumes the fact that if the Director of the company uses the Cash Reserve Fund to make payments, expenses are expected to be refunded. Regularly, the owner of the business pays such a kind of expenses out of the personal account but does not expect to be repaid. These types of costs could be recorded straight to the owner's capital account, as a contribution to equity. (Snyder 2008.)

Having analysed all the described above methods the author can conclude that none of them is fully managed with all the requirements that have been set by the Operation Manager. It is always better to have software application to keep everything in order, as paper - based system could be easily susceptible to fraudulent activity, and sometimes it is quite difficult to check.

Together with the software application and Cash Reserve Fund handling procedure the ABC Ltd would be able to cope with the issues that have been arising for several years in a row. The author would describe internal control procedures further.

4.4 Internal control activities challenges

Controls in the area of purchasing are of a high importance as it is necessary to provide the physical assets of the business with the proper security. Moreover, there is a need to ensure that goods and services correctly purchased and received, and accounted for what is important. Controls are aimed to indicate errors and fraudulent activity.

Area of internal control in the company has some obvious gaps. The author would name them and disclose what exactly is going wrong.

- Segregation of duties: the responsibility for keeping records of assets should be separate from having access to assets. The reasonability for segregation of duties is that the work of one employee should be the basis for the work of another. For example, the accountant should not have an access to the cash and the physical custody of it. The separation of accounting responsibility from the custody of assets is critical for cash because this asset is susceptible to fraud most of all. (Weygandt, 2009, 366.)

In the case of ABC Ltd, segregation of duties is impossible, as the company does not have that many employees to divide between them the process of keeping the Cash Reserve Fund expenditures' records and physical custody of the fund. Instead of that, the reliable procedures and internal control should take place. In addition, the work of the Finance Manager has to be checked weekly by Centre Manager. Besides, Centre Manager would act as an approver of the various transactions, which would replace the segregation of duties and would save the company money, as hiring additional employees too costly for the company.

- Establishment of responsibility: it is an essential principle of internal control. This kind of control is most effective when only one person is responsible for a given task. If just one person operated the cash, the manager could easily determine responsibility for the shortage. If two or more individuals have worked, it might be impossible to identify who is responsible for the error. Establishment of the responsibility often requires restricting access to authorised personnel and identifying that personnel. (Weygandt, 2009, 364.)

What is concerning cash resources in the company, ABC Ltd has adequate responsibility establishment, because except the Finance Manager nobody is dealing with cash resources. The Finance Manager can authorise and approve claim transactions only.

- Documentation: documents provide evidence that transactions and events occurred. By requiring signatures on the documents, the company can ensure that the employee has been designated the responsibility for the transaction. Companies should document the transaction once it occurs. There is a need to establish procedures for the documents. It is important to use pre-numbered documents, and all documents should be accounted for. Pre-numbering helps to prevent the transaction to be

recorded more than once, or from not being recorded at all. In addition, the control system has to require from employees to direct in an appropriate way source documents for accounting entries to the accounting department. This control measure ensured timely recording of the transaction and committed directly to the accuracy and reliability of the accounting records. (Weygandt, 2009, 367.)

That is one of the problematic areas in the case company. The organization does not have any documentation or layouts for keeping records, which means that the Finance Manager has to be the specialist with proper background to create those forms and documents from the scratch. Moreover, all the documentation has to be logically connected with each other and be compatible with the software application. That means provide all the necessary data to keep records concerning the Cash Reserve Fund expenses.

- Human-resource controls: it is important to rotate employees' duties and require employees to take vacations. These measures prevent employees from theft because they would not be capable of constantly hiding their improper actions. (Weygandt, 2009, 370.) In the company, this problem appears due to high overload of employees; they are not able physically to go on vacation as there are a lot of works to do.
- Job descriptions: formal and specific job descriptions are often an efficient tool to prevent a fraud. These descriptions have to contain exactly what the management of the company expects of employees. Generally, employees should not perform duties outside their job description. The need for job descriptions is that it has to emphasise that one employee is responsible for dealing with cash resources. As in the end it would be a lot easier to investigate the case if fraud had been committed. Some cases may result in an entirely appropriate duplication of duties (e.g. double signing cheques). The manager has to specify in the job description that all employees must take annual leave regularly. This is another well-known fraud prevention tool because an employer is more likely to discover perpetrators running an ongoing fraud scheme when they're removed from the scene. Thus, it is apparent that owners approach the process of formulating job descriptions for their employees in an integrated manner. From the perspective of internal control and fraud prevention, different tasks performed by different individuals may be inter-related; therefore, a job description that is appropriate for one employee will often depend on the job descriptions of others, and vice versa. Business owners often neglect or underestimate the need for formal job descriptions, writing them not carefully as one more document which nobody needs. On the other hand, owners create job descriptions but then ignore them. This attitude causes issues. (CPA Australia, 2008, 23.)

In ABC Ltd job descriptions as a tool to control employees and ensure the proper completion of duties is absent. As it was mentioned before, all the instructions were provided to employees during the induction meeting in a brief form. It is obvious that the management of the company has to develop job descriptions, especially for the Finance Manager position.

What concerns Cash Reserve, as stated in the Accounting Principles book, (Weygandt, 2009) better internal control over cash expenses is possible when companies make payments by check. Nevertheless, using checks in order to pay small amounts and pay it quite frequently is not reasonable and time-consuming. ABC Ltd is using the Cash Reserve Fund to pay all the necessary expenses. Eventually, that kind of operation called an imprest fund, but we are not going to operate our fund in this way, as the amount of the daily transactions is quite high and the duration of the business is only five weeks, so it is entirely unreasonable. The most effective way is to establish strong internal control procedures, Cash Reserve Fund handling procedure and implement the software application to deal with the expenses.

4.5 Attempts taken to improve the situation

Previous year the company was intended to install The Big Red Book software. That attempt failed due to several reasons. First of all, the complexity of the program is one of the biggest problems. The software is dealing with a wider range of issues, and it does not have any separate Cash Reserve Fund application. Hence, the Finance Manager would need to use improper software for Cash Reserve Fund demands create in wrong layouts, reports and other documentation. After a failed attempt to produce anything sensible, the company continued to work in MS Excel application.

Moreover, the software was very expensive, especially for five weeks usage. As it was mentioned in a newspaper (Small Business, 2010) that one year ago the organizations would have paid €899 to buy a Big Red Book software, and additionally €192 for the first year's support. Nowadays, they pay €799 for the same software with a year's support included. That was extremely expensive for the company to provide such a kind of application, considering the fact that it was not useful at all.

5 RECOMMENDATIONS AND DEVELOPMENT PLAN

In order to answer the main research question, the author has conducted research about the current situation inside the company. Based on the findings of the implemented research, there have been developed certain recommendations regarding improvement of the situation in the company. First of all, they concern internal control procedures. Moreover, the author developed Cash Reserve Fund handling procedure and suggestion about implementation of a particular software program. Finally, the author developed suggestions concerning, hiring and training new employees.

5.1 Tests of control

It is necessary to develop a plan how tests of control that were described in the theoretical part of the thesis could be applied in practice in a particular company. Some compulsory internal control procedures can be the primary factor in a small business's survival. Basic controls may eliminate or will at least reduce the opportunities for fraud and inconsistencies. In addition, implementing controls is a process that requires money, and controls that provide little or no benefits to the organization should be avoided.

Management has to ensure that all incompatible duties (ones that performed by the same person can tempt that employee to commit fraud) are segregated. ABC Ltd is a small business company. Hence, such recommendations would be too costly for the company, no matter how reasonable they are. There is an alternative way that the author could suggest instead segregation of duties. For example, dual signatures should be required on all the documents, which include transactions with an amount over than 70 GBP. Tasks are delegated to employees so that the duties of one work as a check for the activities of the other employee. Additionally, the owner should consider the statement, compare it to the business records, and investigate any inconsistencies or irregularities. Moreover, the owner should review business reports at least weekly and ask questions about infrequent, unusual items or major supplies. Patterns of payments and checks for pound amounts just below that of the two signatures requirement should be reviewed on a weekly basis.

The purchase system in the company should contain basic internal control procedures, which have to be centred on buying; it is the authorisation first of all, then goods inwards and accounting, mostly recording of the transactions. The basic tests of control would be described further in the Table 3.

Assertion	Control objectives	Controls	Tests of controls
Occurrence and existence	Recorded purchases represent goods, and services received.	For ordering products, there should be authorisation procedures and policies.	Check procedures and policies
		Documents (purchase order) made for every purchase and signed by the Finance Manager.	To ensure proper authorisation check a sample of purchase order
		Each receipt of goods is approved by purchase orders	For the sample of Goods Received Notes there should be properly approved purchase order
Completeness	To ensure that all purchase transactions that occurred have been recorded	Purchase orders are compatible with the suppliers' invoices	Purchase order should match to invoice recorded
		Independent check of the amount recorded	Examine application controls and documentation for evidence of this check
Accuracy	Purchase transactions are correctly recorded in the accounting system.	Purchase orders are the same with the suppliers' invoices.	Examine supporting documentation for a sample of invoices.
		Verification of numerical and mathematical accuracy of invoices	Check the arithmetical accuracy of a sample of suppliers' invoices.

Table 3. Control objectives, controls and tests of controls. Source: ACCA, 2014, 185.

5.2 Development of the Cash Reserve Fund handling procedure

One of the most important recommendations proposed to the company is the development of the Cash Reserve Fund handling procedure. This procedure should be used as a guide how to handle the Cash Reserve Fund and the Financial Manager together with other office members should refer to this guide when working with the suggested software application. Proper procedures help to prevent loss and mistreatment of funds. As the company has more than £1,000 of Cash Reserve, it increases the possibility for theft and provides temptation for employees to avoid regular records keeping.

In the case of the ABC Ltd, the fund is set at the beginning of the working season accounts for £ 15,000, and it is not going to be replenished from time to time. The replenishment procedure could make sense if the company operates at least six months a year. Therefore, the company has to establish the fund of £ 5,000, for example. Then, every month or two replenish that amount. As we have company that runs seasonal business (five weeks) there is no need in the replenishment of the funds, but instead of that to develop records keeping procedures thoroughly.

5.2.1 The Cash Reserve Fund Handling Procedure

5.2.1.1 Introduction

The guide was developed to be the primary source of instructions concerning the dealing with a Cash Reserve Fund for all employees in the company. The purpose of Handling Procedure is to provide the Finance Manager with proper guidance on the Cash Reserve Fund management. Including daily Cash Reserve Fund operations, defining individuals, other than the Finance Manager, who would be responsible for monitoring and overseeing Cash Reserve Fund. The guide will hold the Finance Manager liable for misuse or mismanagement of funds.

5.2.1.2 Definitions

Finance Manager: the individual appointed to manage the Cash Reserve Fund. The Finance Manager is responsible for controlling and safeguarding the Cash Reserve Fund, reviewing requests for disbursing the fund, approving the cash fund transactions and distribution of the money to the requestor.

Requestor: the employee, who is requesting cash accordingly to approved expenses (allowable expenses).

Request Form: the form where the employee who needs a certain amount of money fill in the amount, reason and signs the form then approves that with Approver.

Cash Reserve: the original cash fund set aside for the purpose of making expenditures that are approved. The amount is exactly £ 15, 000.

Approver: the individual who review and approve (or reject) transactions that require the use of the company's Cash Reserve Fund. The signature of the approver on the payment request form verifies that the approver has agreed with the money request. Usually, approver is the Centre Manager.

Documentation: forms, which employees fill in, in order to accompany the process of the Cash Reserve Fund handling. Forms include written records regarding Cash Reserve Fund transactions, cash request form, Cash Reserve Fund establishment form, Cash Reserve Fund reconciliation form. Forms are available in Appendix 2.

Software application: the program which is used for making transactions with the Cash Reserve Fund for authorised items, to produce necessary financial statements and reports.

5.2.1.3 Establishment of the Cash Reserve Fund

The aim of the Cash Reserve Fund establishment is to pay for the approved expenses of the company activities. The fund is set aside in a fixed account used to make disbursements. To establish the Cash Reserve Fund, the Finance Manager has to complete and sign the form. The Centre Manager has to sign the form either. The Centre Manager of the school initiated the establishment of the Cash Reserve Fund is responsible for:

- Ensuring the Finance Manager understands and complies with the policy requirements.
- Ensuring the disbursements are made in accordance with the requirements of the ABC Ltd.
- Ensuring the proper security of funds and prompt reporting of losses.
- Ensuring accountability is maintained for the fund.
- Ensuring the correct amount is promptly deposited with the Operations Manager when the fund is terminated.

The most efficient way to control is to have just one person that would make payments from Cash Reserve Fund and keep the books and paperwork in order. For safety reasons, the only one person should have access to the Cash Reserve Fund. In the case if money is missing, only the Finance Manager is responsible.

If Cash Reserve Fund remained does not match with receipts received it means that there are problems, and significant discrepancies have to be investigated. The Centre Manager should make a regular check to ensure that the money in the safe match the balance in the Cash Reserve Fund account. It is important to be sure that the Finance Manager always gets a receipt for items purchased from the Cash Reserve. This should then be stapled to a Cash Reserve Fund request form. Reference number on the request form is the same as the cross-reference to the Cash Reserve Fund account. Each request form has to be signed by two responsible employees – the Finance Manager and the Centre Manager.

5.2.1.4 Increasing and Closing of the Cash Reserve Fund

To increase the amount of the Cash Reserve Fund the Finance Manager should submit a request to the Senior Accountant detailing the reason for the request and the amount requested as an increase. Centre Manager must sign this form. Senior Accountant will inform the department when this request is approved, and the Finance Manager can withdraw the amount requested from the bank account of the company.

The Cash Reserve Fund should be terminated at the end of the 5th week. It could be done by submitting a written notice to Senior Accountant and Op-

eration Manager, specifying that the fund is being terminated. When terminating a fund, the Finance Manager should ensure that the following is satisfied:

- Outstanding requests are paid.
- Receipts and cash on hand are reconciled.
- All the records are entered in the software application and balanced with the remained Cash Reserve Fund
- The rest of the Cash Reserve Fund is deposited in the Finance Manager Office.

The operations Manager must safeguard the fund and account for the fund's cash. The cash on hand must be counted, receipts reconciled, and the results of the reconciliation recorded in the Cash Reserve Fund form by the Center Manager before the employees, and the current Finance Manager will leave the premises. If the Finance Manager does not complete this step, the Center Manager must reconcile the fund.

5.2.1.5 Roles and Responsibilities

Cash Reserve Fund is the property of the ABC Ltd and must be used in accordance with its applicable policies. It should be under the control solely of the Finance Manager approved in the request form or in his or her absence the Centre Manager should be identified on the form. Below is a description of different roles in the management of Cash Reserve Fund.

Requestor: is the individual requesting money for the approved expenses. The requestor is responsible for:

- Providing the Finance Manager with documentation to support requests for disbursement of funds.
- Providing the Finance Manager with the documentation which proves the disbursement (receipts, invoices). No disbursement could be done without the original receipt.

Finance Manager: the Finance Manager is responsible for controlling and safeguarding the Cash Reserve Fund. The Finance Manager bears the primary responsibility for managing the daily operations of Cash Reserve Fund, ensuring all expenditures from Cash Reserve Fund is in compliance with the company policy and guidelines.

The Finance Manager has to:

- Have an overview of the Cash Reserve Fund management.
- Understand the key roles and responsibilities in the management process.
- Be familiar with the documentation requirements for a Cash Reserve.
- Know how to conduct the daily operations of the Cash Reserve Fund, including transaction approval.
- Be familiar with software application to keep records in order.

The Finance Manager is responsible for:

- Securing and limiting access to Cash Reserve Fund. The Finance Manager has to ensure that the fund is kept in a locked box and stored in a locked office to which only the Finance Manager has access.

- Monitoring the Cash Reserve Fund requests to ensure they comply with the company's policies.
- Keeping receipts and detailed records to support all transactions.
- Notifying the Centre Manager of any change in the account (e.g. theft, surplus, and deficit).
- Regular (two time times a week) counting of the money in a safe box and checking with Cash Reserve Fund spreadsheet.
- Every Saturday sends financial report to the Senior Accountant.
- The Finance Manager has the sole responsibility for the Cash Reserve Fund. If it is stolen, defalcated or faced other irregularities the Finance Manager has to inform the Centre Manager and file a report. The Centre Manager should then notify the Operations Manager and Senior Accountant. After claiming the theft, a copy of the school police report attached to the Cash Reserve Fund Reimbursement. The form can be submitted as a receipt.
- The fund is to be reconciled at least monthly. Count the cash on hand and add up the receipts, the total should equal the authorized amount of the fund. If there is an overage or shortage was caused by carelessness on the part of the Finance Manager, the Director will make a determination as to whether to replace the Finance Manager.

Approver (Centre Manager):

- Acts as a supervisor who periodically check the work done by Finance Manager, and verifies that procedures are conducted in a proper way.
- Signs and approves the Cash Reserve Fund request forms.

5.2.1.6 Managing the Cash Reserve Fund

Cash Reserve Fund is established for such the expenses as:

- Tickets to the entertaining activities.
- Dinners during excursions for students.
- Wage advances for staff and teachers.
- Excursions for students.
- Transfer expenses (airport) of students who are arriving and departing.
- Supplies for the office.
- Supplies for students' activities.
- Transfers to the cinema, bowling, Thorpe Park and musical.
- Wage advances for staff and teachers.
- Tuck Shop float.
- Telephone costs.
- Mobile phones for emergency staff.
- Publications, subscriptions.
- Refreshments or meals in connection of business meeting or events.
- Other daily expenses and emergency.

Those expenses are incurred to conduct the business. Cash Reserve Fund provides the possibility to eliminate the preparation of checks for the above-mentioned items. It is not necessary that they are small amounts, but expenses have a strict record and should not be different from that list. Receipts must be obtained to support the disbursements. The Finance Manager is fully responsible to check and ensure that the disbursement is appropriate and is an allowable expense.

The measures the Finance Manager has to take when dealing with Cash Reserve Fund expenditures:

- The completed Cash Reserve Fund request form (printed, signed, and dated by the Finance Manager).
- Cash Reserve Fund request form must be correctly completed - it should be signed by the person giving the cash, the Approver and the person receiving it.
- The requested amount must be written with letters and numbers.
- If the Finance Manager (the person who authorizes expenditures) is claiming the Cash Reserve Fund request, the Centre Manager has to sign the request form.
- All expenditures must be supported with original and valid receipts. Copies of receipts are not allowed.
- The Finance Manager, Centre Manager and recipient each sign the form acknowledging the receipt of cash.
- Receipts must have complete data of vendor, date, items purchased, purpose.
- The requestor or the Finance Manager completes the Cash Reserve Fund request form.
- The recipient of the money has printed his or her name and the date on the Cash Reserve Fund request form.
- Cash Reserve Fund may only be used to purchase those items that are on the approved list.
- Reason for the expenditure must be written on the Cash Reserve Fund request form.
- The maximum amount is not restricted in case if the individual provides the Finance Manager with all the necessary documentation concerning the upcoming expense.
- In the case if the employee paid from his own money, he must provide the Finance Manager with the valid and original receipt. The payment should not be made without a valid receipt. Where a receipt is not provided, or request form is not signed, the expenditure should not be made. The individual should bear the cost.
- The following items cannot be reimbursed with the Cash Reserve Fund: petrol for the employees, uniforms, staff presents, parties' gifts and flowers, and any personal expenses for individual use.
- The requestor presents the receipt or invoice.
- The Finance Manager distributes cash to the recipient.

In addition, the management has to restrict access to business issued a credit card to only the Finance Manager. Moreover, the policy should be implemented, and employees notified that all receipts must be submitted for validation of credit card charges. Any charges for which an employee cannot provide a receipt for substantiation as a legitimate business expense will become the employee's responsibility to pay. Regardless who is managing the business' finances; someone else should always review the work.

Cash Reserve Fund has to be balanced up regularly, at least two times a week, as there are many payments. By doing this, it is easier to find any mistakes or fraud.

Concerning that money that the company receives from students, they should not be added up to the Cash Reserve Fund. It concerns pro-sport activities' payment, bowling and cinema, Thorpe Park and Musical. It has to be handled separately, and recorded in the income from sales of tickets. After the end of the period, the Finance Manager has to submit all the records to the Senior Accountant in order to enter this income into the overall account of the company. In addition, any payments from students' accounts as the fee for the courses (amount they still due, usually up to 200 GBP) and security deposits in case of emergency have to be kept as income and handled to the Senior Accountant. It is important to transfer that money to the company's bank account, and not use it to top up the Cash Reserve Fund.

5.2.1.7 Safeguarding the fund

The Finance Manager is responsible for safeguarding Cash Reserve Fund and has to ensure that safe is locked and stored in a secure place when not attended by anyone except Finance Manager. The Finance Manager reports thefts of Cash Reserve Fund immediately to Operation Manager and Centre Manager. Any losses or shortages have to be investigated and reported to the Operation Manager straight away and to Senior Accountant. The Cash Reserve Fund is subjected to a sudden check without prior notice and must be available directly on request by Operation Manager or Senior Accountant.

The Cash Reserve Fund Finance Manager is personally responsible for the money that is devoted for the specified purposes in the individual's name. Therefore, the Cash Reserve Fund must be in the control of the Finance Manager, and only the Finance Manager should be allowed access to the fund. It is not allowed to borrow from the Cash Reserve Fund, and no other employees are allowed to have an access to the Cash Reserve Fund safe.

Cash must be kept in a locked cash box, which should stand out of sight of staff members and students. The cash box must be kept during the night in a locked drawer or safe.

A reconciliation of Cash Reserve Fund request form and cash held should be performed twice a week. The weekly settlement or the amounts being handed over should be recorded on the Cash Reserve Fund form. The form should be signed by the Centre Manager, who is responsible for checking the amount. The Centre Manager, who is taking responsibility for counting, should be present when the check is being made. Afterwards Centre manager should sign the form, in order to confirm the correctness of the record. Under no circumstances, the Finance Manager should keep the Cash Reserve Fund together with personal money of staff or use it for private purposes, even on a temporary basis.

5.3 Implementation of accounting software program

Together with the Cash Reserve Fund handling procedure, implementation of software program is one of the primary recommendations for the ABC Ltd. Clearly, the company does not need to buy a new accounting software for its financial department as it functioning without any issues. There is a need for a software application for each of the four schools to operate with a Cash Reserve Fund money. The program has to be easy to use and simple, quite cheap and able to produce all the necessary statements.

5.3.1 WebExpenses – software solution for ABC Ltd

The author conducted an analysis of the existing software applications on the market and concluded that the most appropriate would be WebExpenses Software. The reason is that it is affordable and not complicated for the usage, hence suitable for the seasonal business and high enough employee turnover.

This UK-based specialist (WebExpenses) conducted a survey, and according to that, it was revealed that 94% of respondents prefer using web-based expense claim software rather than traditional paper expense solutions. The research was conducted in June 2007 and has taken into account responses from over 2,000 users of web-based expense software. The companies surveyed ranged from small start-ups to influential organizations across the United Kingdom. The survey respondents included both users who submit or approve payments, and accounts' staff responsible for processing costs. (Accountancy Ireland, August 2007, vol.39 (4), 99.)

WebExpenses provides a robust cloud-based solution in order to reduce the time consumption to conduct the process and management of the expenses. It would save the company's time and money. Moreover, it has user-interface that provides a simple and intuitive experience, requiring minimal training. It is flexible as the software easily meets the exact requirements of the organization. The software is set up remotely, providing the company with quick integration, minimizing time-consumption. It would help to follow compliance as it meets requirements in the UK and other tax jurisdictions, as well as other legislative requirements. (WebExpenses, Brochure, 2014).

5.3.2 Description of the module for the Cash Reserve Fund management

For many businesses, Cash Reserve Fund is an essential item, because access to cash resources for everyday needs keeps business moving. However, using the Cash Reserve, or a paper-based system, is often time-consuming and subject to the human error. Different finance departments consider Cash Reserve Fund management challenging. Therefore, there has been created the guide to aid businesses to solve issues concerning accounting and handling Cash Reserve. (WebExpenses, Brochure, 2014).

There is a five-step process that enables companies to conduct control of Cash Reserve Fund problems and is looking for the company-wide solutions. There is a need to audit all employees who have a relation to Cash Reserve Fund management in order to create united Cash Reserve Fund template to use it throughout the company. While each company is creating their Cash Reserve Fund form to use, this software accompanies every business to find its best solution. (WebExpenses, Brochure, 2014).

Implementing a Cash Reserve Fund management software solution like WebExpenses is the next step after finding out a reliable Cash Reserve Fund handling policy. The purpose is to generate a fully integrated system that aggregates existing financial procedures of the whole company. Management of Cash Reserve Fund system can result in cost reduction for businesses, as well as a transparent system. (WebExpenses, Brochure, 2014).

Cash Reserve Fund can be a tricky area to handle especially in companies with different floats in different locations. Using the suggested software, a business can easily manage with the Cash Reserve Fund spending and identify areas of concern. Cash Reserve Fund management is particularly effective for centralised finance departments, which need to take control of distributed Cash Reserve Fund systems. WebExpenses provides:

- Visibility and transparency – can indicate the areas of misstatement of expenses.
 - Entry control - prevents unauthorised transactions.
 - Electronic input of receipts – control for branch and local managers.
 - Minimise the potential for mistakes – reduce human errors.
 - Reduce or eliminate fraud – minimise fraudulent claims and theft.
 - Centrally managed – head office has primary control over the cash flow.
 - It is possible to control the software with the help of established policy – set and approve limits of acceptable spend.
 - Accurate summaries – closing balances and cash owed.
 - Denomination breakdown – the exact amount what is left in the cash box.
- (WebExpenses, Brochure, 2014).

5.3.3 Five steps to Cash Reserve Fund control

Having control over the Cash Reserve Fund is critical, as the cash is the liquid asset. Paper based systems to monitor cash are time-consuming and susceptible to inaccuracy. Outlined five steps solves the problems associated with Cash Reserve Fund and allows centralized finance departments to gain improved control and efficiency of the Cash Reserve Fund account. (WebExpenses, Brochure, 2014).

First of all, it is important to evaluate stakeholders' opinions: critical step is to research the views of all those involved in the process of accounting, distribution and use of the Cash Reserve. Everyone who is involved has to have a strong opinion on the subject, because it is vital to gain different opinions regarding the problem and to find out that all participants feel committed to the organizational change. Secondly, to write for the company Cash Reserve Fund handling procedure in accordance with gathered opinions. This should be comprehensive, clear and concise. It must not have any

misinterpretations or gaps for possible misstatement in the future. When setting out procedures, it is better to assign responsibility for each step. Terms, such as all expenditures must be properly receipted, who is allowed to issue Cash Reserve, taxi fares only valid if supported by company name, phone number and licensed badge number of driver, have to be defined. Thirdly, it is essential to identify and choose the solution that is compatible with company's needs: implementing a Cash Reserve Fund management software solution like WebExpenses is a complimentary step, actively supporting the introduction of the system. That means that the paper-based policy should work together with software application, only combining it the company could avoid massive misstatements and loss. When applying the solution and procedures, it is important to contact with the vendor to ensure that preparations are scheduled and successfully conducted. The vendor has to include training as a standard part of the integration process. Help and support have to be included as support features into the system. Finally, the Finance Department of the company needs to lead the process to allow successful change of the processes. Management information enables better performance in the organization: the reporting capabilities of the best systems allow organizations to obtain a single view of the Cash Reserve Fund account without obscuring individual details. This allows access to management information that enables financial efficiency of the company. (WebExpenses, Brochure, 2014).

5.3.4 Keeping records in the software application

The WebExpenses Company provided the author with a detailed guide how to deal with the software application. The Cash Reserve Fund functionality in WebExpenses allows the Finance Manager to manage cash boxes throughout the whole organization. By using a Cash Reserve Fund division with different cash box users (that means that four Finance Managers from every school could use that software) the company can ensure that all cash is fully accounted for in an accurate and timely manner, and that records of receipts are kept for reconciliation and examination, if required. The manual is represented in the Appendix 3.

5.4 Recruitment and training of employees

In the majority of companies, no matter whether the business is seasonal or the whole year, one of the most important aspects is its employees. It is the strongest side of any company. Unfortunately, seasonal business has challenges with attraction and keeping good employees, year by year. In addition, if an organization HR department has found good workers, the company wants them to come back next year. The recommendation would be, first, motivation of employees, by giving them incentives, and provision of feeling to them as they are a part of the company. New people are always a lottery that is why it is so important to be able to keep excellent employees from previous years.

The company can afford offering its employees a higher salary. It is more profitable than searching for new workers. Moreover, employees from previous years could take one more responsibility since they already know the business processes in the company. It also could solve the problem of segregation of duties.

Besides, additional training is essential. If the company's management takes a decision to integrate software application, it is very important to conduct proper training for employees. It would be better to provide with necessary training not the only one Finance Manager but one or two more individuals, so that they could quickly replace him/her and apply the segregation of duties policy.

Rotation of job duties also may prevent internal fraud. When the same person works in the same position for a long time, the ability to commit a fraud becomes easier. By occasionally mixing things up, an employee who might otherwise be tempted to steal may worry more about being caught. The reasonable statement that the employer has to inform employees that there is no tolerance for fraud.

Finally, it is reasonable business practice to verify or validate the credentials of any potential employee. Criminal and financial background checks should always be performed on all prospective employees. This is especially crucial for those who are being considered for financial positions.

6 CONCLUSION

The problem of cash management and internal control among small business entities became more serious during the last decade. The owners of such entities feel consequences of the crisis and adhered to careful policy concerning extra investments to tools like internal control or implementing a new efficient software program for business needs.

The management often neglects mentioned above areas, considering it as not important, especially if the company is small, or it is a seasonal business. The reason for that is the limitedness of resources, size of the staff and existence other, more urgent and important issues.

The thesis had been conducted for the English small business entity ABC Ltd. In the current thesis, the author researched the problem of internal control and cash management in the small business company. The researcher investigated the question how to improve internal control and cash management, including the search and implementation efficient software program.

The special aspect of the thesis project was the Cash Reserve Fund management and control. Usually, it is called the petty cash fund. Companies that use the petty cash fund do not spend more than 100-150 GBP per month. However, ABC Ltd established the fund in an amount of £15,000, what caused difficulties. In order to emphasise the significance of the issue, the author called this fund Cash Reserve.

Cash is an asset that is susceptible to the misstatement and fraud most of all, hence, it requires the establishment of reliable internal control procedures and cash management procedures. Moreover, the company also needs efficient software application, which would make possible to keep all the records in the same file and in order. The methods that the author used for the research were: in-depth interviews with the Operations Manager of the company and participant observation, while the author's internship in the case company.

In order to fulfil the purpose of the research, a number of objectives have been established. First of all, to review the theory concerning the areas of cash management and internal control. This would provide with an extensive understanding of the importance and the purpose of internal control, cash management and the connection between them. Secondly, the current state of the procedures in the ABC Ltd is to be evaluated. This is to be achieved through in-depth interviews with Operation Manager in ABC Ltd and participant observation. Thirdly, based on the interviews and the theory, contemporary challenges facing ABC Ltd are to be analysed. Fourthly, considering the results of the research, the author has developed the plan how to deal with the Cash Reserve Fund management, internal control and implementation of a software program. Main findings could be presented to the commissioning organization to gain the feedback.

The most important outcomes the author can conclude from the theory chapter are that the internal control as a tool is crucial for all the type of companies, irrespectively of its size. However, the internal control itself would be useless and not reasonable if the proper environment is absent. Besides it would be too costly for the company. Together with sufficient procedures and measures, this valuable tool should work diligently.

Continuing with analytical part, accordingly to the conducted interview, the company definitely has problems with internal control procedures, absence of an adequate Cash Reserve Fund handling guide and software application, have been causing financial loss for several years in a row. Additionally, weak internal control activities provoked this trend. Moreover, the employment issue contributed to the financial loss situation as hiring appropriate employees is difficult and costly, especially for the seasonal business.

The final part of the current thesis was the development of the recommendations. This chapter was the primary focus of the author. The reason for that was the fact that the management of the commissioning company was intended to implement changes, starting from the current year. Hence, a conducted research was the initial point for that. Moreover, while working as a Finance Manager in the company, the author could estimate in practice the probable company's needs.

The outcomes concerning the recommendation part were: the development of the Cash Reserve Fund handling procedure, identification of control activities that have to be implemented. The major part of the development chapter was the suggestion of the software application with detailed description, so that the commissioning organization would have the total overview how it would look like.

The current thesis could be used in the future by the commissioning organization. Moreover, companies with similar activity and issues, could refer to the current project as well, because the problem of internal control would always be on the surface.

The author could reach all the stated above objectives. The theoretical framework about cash management and internal control was explored deeply with the help of multiple sources. That contributed to the analysis of the current situation and problem statement, clearly identified problems encouraged the author to develop recommendations that could be taken into account by management of the company.

Some of the objectives could be reached in a different manner if the author had more access to company's documentation and the possibility to have an interview with the Director of the company and Senior Accountant. Nevertheless, the research covers all the important and the most problematic areas in the company and satisfies the expectations of the commissioning company.

To implement mentioned above changes, the company does not have to invest a lot of money. It is all about management approach. The only investment the company has to do is to buy the suggested software application to keep the Cash Reserve Fund in a proper way.

While conducting the research and developing recommendations for the company, the author learned useful theory and application of that theory in a real business. Moreover, it was possible to see correlations between different processes in the organization and how they affect each other. The author learned, what kind of consequences could be, if the management team of the organisation would neglect issues as control and cash management, even small in amount, but huge in complexity. The process of the development of internal control procedures and search for a suitable software application for the company was extremely interesting and educative.

Finally, the overall performance of the company could be improved after the implementation of the suggested changes, only if the management start thinking of the problems and would take real actions.

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INTERVIEW QUESTIONS FOR ABC LTD

1. Overall information about business and employees

- 1.1 What is the form of the business? Could you please tell some details about the company as it was quite challenging to find information on the website as it only says about schools and courses?
- 1.2 How many employees are working part time and how many people are working full time in the company?
- 1.3 Is the business is seasonal?
- 1.4 What full-time employees are doing during the rest of the year?
- 1.5 From which countries do you employ people?
- 1.6 People with what background you are looking for?
- 1.7 Speaking about Financial manager position what is included in his/her responsibilities?
- 1.8 What is the level of human error according to previous years?
- 1.9 How do you think, do you really need people with professional background or at least students studying Economy or Finance?
- 1.10 Have you ever conducted any training for employees beforehand?
- 1.11 In your opinion, do human error and fraud effect on the company's finances rather than poor financial management? At what extent?
- 1.12 Does the company has challenges with hiring an employee with professional background?

2. Cash management and internal control

- 2.1 Could you please describe how do you manage cash resources of the school?
- 2.2 Do you set up a budget every year?
- 2.3 What is a Cash Reserve, what is the amount of the Cash Reserve Fund?
- 2.4 What for do you use the Cash Reserve?
- 2.5 How do you typically deal with the Cash Reserve Fund, what is the procedure?
- 2.6 How do you control the Cash Reserve Fund?
- 2.7 Do you have internal control procedures manual?
- 2.8 Do you think that development of internal control procedures will help the company to succeed?
- 2.9 Who else, except Financial Manager, controls the Cash Reserve Fund?
- 2.10 How do you see a new handling and control procedure for the Cash Reserve Fund? What aspects there should be emphasised first?
- 2.11 Could you please tell in details how the company is dealing with clients' accounts and what is the procedure of control for that?

3. Software application

- 3.1 What kind of software application the company is using now?
- 3.2 What are the advantages and disadvantages in your opinion concerning the existing software? Is it safe?
- 3.3 Have you ever thought about new software program?
- 3.4 What are the requirements for that software application? What do you expect?
- 3.5 Do you have a sufficient budget for such kind of purchase?
- 3.6 Are you ready to provide employees with proper training in case if the company would purchase new software?

CASH RESERVE FUND FORMS

CASH RESERVE FUND RECONCILIATION FORM



MONTHLY REPORT TO DEPARTMENT HEAD

DATE

CASH FUND NUMBER

DEPARTMENT

	AMOUNT
Cash on Hand	
Receipts on Hand	
Total Cash and Receipts	
Cash Reserve Fund original amount	
Difference	

REASON FOR DIFFERENCE (IF ANY):

SIGNATURES

I have verified fund status and agree to this reconciliation report:

I have verified fund status, agree to this reconciliation report, and assume management of the fund:

Centre Manager

Finance manager



CASH RESERVE FUND ESTABLISHMENT FORM

Use this form when requesting to establish a petty cash fund for your school, department, or unit.

For the guidance on the establishment, use and handling of the Cash Reserve fund refer to the Cash Reserve Fund handling policy of the company.

CASH RESERVE FUND NUMBER (For General and Restricted Accounting Use)
--

SCHOOL/DEPARTMENT/UNIT	ACCOUNT NUMBER	AMOUNT
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PURPOSE OF THE FUND (Describe the nature of expenses that will be paid using the fund)

ESTIMATED MONTHLY USE OF FUND	IF APPLICABLE, FUND END DATE
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JUSTIFICATION FOR ESTABLISHING THE FUND

MEASURES TAKEN TO SAFEGUARD THE FUND

SIGNATURE OF FINANCE MANAGER	EMAIL ADDRESS OF FINANCE MANAGER	TEL. NUMBER	DATE
NAME OF APPROVER	SIGNATURE OF APPROVER	TEL. NUMBER	DATE
FIN. MANAGER AUTHORIZING ANOTHER PERSON TO PICK UP CASH RESERVE FUND	NAME OF PERSON TO PICK UP CASH RESERVE FUND	SIGNATURE OF PERSON TO PICK UP CASH RESERVE FUND	
SIGNATURE OF SENIOR ACCOUNTANT AND COMPANY DIRECTOR TO APPROVE THE ESTABLISHMENT OF THE CASH RESERVE FUND			DATE

Internal Cash Management and Control Including Implementation of a Software Program

CASH RESERVE FUND REQUEST FORM

Request information	
Note: cash requests must not exceed 70 GBP	
Date:	School:
Amount requested:	Requested by:
Purpose:	
Approval information	
Finance Manager:	Signature:
Centre Manager:	Signature:
Received by:	Signature:

THE MANUAL FOR WEBEXPENSES CASH RESERVE FUNDAPPLICATION

Once WebExpenses has created one or more cash box divisions for the company – the Finance Manager is now ready to create his/her cash box. It is similar to the creation of new users, but it is worth to pay attention to few extra fields. In order to create new cash box user, click on Administration button, and then User.



Figure 1. Creation of new user. Source: WebExpense Cash Reserve Fund Guide

Then, it is necessary to create an email address and name for the cash box. The e-mail address has to be unique in the WebExpense database.

E-mail Address *	<input type="text" value="PCSW@webexpenses.com"/>
First Name *	<input type="text" value="Petty Cash"/>
Last Name *	<input type="text" value="South West"/>

Figure 2. Creation of e-mail address. Source: WebExpense Cash Reserve Fund Guide

There is a need to add between one and three email addresses of people who are allowed to act on this account.

Email Address:	<input type="text" value="auser@webexpenses.com"/>
Email Address:	<input type="text" value="jane.doe@webexpenses.com"/>
Email Address:	<input type="text" value="joe.bloggs@webexpenses.com"/>

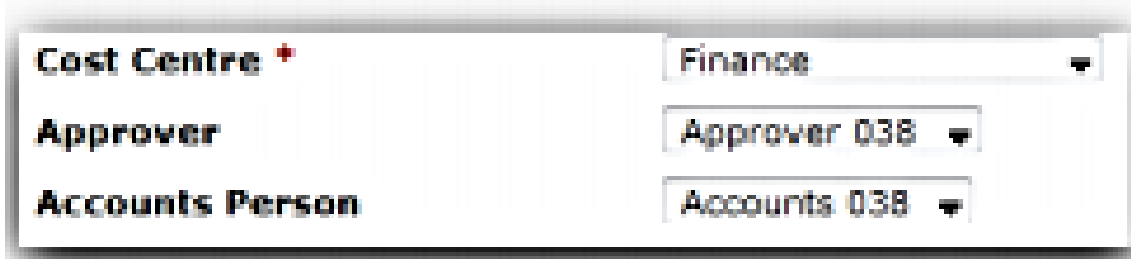
Figure 3. Creation of e-mail addresses. Source: WebExpense Cash Reserve Fund Guide

The initial float field is unique to Cash Reserve Fund users and is the amount of money in the Cash Reserve Fund box before any claims have been made. This amount will be used as the opening balance when submitting the first claim.

This is fixed the amount, and it is not allowed to change that once the claim has been made.

Internal Cash Management and Control Including Implementation of a Software Program

The cost centre has to be defined for the Cash box. The approver and accounts users do not have to be in the Cash Reserve Fund division as they have been added to the cost centre. This allows the Finance Manager to have all of the cash boxes in one division, whilst approvers and accounts people are in different ones. The other fields are all the same as a standard user; it is needed to assign a role as the claimant.



The screenshot shows a form with three rows of fields. The first row is 'Cost Centre' with a dropdown menu showing 'Finance'. The second row is 'Approver' with a dropdown menu showing 'Approver 038'. The third row is 'Accounts Person' with a dropdown menu showing 'Accounts 038'.

Figure 4. Designating employees. Source: WebExpense Cash Reserve Fund Guide

Initially, the Cash Reserve Fund Claimants screen looks the same as any other claimant and in most respects it is identical. The main differences are in the claim header screen and in the submit claim screen.



The screenshot shows a web interface with a navigation bar at the top containing 'Expenses' and 'Reports' tabs. Below the navigation bar, there are three links: 'My Claims (0)', 'Import Mobile Items (0)', and 'Archived Claims (0)'. A yellow button labeled 'Add New Claim' is positioned below the links. Underneath the button is a table with the following columns: ID, Date, Title, GBP, Receipts, Status, and Notes. The table is currently empty, and the text 'Nothing found to display.' is shown below the table.

Figure 5. Cash Reserve Fund Claimants screen. Source: WebExpense Cash Reserve Fund Guide

It is needed to click the Add New Claim button, to create a new claim. This will display the following:



The screenshot shows a form titled 'New Claim Header'. At the top left, there are two buttons: 'Save' and 'Cancel'. Below the buttons, there are two text input fields. The first field is labeled 'Title' and contains the text 'Petty Cash for May'. The second field is labeled 'Notes' and contains the text 'South East branch, 26 employees'. At the bottom of the form, there are two date pickers. The first is labeled 'Start Date' and is set to '01-05-2013'. The second is labeled 'End date' and is set to '31-05-2013'.

Figure 6. New claim. Source: WebExpense Cash Reserve Fund Guide

In the new claim header, the Finance Manager enter a title and description as he/she would for any other claim. The additional requirement for a Cash Reserve Fund is to have a start and end date for the claim. It could be week or month, depending on the company's needs. Dates for subsequent claims have to be contiguous, i.e. if the end claim is on the last day of the month; the next one has to start on the first day of the following month. As soon as the Finance Manager saves the results, the software shows the claim screen.

Internal Cash Management and Control Including Implementation of a Software Program



No	Date	Description	Miles/Km	Category	Ccy	Amount	GBP	VAT	Receipt
1	28-05-2013	Opening Balance		Opening Balance	GBP	100.00	100.00	NO VAT	Y

Figure 7. Claim screen. Source: WebExpense Cash Reserve FundGuide

In a new claim, WebExpenses will automatically add an Opening Balance line, for the first claim this is the value from the initial float setup under the user. For subsequent claims, this will be the closing balance of the previous claim. Additionally, the claim header contains some extra fields:



Claim ID: 43	Status: Open	Opening Balance(GBP): 100.00	Money Received(GBP): 0.00	Expenses Total (GBP): 2.36	Net Due(GBP): 97.64
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Figure 8. Disclosure of the fields. Source: WebExpense Cash Reserve Fund Guide

There is a summary of the Opening Balance, Money Received, Expenses Made, and the Net Due, which is what, should be left in the 'box'.

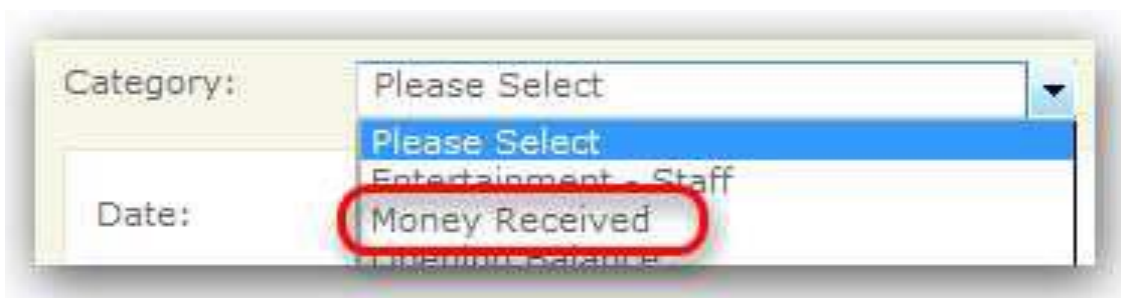


Figure 9. Summary. Source: WebExpense Cash Reserve Fund Guide

The Money Received is the amount that has to be added to the box during the claim period. It is possible to have only one Money Received item per claim; however there is no one in the first claim, as Finance Manager has an initial float set by the Administrator. Money Received has to be added, in the same way, as any other claim item, selecting the particular Money Received category. Entering a claim item is exactly the same as a standard WebExpenses claimant. It is needed to scroll to the bottom of the page then fill in the details and to click Add Item to the Claim.

Category: Entertainment - Staff

Date: 06-05-2013

Amount: 2.38 GBP British Pounds

Description: Vile and Books

Receipt: Yes/No

Country: United Kingdom

VAT: None/Rate/Amount

Add Item to the Claims Cancel

Figure 10. Add claim item. Source: WebExpense Cash Reserve Fund Guide

Once claim items are added, and receipts are submitted, then it is needed to click on the submit button to submit a claim. The top of the submit claim screen looks very similar to a standard claim header, with the difference that the Finance Manager has to click to confirm that the Cash Reserve Fund terms and conditions have been read.

Submit Petty Cash Claim

You have chosen to submit your Claim - Petty Cash for May, 43.
The Claim will be automatically forwarded to Approver 038 your selected approver.

If you wish to add a message to the Claim, please use the text box below.
Please click the submit button to send the Claim when you have finished.
Click cancel to return to your Claim.

I confirm I have read the petty cash Terms and Conditions.

Claim Total: 24.85 GBP

Claim Notes : Sig038 Admin:South East branch, 26 employees
South East branch, 26 employees

Add Notes:

Figure 11. Submitting claim. Source: WebExpense Cash Reserve Fund Guide

There would be a new section to complete:

Cash:	£50	1	50p	0	
	£20	1	20p	0	
	£10	3	10p	1	
	£5	3	5 p	1	
	£2	0	2 p	0	
	£1	4	1 p	0	
					Total: 164.15
Vouchers:	£10	3			
	£5	3			

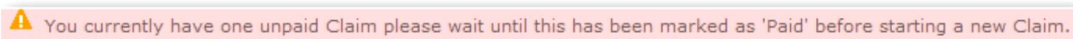
Submit Cancel

Figure 12. Creation of new user. Source: WebExpense Cash Reserve Fund Guide

Internal Cash Management and Control Including Implementation of a Software Program

In this section the Finance Manager enters the quantity of each domination of voucher, note or coin that is left in the 'box'. The Total is automatically calculated and has to add up to the same as the Net Due before the Finance Manager can submit the claim – if the Finance Manager try to submit, he will receive a warning message, what the total should be. Once the total is correct, and the Terms and Conditions box has been ticked, claim can be submitted.

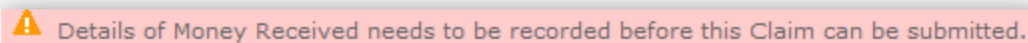
If one claim is opened, it is impossible to create another claim is paid. Otherwise, the following message appears:



⚠ You currently have one unpaid Claim please wait until this has been marked as 'Paid' before starting a new Claim.

Figure 13. Notion. Source: WebExpense Cash Reserve Fund Guide

On the second and subsequent claims, there is a need to add a Money Received item. If the Finance Manager try to submit a claim without one, he will receive the following warning message:

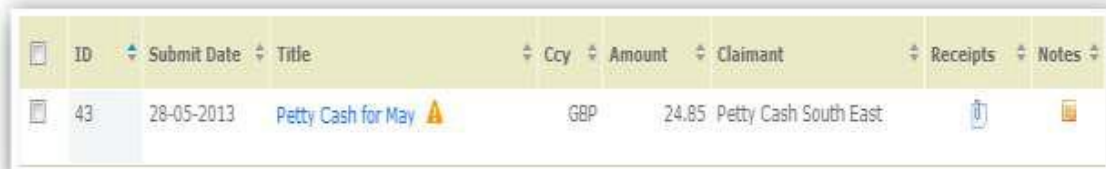


⚠ Details of Money Received needs to be recorded before this Claim can be submitted.

Figure 14. Notion. Source: WebExpense Cash Reserve Fund Guide

The process of accepting a Cash Reserve Fund claim is the same as that of approving a standard claim.

Once an employee has logged in as an Approver, if he or she has any Cash Reserve Fund claims to approve they will appear with an orange triangle:

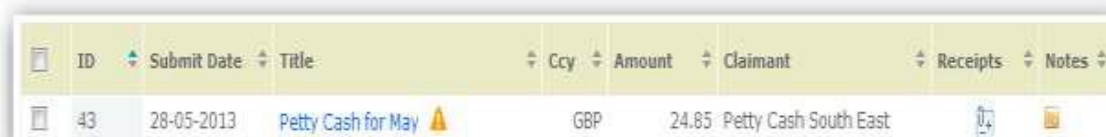


ID	Submit Date	Title	Ccy	Amount	Claimant	Receipts	Notes
43	28-05-2013	Petty Cash for May ⚠	GBP	24.85	Petty Cash South East		

Figure 15. Approvement of claims. Source: WebExpense Cash Reserve Fund Guide

It is possible to review the claim items and receipts, in the same way, as a standard claim, and once an approver is agree with the claim, then he or she can click the submit button.

The process of paying a Cash Reserve Fund claim is the same as that of approving a standard claim. Once an employee logged in as an Accounts Person, if he or she has any Cash Reserve Fund claims to approve they will appear with an orange triangle:



ID	Submit Date	Title	Ccy	Amount	Claimant	Receipts	Notes
43	28-05-2013	Petty Cash for May ⚠	GBP	24.85	Petty Cash South East		

Figure 16. Approvement of claim. Source: WebExpense Cash Reserve Fund Guide

Claim are to be reviewed together with receipts in the same manner as standard claim. And once the Finance Manager is agree with the claim, then he or she click the Pay button.

