CORPORATE FAILURE

A CASE STUDY OF FINANCE COMPANY

FAILURE FOR NOT FOLLOWING INTERNAL CONTROL SYSTEM

A PROJECT PAPER SUBMITTED TO

THE MARA INSTITUTE OF TECHNOLOGY

IN PARTIAL FULFILLMENT OF THE REQUIREMENT

FOR THE ADVANCE DIPLOMA IN ACCOUNTANCY

PREPARED BY:

Name	:	Mongis bin Mangir
ITM I/C No.	:	90652586
Date	:	February 1993

TABLE OF CONTENTS

ABSTRACT.

Corporate failure are everywhere in the world - and quite often we heard business corporation suffered losses because of mismanagement.

In this project paper, I like to share my experience about a credit company incurred losses primarily because the top management failed to appropriately managed the internal control system.

Financial statement has been a very useful tool to evaluate the strength of a company. However financial analysis can hardly evaluate how effective management managed the internal control system of the company. Thus shareholders and investors who are in the dark about the internal affairs of the company become the potential victim of mismanagement.

It is hoped that the findings in this paper could be beneficial to the potential future managers in their managerial approach.

INTRODUCTION.

Confidence of shareholders and investors is reflected in the profit made by the company. The higher the profit made, the more confidence they are with the company.

Those shareholders and investors must have relied on the financial statement of the company as the main source of reference.

But financial statement has its limitation. It does not disclose anything about internal control or credit management of the company. The company is not liable for not disclosing its internal control system or credit management in the financial statement since this is not required by the law. However from the viewpoint of shareholders and investors, they are at disadvantage because indirectly their investment are at risk for having zero knowledge about the internal control system or credit management of the company.

It is not unusual that a company which has been showing good business performance over the past years, all in the sudden making huge lossess. Unfortunately by the time, such lossess were disclosed in the financial statement, it is already too late for the shareholders and investors to react.

It would definitely be a real disappointment to these shareholders and investors when they discovered that the lossess were merely due to internal affairs.

OBJECTIVE OF STUDY.

The objective of this paper is to highlight some aspects of internal control system that could be detrimental to the company if it is not appropriately managed.

An organisation consists of personnel (management and employees), policies, rules and regulation which all the personnel are required to abide and objectives to be pursued.

Policies, rules and regulations that have been laid down in blueprint are served as an internal control system.

Such an internal control system is considered nonfunctional when:

a) The designing of the system itself is incomplete, irregular and or not clear.

b) Violation or neglected by the personnels who are supposed to obey the system.

c) Errors arise due to carelessness, faulty judgement and communication breakdown.

d) Collusion among person within and outside the company including management.

The first criterion has the least probability but the other criteria are more likely to occur if management is relaxed or having indifferent attitude towards its internal control management.