

## **REVIEW OF RELATED LITERATURE**

The accounting and administrative system of an entity may be simple, or they may be massive and complex. Independent public accountants; internal auditor, managers will be required to make periodic studies of the accounting and internal control such a system. It could be impracticable, if not imposing procedures affecting all types of transactions and plans. There will therefore be a need for the system internal control system to exist or be established in the organization to ensure simplified in the organization to ensure simplification in the accounting and the whole system, this is not only acceptable but also desirable and necessary. In order to fully understand the subject matter of this topic it is necessary to review the opinions of others in this field. In this chapter, the following subheadings will be discussed;

What is revenue?

What is internal control system?

Objectives of internal control system

Types of Internal control system

Components of internal control system

Functions of internal control system

Internal control and the auditor

Operation of internal control system at power Holding company of Nigeria.

9. Limitations of internal control system.

### **WHAT IS REVENUE**

Revenue refers to the monetary event of asset values increasing in the firm due to the physical event of production or sales of the products or services. Some companies also receive revenue from interest, dividends or royalties paid to them by other companies. Revenue may also refer to the amount in a monetary unit received during a period of time. Revenue is associated with products or services of the firm as the source of the expected cash receipts the asset value increasing in the firm occurs because the firm undertakes certain activities or there is performance by the firm. The above may not be achieved without a sound internal control system in that organization or company. Thus in Kam (1989:237) FASB defined revenue as inflows or other enhancements of assets of an entity or settlements of its liabilities (or combination of both) during a period from delivery or producing goods, rendering services or other activities that constitutes the entity's ongoing major or central operations.

### **WHAT IS INTERNAL CONTROL SYSTEM**

The concept of internal control is still being viewed by many people from a narrow perspective as being the steps taken by a business to prevent employee's fraud. Actually such measures are rather a small part of internal control. It is a fundamental aspect of managements responsibility to provide interest parties with reasonable assurance that their organization is effectively controlled and that the accounting data it receives on a timely basis are accurate and dependable. This assurance is provided by developing a strong system of internal control. In accounting and auditing, internal control is defines as a process effected by an organization's structure, work and authority flows, people and management information systems designed to help the organization accomplish specific goals or objectives it is a means by which an organizations

resources are directed, monitored and measured. It plays an important role in preventing and detecting fraud and protecting the organizations resource both physical and intargetable e.g trademark. Millichamp (1992:79) says that internal control system refers to the whole system of controls financial and otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguarded assets and as far as possible the completeness and accuracy of the records the individual components of an internal control system are known as controls or internal controls. In addition Meig's et al (1982:139) further refers to internal control system as consisting of all measures employed by an organization to: i. Safeguard assets from waste fraud and inefficient use. ii. Promote accuracy and reliability in accounting records. iii. Encourage and measure compliance with company policies and iv. Evaluate the efficiency of operation. Internal Control extends beyond the accounting and financial functions. Its scope is company indent and touches all activities of the organization. It includes the methods by which top management delegates authority and responsibilities. It should be concerned with the efficient use of resources to achieve a previously determined objective or set of objective. The need to perform audit engagement in accordance with Companies and Allied Matters Decree (CAMD) 1 of 1990 and strict adherence to Generally Accepted Auditing Standard (GAAS) has prompted the need for internal control in organizations.

### **OBJECTIVES OF INTERNAL CONTROL SYSTEM**

The objectives of internal control system includes: a. To carry on the business in an orderly and efficient manner to ensure adherence to management polices safeguard its assets and secure the accuracy and reliability of the records. b. To make and keep books, records and accounts which in reasonable detail, accurately and fairly reflect the transactions and the dispositions of the assets of the issuers. c. To devise document and maintain a system of internal accounting control sufficient to provide assurance that; i. Transactions are executed in accordance with managements general or specific authorization. ii. The recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any difference. iii. Transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statement.

### **TYPES OF INTERNAL CONTROL SYSTEM**

The internal control system consists of two main categories;

Administrative control

Accounting control

### **ADMINISTRATIVE CONTROLS**

Defliese, et al (1975:85) says administrative control is not Limited to the plan of the organization and the procedures and records that are concerned with the decision processes leading to management authorization of transactions. As a management function, authorization is directly associated with the responsibility for achieving the objectives of the organization and is the starting point for establishing account control of transactions. The importance of administrative control is reflected in the fact that the prime responsibility of management is to operate the organization within the available resources, it must be able to operate at acceptable cost, and use its limited resources in an efficient manner. To accomplish the above, management must develop the requisite policies needed to promote efficiency in every area of activity. These policies must be implemented through proper personnel selection, training and

management.

**2.4.2 ACCOUNTING CONTROLS** These comprises the plan of organization and the procedures, measures and records that are concerned with the safeguarding of assets and the reliability of financial records and consequently are designed to provide reasonable assurance that transactions are executed in accordance with management general or specific authorization.

## **THE IMPACT OF INTERNAL CONTROL ON REVENUE GENERATION IN AN ORGANIZATION**

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