

Internal Control over Fixed Assets: The Case of National Tobacco

Enterprise

By

Bistrat Tesfaye

Faculty of Business, Department of Accounting

1. Background of the study

National Tobacco Enterprise (NTE) was a state owned organization under the Public Enterprise Supervising Authority. Initially it was established as the Imperial Ethiopian Tobacco Monopoly in 1942 G.C with a paid capital of ETB 50, 000.00. At the time of the start up of its operation, the enterprise had a capacity to produce only 112 million pieces of cigarettes annually. At present, the plant has a plan attaining a capacity of producing 3.5 billion pieces of cigarettes annually and has already achieved only about 70% of its capacity, which is nearly 2.05 billion cigarettes. This constitutes 100 percents of the total domestic production. Hence, tremendous improvements have been made to enhance its productivity and enable it to be profitable. However, since Septembers 1999 E.C., it has been re-established as a share company with paid capital of 250 million birr and a share of capital stock 250,000.00 each at per value of ETB 1,000. About 78 of shares are under possession of the government while the rest 22 shares are in the hands of foreign investors.

The enterprise has the following duties and responsibilities

- ❖ Producing tobacco and related production including candles
- ❖ Distribution of local and imported tobacco products to wholesalers and
- ❖ Importing different brands of cigarette for local consumption

2. Statement of the problem

Fixed assets, being high cost items, need to be efficiently utilized in every day operations. Control over fixed assets may encompass acquisition, recording, usage and disposal of plant assets. Despite the fact that National Tobacco Enterprise is owned and controlled by

the government, its control practice over its fixed assets is not in line with the benchmarking theories. Beside, many policies issued by overrunning bodies in Ethiopia seem not to have adequate provision regarding the control of fixed asset. This may lead the organization to waste material and money due to mismanagement of plant assets are naturally high cost of items.

3. Objectives of the study

The study is carried out to address the following objectives

- ❖ To see whether fixed assets are correctly recorded, adequately insured, properly maintained and appropriate depreciated.
- ❖ To show that acquisition, disposal and proceed from sales are properly authorized.
- ❖ To check weather annual capital expenditure is submitted to approval and authorized by the respondent body.
- ❖ To indicate that fixed assets are physically inspected and checked when received and stored.
- ❖ To see depreciation rate reviewed annually and calculated for checking its accuracy.

4. Research questions

The study revolves around seeking answer for the following basic questions.

- ❖ Are plants assets acquired after conducting adequate market research?
- ❖ Is there any approval of senior management in case of transfer of fixed assets (from department or unit to another department or unit)?
- ❖ Is identification number marked on the item easily removable?
- ❖ Is there any change in identification number when fixed assets are transformed from one department to another?
- ❖ Are there any discrepancies between the book record and the result of physical verification of fixed assets?
- ❖ Is there any formal procedure for identifying and reporting damage, obsolete and idle fixed assets?

5. Research Methodology

Descriptive research method was used for the study. The target population was employees of the organization working in the finance department. To select respondent, the researcher employed judgmental sampling. To include the fixed assets of the enterprise, stratified sampling was used. A total of 14 strata have been formed on the basis of classification of fixed assets. Both primary and secondary data were used. In order to collect primary data apart from administering questionnaire, interview, personal observation regarding acquisition, recording, safeguarding, authorization and disposal of fixed assets were also made.

6. Summary of findings

The finding of the study is summarized in four heading: acquisition, recording safeguarding, authorization and disposal.

6.1 Acquisition

- ❖ There is no adequate market research in the company before plant assets are acquired
- ❖ Purchase price, freight- in and installation costs capitalization when plants assets are acquired.

6.2 Recording

- ❖ There is a formal procedure in the company for the proposal preparation and issuance of budget, performing physical inventory as well as location and layout in the organization and its branches;
- ❖ There is no formal procedure for identifying and reporting damaged obsolete and ideal fixed assets.
- ❖ There is a company record that adequately classifies and identifies individual items maintained in the enterprise. The records are reconciled periodically to fixed asset counts.
- ❖ Fixed assets system and appropriate accounts are reconciled quarterly but capital asset subsidiary accounts are balanced to the capital assets control account annually.
- ❖ There is agreement on

- ◆ Opening balance with prior year working paper
- ◆ Ending balance with general ledger accounts
- ◆ Movement with total of supporting schedules of addition and disposal.
- ◆ Depreciation total with supporting schedules of depreciation.
- ◆ The company computes fixed asset depreciation correctly and by the rate that is given by the government.

6.3 Safeguarding

- Custodian of the capital assets and taking the annual inventory and reconciliatory of fixed asset system in the control accounts and making entries is performed by different person.
- Custodian of the capital assets and tagging, investigating the missing capital assets and making entries in the general ledger is performed by one person.
- The storage place for the fixed assets is not clean and it is difficult to handling and movement.
- There is a good physical security of fixed assets.

6.4 Authorization

- There is a formal original chart defining the responsibility of purchasing, Receiving, approving, and performing the inventory.
- There is authorized person who approve movement of fixed assets from store to office.
- Assets receipts approved by designated person with person in authority.

6.5 Deposal

- Gains or losses are recognized from disposal of capital assets.

7. Conclusion

- The company has no strong market research when fixed assets are purchased.
- There is no formula and procedure for identifying and reporting damage, obsolete and idle fixed asset.

- Custodian of capital asset and tagging, investigating the missing capital item and making entries in the general ledger shows that there is no longer segregation of duties.
- Fixed assets are stolen or vandalized but there is no report that indicates the assets are stolen or vandalized to the responsible body.
- Tag numbers is given when fixed assets are purchased; this tag number, however, is easily removable.
- Identification number given to a fixed asset is changed when fixed asset is moved from one office to another.

8. Recommendations

Based on the preceding findings the researcher would like to recommend the following.

- Making strong marketing research is advisable during the purchase process of fixed asset. Because it gives good information for the company about durability, quality, reasonable price and others.
- The company should have a formal procedure to identify and report damage obsolete and idle fixed asset.
- Tag number should be written by permanent marker rather than temporary marker.
- In order to protect temporary and permanent loss, permanent loss identification number given to a fixed asset should not be changed when fixed assets are moved from on office to another.