

## WEAKNESSES, RISKS AND INTERNAL CONTROLS

- It is important for you to be able to differentiate between a weakness, a risk and an internal control.

- **Weaknesses**

(What is the company currently doing wrong?)

**VS**

- **Risks**

(What is the consequence of the weakness, what can go wrong, the financial implication?)

**VS**

- **Internal controls**

(What should be implemented to mitigate the risks?)

### For example:

The following is a brief description of a **function** in an everyday credit sales transaction of Big Clean:

- Once an order from an existing client is received, it is immediately recorded on an internal sales order (ISO) by the order clerk and sent to the warehouse for picking and despatch by the warehouse clerk.

**Weakness:** The order is not checked against the approved customer list by the order clerk before accepting the order.

**Risk:** Sales might be made to an unapproved customer and may result in the customer not paying his account.

**Internal Control:** The order clerk should confirm the customer is approved by checking if the customer is on the approved customer list.

- You should be able to identify weaknesses and risks in a business cycle, in order to be able to understand and apply internal controls in the cycle.
- When you do questions on weaknesses, risks and internal controls,
  - first determine in which cycle you're in. For example - Receipts and Revenue
  - then, determine in which function you're in. For example – Receiving Customer Orders (Jackson & Stent p 10/10)
  - What is being asked – is it weaknesses, risks or internal controls? If the question asks for weaknesses, and you give internal controls / risks, you will not receive any marks. So read the questions very carefully.