

AUE 2602

Corporate Governance in Accountancy

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Important Information

Assignment 1 due: **13 April 2018** (5%)

Assignment 2 due: **13 April 2018** (15%)

Remember the submission of either assignment allows you entry into the exam and will be used in calculating your year mark.

Important Information

myUnisa has the following resources:

- Prescribed study material
- All tutorial letters
- Past examination questions
- Discussion forums
- Additional resources
- Etc.

Make sure that you familiarize yourself with the information contained in myUnisa and MO001

Structure of Course

- Topic 1: Corporate governance and statutory matters
- **Topic 2: Internal control**
- Topic 3: Business cycles
- Topic 4: Revenue and receipts cycles
- Topic 5: Acquisitions and payments cycle
- Topic 6: Inventory and production cycle
- Topic 7: Payroll and personnel cycle
- Topic 8: Finance and investment cycle

Topics covered today

- Topic 2: Internal control

TOPIC 2

Internal Control

What is an Internal Control?

It is procedures designed to address and limit potential risks

Types of risks

- Safeguarding assets of a company
- Preventing fraud
- Complying with laws and regulations
- Producing reliable financial information → Financial statements
- Effective and efficient operation of business

Internal Control

Are internal controls 100% foolproof?

No, as no single control can neatly address each identified risk. Thus as internal controls can be fallible, they work best in combination.

E.g. Whilst a student card is required to enter the university library, the security guard at the entrance gate should inspect the photo on the student card to confirm that the person entering the library is indeed the authorized user for that card.

Note that there are two controls in place before you can enter the library:

1. **Presenting** your student card
2. **Inspection** of the student card by the security guard

Internal Control

Does internal controls have limitations?

Yes, as internal controls does not provide absolute assurance that the risks, that threaten the achievement of the objectives of the business, will be adequately responded to. This is due to the **inherent limitations** of internal controls

What are the **Inherent limitations** of internal controls?

- **Cost** of internal control does not exceed the expected benefit
- Tendency to be directed at **routine** transactions
- Potential for **human error**
- Possibility of circumvention of internal controls through **collusion** (conspiracy)
- **Management overriding** an internal controls – abuse of responsibility
- **Changes** in conditions resulting in internal controls becoming **inadequate**

Internal Control

Who is responsible for internal controls in the business?

Everyone is, this includes the board of directors, management and employees.

- The board has overall responsibility and accountability
- Management identify risks, design and implement policies and procedures to address risks.
- Employees execute internal control procedures.

Thus the success of internal controls depends on **all parties** involved.

Internal Control

Components of internal control

What are the components of internal control?

There are **five** components to internal controls, they are:

- Control environment
- Risk assessment
- Information systems
- Control activities
- Monitoring of controls

Internal Control

Components of internal control

1. Control environment

The control environment sets the **tone** of the entity and creates the **atmosphere** in which employees go about their duties. The desirable mind set is one of “doing things the right way”

2. Risk Assessment

King IV states that the board should ensure that risk assessments are performed on a continual basis. Risk assessment is important because internal controls are designed and implemented as a **response** to assessed risk. It is therefore critical that the risk assessment process is comprehensive, accurate, thorough and complete.

Internal Control

Components of internal control

3. Information System

The objective of the information system and its subpart, the accounting system, is to produce information that is **Valid, Accurate and Complete** and **timeously** produced

4. Monitoring of controls

The monitoring of controls involves the **assessment** of internal control performance over time. If controls are not monitored, the board or management will not know if the entity's financial reporting is reliable and whether the laws, regulations and company policies are being complied with.

Internal Control


Components of internal control

5. Control Activities


Control activities are the **actions** carried out to **manage** or **reduce** risks and to achieve the entity's objectives.

Types of control activities include:

- Approval, authorization
- Segregation (division) of duties
- Isolation of responsibility
- Access/Custody
- Comparison and reconciliation
- Performance reviews



Make sure you understand the difference between Segregation of duties and Isolation of responsibilities



There is no point in comparisons and recons if differences are not followed up and remedial actions taken

Control activities can be **Preventative**, **Detective** or **Corrective** in nature.

Controls in a Computerized Environment

What controls are there in a computerized environment?

1. General controls
2. Application controls

Note: General and application controls can be **manual** (performed by humans/physical controls) or **computerized** (performed by the computer)

Does controls in a computerized environment touch on all components of internal controls?

Yes, refer to your MO001, page **61** for a diagrammatic representation illustrating how general and application controls relate to **all the components of internal controls**

Controls in a Computerized Environment

General controls

Are defined as those controls which establish an **overall framework** of control for computer activities.

They are controls which should be in place **before** any processing of transactions gets underway and they span **across all applications**.

As general controls operate “**around**” the application controls, if your general controls are not adequate, the application controls might not be of much use.

Controls in a Computerized Environment

Application controls

Are any control within an **application** which contributes to the **accurate** and **complete** recording and processing of transactions which have actually **occurred (valid)**, and have been authorized (Occurred, accurate and complete information)


The stages through which a transaction flows through the system can be described as:

- **Input** (e.g. read in sales transaction)
- **Processing** (e.g. calculate VAT on sales transaction)
- **Output** (e.g. printout of invoice on sales transaction)

Application controls can be described in terms of these activities, e.g. an application control relating to input.

Past examination questions on Topic 2

Past exam paper	Questions on Topic 2	Marks
May 2017	Q 1.3, Q 1.4, Q 1.5	24 marks
Oct 2016	Q 2.1, Q 3.5, Q 3.6	28 marks
May 2016	Q 1.5, Q 2.1, Q 2.2	23 marks
Oct 2015	Q 1.5, Q2.2	16½ marks
May 2015	Q 3.2, Q 3.3	22 marks
Oct 2014	Q 3.3	15½ marks
May 2014	Q 3.1, Q 3.2	20 marks



In the next session, we will cover the
Introduction to the Business Cycles

Thank You