

Finance and investment cycle

Compensating Controls

- Planning
- Authorisation
- Implementation
- Review & approval

Fraud in the cycle

* Fraudulent financial reporting

- creating unjustified reserves with a corresponding inc. in fixed assets.
- Omitting long term liabilities
- undervaluing long term liabilities
- overstating PPE etc by including fictitious assets/assets company don't own.
- overstating PPE, vehicles etc by understating depreciation & impairment.
- overstating investments in listed / private companies
- understating / omitting provisions/allowance
- omitting / inadequately disclosing contingent liabilities.

* Misappropriation of assets

- making unauthorised use of company's asset for personal use.

INVENTORY AND PRODUCTION CYCLE

	WAREHOUSING	PRODUCTION
Functions	- Control transfer of goods in & out of all warehousing facilities - Physically protect inventory in all warehouses.	- Manufacture the company's product. - Requisition and receive components from warehouse. - Control costs during manufacture. - Record actual costs - Account for items produced & transfer them to W.H. - Compare actual & budgeted costs
Documents	* G.R.N * Material requisition * Picking slip * Delivery note * Material Issue Note * Transfer to FG note * Inventory count * Perpetual inventory records	* Material requisitions * Material issue note * Job Cards * Production Schedules * Production Reports * Transfer to FG Note
Risks	* Goods received from suppliers are not transferred into the warehouse timeously or at all. * Inventory stolen or lost * Inventory deteriorates in value * No records of goods/components physically moved. * Goods issued are incorrect resulting in lost sales * Inventory shortages are concealed.	* Unauthorised requisitioning/issue of material. * Issue of incorrect material. = losses or delays * Failure to budget costs properly resulting in selling prices which are too low. * Failure to monitor actual expenditure & identify variances. * Failure to control transfer of finished goods to the finished goods store.
Control Activities	* No movement of inventory without authorising document. * No movement of inventory without it being recorded. * acknowledge transfer between sections. * Documents should be sequenced & filed numerically. * Documents sequenced checked & missing docs investigated.	* Costing Schedule prepared for all products to be manufactured. * No material issued from inventory without material requisition which has been checked against auth. Job card. * Job card held in pending file until production done. * Completion of Job, a sequenced "transfer to f.g form" should be made. * Job card removed from pending and costed. * check all calculation by a second clerk. * File Job Card numerically * All process runs recorded on production schedule. * As items completed, a sequenced "Transfer to f.g form" completed. * Performance reports used to measure perf. by prod shift. * Completed production schedules & perf. reports sent to Costing. * Actual costs compared to standard cost & Variance evaluated.
	<u>Controlling damage, theft and loss of Inventory (WH + Production).</u> <u>Physical Control</u> - entry & exit (min points) - controlled entry & exit (Swipe Card) - restricted entry (off employees) - secure building (windows etc) - environmental (dry, clean) - surveillance (camera)	<u>Comparison & reconciliation</u> - Physical inventory vs theoretical - actual production vs production schedule - actual production vs budget. - all material variances investigated.

For Job cost basis

Process Costing

PAYROLL AND PERSONNEL CYCLE

Personnel (HR)	Timekeeping	Payroll Preparation	Pay Prep & Payout	Deductions
Payroll Amendment form Employees File Employee Register - Assist with all personnel matters to ensure optimum efficiency. - recruitments; Dismissals - wage negotiations - labour disputes - staff development. - Maintain accurate, compl & valid records for all employees.	Clock Cards Batch Control Sheet Batch Register - Keep accurate and complete record of valid hours worked. - system which requires employees to pass a clockcard to record arrival & departure time. - Daily hours clocked will be calculated & totalled & sent to payroll preparation.	Clock cards Deduction tables Payroll Updated list of employ. - calculate gross wages and make deductions to arrive at Net wages - employees authorised hours must be multiplied by authorised normal & overtime rates.	Payroll Payslips Paypackets Unclaimed Wages Register - Prepare paypackets containing cash & details of how cash is made up. - Paypackets then distributed. Unclaimed wages also recorded.	General Ledger Payroll CPJ Return form - Record liabilities in respect of deductions from employee remuneration and to pay these timely. - Deductions are made from employees wages on behalf of outside bodies. eg PAYE is made on behalf of CAFES.
Recruiting/retaining unsatisfactory employees incorrect dismissal procedures unauthorised amendment to employees records fictitious employee change wage rate. Inaccurate/incompl records.	Invalid hours recorded by clocking for fake employee clocking for absent fellow clocking in & leaving hours incorrectly calc. for normal/overtime.	inclusion of fake empl. use of incorrect or unauthorised pay rates, hours, or deduction table. cost & calculation errors.	errors / theft of cash during drawing of cash, making paypacket & distributing. Misappropriation of unclaimed wages	Penalties due to non-payment, late/under pay. criminal/civil charges due to non-payment. Incompl/inaccurate amount paid. Return form incorrectly completed.
Request for dismissal/appeal should originate from the section making request. Request signed by section head. Changes to pay rates, pensions and any other service charge should be decided by Personnel department/wage committee. Such changes documented and authorised. Interviews background check obtained honest & competent file.	Entry & exit - limited, protected and supervised. Personnel department prepares clockcards strictly in terms of authorised employee list. Section admin Clerk collect clockcards and calc ordinary & overtime, check off at end of list of employee. Section head check clockcards overtime sign batch control sheet & send to payroll prep.	wage clerk prepare - payroll co-merge schedule - reconcile diff in wages & employees. second wage clerk should verify hours & rates; calculate amendments to payroll, recalc & wage ream, sign payroll CH presented with payroll employees to 2 signatories who should review payroll for unusual and inspect for sign of control sign sign payroll & ream.	wage packets made by 2 wage dep. members. Section head should agree # of packets to payroll. agree control total, sign payroll to acknowledge receipt. leave packets until payroll. wage payout done by 2 employees. Employees should give ID Sign payroll/ can't cash payroll Unit accept paypacket for good to signatories for their scrutiny	Isolation of responsibility to 1 employee for raising & paying over deductions. strict monthly schedule for posting the entries to raise liabilities, make payment timely and conducting supervisory checks on above. Payroll & forms presented to signatories for their scrutiny

Documents

Functions

Risks

Control Activities

ACQUISITION & PAYMENTS CYCLE

Ordering	Receiving	Recording	Payment Prep	Actual Pay & Record
Requisition Purchase Order form	Supplier Delivery Note Goods Received Note	Purchase Invoice CN; Creditors stat; PJ; CL; G.L.; Purchases Return allow	Remittance advice cheque requisition	cheque; Bank stat; Returned paid CH; CPT; CL; GL
Initiate Orders so required items are always available. Placing official Orders with Suppliers	Accept and acknowledge deliveries of valid orders and record it. Prior to acceptance, physical checks on quality, quantity, and description to be done.	Raise the purchase & corresponding liability. Recording of <u>all</u> purchases and trade liabilities should be carried out by the (creditors) recording function so that controls are not bypassed.	ensure only valid creditors are paid, correct amount and on time. cheque requisition will initiate the prep of cheque to be sent to the creditor.	Produce Valid, accurate and authorised cheque Record all CH payments accurately & timeously in accounting records
* Ordering incorrect / unnecessary goods → liquidity / wastage. * Ordering unauthorised goods = loss through fraud * requisition not acted upon or order not placed timeously or at all * Obtaining inferior quality goods * Paying high price unnecessary	* acceptance of short delivery as full - damaged & broken - items not ordered - not required type/quality * GRN not made accurately * NO GRN made * theft by employees / outside parties.	* Recording incorrect amounts from incorrect Purchase invoice * Calculation errors * raising of fictitious purchases by invoices which are for goods not ordered/received. * Debays, misallocation and posting errors when entering details	* Payment to fictitious Creditors * payment of incorrect amount * unauthorised payment. * Discount lost due to late payment.	* CH made incorrectly * invalid payments (eg fictitious creditor / overpayment) * payment recorded inaccurately or intentionally misstated.
- Order clerks not place order without authorised requisition. - Before order placed Supervisor/senior buyer should check & review - have approved Supplier list - buyer refers to when ordering. - file requisitions sequentially and review those not cross referenced.	- Goods receiving section should be physically secured and access controlled. - Goods offloaded in presence of goods rec. clerk, - obtain the supplier DN - check quantity & Desc. check condition of goods. Reject all incorrect deliveries include in GRN only those goods accepted. ensure Supplier's Sign. sign Supplier DN.	- all sales on Invoice should be reformed. - Invoice matched to GRN. - review to co-firm amounts on invoice allocated to correct ak. - Supplier invoice signed by head of section to whom service was rendered as proof of approval of service rendered.	- Monthly creditors stat reconciled to supporting docs. - Monthly C.S reconciled with individual creditors account. - Creditors clerk should check who to pay @ month end & comply with terms & discounts if. - CH req. sequenced & preprinted. - CH req. presented to signatories	- 2 CH. Signatories - CH signatories check details on CH. - Cancel at docs & no reuse. - CH books & CH issued in strict numerical order. - If possible one CH book @ a time. - if incorrect CH. - CANCELLED - record in CPT in numerical order - Review CPT for missing CH #.

Document

Functions

Risks

Controls
Activity

Section - 76 Directors Conduct

A director must :-

- not use his position to gain advantage for himself or knowingly ^{cause} harm to the company.
- communicate information obtained to the board immediately unless it is immaterial, publicly available, or he is unable to do so due to legal obligations.
- exercise his powers in good faith and in the best interest of the company.

Section - 77 Liabilities of directors & prescribed officers

A director may be held liable when :-

- failing to disclose personal financial interest
- using his position to gain advantage for himself
- failing to act in good faith and in the best int of Company.
- a breach in duty to act with degree of care
- a breach in any provision of the MOI
- acting for the company while knowingly lacking the knowledge to do so.
- agreeing to carry on business recklessly.
- being party to a fraudulent act.
- consented to any publication of fraudulent documents.
- failing to vote against the issuing of unauthorized shares, issuing of shares inconsistent with the Act, provision of financial assistance inconsistent with the Act, approving a distribution inconsistent with Act, acquisition of own shares in contravention to the Act, allotment of securities inconsistent with Act.

Section - 78 Indemnification & Directors Insurance

- any provision of agreement is void if it seeks to relieve the director of any duties of personal financial interest, standards of directors conduct or a liability from above.
- company may not pay any fine imposed on director.
- company may advance expenses to a director.
- a company may protect a director except in circumstances mentioned above (liabilities).

4 ethical values a directors decisions must be based on.

- R responsibility
- A Accountability
- F Fairness
- T Transparency

Section - 94 Audit Committee

A member MUST :-

- be a director of the company
- satisfy any minimum qualifications.

A member must NOT be :-

- involved in any day to day management
- a prescribed officer or full time employee
- a material supplier or customer
- a related person to any person above.

Duties of the Audit Committee

- N - nominate a registered auditor for appointment as auditor
- F - determine fees to be paid to auditor
- C - ensure appointment complies with the provision of the Act.
- S - determine nature of any non-audit service auditor will provide

- pre approve proposed agreement with the auditor.
- prepare the audit committee report to be incl. in AFS.
- R - receive and deal with concerns & compliments.
- make submissions to the board concerning the company's accounting records, control etc.
- Perform other functions determined by the board.

Audit Committee Functions

- O - Provide independent oversight of the effectiveness of the organisations assurance functions & services.
- I - Provide independent oversight of the integrity of the AFS and other external reports issued by organisation.
- A - May approve AFS.
- R - The governing body may delegate the risk governance to the audit Committee.

Governance of Risk

- is the practice of identifying and analysing the risk associated with the business & where appropriate, taking adequate steps to manage the risk by either eliminating or mitigating the risk. Risk management is about looking after the interest of all "stakeholders" not only share holders. (employees, suppliers, customers, fin providers).

CEO's main functions

- E - recommending / appointing the executive team.
- S - developing the company's strategy for approval by board.
- L - ensuring that the company complies with relevant laws.
- B - developing and recommending yearly business plans to board.
- P - ensuring company complies with all recommended best practice.

CEO cannot
be chair

	Remuneration	Nomination	Risk	Social & ethics	Board	Audit
Chairman	Independent - N.E	Not Specified	Not Specified	Not Specified	Ind. N.E	Ind. N.E
Membership	All should be N.E - Maj IND.	All should be N.E - Maj IND	Exec & N.E - Maj. N.E	Exec & N.E - Maj. N.E	Appropriate balance of skill, knowledge, experience, diversity, independence 2 exec ① CEO ② CFO	All IND. N.E
Members	3	3	3	3	4	3
Meetings	-	-	2			Once without management
Functions	Should assist the governing body in setting and administering remuneration policies	- The process for nominating, electing and appointing members of the governing body. - Succession planning i.r.o & Body members. - Evaluation of the performance of the governing body.	Should consider the risk management policy and plan and monitor the risk management process.	Oversight of, and reporting on organisational ethics, responsible corporate citizenship, sustainable development & stakeholder relationship.	- The board should have a charter setting out its role, its responsibility, membership requirements & procedural conduct. - act as focal point for corporate governance. - provide effective leadership - responsible for governance of risk. - responsible for IT governance - act in best interest of company.	- may approve AFS. - Provide independent oversight of the integrity of the AFS & other external reports issued by the org. & B may delegate the NSE govern. to audit. C.

REGAT

Sarbanes - Oxley Act

- sets a number of non-negotiable deadlines for all US public company boards, management and public accounting firms
- top management must individually certify the accuracy of info.
- penalties for fraudulent activities are much more severe.

Main Purpose - to protect shareholders from fraudulent representations in Corporate F.S. Investors need to know that the financials they rely on is truthful and that it was verified by an independent 3rd party.

Access Control

- access to all aspects of the system must be controlled.
- Security policies should be in place.
- physical access control
- logical access control : ID, pass
- password should be controlled (long, Alpha, Numerics etc)
- Other access control i.e. firewalls.

Continuity of Operations

- Risk assessment - assessing IT risk.
- Physical security - location, fire alarms, power surges
- Disaster recovery plan - written plan how to recover, backup frequently
- Other measures - regular maintenance, adequate insurance, fire walls, anti virus etc.

Password Control

- Unique ; 6 Character + ; not BD etc easily guessed, Upper & lower case, numeric, special character. changed regularly. Never Display on PCs. Can't tell anyone password.

Limitations to Internal Control

- H - human error - carelessness, distraction, mistake of judgement, ^{Instructions} misunderstanding
- O - Over-riding a control by a responsible person.
- R - Routine rather than non-routine
- I - Inadequate due to changes in conditions
- C - Cost
- C - Collusion of members

Components of Internal Control

- C - Control environment
- I - Information System
- R - Risk assessment process
- C - Control activity
- M - Monitoring of Controls

Types of Control Activities

- A - Approval / authorisation
- S - Segregation of duties
- I - Isolation of responsibility
- A - Access / custody
- C - Comparison / recon
- P - Performance Review.

Disaster Recovery Plan

- D - Document list procedures
- U - Updated regularly
- P - Address priorities
- A - Available - no searching - Time precious
- T - Test Plan

Nature of Control Activities

- P - preventative
- D - detective
- C - Corrective

- A - Alternative processing arrangement

Internal Controls - MAF

- H - recorded on hardcopy
- A - reviewed for accuracy & completeness
- R - Restrict write access
- P - Preprinted, sequenced, designed
- I - Implement screen aids and programme checks
- C - Check all logged amendments
- S - Signed, senior employees
- L - logged by the computer.

General Control

- establishes an overall framework of control for a computerised environment at large. In place before any transaction is done.

Application Control

- Controls which are specific to a particular task.

Good password Control

- T - Password for terminated/transferred employees removed.
- R - Regularly change password.
- V - Change pass if violation expected.
- N - New employees prompted to change his initial pass.
- D - Disciplinary measured - Personnel prohibited to disclose pass.

Backup Strategies

- Backup should be carried out frequently
- at least 3 generations of backup should be maintained.
- most recent back-up info stored off site.
- maintained in fire-proof safes & on-site backup stored away from computer facility.
- copies of all users and operations doc should be kept off-site.
- Critical data and programmes can be copied in real time to a mirror-site so its possible to switch processing to the mirror-site in the event of a disaster.