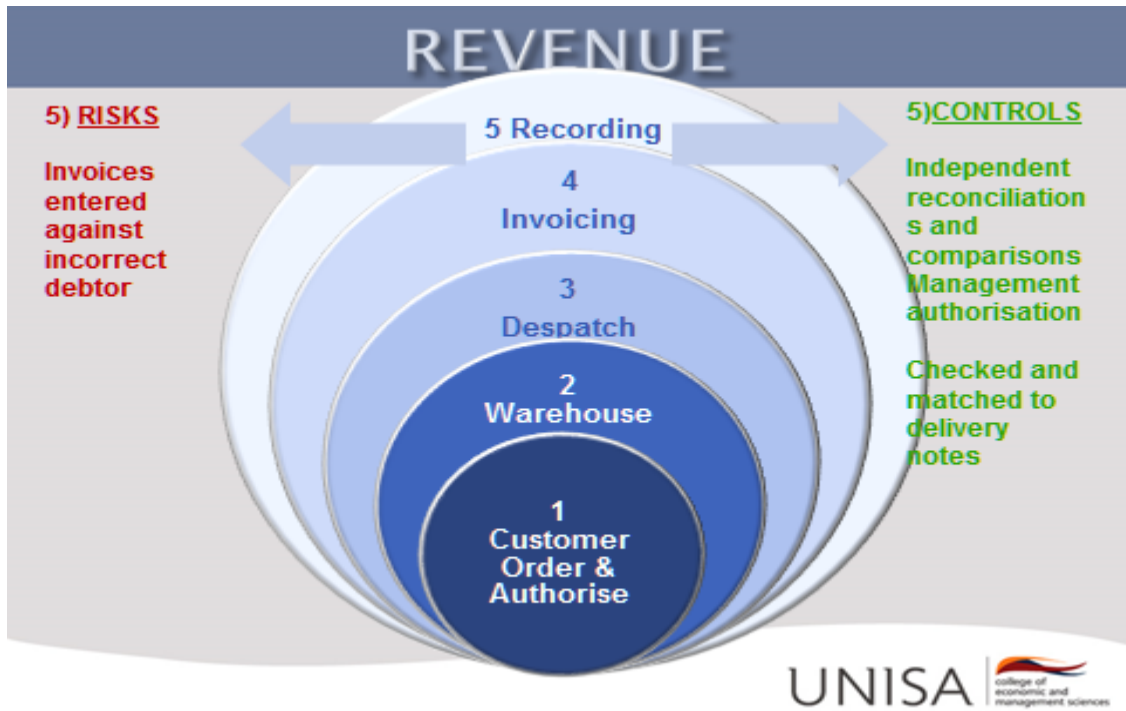


# **1. REVENUE /RECEIPT CYCLE**

## **REVENUE / TRADE and Other Account RECEIVABLE**



## **MAIN CREDIT- SALES FUNCTIONS**

- **Initiation and credit control function** – Credit application & identification forms
- **Ordering**
- **PICKING**
- **Dispatch Function** – Delivery Note
- **Invoicing function** – Credit Invoice and monthly statements
- **Sales and Accounts receivable recording function** – Receipts/ deposit slips
- **Allowances** – Discount / returns / credit losses
- **Bad Debts/ credit losses**

## WHAT ACCOUNTS ARE WE DEALING WITH?

### Income Statement:

- ❖ Credit sales (P Jnl)
- ❖ Cash sales (CRJ)
- ❖ Sales Returns (PA Jnl)
- ❖ Discount allowed (CRJ)
- ❖ Bad debts expense – Gen Jnl

### Balance SHEET

- ❖ Accounts receivable (dr)
- ❖ Inventory (dr)
- ❖ Bank- CASH (dr)
- ❖ VAT (Output) (cr)
- ❖ Allowance for Credit Losses (Cr)

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## DOCUMENTATION.

from which the bookkeeper would have entered the credit sales in the Sales (Accounts receivable) journal

1. Customer Order Form
2. Sales Order
3. Picking slip
4. Delivery note
5. Sales Invoice
6. Allowances Credit note – (Sales Returns Jnl)
7. Credit Losses- authorisation (Gen Jnl)

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## TEST ASSERTIONS AROUND:

### Transaction

### Account balance

- **Sale transaction:**

- CASH or

- CREDIT

- Receipt transaction – Debtor pays

- Bank account balance

- Debtors account balance

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## Revenue Assertions

### ❖ Revenue (COCCA) – Income Statement

- ❖ Completeness
- ❖ Occurrence
- ❖ Accuracy
- ❖ Classification
- ❖ Cut-off
  
- ❖ Presentation and disclosure (DOCCA)

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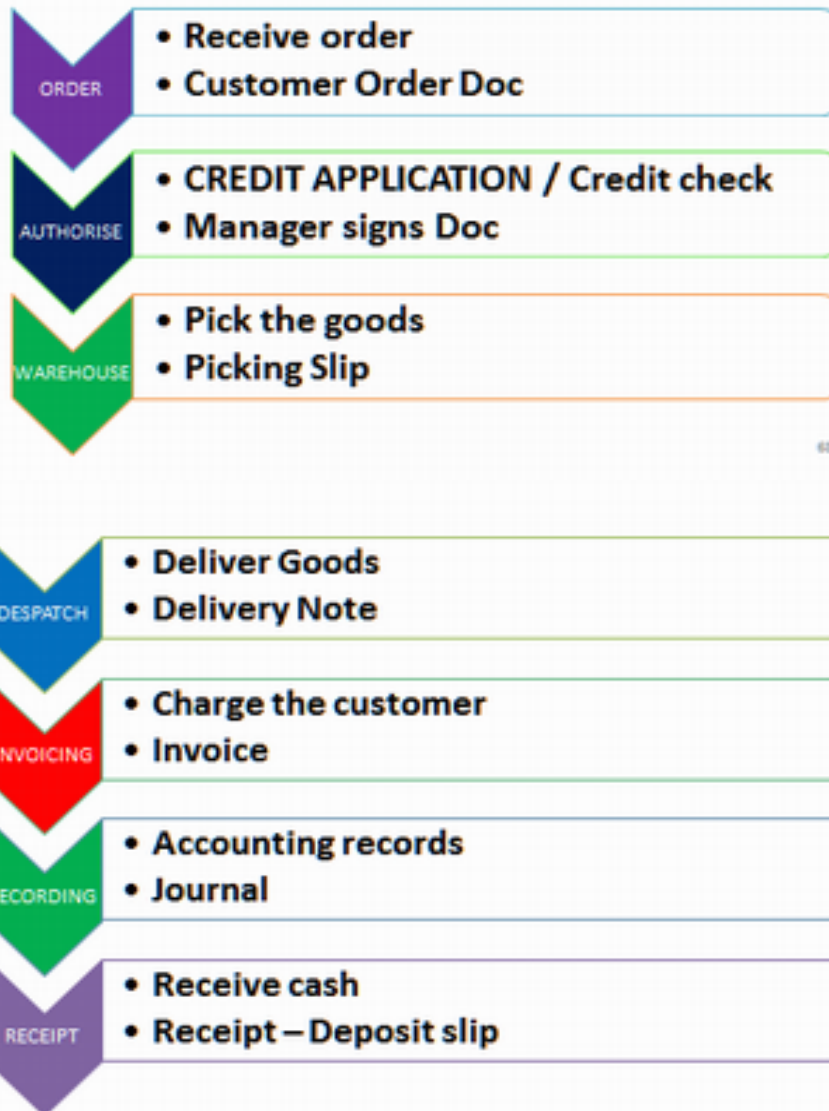
## DEBTORS - ASSERTIONS

### ❖ Accounts Receivable (PERV – C) = Balance Sheet

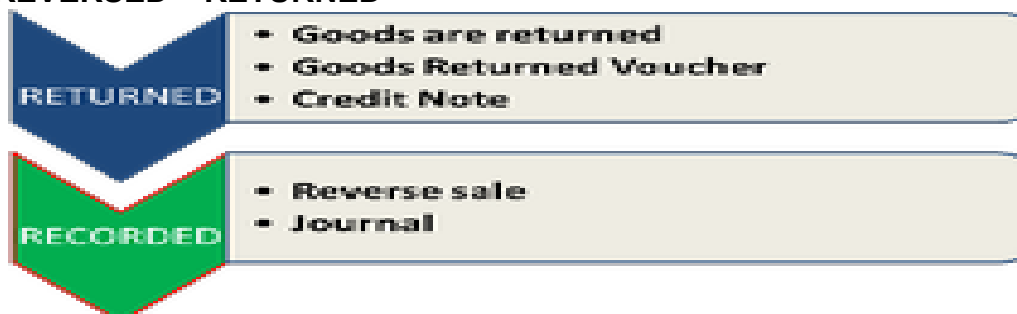
- ❖ Completeness
- ❖ Existence
- ❖ Valuation and allocation
- ❖ Rights and obligations
- ❖ Presentation and disclosure

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# CYCLE



## SALES REVERSED – RETURNED



## **REVENUE - FUNCTIONS CREDIT SALES**

(Ref: J&S 10/2)

- ❖ Receiving customer orders
- ❖ Authorising the sale
- ❖ Processing the order
- ❖ Warehouse / Picking
- ❖ Despatch
- ❖ Invoicing
- ❖ Recording the sale and raising the debtor
- ❖ Receiving & recording payment from debtors
- ❖ ALLOWANCES and Credit Losses

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## **REVENUE CYCLE CONTROLS**

- Strong control environment
- Competent trustworthy staff
- Segregation of duties
- Isolation of responsibilities
- Access controls
- Source document design
- Comparison and reconciliation

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# CREDIT SALES

## APPLICATION FOR CREDIT (Credit Application form)

1. INTERNAL CONTROLS: Application and Credit Control Function
- Must establish a *credit control department*.
  - Every customer wishing credit facilities must complete *an application form*.
  - Give *Personal details & trade references* and earnings etc.
  - Credit department should investigate application and Check that details supplied are *not fictitious*
  - Check customers *credit status*
  - Assess the *customers liquidity*
  - That the *credit limits* approved are in terms of the company's criteria
  - *Approve /establish credit limit for customer*
  - Establish payment arrangements/agreement and *discounts* allowed etc
  - Once Approved , Details should be added to Master file on computer and application filed by credit department.
  - Any changes in the details or credit limit of customer must be *authorized* by a senior credit controller.
  - May issue identification cards to customers, to be produced when ordering in person.
  - The manner, identification and authorised person of customer's orders must be noted.

## **2. RECEIVING the ORDER** **(Order and Internal Sales Order + Approval)**

1. For selected credit sales transactions investigate the signature for the approval on the customers orders. Order clerk must Sign order = responsible
2. Must be an authorised customer
3. Test adherence to credit limits of selected customers by ascertaining that outstanding balances are within their limits
4. Ascertain & observe that customers are identified before orders are approved
5. Sequentially # internal sales order
6. Make sure that strict control is exercised to ensure that all orders are accounted for. Sequence check/match to Delivery Note - identify orders not acted upon
7. Separation of duties between granting of credit and sales function

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## **3.SALES AUTHORIZATION** **(Approval of Order)**

### ***WHAT ARE THE RISKS?***

#### ***Control Activities***

- Enquire and *inspect the credit application* of customer. *NEW CUSTOMER = credit application*
- Inspect *his credit references before order is processed.*
- Whether his *application was approved - Internal Sales Order signed by credit controller*
- The *amount of his credit limit* and credit checks. *Credit limit set and approved by management*
- *Terms of payment* – discounts allowed.

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## **4. WAREHOUSE**

*(Picking slip + Delivery note)*

***What are the risks?***

### ***Control Activities***

- 1. Picker initial picking slip for each item picked***
- 2. Spot checks by supervisor***
- 3. 2<sup>nd</sup> person to check goods picked to slip***
- 4. Delivery Notes based on picking slip***
- 5. Delivery Notes = Picking Slip***

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## **5. DESPATCH**

*(Checking goods and Delivery Note)*

***What are the risks?***

### ***Control Activities***

- Enquire and observe that no order is executed unless the credit has been approved.
- Check signature of dispatch clerk on delivery note that goods dispatched have been checked regarding description and quantity against picking slip and D/Note and sign
- Despatch clerk to prepare delivery list, agreeing quantity and address to delivery note.
- Delivery staff supervise loading and sign list
- There should only be one exit with a gatekeeper
- The gate-keeper should check that goods leaving the premises are the same in comparison to the delivery note and he should sign to the fact on the delivery note
- Check the signature of the customer on both of the delivery note for evidence that they received the goods
- Delivery staff to retain 2 copies of delivery notes
- Observe if there is separation of duties between sales, dispatch and recording of sales

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## **6. INVOICING**

***(Issue a credit Invoice)***

### ***Control Activities***

- 1. Invoice clerk to maintain copy of internal order***
- 2. Signed delivery note to be matched to Internal SO and maintained by invoice clerk***
- 3. Frequently investigate Internal Sale Order that are not addressed***
- 4. Check prices per ISO to authorised price list***
- 5. Prepare numerically sequenced invoice and agree to ISO and Delivery Note***
- 6. 2<sup>nd</sup> person to check details per invoice and sign (vat)***

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## **7. RECORDING SALE**

***(Order +Invoice + Deliv Note entered into Sales Jnl)***

### ***Control Activities***

- 1. Invoices must be recorded in Sales Jnl in numerical sequence***
- 2. Cancelled invoices, must be clearly marked "cancelled" and all copies in the Invoice book***
- 3. Total of all Invoices must agree to total in Sales Jnl - casts and extentions***
- 4. Control total must be calculated / obtained, and compared to the sales journal after individual entries.***
- 5. Independent person to:***
  - Sequence check journal entries***
  - Compare entry to invoice***
  - Customer name on invoice to be same as in sales Journal***
- 6. Postings from sales journal to debtors ledger must be checked***
- 7. Reconciliations of individual debtors to Debtor's control in Gen ledger must be regularly performed.***

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# RECEIPTS (Debtors pay their accounts)

## **8. RECEIPT OF CASH** **(Issue of Sequentially no Receipts → CR Jnl)**

### **Control Activities - RECEIVING Cash from Credit Customers**

1. Post to be opened by two people
2. Remittance diary – prepared by person responsible opening the mail, to record amount received and signed
3. Cash summary sheet & cash register - tally rolls
4. Pre-numbered Receipts issued to customers
5. Receipts must be banked daily
6. Remittance advices – credit customers payments
7. Electronic funds transfers received from customers to be followed up and recorded
8. Photo copies of direct deposit slips in bank
9. Deposit slip not created by person opening the post.
10. Bank receipts daily and stamped deposit slips made by the entity
11. Remittance register and receipts issued to be reconciled with the bank deposit slip by independent supervisory person to bank deposits

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## 9. RECORDING OF RECEIPTS from customers (Cash Receipt Journal)

1. Accounting records - Cash receipts Journal must be updated daily
2. Receipt numbers must be in sequence
3. Cancelled receipts, must be so marked and all accounted for in receipt book
4. Test postings to debtors ledger and control accounts
5. Cash receipts journal to be reconciled with bank statements
6. Queries from debtors – re payments to be followed up by independent person
7. Reconcile debtors ledger to debtors control regularly by independent employee

### Possible Reasons for *increase* in Trade receivables collection period:

1. **Lapping of cash / cheques received from trade receivables**
2. **Theft of receipts**
3. **Slacking of credit control**
4. **Changing Credit Policy**
5. **Clerical errors**
6. **Economic conditions**

## **Some Risks relating to Revenue**

- Understatement (reduce tax)
- Overstatement (increase profit)
- Complex
- Cash settled (cash stolen)
- Credit settled (debtor cant pay – write back sale)
- Returns of stock (reverse sale) stolen

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## **Accounts Receivable**

- **See Masterfile Changes**

# SALES RETURNS – INTERNAL CONTROLS

## 10. SALES/ GOODS RETURNED

(Issue a credit note → Sales Returns/ Receivable Allowance Jnl)

1. All goods to be received by goods returned department
2. All returns must be checked:
  - Undamaged goods to Description and damage
  - Counted and signed as such
3. Returned into stock and accounted for.
4. Make out Goods returned voucher, signed by customer and one copy retained
5. Credit notes are made out by accounting department
6. Must be cross referenced to original invoice
7. Supervisor must approve credit, that it is valid
8. Credit notes to be recorded sequentially in the credit allowance journal
9. Credit allowance journal to be scrutinised on regular basis by supervisor.
10. Inspect for large and unusual amounts.

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# CREDIT LOSSES – Internal controls

## 11. CREDIT LOSSES (BAD DEBTS)

(Requisition that must be approved → General Jnl Entry)

*Procedures that should be implemented to ensure that only actual irrecoverable accounts receivable balances are written off.*

1. Credit application controls must be in place
2. *Monthly statements* sent to debtors
3. *Age analysis* must be performed and followed up if long outstanding
4. Credit manager must *follow up discrepancies* etc
5. *Long outstanding debt* must be *handed over* to legal representative for collection
6. If *not recovered*, the amount must be *recommended* to be *written off*
7. Each journal entry recorded to write off an account receivable *should be authorized and approved*.
8. The person to approve *should not be involved* in the receipting or receiving of cash process.
9. This senior *person should initial the approval/request* form.
10. The request form to write off debt should *be accompanied by correspondence* or proof that there have been attempts to recover the amount and the debtor is actually irrecoverable.
11. Amounts *should not be written off if they have just been unpaid* for some time; there should be deliberate attempts to recover the monies outstanding first before writing off.
12. *Write-offs must be approved by a credit manager and approved by him.*

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## **STATIONARY** – Internal controls of Source Documents

### **12. Stationery of Credit Invoices (log books)**

- A stationary register should be kept indicating the *number of the books* and the *consecutive numbered invoices* there in received from the printers.
- *All unused books should* be kept under strict control of a senior official.
- Books in use *should be signed for*.
- *The completely used books* should be *returned* and indicated as such in the stationary register, and locked away by the senior official.
- *Only 1 book* (or as many as is deemed necessary) should be in use at a given time.
- *All cancelled invoices must be attached* to the appropriate numbered copies in the book.

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## **CREDIT MANAGEMENT**

## 13 . CREDIT MANAGEMENT

Statements & Debtors accounts in ACC Rec Ledger → Control in GL

### **Control Activities**

1. Monthly statement sent to debtors
2. Follow up debtors exceed credit terms (long outstanding)
3. Credit manager to follow up if no success
4. Hand over to attorney's
5. No luck, write the debtor off with authorisation from financial manager

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## CASH SALES – INTERNAL CONTROLS

### CASH SALES

( Telly slips - Dr Bank / Cr Sales)

#### **FUNCTIONS:**

- Cash Sales
- Receipting
- Depositing
- Recording

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## 14. INTERNAL CONTROLS – CASH REGISTERS

1. Cash registers/ tills should preferably be placed *near the exit* of the business premises.
2. Cash registers *should display the amount* of a sale or print a till slip so that the customer can check the amount charged.
3. Cash registers should keep *cumulative cash register totals*,
4. *Individual sales and total sales can be printed onto a tally roll.*
5. Only the *authorized official may have a cash register key* that permits access to the cash registers total.
6. When taking the daily cash register reading the authorized official *should reset the accumulative mechanism to zero.*
7. The authorized official *should lock each cash register after the reading has taken place.*
8. Each cashier should be *responsible for a specific cash register*, and not operate on another's.
9. Each cash register *should have a cash float.*
10. The authorised official and cashier *should sign a cash float register* for the receipt and return of the cash float .
11. The cashier drawers of cash registers *should have locking facilities.*
12. They *should be unlocked each day by the authorized supervisor* in the presence of the cashier. 80



## **15. CASH SALES** **(Telly Slip → Cash Receipt Journal)**

### **INTERNAL CONTROL 5**

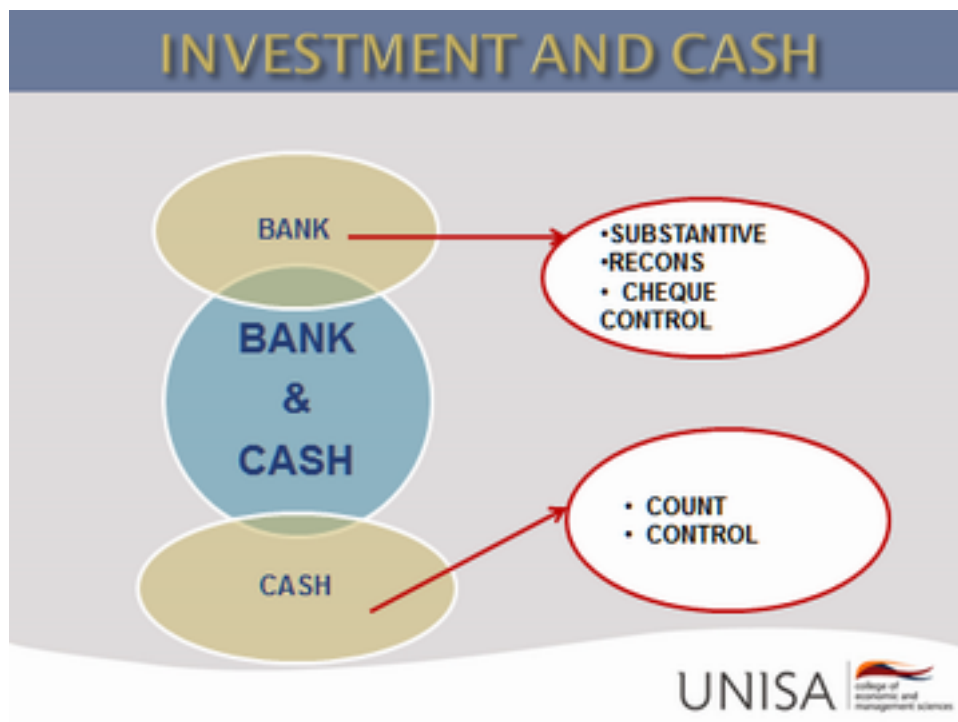
1. Cash registers or tills are situated *near exit and display amounts recorded*
2. *Printed slips are given to customers.*
3. Check out points (*tills*) *are monitored* and cash collected.
4. *Inspect cashing up records for signatures of those responsible for counting cash and reconciling to cash till summary slips and records.*
5. *Inspect deposit slips and cash sale summary and see that they are checked. A signature of responsible person should appear.*
6. *Re-perform the check that deposited amount corresponds with summary she*

### **Audit objective: COCCA**

- **Completeness** – All Sales are recorded
- **Occurrence**
  - Cash receipt recorded represents cash actually received from customer.
- **CUT Off** – In correct accounting period
- **Classification** – Posted to correct account
- **Accuracy**
  - Receipt and discount was correctly calculated
  - and policy of discount allowed to him applied and recorded correctly in the accounting records.

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## CASH and CASH EQUIVALENTS – Internal controls



### CASH and BANK Transactions and Balances

#### CASH and CASH EQUIVALENTS

##### FORMS OF FRAUD

- 1. Lapping** - Withholding the last receipts. Or making receipt entry for cheques received in future receipts numbers and not depositing the cheque immediately. Replacing cash receipts with those cheques.
- 2. Kiting** - End of month. Cheque drawn on Bank A, Deposited in bank B, Not shown in bank A.

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## 1. INTERNAL CONTROLS: DEPOSITS

(to ensure that all cash received is banked.)

1. Separate banking deposit forms should be prepared for amounts received from:
  - Cash sales
  - Credit receipts
2. All cash, cheques and other forms of money received should be deposited as soon as possible after receipt
  - Usually the next business day following receipt
  - Could also be collected by a coin security company, but the deposit slips must be returned to company for filing.
3. Senior accounts staff should reconcile daily the cash received slips and receipts to the totals of the bank
  - All cheques received in the post must be crossed immediately and recorded in a cash received register.
  - Ensure that the correct drawer's names on cheques agree with those that were receipted and are banked in that batch.
  - as well as correct amount of cash received on receipts agree with the make-up of deposit.
  - This will ensure that "lapping" of cash received is prevented
4. Direct deposits (EFT's) should be followed up by senior staff and agree with amounts on bank statements.

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## 1. INTERNAL CONTROLS: DEPOSITS

(to ensure that all cash received is banked.) Continued

5. Cheques returned by the bank must be recorded separately in the cash payments journal
  - When re-deposited it must be deposited separately.
  - Recorded separately in CRJ.
  - Could be re-receipted
6. Reconciliations of the CRJ and Bank statement must be made regularly by an independent person and checked by a senior accounts person.
7. Surprise cash counts may be made by a senior accounts person at all cash receipt points simultaneously.
8. Cash counts prevent rolling of cash by any personnel member.
9. Queries received from customers should not be handled by the same person who receives and receipts cash

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## PETTY CASH - INTERNAL CONTROLS

- Must make use of imprest system – decreases the possibility of misappropriation of funds
- Must be responsibility of ONE person only.
- No cash should be received other than cash drawn by cheque to reimburse the petty cash expenditure incurred.
- Petty cash record to be written up daily.
- Petty cash to be balanced at least once a month to general ledger by independent person.
- Petty cash records to be inspected by independent person once a month on surprise basis.
- Petty cash source documents must be properly cancelled and filed, so that they cannot be used again.
- If expenditure receipt is not available, a petty cash voucher must be made out and signed by both parties
- Person responsible for petty cash should not have access to the general ledger.
- No cheques should be cashed out of petty cash funds.
- No loans and IOU's to staff from petty cash allowed.
- Petty cash should be locked away to secure against theft.

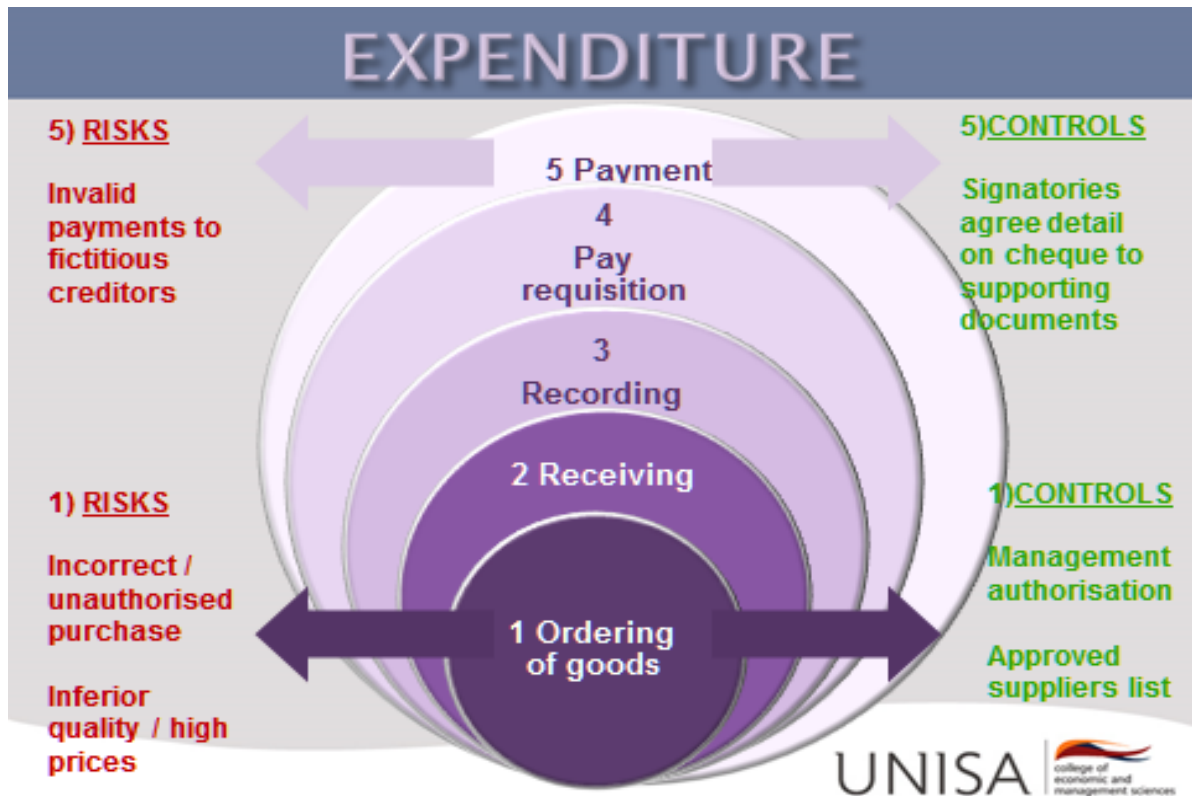
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## Cheque Payments - INTERNAL CONTROL

1. If preprinted signed cheques are used, cheques must be in possession of authorized senior person and locked away.
2. A register of unused and used cheques should be kept .
3. All cancelled cheques should be clearly marked "cancelled."
4. All paid cheques must be filed numerically
5. Cheques should be crossed, preferably "not Transferable"
6. No changes or alterations on cheque forms allowed.
7. Never make out bearer or order cheques
8. Person signing cheques should always ensure cheque is crossed
9. Drawn cheques must be presented together with statements duly checked and stamped as such together with a remittance advice to the person signing the cheques.
10. Person signing should ensure that :
  - \* amounts agree as shown on remittance advice and
  - \* that cheques are made out to the correct supplier
11. Supporting documentation – statements and remittance advice should be stamped "PAID".
12. Large amounts on cheques should require two signatures of 2 senior officials
13. A separate bank account may be used for creditors payments and payroll.
14. Where computer equipment is used for generating and signing of cheques, the cheques should still be signed electronically

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## 2. ACQUISITIONS / PAYMENT CYCLE



## WHAT ACCOUNTS ARE WE DEALING WITH?

**Income Statement:**

- ❖ Credit purchases
- ❖ Cash purchases
- ❖ Purchase Returns
- ❖ Discount received

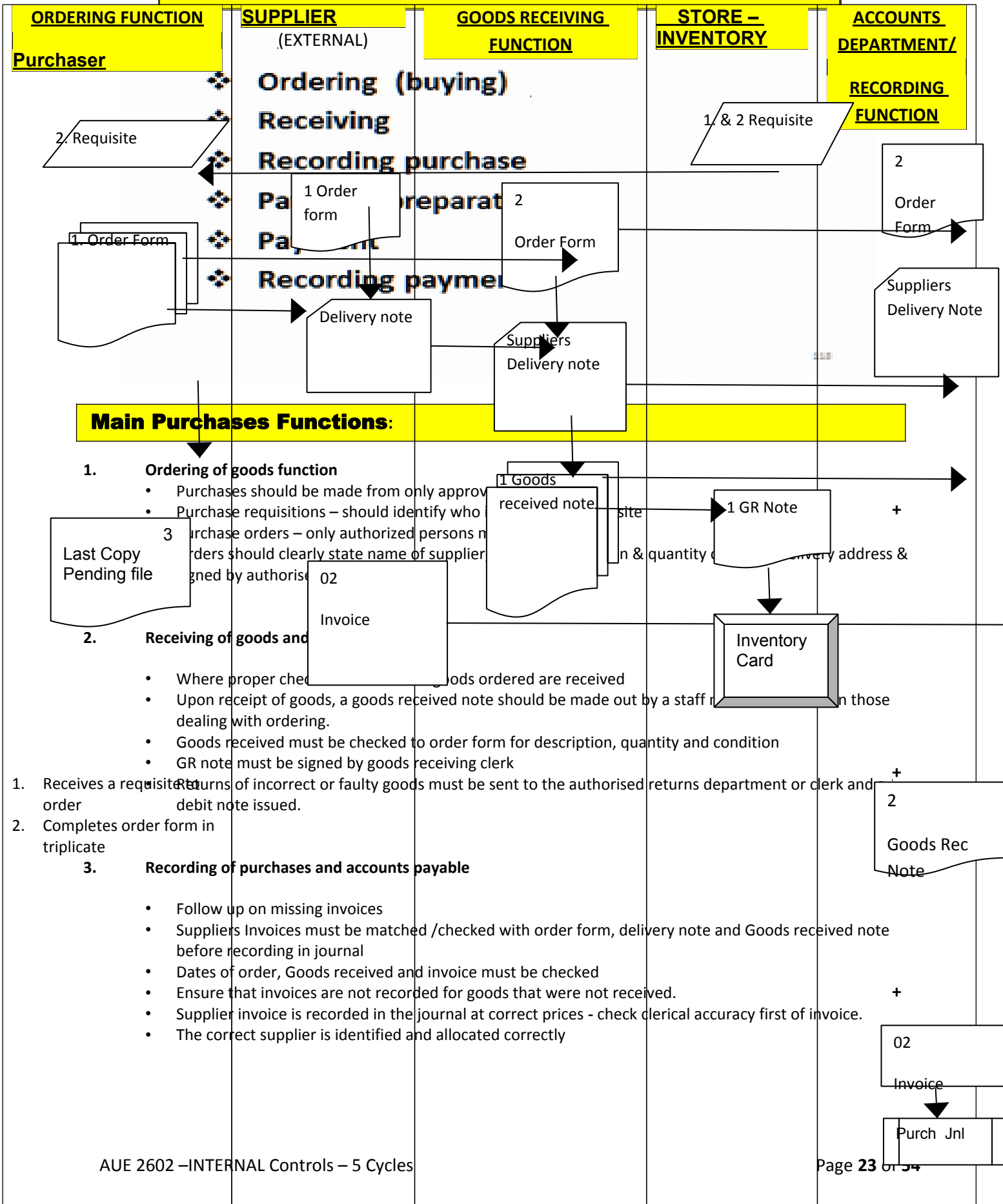
**Balance Sheet**

- ❖ Accounts payable
- ❖ Inventory
- ❖ Bank
- ❖ VAT

**Risks involved in cycle**

- **Understate creditors balance**
  - How? Cut off of purchase transaction
- **Misappropriation of assets**
  - Order goods for personal use
  - Fictitious payments to creditors
  - Claim vat on purchase not allowed to
  - Accept bribes from suppliers to use their service
  - Theft of goods at receiving function

# Purchase - FUNCTIONS



# PURCHASES

## **CYCLE CONTROLS**

- strong control environment
- competent trustworthy staff
- segregation of duties
- isolation of responsibilities
- access controls
- source document design
- comparison and reconciliation

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## **CREDIT PURCHASES – INTERNAL CONTROLS**

1. The authority to purchase should be vested only in certain specified employees or purchasing department
2. Orders should only be numbered consecutively and control should be exercised so that all orders are duly accounted for
3. A stationary register should be kept and control over the issue of unused order books and goods received books
4. Separation of duties between personnel responsible for:
  - Ordering of goods
  - Inspection and storage of goods received
  - Checking invoices against orders, delivery notes and goods received
5. A record of goods received should be maintained
6. Invoices should be checked against appropriate delivery notes, goods received notes and orders. They should be stamped that they are checked by the person responsible before transaction is entered in the journals
7. Proper record must be kept of invoices in dispute and of goods returned to suppliers. Debit notes must be issued.



# PURCHASE CYCLE

Order

- Requisition and order
- Requesting goods per re order level
- Placed order based on req

Receiving

- Delivery note and goods received note
- Goods are delivered and accepted

Recording

- Invoice and purchase journal
- Match invoice to GRN, DN, O

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Payment

- Remittance and cheque req
- Payment of invoice

Payment

- Cheque
- Cheque agreed to supporting document

Recording

- Cash payments journal
- Recording cheque payment

## ***Ordering of goods***

### ***Control Activities***

1. Order clerk only place order on receipt of authorised purchase requisition
2. Order match purchase requisition
3. Order authorised before sent (accurate and suitable)
4. Approved supplier listing
5. Order and requisition = prenumbered and sequentially filed

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## ***Receiving of goods***

### ***Control Activities***

1. Receiving *area physically secured* and access controlled
2. Goods off *loaded in presence* of receiving clerk
3. *Match* delivery note to order
4. Match *quantity and type* of goods to order
5. *Inspect* conditions of good
6. Draw up *goods received note*, indicating only goods accepted
7. *Sign* delivery note and ensure delivery staff sign

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## 2 RECEIPT, STORAGE and ISSUE OF INVENTORY -

### INTERNAL CONTROL

1. **Proper segregation of duties between the** persons responsible for the order, purchase, receipt storage sale delivery and accounting of inventory.
2. Only **the store-man should have access** to the inventory in the store.
3. There should **only be one entrance where inventory** is received and is issued, and there should be a guard who checks that goods only leave the store once a despatch/delivery note has been issued.
4. On receipt of the purchased stock, **the delivery note should be checked** with the order form to compare and confirm goods ordered have been received and a goods received note should be issued.
5. Goods must **only be issued on the evidence of an authorised order**/invoice from sales department.
6. **All stationary should be pre-numbered** (order , goods received notes,) and should be controlled by a senior official.
7. **The senior store-man** should record the goods received/ and issued on the stock/**inventory cards**.
8. A **senior person should carry out test checks and** determine if correct procedures are being followed. Differences should be followed up.
9. A senior **person should do test counts of stocks**/inventories in the store-room on a regular basis. Differences should be followed up.
10. A senior person **should identify obsolete and** slow moving stock.

# PAYMENT OF CREDITORS

## *Payment preparation*

### ***Control Activities***

1. Creditors statement reconciled to supporting documents (invoices/payments)
2. Creditors ledger reconciled to creditors statement
3. Creditors clerk identify creditors to be paid to comply with credit terms.
4. Pre number cheque requisition including details of cheque requested.
5. Cheque req and supporting invoices given to cheque signatories for authorisation

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## **INTERNAL CONTROL OF CHEQUES**

1. If pre-printed signed cheques are used, ***cheques must be in possession of authorized*** senior person and locked away.
2. A ***register of unused and*** used cheques should be kept .
3. All ***cheques cancelled*** should be clearly marked "cancelled."
4. ***All paid cheques must be filed*** numerically
5. ***Cheques should be crossed***, preferably "***not Transferable***"
6. ***No changes or alterations*** on cheque forms allowed.
7. ***Never make out bearer or order*** cheques
8. Person ***signing cheques should always ensure cheque is crossed***
9. Drawn cheques must be ***presented together with statements duly*** checked and stamped as such together with a remittance advice to the person signing the cheques.
10. Person ***signing should ensure*** that :
  - ***amounts agree*** as shown on remittance advice and
  - that ***cheques are made put to the correct*** supplier
11. ***Supporting documentation*** – statements and remittance advice should be ***stamped "PAID"***.

12. **Large amounts** on cheques should **require two signatures** of 2 senior officials
13. A **separate bank account may** be used for creditors payments and payroll.
14. Where computer equipment is used for generating and signing of cheques, the cheques should still be **signed electronically or otherwise** by authorised signatory.

## ***Actual payment***

### ***Control Activities***

1. Two signatories for cheque payment
2. Signatories agree details on cheque to req and supporting documents and cancel supporting doc's so cannot be paid again
3. Cheques completed in ink with no gaps
4. Cheques issued in numerical order
5. Signed cheque to independent person to be mailed

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# Cheque Payments - INTERNAL CONTROL

1. If preprinted signed cheques are used, cheques must be in possession of authorized senior person and locked away.
2. A register of unused and used cheques should be kept .
3. All cancelled cheques should be clearly marked "cancelled."
4. All paid cheques must be filed numerically
5. Cheques should be crossed, preferably "not Transferable"
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  - amounts agree as shown on remittance advice and
  - that cheques are made put to the correct supplier
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12. Large amounts on cheques should require two signatures of 2 senior officials
13. A separate bank account may be used for creditors payments and payroll.
14. Where computer equipment is used for generating and signing of cheques, the cheques should still be signed electronically

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## CREDIT PURCHASE PAYMENTS – by cheque

1.

The clerk should first check that **all invoices are accompanied by an order form**, goods received note and delivery note and duly signed & checked for receipt and amounts.

The invoices should be **recorded in the Purchases** Journal

**All cheque requisition** forms should be **pre- numbered** together with a reconciled remittance advice

2.

**Drawn cheques** must be presented **together with statements** duly checked and **stamped as such : who prepared** and checked remittance, **who prepared payment** and **who signed cheque** and **date of payment** together with a remittance advice to the person signing the cheques

3.

A **separate bank account** may be used for creditors payments

Only **one cheque book** should be in use.

**Register of cheque books** should be kept

4.

Use of a **rubber stamp can easily cause fictitious payments** & not recommended

Must **be signed by an official**.

All cheques **over a certain amount** should require **two signatures of 2** senior officials

Person **signing should ensure that amounts agree as shown** on remittance advice and that cheques are made put to the correct supplier

**Supporting documentation** – statements and remittance advice should be stamped "PAID".

5.

Cheques must be **made out "Crossed"**

Person signing cheques should always ensure cheque is crossed

**Never make out bearer** or order cheques

6.

**All cancelled cheques** should be clearly marked

And kept in **the cheque book and** not destroyed

7.

- All paid cheques **must be filed numerically**

8.

- The company should maintain a **Purchases Journal and Trade Payables ledger**.
- **Reconciliation of Trade** Payable ledger with the Control in General Ledger should be performed regularly.
- **Remittance advise will** also be prepared more accurately.

9.

This will only reflect Inventory that is paid for.

A Purchases journal should be kept and posted to Trade Inventory to indicate all goods received by the company, irrespective of whether it has been paid for.

## **CREDITORS PAYMENTS - INTERNAL CONTROLS**

### **ELECTRONIC FUND TRANSFER (EFT) –**

**NB!!!**

1. **A authorized person** who prepares the documentation for payment
2. Entity **must register on-line access** with bankers.
3. **Access to internet** must only be given to **authorised senior persons** other than person preparing documentation for payment.
4. **Access to PC terminal** must be authorized **by passwords to transfer** funds from bank account
5. **Amount of transfers** from bank account should **be restricted** by authorization.
6. **Certain amounts** should **need at least two signatories**
7. Manual reconciliation of total of cheque payments captured to transaction listing of cheque payments made by senior staff member.
8. **Regular Bank reconciliations** must be performed
9. Person authorizing EFT payment **to review printout of each** month for evidence of unusual and unauthorized payments.
10. Only **senior or authorized staff may add new supplier** details on the EFT system Details must be supplied by the supplier and kept in confidential file.

11. **Monthly reconciliation** of statement balances to individual accounts payable balances in the Creditors ledger and to control account in the general ledger.
12. Person signing authorization of payment **must review all supporting documentation** to support payment, includes reconciliations or remittance advice before authorizing EFT payment.
13. **EFT payment to be made by** authorized person **other than the person** preparing the remittance.
14. **Check up any irregular payments.**
15. Supporting vouchers (invoices & recons) should be marked as “paid” by signatory to prevent resubmission.
16. **Review accounts** regularly.
17. **Analytical analysis** periodically.- age analysis
18. Follow up odd or **unusual balances**, or unfamiliar suppliers names.

## **Recording**

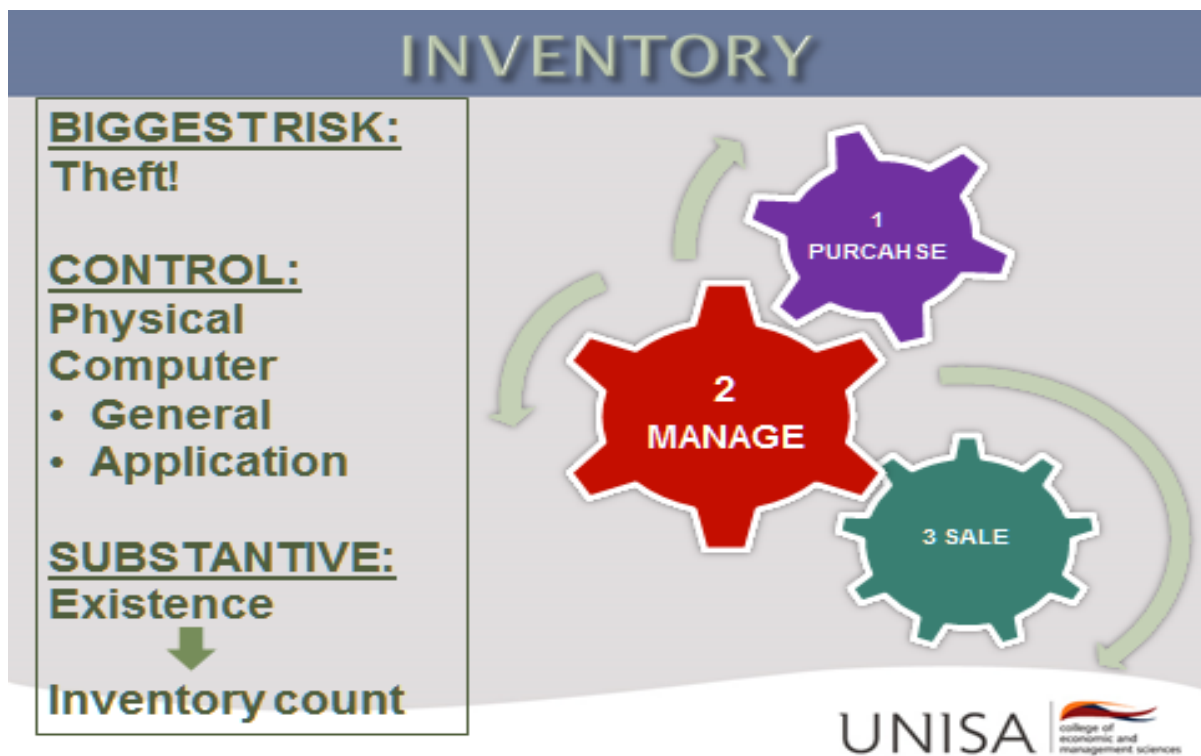
### **Control Activities**

1. Cheques recorded numerically in CPJ
2. CPJ reviewed regularly by management for missing cheque numbers
3. Reconcile cash book to bank statement – reviewed by independent staff
4. Returned cheques filled numerically and reviewed

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## 3. INVENTORY/ PRODUCTION CYCLE

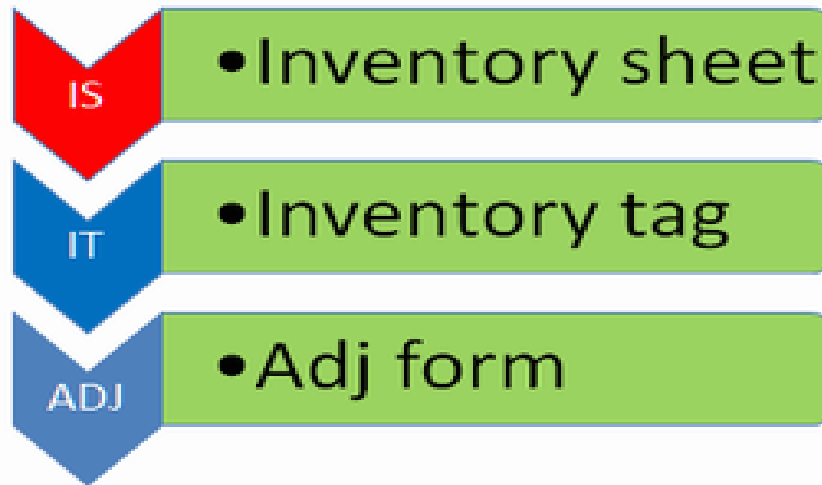


### Risks involved in the cycle

- Inventory is stolen or lost - Existence
- Inventory loses value - Valuation
- Overstate inventory - Valuation
- Understate write downs - Valuation
- Affects many accounts in AFS, therefore if management want to manipulate profits and assets – manipulate inventory

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## DOCUMENTS = STOCK COUNT



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## What is an inventory count

- Process by which management count physical goods on hand and compare them to the goods recorded in the accounting system.
- **WHY?**
- May have overstated / understated assets
  - Doesn't exist
  - Damaged – value is less
  - Haven't recorded all inventory

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## NB!! YEAR END INVENTORY COUNT

- TEST – Existence
- TEST – Completeness
- TEST – Valuation
- TEST - Rights

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## INVENTORY COUNT

### Management perspective

- **PLANNING**
  - Set date, time and location
  - Method of counting(Tag/Scan)
  - How many counters–Staff required
- Supervision
- Prep warehouse
- Draft floor plan– Inventory locations
- Prepare **written instructions** and document design

### Auditors perspective

- **Planning**
  - Enquire as to, date, time and location
  - Organise audit Staff
  - Obtain written instructions
  - Enquire as to stock not to be counted/ counted but not in warehouse

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# INVENTORY COUNT

## Management perspective

- **STATIONARY**
- Inventory sheets– Doc counted
  - Printed
  - Numerically #
  - **NO QUANTITY** – Write in
  - Space for 2 counts
  - Inventory adj form= Authorised
- **WRITTEN INSTRUCTIONS**
- Provide to staff in advance
  - Identify team and responsibilities
  - Method of counting
  - Goods not included
  - Sign inventory sheets
  - Date, time and location

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# INVENTORY COUNT

## Management perspective

### DURING THE COUNT

- **Count staff**– Teams of 2 (1 count 1 Doc)
- **Count stock 2X**
- **Mark** counted (TAG)
- Identify **damaged**
- Controller inspect **all counted**
- **Recount if diff** between 2 counts
- **Don't trade** on day - detail
- Counters **sign sheets** (IR)

## Auditors perspective

### DURING THE COUNT

- **Observe** written instructions adhered to
- **Identify** damaged (V)
- Perform test counts (CANDE)
- **Inspect** all stock marked
- **If differ** = Management ADJ
- **Sequence test** on count sheets
- **Confirm inventory** not to be counted = excluded
- **Inspect count** sheets signed

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# INVENTORY COUNT

## Management perspective

- After
  - Ensure all is counted
  - Adjust records based on count

## Auditors perspective

- After
  - Count sheet – Changes signed (IR)
    - Signed (IR)
    - Blank spaces
  - Document client
    - Count procedures
    - Test counts to
    - Damaged stock
    - Cut off doc #
    - Grn to match Inv

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## 1. INTERNAL CONTROLS - DURING THE COUNT

1. Inventory must be neatly packed and stacked, with similar items together & aisles kept clear
2. Inventory count forms must be pre-numbered
3. A register must be kept to record all issued and returned pre-numbered inventory count forms.
4. Persons receiving and returning inventory count forms must sign the register for receipts and Returns.
5. Segregation of duties between counter, writer functions and they must sign count cards
6. Reliable personell must be used
7. Inventory count must take place according to originally planned.
8. Proper supervision of count must take place.
9. If differences arise during the recounts by counters these must be reported to supervisors and resolved.
10. The supervisors must do test counts and differences must be rectified.

11. There must be no movement of inventory during the count.
12. Slow moving, obsolete and damaged inventory must be identified and recorded as such.
13. All Inventory must be tagged according to the inventory count instructions.
14. The latest invoice/document numbers of purchases and sales must be recorded to control the inventory that will be included or excluded from the inventory at year-end.
15. Inventory in transit and inventory held on consignment at other premises must be identified and must be taken into consideration.

### **ACCOUNTING POLICY NOTE:**

The method of inventory calculation is based on the invoice price of the inventory and includes related freight and other costs to bring the items to the place of sale

#### **NET REALISABLE VALUE-**

Is the selling price at the close of the financial year less estimated variable costs of selling.

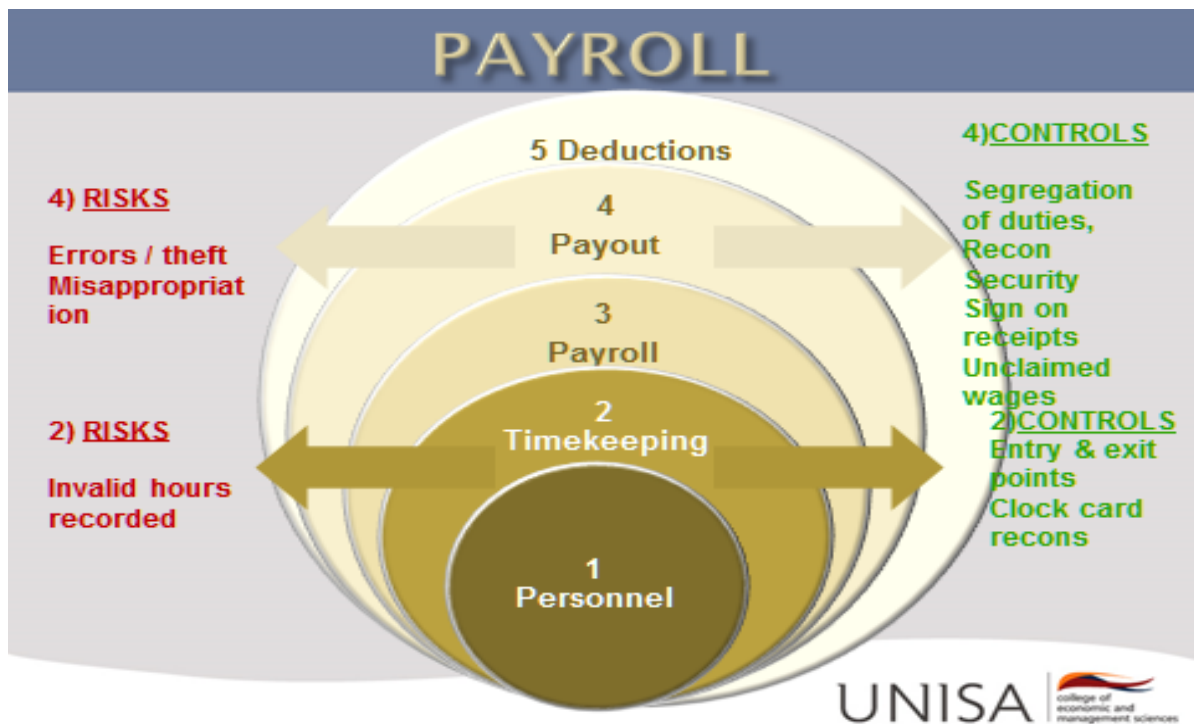
#### **VALUATION - First-in-First-Out**

The latest cost of the goods purchased are taken into consideration to value the inventory on hand, while earlier consignments are charged to income.

### **Net Realizable value – NB!!**

- Inspect certain sales after balance sheet date to see if they are realized at less than cost.
- Select slow moving and obsolete inventory and see at what price they were invoiced when sold
- Enquire about general provisions for write downs and consistency with last prior years.

# 4. PAYROLL CYCLE



## Key features



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# FRAUD IN THE CYCLE

1. WAGES ARE PAID ***IN CASH*** = EASY TO STEAL
2. ***INTENAL DOC'S*** = CHANGE INFO TO GET ***PAID MORE (hours and rate)***
3. CREATE ***FICTICIOUS*** EMPLOYEES = DOUBLE SALARY/WAGE OR DONT REMOVE WHEN LEAVE

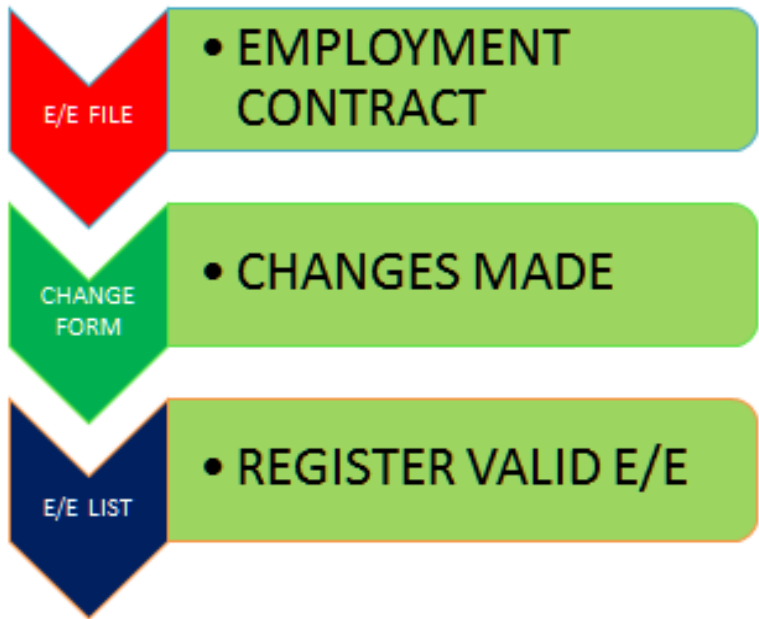
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## 3. RISKS – (FRAUD) - Payroll

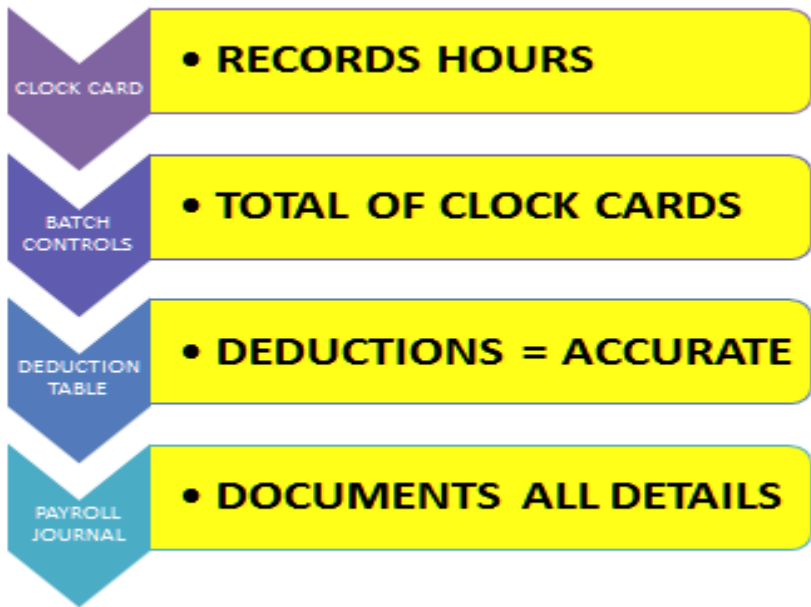
- Fictitious (dummy) employees included in payroll
- Unauthorized changes to gross pay rates by an individual with access to the employee permanent file
- Errors in processing of pay-roll.
- Payroll deductions may be incorrect and not authorized, resulting in incorrect returns and wage pay out.
- Payroll payments may be made to the incorrect employee. This occurs especially where casual labour is hired.
- Unclaimed wages are misappropriated if left unclaimed for long periods.
- Incorrect amounts paid to payroll deduction accounts payable



# DOCUMENTS

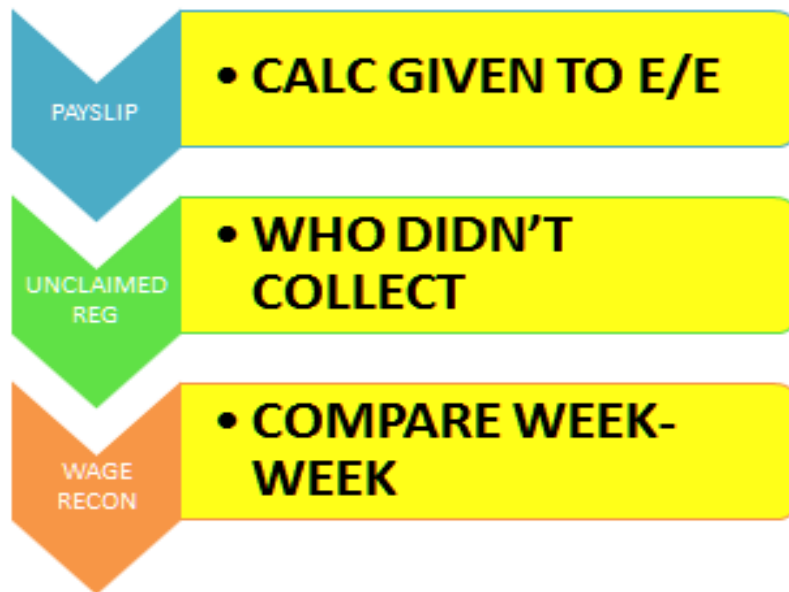


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# DOCUMENTS



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## 2. DOCUMENTS NEEDED in PAY-ROLL FUNCTION

- Employee personal form – details of employee
- Employee changes form- any changes in employment are recorded
- Clock card or smart card – identification & recording hours worked
- Employee pay slip – Printout of wage calculation
- Payroll cheque or advice form or cash
- Pay-roll deduction returns – Eg: Medical, workmen's compensation etc
- Pay packet-
- Tax certificate – year end IRP 5

# Functions of the cycle

- ***HR***
- ***TIMEKEEPING***
- ***PAYROLL PREP***
- ***PAYMENT PREP***
- ***DEDUCTIONS***

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## 1. FUNCTIONS OF PAYROLL CYCLE:

- 1. Initiating payroll transactions**
  - Hiring of new employees
  - Termination of employees
  - Changes in employment
  - Data of contract – rates benefits etc
- 2. Recording of time worked or service provided**
  - Supervising of Clocking in & out of workers present on day
- 3. Preparation and recording of payroll transactions**
  - Capturing of individual hours worked with rates
  - Calculation of deductions/ allowances according to standard contract tariffs
  - Calculation of total wage pay-out
  - Request & Drawing of cash for total wages
  - Completing & filling of pay-roll packet/ envelope by independent person not responsible for pay-roll preparation /calculations.
- 4. Paying the payroll**
  - Actual pay-out to employees, by independent person
  - Employee to show some form of identification
  - Employees to sign for their wage pay-out received
  - Unclaimed wages to be returned to cashier at head office

# ***Human Resources***

## ***Control Activities***

1. All request originate from department making request
2. Requests signed by head of department
3. Changes to contract acted upon after consultation with relevant parties and considering laws
4. Changes must be authorised
5. File kept for each employee
  - *Employment contract*
  - *Performance appraisals*
  - *Personal details*

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# ***Timekeeping***

## ***Control Activities***

1. Limit and supervise entry and exist points
2. Clock cards prepared by personnel department in terms of authorised e/e list
3. Admin clerk collect clock cards at end of the week and
  - Agree number of cards to e/e list
  - Calculate ordinary and overtime
  - Complete batch control sheet
4. Section head authorise overtime and sign batch total as reviewed

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## 1. GENERAL INTERNAL CONTROLS - OBJECTIVES

1. Time registers or clock cards must be used
2. Maintenance of personnel records – wage rates to be checked by independent person
3. Calculation of wages payable should be checked by an independent person
4. A payslip is issued to enable an employee to check the amount being paid to him.
5. Identification of workers before disbursing wages
6. Disbursement must take place in presence of an authorised official.
7. Disbursements should be done by persons who have taken no part in preparing the wages
8. Employees should sign the record as evidence of having received their wages,
9. The disbursing clerk should mark the appropriate items in the wage record as having been paid.

## 2. PERSONAL FILES - INTERNAL CONTROL

- Separation of duties should be implemented.
- The HR Department should be responsible for maintaining the personnel files
- All relevant information regarding worker to be obtained and kept in file.
- Access to factory should be limited to one entrance to control access
- The factory foreman should supervise who clocks in & out, in order to control access to the factory

## ***Payroll preparation***

### ***Control Activities***

1. On receipt of batch total, check details
2. Wage clerk prepare
  - Payroll
  - Recon of difference between prior week and current week wages
3. Supervisor verify
  - hours and rates against the clock cards and employee list
  - Verify deductions
  - Reperform calculations
  - Sign the payroll
4. Head of payroll review and sign payroll and recon
5. Cheque for wages given to cheque signatories with payroll and recon

### **3. PREPARATION OF WAGE SHEETS**

#### **- INTERNAL CONTROL**

1. Pay sheets to be prepared by clerk or foreman.
2. Details of time worked, piece work and rates.
3. The wage clerk should recalculate the hours worked on the clock cards, compare them with wage sheet and initial that task was properly performed
4. Separation of duty between calculation and recording function
5. Someone, - manager should compare rates with personnel files.
6. From cards register is drawn up indicating names, rates, hours, deductions and advances.
7. The next clerk works out the pay due & totals.
8. Accountant should check wage sheet for accuracy of calculations performed by wage clerk and initial it.
9. Cashier checks the previous & makes out the cheques.or draw the cash required.
10. Cheques should not be made out to cash but rather to a person-the accountant or person responsible for drawing the cheque
11. Cheque must only be signed once the wage sheet is completed and satisfied with calculations
12. Particulars of rates X Hours etc should appear on the wage payout envelope so that employees may check them.
13. The factory foreman should sign for the money received
14. Payments made by wage clerk & person identified by foreman or other official.
15. Duties should be rotated.
16. Annual leave should be taken at one time so that irregularities can be discovered.
17. Official should take note of absenties.
18. Unclaimed wages should not be paid out to fellow employees.
19. Unclaimed wages should be investigated.
20. Wages should be signed for.
21. Wages paid should be signed for by person preparing them.

# ***Deductions***

## ***Control Activities***

1. Monthly schedule for:
  - Posting entries to raise liabilities for deductions
  - Making necessary payments on time
  - Supervisory checks on activities
2. Payroll and return forms presented to signatories for review prior to signing cheques
3. Monthly review of GL to confirm deductions are being cleared promptly

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# ***Payment prep***

## ***Control Activities***

1. Wage packets made up by 2 wage clerks
2. On delivery of wage packets section head should
  - Agree number of packets to payroll
  - Agree details on payroll to batch control
  - Sign payroll
3. Packets locked away until pay
4. Payout performed by 2 staff members – foreman and paymaster
5. Employees present ID to collect pay, sign payroll as accepted and count cash
6. On conclusion the two employees must agree all unclaimed packets to payroll – unsigned and identify this on payroll
7. Details of unclaimed entered into unclaimed reg
8. Two must sign payroll as performing all of the above
9. Unclaimed retained by paymaster in locked safe
10. On collection of unclaimed employee present ID
11. Unclaimed after two weeks banked

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## Wage payout - Occurrence

### Management

- Wage packets made up by 2 wage department members
- Locked up until delivery
- On delivery of packets to site, section head to agree # packets to payroll
- Sign report
- Wage payout by 2 employees (paymaster and head must be present)
- EE present ID, count cash and sign payroll
- Pay master agree unclaimed to payroll, enter in reg and sign
- Unclaimed locked up
- ID when collect unclaimed
- Bank unclaimed after 2 weeks

### Auditors perspective

- Arrive before payout
- Agree packets to names, Amounts in payroll
- Accompany paymaster to payout
- E/E Provides ID
- **UNCLAIMED RECORDED IN Register**
- Compare PW: CW Trends
- Confirm unclaimed = banked
- Sample from record agree E/E file/ deduction list and agree to payment

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# Wage Payout

### Management perspective

- Entry and exit points limited and supervised
- Card prepared by HR
- End week, collect wage cards and:  
agree # to payroll
- *Calc overtime/normal time*
- *Complete batch control sheet*

### Auditors perspective

- Test hours = accurate**
- Observe clocking
  - Enquire as to foreman's integrity
  - Inspect foreman sig authorising clock card
  - Recalc hours per clock card to budget

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# WAGE PAYOUT

## Management perspective

- Wage clerk prepare payroll based on batch
- Supervisor verify:
  - Hours to clock cards
  - Deductions against deductions table
  - Reperform calcs
  - Sign payroll
- Cheque signed by 2 signatures after inspection payroll

## Auditors perspective

- Test rates = accurate**
- Hours split Normal and OT
  - Deductions = Deductions table
  - RECALC NET (GROSS-DEDUCTIONS)
  - Recorded in correct GL for month it relates to
  - PAYMENT TO SARS –PAYE TIMEOUSLY

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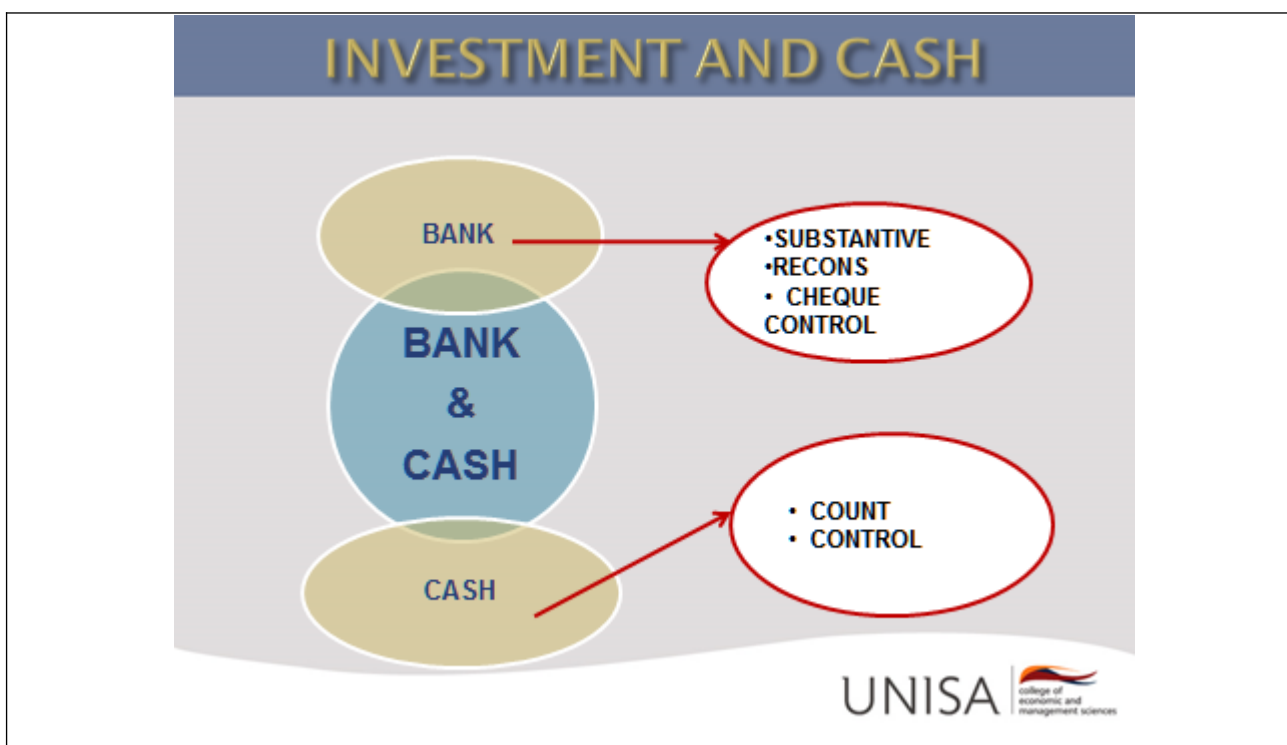
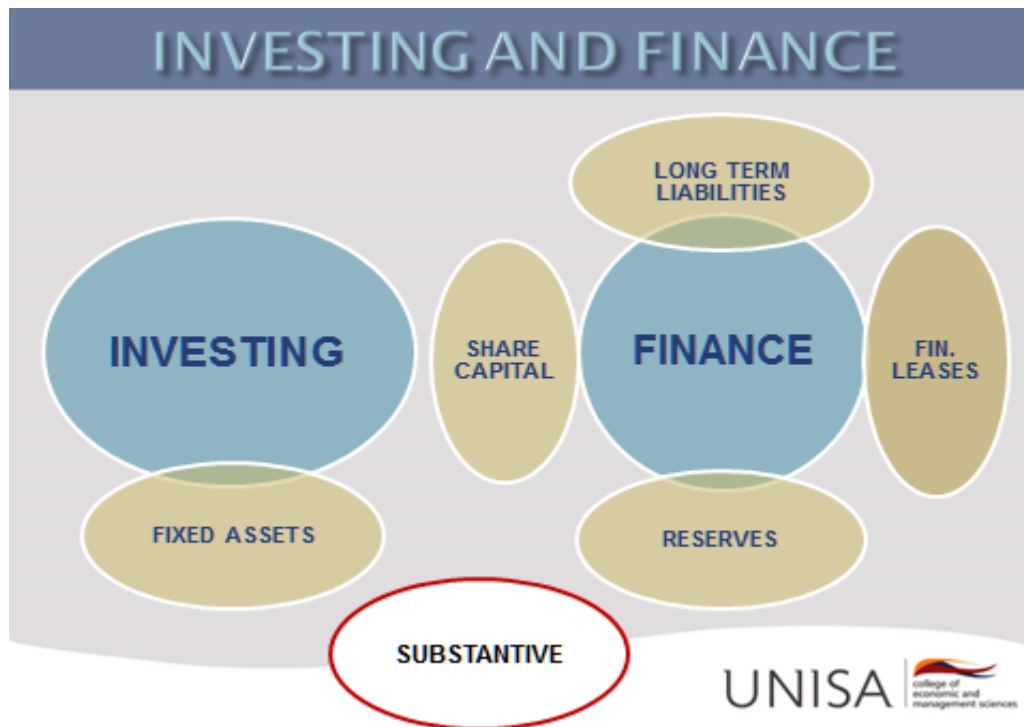
## 4. PAYOUT - INTERNAL CONTROLS - (To ensure the occurrence, accuracy and completeness) NB!!!

1. Physical security must exist over cash for disbursement.
2. Amount due to each employee should be recorded on a payslip.
3. The factory foreman should sign for the money received
4. Some one else other than the foreman should be present at a wage payout
5. The employee must be identified and sign for his/her wage
6. disbursement should proceed in presence of the authorized official who supervises the distribution of wage envelopes.
7. Disbursing clerk should mark off in the wage records all wages that are paid out.
8. Employees should sign the wage record as evidence of receipt.
9. Unclaimed wages should be recorded in an unclaimed wages register and signed by the foreman and other person present at wage payout.
10. Unclaimed wages should be handed in to the cashier.
11. Unclaimed wages must be re-banked after a time period if still unclaimed.

## **5. INTERNAL CONTROLS – UNCLAIMED WAGES NB!!!**

1. Unclaimed wage envelopes should be returned to the cashier
2. Cashier must record in unclaimed wage register
3. Cashier should sign the payroll record to acknowledge receipt thereof
4. wages still unclaimed at close of following week should be deposited in the bank
5. when unclaimed wages are subsequently paid, proper identification of the employee should be established.
6. employees should sign unclaimed register to acknowledge receipt.

# 5. FINANCE and INVESTMENT CYCLE



## FINANCE

- **FUNDS** IN ORDER TO PURCHASE SOMETHING
- **TYPES:**
  - SHARES
  - DEBENTURES
  - **LOAN FROM BANK**

## INVESTMENT

- THE SOMETHING WE ARE **PURCHASING**
- **TYPES:**
  - VEHICLES
  - PROPERTY
  - SHARES

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## ABOUT THE CYCLE

- LESS FREQUENT TRANSACTIONS
- TRANSACTIONS = *MATERIAL* = FINANCE
- GOVERNED BY STATUTE – CO ACT
- UNIQUE DOCUMENTATION
- LINK TO PURCHASE CYCLE
- PRIMARY RISKS FOR LIABILITY AND ASSET

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## AUDIT PROCEDURES – FINANCE

- SHARE CAPITAL
- RESERVES
- DEBENTURES
- **LONG TERM LOANS**
- FINANCE LEASE LIABILITIES
- PROVISIONS & CONTINGENT LIABILITIES

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## INVESTMENT

- **PPE**
- Investment in Shares
- Long Term Loans
- Intangible Assets
- Investment in cash

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# SHARE ISSUE

## Internal Control over issue of shares

1. Authorisation for the issue of shares
2. Compliance with necessary statutory requirements
3. Opening a bank account and shareholder's cash book specifically for the share issue
4. Accounting for all applications in the application register
5. Authorisation and recording of allotments in the allotment register
6. Recording all cash received in the shareholder's cash book.
7. Recording of repayments in respect of applications not taken up in the shareholders cash book.
8. Agreement of net cash receipts with the total allotments.
9. Issue of share certificates only for shares allotted.
10. Correct accounting records and correct recording of the allotments in the register.