

RISK, GOVERNANCE AND AUDIT

CORPORATE LEVEL

TUTE 06.2

PROCESS WISE INTERNAL CONTROLS (BUSINESS PROCESSES)



by

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INTERNAL CONTROL SYSTEMS AND BUSINESS PROCESSES

1) SALES AND DEBTORS PROCESS

INTERNAL CONTROLS OF SALES AND DEBTORS PROCESS

- ✚ Establish a proper Pricing Policy in the business organization.
- ✚ Appointing a responsible party for the Sales function and assign the responsibility.
- ✚ Preparation of Sales Order upon receiving the Order from the Customer, after checking the availability of Stocks. The copies of the Sales Order need to be delivered to the respective parties.
- ✚ Preparation of Sales Invoice by the Finance Department and preparation of Receipt upon receiving Cash or Cheques from the customer.
- ✚ Preparation of Goods Issue Note (GIN) and the Delivery Note (DN), at the time of handing over the stocks to the customer from the warehouse.

- ✚ An independent officer, who is not involved to this function, needs to check the PR's, related PO's, GRN's and Payment Documents at regular intervals.
- ✚ Preparation of Creditors Control Account to validate the accuracy of Creditors Ledger.
- ✚ Obtaining confirmation from creditors at regular intervals (on monthly basis) to check the accuracy of the records.
- ✚ Preparation of "Creditors Aging Analysis" on monthly basis and ascertain the creditors which we have not settled for a long period and ascertain the reason for not settling the balances.

3) BANK PROCESS

INTERNAL CONTROLS APPLICABLE TO BANKING PROCESS

- ✚ Preparation of Bank Reconciliation for all the Bank Accounts and the Respective Officer needs to check and approve the bank reconciliations.
- ✚ Obtaining Independent Confirmation from the bank to check the accuracy of the accounting records.
- ✚ Preparation of an approved payment voucher prior to release any cheque payment.
- ✚ Cancellation of all the supporting documents once the cheque is raised, based on the approved payment voucher.
- ✚ Issuance of "Crossed" Cheques as much as possible.
- ✚ Maintaining the Cheque Counterfoils accordingly.
- ✚ Establish a specific Delegated Authority Levels (DAL's) for cheque signatories.
- ✚ Issuance of a Receipt upon receiving a cheque payment.
- ✚ Deposit the cheques as soon as possible in the Bank, rather than keeping it for a long time.
- ✚ Maintaining a Cheque Register within the Business Organization.
- ✚ Appointing a responsible party to handle the cheque acceptance and cheque issuing functions in the business organization.

4) CASH PROCESS

INTERNAL CONTROLS APPLICABLE TO CASH PROCESS

- ✚ Appointing a responsible party to handle the cash related transactions in the business organization and assigning the responsibilities.
- ✚ Implementation of proper control for accepting and issuing cash.
- ✚ Perform an surprise cash counts at regular intervals and check the physical cash with the cash book balance.
- ✚ Check the daily cash summaries with the deposits slips to ensure that the daily collection has been bank accurately.
- ✚ Implementing controls when there is an IOU facility, such as maximum amount and the time period.
- ✚ Implement proper controls to minimize the cash transactions.

5) INVENTORY PROCESS

INTERNAL CONTROLS APPLICABLE TO INVENTORY PROCESS

- ✚ Appointing a responsible party to handle the inventory related transaction in the business organization and assigning the responsibilities.
- ✚ Implementation of proper control for accepting and issuing of Stock Items. Eg: Preparation of a GRN once the goods received to the stores and preparation of a GIN once the goods are issued from the stores.
- ✚ Maintain an updated Stock Records: Eg: Bin Cards and Store Ledger.
- ✚ Perform monthly stock counts at regular intervals and check the physical stocks with the Stores Ledger.
- ✚ Implementation of a proper methodology for stock valuations.
- ✚ Manage all the stock items under Maximum Stock Levels, Minimum Stock Levels and Re-Order Levels in order to obtain the maximum benefit.

6) FIXED ASSETS/ NON-CURRENT ASSETS PROCESS

INTERNAL CONTROLS APPLICABLE TO FIXED ASSETS PROCESS

- ✚ Obtain the approval from the Management and perform a Feasibility Study prior to the acquisition or disposal of Fixed Assets.
- ✚ Keep proper documentary records with regard to Fixed Assets.
- ✚ Perform Fixed Assets verifications at regular intervals and check the physical Fixed Assets with the Fixed Assets Records.
- ✚ Implementation of a proper Depreciation Policy within the organization.
- ✚ Implement/establish a proper policy to identify the Revenue Nature Related Expenditure and Capital Nature Related Expenditure incurred for Fixed Assets, and to take steps for Accounting.

7) SALARIES AND WAGES PROCESS

INTERNAL CONTROLS APPLICABLE TO SALARIES AND WAGES PROCESS

- ✚ Appointing a separate party to handle the Salaries and Wages activities.
- ✚ Maintaining separate Personnel Files for each employee.
- ✚ Handing over a Salary Slip to every employee at the time of making the salary payments.
- ✚ Obtaining approval from the higher authority at the time of considering Over Time for salary calculations.
- ✚ Take necessary actions to submit the EPF, ETF and other deductions to the regulated authorities at stipulated time frames.
- ✚ Maintaining a separate bank account to process the salary payments.
- ✚ Establish a specific date for the salary payments and take the required actions to credit the salaries to the respective bank accounts
- ✚ Prior to crediting the salaries to the accounts, obtained the approval from higher authorities.
- ✚ Maintaining a Salaries and Wages Control Account.
- ✚ Maintaining proper records for the Unclaimed Salaries and Wages

Additional Notes.



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