

Business Processes & Internal Controls

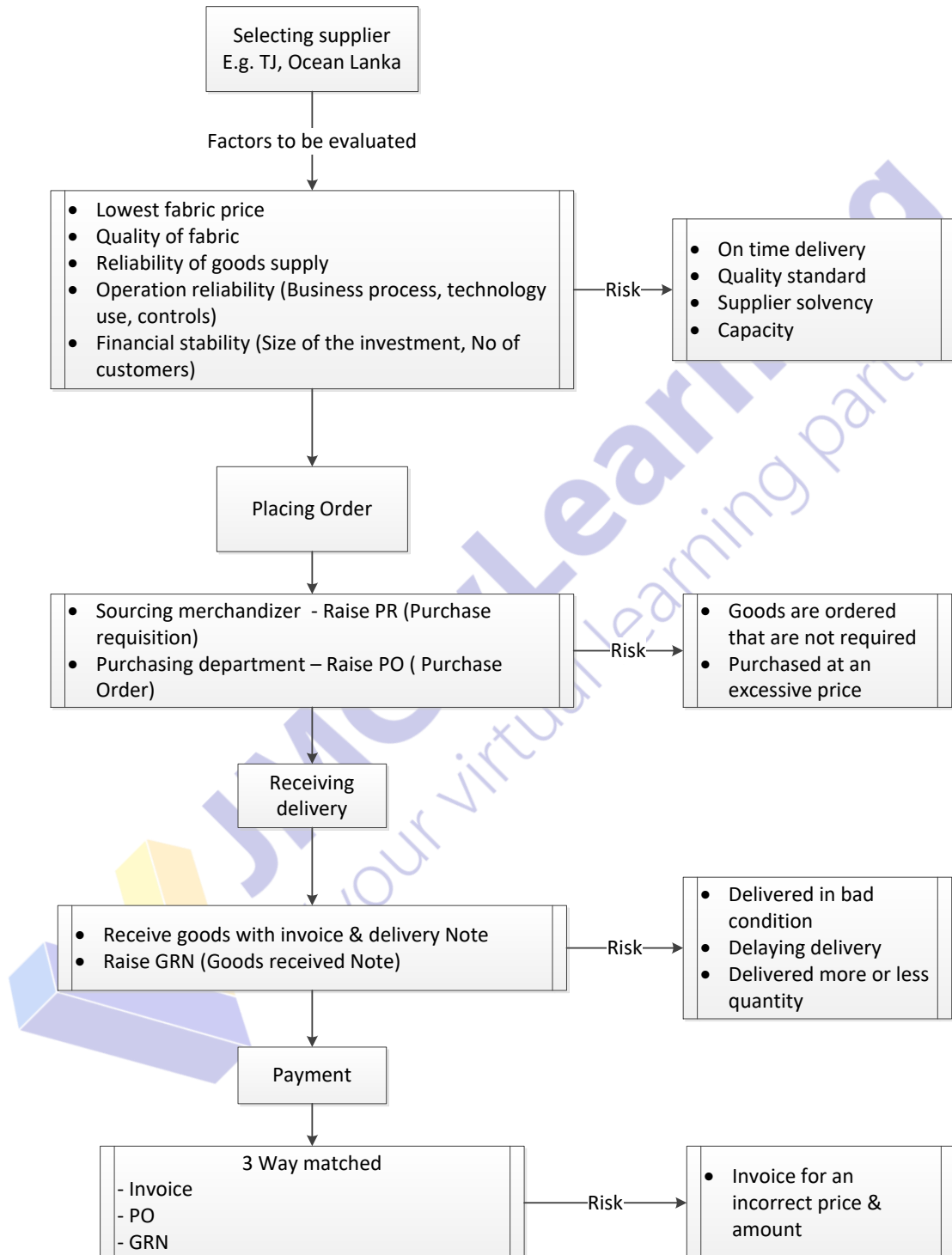
AAT Level III Financial Controls & Audit (FCA)

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Unit 3 - Business Processes & Internal Controls (20%)

Think – Your best teacher is your last mistake

01. Purchasing Process



The Procurement Process Insight

Budgetary controls in purchasing

There should be **budgetary controls** over purchase **quantities & prices**. The budgetary control reporting system should ensure that **significant differences** between actual & budgeted purchase quantities or process are reported to **management for investigation**

Documents in purchasing process

01. Purchase requisition

- The purchase requisition note is used by purchasing department as authority to place a purchase order with a supplier
- The store department, which makes a purchase requisition when the inventory level for the inventory item falls to a reorder level.
- A manager in a department who has authority to make purchase requisition for specified purpose up to an approved value limit

PURCHASE REQUISITION				Reg No
Department/ Job number			Date	
Requested by				
Latest date required				
Quantity	Code Number	Description	Estimated cost	
			Unit	Rs
Authorized signature				

02. Purchase Order

- Copies of Purchase order are sent to the person who submitted the purchase requisition (Often the shopkeeper) & accounts department
- The purchasing department prepares a purchase order, which is sent to the supplier.
- Copies of purchase order
 - ✓ Retained in the purchasing department
 - ✓ Sent to the accounts department
 - ✓ Sent to the storekeeper who made the purchase requisition

PURCHASE ORDER/ CONFIRMATION			
Our order ref :- Date :-			
To :-			
Please deliver to the above address ordered by :-			
Passed & check by :-			
Total value Rs :-			
	Subtotal		
	Vat & 11%		
	Total		

Points to note:-

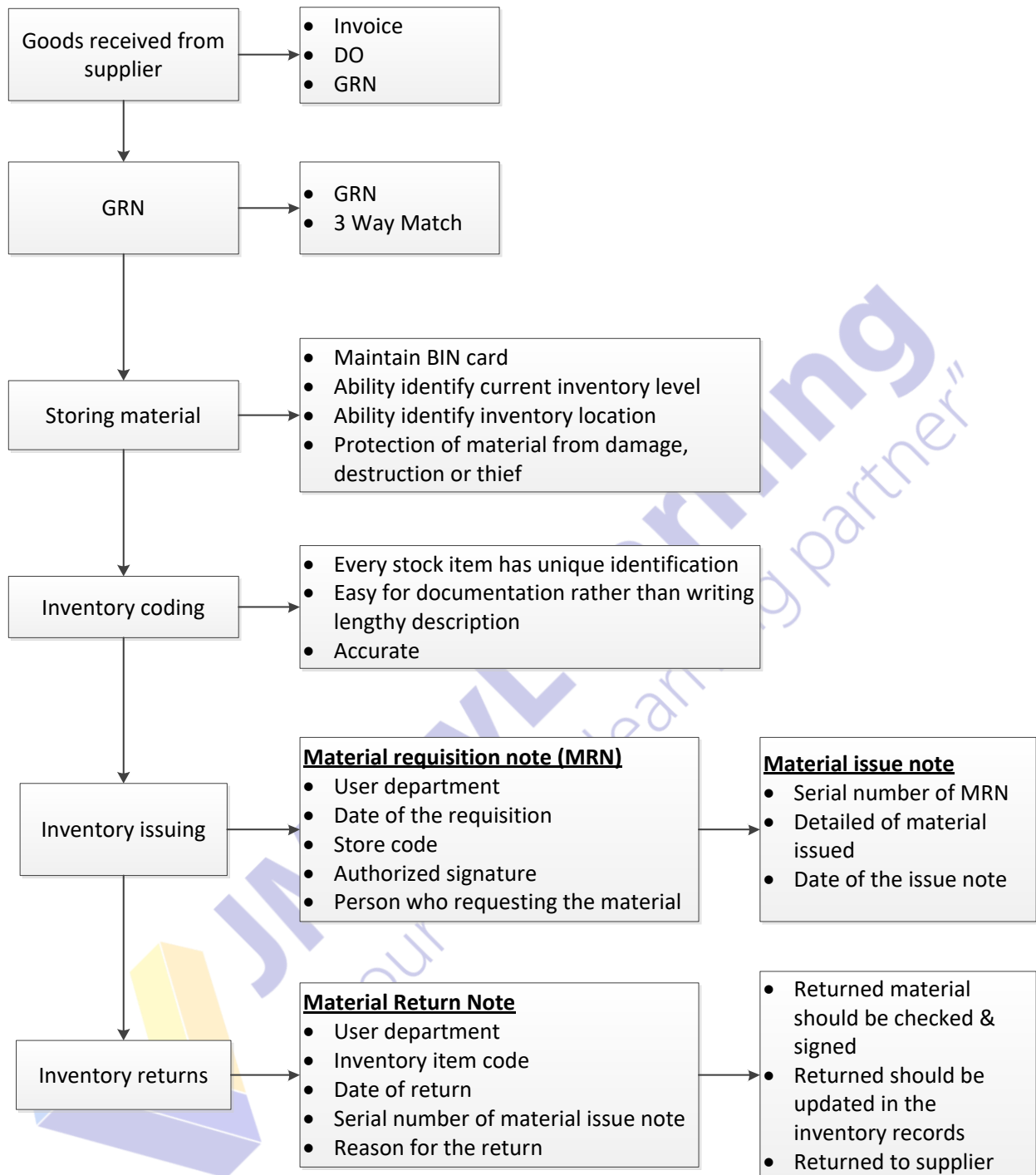
- Some manufacturing organizations have a computerized system for managing materials purchasing & production scheduling, known as a **Material requirements planning (MRP) system**
- An MRP system schedules future production and identified the material required for this production work

03. Goods Received Note

- Record of goods received at the point of receipt. This record is used to confirm all goods have been received and often compared to a purchase order before payment is issued.
- Copies of GRN
 - ✓ The purchasing department, as confirmation that the purchase order has been fulfilled
 - ✓ The accounts department, as evidence that the goods have been received & used for 3way match
 - ✓ The copy of the GRN held by the storekeepers should be used to update the inventory record

GOODS RECEIVED NOTE WAREHOUSE COPY		
	NO	
5576	DATE :-	TIME:-
SUPPLIER & SUPPLIER'S ADVISED NOTE NUMBER		
Quantity	Reference number	Description
Received in good condition :-		

02.Inventory management process



02.1 Classification of inventory

- Raw material & component
- Work in progress
- Spare part/Consumables
- Finished goods

02.2 Perpetual inventory model

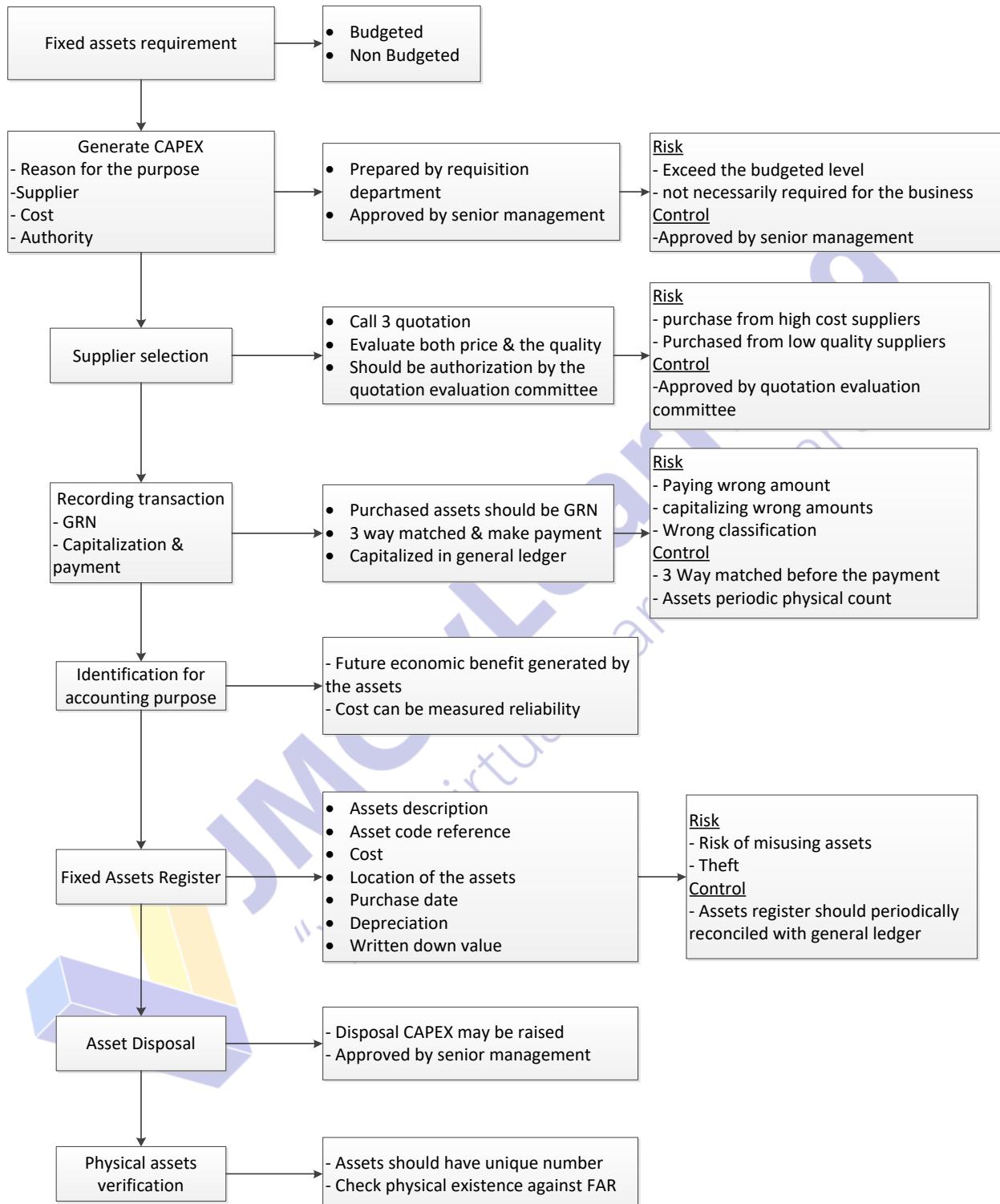
System where inventory records are updated whenever goods are received & issued.
Mostly computerized inventory system can be treated as perpetual inventory system

02.3 Business risks involved with the inventory management

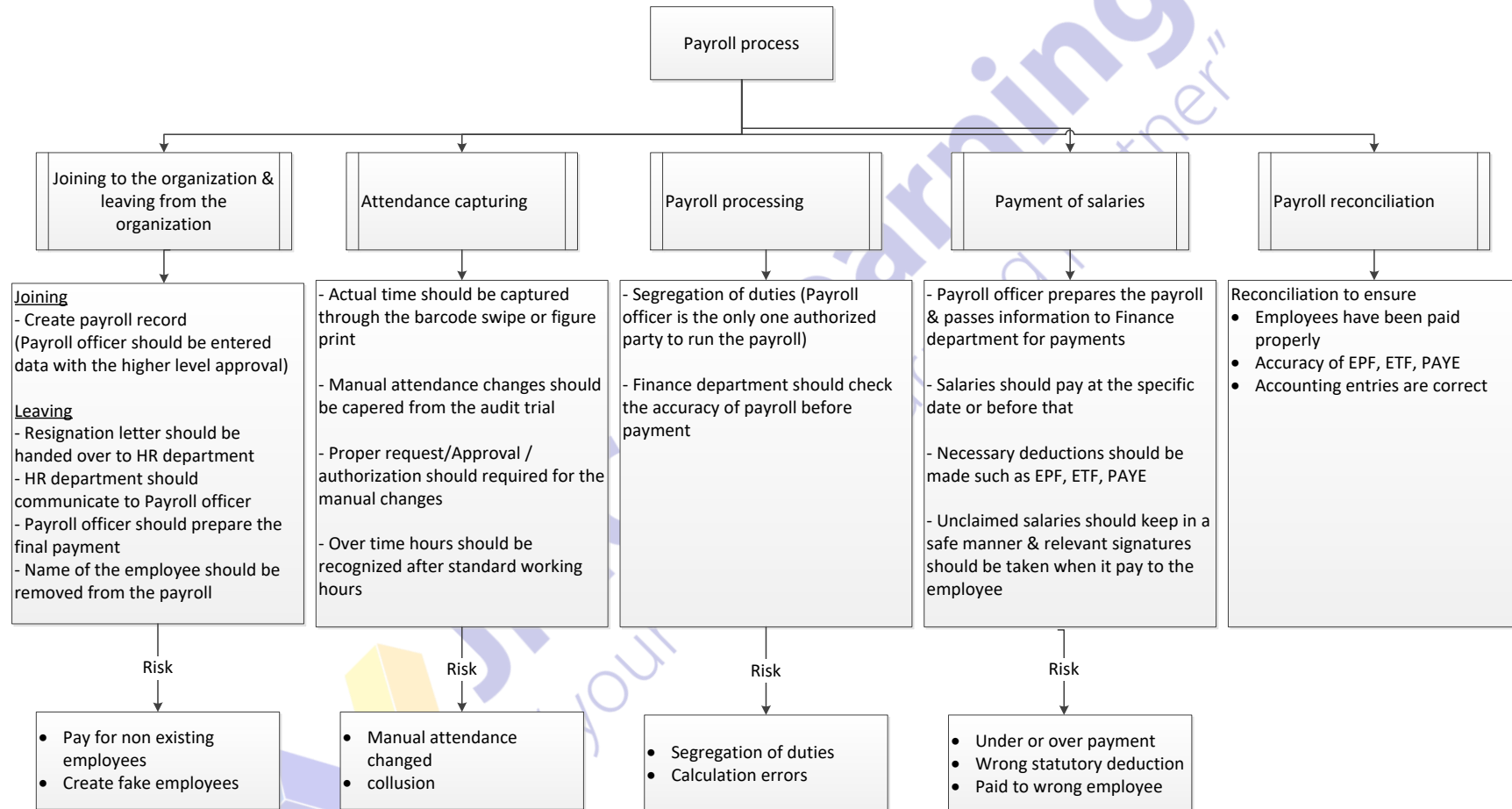
Risk	Internal control to mitigate the risk
Risk of shortage	<ul style="list-style-type: none">▪ Monitoring minimum inventory level regularly▪ Placing orders considering re order level
Risk of excessive inventory	<ul style="list-style-type: none">▪ Maintain EOQ level▪ Regular monitoring of maximum inventory level
Physical risk	<ul style="list-style-type: none">▪ Security guard▪ CCTV▪ Restrict access only to authorized persons
Risk in errors	<ul style="list-style-type: none">▪ Conducting physical verification regularly▪ Carry out inventory reconciliation▪ Conducting inventory cycle count
Risk of issuing inventory	<ul style="list-style-type: none">▪ Material Requisition Note
Accepting goods without referring to order details	<ul style="list-style-type: none">▪ Check GRO with PO



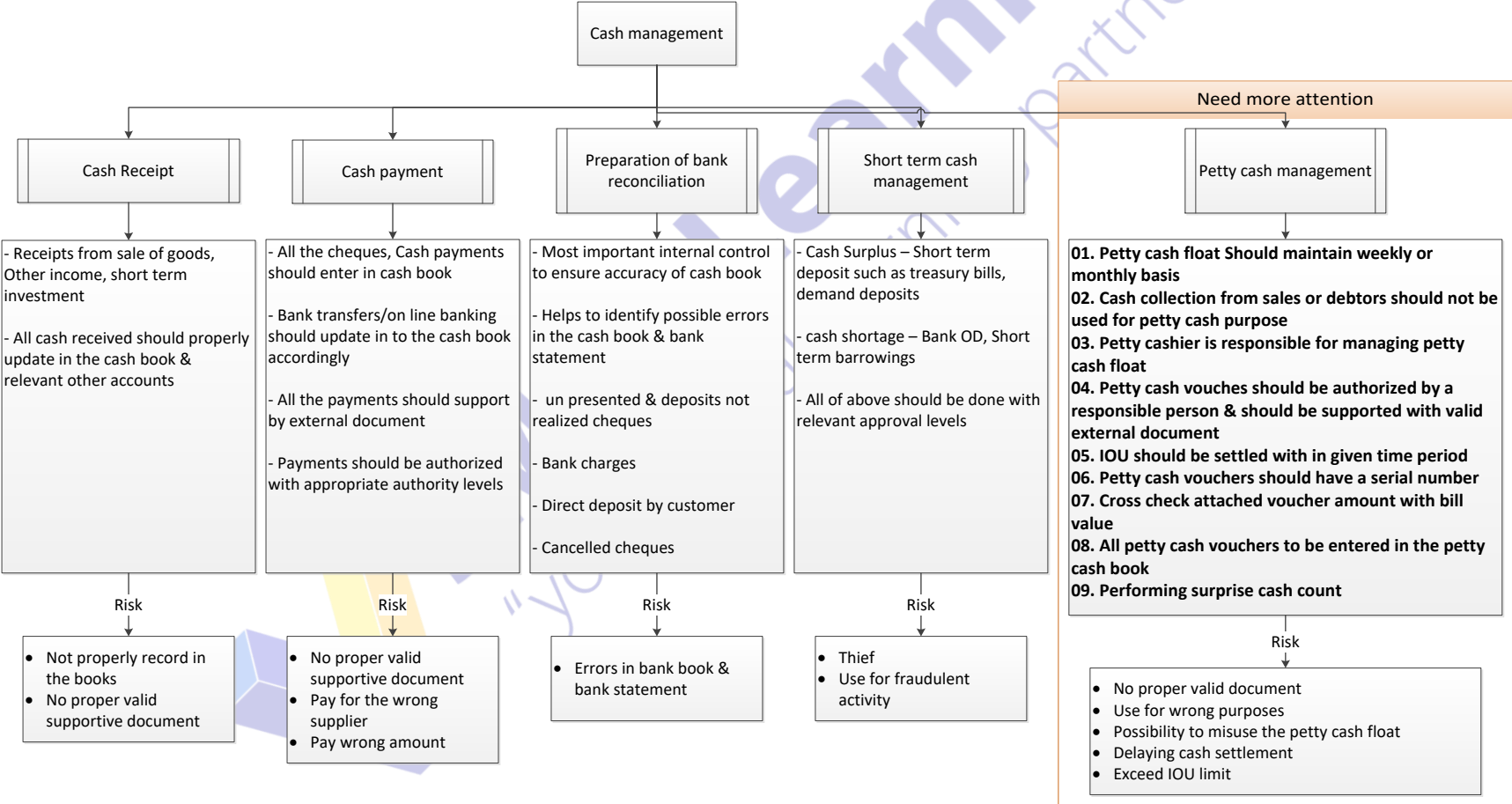
03. Property plant & equipment



04. Payroll process



05. Cash management





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