

MANAGEMENT CONTROLS IN FINANCIAL PROCESSES

SECTION : 16 MANAGEMENT CONTROLS IN FINANCIAL PROCESSES**16.1 INTRODUCTION**

Management controls are part of the framework of stewardship. They are there to

- ♣ provide a safeguard against mistakes being made,
- ♣ ensure accountability at appropriate levels,
- ♣ monitor performance,
- ♣ avoid waste,
- ♣ safeguard assets,
- ♣ reduce the opportunity for fraud
- ♣ provide early warning signs to management in the event of breakdowns in control.

16.2 DEFINITIONS**16.2.1 Control process**

This is generally a check that something has happened correctly. E.g. the invoice is a valid tax document. Many control processes are straightforward and some cases the computer system will make it clear that the answer is arithmetically correct or perhaps that the supplier has invoiced at a different price from that on the order.

16.2.2 Internal check

A mechanism which demonstrates that a control process is working and that the answer is correct. Completion of the process demonstrates to the person doing the task that they have the correct answer. This may also be subject to a separate independent verification. E.g the petty cash balance as recorded in SIMS agrees with amount in the safe.

16.2.3 Key control

Key controls may involve more than one person but generally a key control is there to ensure that all appropriate control checks have been properly applied and that everything is in order.

16.2.4 Certification

Confirming by signature or by initialling (or electronic equivalent) that something has happened and matters are in order. E.g. that goods have been received undamaged and added to inventory or that the petty cash has been brought to account and balances. The certifying officer by signing or initialling accepts responsibility for the transaction. The signature or initials are evidence that the check has been made.

MANAGEMENT CONTROLS IN FINANCIAL PROCESSES

16.2.5 Authorisation

This is an approval process. It may be an overall approval such as occurs when the governors agree the budget or, it may be much more context specific. For example a signature would be required to agree that the conditions of a key control have been met and that it is in order to release a payment. Authorising a batch of invoices for payment or signing cheques is a key control. The authorising officer by signing or initialling accepts responsibility for the transactions. The signature or initials are evidence that the check has been made. Where authorisation takes place in an electronic system the use of the user identification is taken as evidence that the nominated user has personally accessed the system.

16.2.6 Verification

A check, often physical, that some item is present or process is happening. E.g that the cash box contains the expected amount or that the items on an invoice have been entered to an inventory.

16.3 PRINCIPLES

There are a number of principles

- ♣ Certification should be meaningful.
- ♣ Controls should be both simple and certain.
- ♣ Controls should reinforce accountability.
- ♣ Evidence that controls are operating should be retained.
- ♣ Separation of duties must be enforced
- ♣ Control processes should be overt.
- ♣ Controls should be applied at appropriate levels

16.3.1 Meaningful certification

All certification processes are diminished if those involved are removed from the transactions concerned. Therefore those actually doing something should sign to say they have done it. Thus the person physically checking that for example goods have been delivered and agree with the invoice or delivery note should sign off for that step in the process. Signing off “blind” or in the belief that someone else has carried out the check is unacceptable. Similarly where items are of a technical or specialist nature it may be important for someone who can recognise them to do the checking. Similarly checking will be done at an appropriate level. Signing equals checking.

16.3.2 Controls should reinforce accountability.

Good controls identify who did what and when. This is important in the event of query. Where individuals are personally accountable for transactions then generally there will be a higher standard of responsibility. For example staff who sign for goods will often be more concerned to ensure that they are secured safely after receipt.

MANAGEMENT CONTROLS IN FINANCIAL PROCESSES

16.3.3 Evidence that controls are operating should be retained.

Evidence is generally simple; items ticked off invoices, delivery notes and requisitions backed up by the initials or signature of the person concerned and the date usually suffice. Not only does this provide visible confirmation that a control has been applied but it also serves to safe guard against lapses of memory. It may prevent duplicate processing. This may be particularly true with invoices, which ideally should be marked off once they have been entered into the payment process.

16.3.4 Separation of duties must be enforced

Proper separation of duties ensures that no single individual can process a complete transaction without an independent check by another person, which is intended to identify any mistakes. Generally senior staff check the work of those more junior. Without separation of duties the way is also open to temptation and fraud.

Separation of duties is often easier in large organisations as there are more people who can be involved. Good separation of duties will often involve a number of people in the process, this may often be in small ways but each these checks contributes to the overall veracity of the transaction.

Thus for example the caretaker checks the deliveries of cleaning materials and janitorial supplies for things such as correct product, correct sizes, correct quantity and no damage. Once the caretaker has confirmed the delivery is correct and complete, the administrator can check the invoice. The other normal checks on the invoice would include a visual examination for points such as that the delivery has been made to the school address, that the invoice is a valid tax document before processing it, checking for correct prices and submitting it to the headteacher or other authorised person for payment approval.

In some cases two people acting in concert provide the controls. These will generally be circumstances where there is significant risk. These strengthened controls are often applied in situations that involve cash handling. Ideally, for example, two people will open coin operated vending machines.

16.3.5 Controls should be both simple and certain.

Controls that are overly complex and time consuming are more likely to be ignored. This may be because

- ⊖ the conditions defined in the control are impossible to achieve on a regular basis;
- ⊖ are onerous in terms of time and effort compared to their perceived value:

Controls should be proportionate to the risk and importance of the transactions. Many checks are common sense and in practice very simple to apply, some are provided by the computer software used for school finance. These built in controls may highlight issues such as variances in prices or incorrect arithmetic extension of an invoice.

MANAGEMENT CONTROLS IN FINANCIAL PROCESSES

16.3.6 Control processes should be overt.

The very existence of control processes also deters fraud, encourages good stewardship and helps to maintain standards. However unless controls are known to exist and that they are applied their deterrent and motivational effects are lost. Controls that operate in “secret” may be ineffective. This is because they may be neglected and have the disadvantage that they come into play after there has been a “performance failure”. They are thus primarily focussed on retribution rather than avoiding a problem occurring in the first place. Equally good controls properly applied will reassure staff that they are safeguarded against mistakes. This may be particularly reassuring to new or inexperienced staff.

16.3.7 Controls should be applied at appropriate levels

A control process is substantially devalued if those undertaking it are allowed insufficient time to discharge the responsibilities properly. For this reason it is appropriate to consider the supervisory level at which key controls are applied. Consideration should be given to whether it may be more effective to delegate authorisation processes rather than these being carried out the most senior level. This is a question of balance, however a more junior person subject to some managerial control is more likely to be diligent in conducting checks before signature than a more senior person who is “too busy” to do more than simply apply a signature. Where tasks are delegated then they should be subject to appropriate management control possibly on a sample basis.

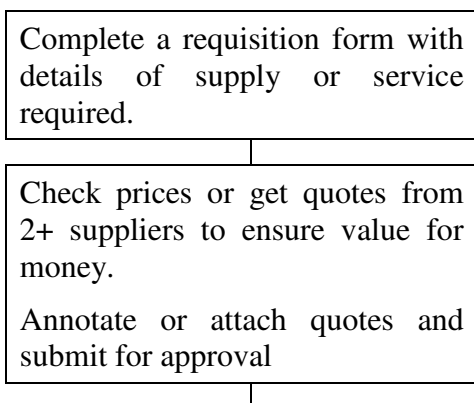
16.4 EXEMPLIFICATIONS

The demonstration of controls is clearest by way of example, the following diagram shows controls in their context and reasons for them. The example is not intended to be comprehensive but to provide an understanding by illustration of controls within a payment system.

16.5 PAYMENTS SYSTEM

CONTROL ISSUES

16.6 PROCESS FLOW



Evidence attach quotes to the requisition, or where you have received verbal quotes, note them on the requisition.

Authorisation from the budget holder that value for money is achieved and for approval to purchase.

MANAGEMENT CONTROLS IN FINANCIAL PROCESSES

Enter requisition into SIMS and print official order

Check that all the information required is available.

Check SIMS that budget is available.

Record the commitment and note order number on the requisition as cross reference.

Controlled stationery computer generated order number, recognised and traceable.

Security of order stationery to safeguard their mis-use.

Approval of order

Check that the order is correct to the requisition.

Authorise the order for approval to commit expenditure in line with the Finance Policy.

Receive goods and check them to the order

Separation of duties to check that goods have been received (ideally by someone other than ordered the goods).

Verification by a physical check of the goods and ticking the delivery note showing that goods are received.

Check the invoice for completeness, accuracy etc.

Certification by buying department that they are satisfied with the goods / service & invoice is ok to pay.

Check that prices on the invoice are correct. That it is arithmetically correct and the other tests are satisfied.

Matching the invoice details to the order to ensure the items are those actually required.

Input invoice details to SIMS for payment

Separation of duties Access restricted in SIMS to authorised personnel and specific purposes.

Matching check by SIMS that invoice number not already paid.

Evidence that the invoice is paid by marking it as such.

Produce authorisation run

Certification of the “authorised control list” that control checks have been completed (Administrator).

Supervision check by authorised signatory that control checks completed and evidenced.

Authorisation that payments are ok to transmit.

File the invoices and batch reports

File in order the invoices complete with the batch header in date order for tracing / demonstrating payments made.

MANAGEMENT CONTROLS IN FINANCIAL PROCESSES

16.6.1 Control of ICT systems

This is a key management control and a designated system manager will be responsible for maintaining control over the access to any computer based system.

16.6.2 Access rights

This is the term given to user permissions in computer systems. These permissions define the rights of individuals to undertake certain tasks in the system. They may be used to enforce separation of duties.

These may provide a level of control that is not present in manual systems. Electronic systems are typically accessed by way of a user identification (ID) and a password. Some systems such as bank payments may require additional security such as a smart card and Personal Identification Number (PIN).

16.6.3 Principles

Access rights should only be granted to those actually needing to use the system. Rights should not be conferred on a just in case basis. If someone needs access then this can be granted as required and revoked when the need ceases. Access should be set at an appropriate level, eg Operator, Supervisor, or Manager. Read, Create, Edit or Delete

16.6.4 Protection of passwords

In all cases it is axiomatic that the system records transactions against the user ID. It is vital that the passwords and PINs of individuals are not disclosed as they are the electronic equivalent of signatures. In the event of a password or PIN being compromised (or suspected to have been compromised) then it must be changed immediately. It is good practice to change passwords frequently. By regular alteration of passwords security is enhanced.

16.6.5 Passwords

Passwords can easily be compromised. Some simple but effective principles can be applied.

Do	Do Not
Change frequently at least every 30 days	Use birthdays
Use letters numbers and characters	Use names of family members or pets
Minimum of 6 characters – longer the better	Use things of obvious association such as a favourite sport, TV Star, football team or player
	Use complete words
	Leave passwords written down in obvious places
	Share passwords with others
	Leave systems logged on and unattended
	Allow others to “oversee” whilst logging on