

# FINANCIAL CONTROL MEASURES

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# OBJECTIVES OF THE SEMINAR

- ❖ An understanding of Financial Control measures
- ❖ Critical Success factor of any financial control measure
- ❖ Examples of some financial control measures in the work place

# MEANING OF FINANCIAL CONTROL MEASURES

Financial control measures are those measures that is put in place to ensure that financial related assets or properties of an organisation are safeguarded, either from externals or employees of an organisation from any threat whatsoever, whether by theft, loss or misappropriation (intentional or otherwise).

Simply put, as those policies, procedures practices and organisational structures which are implemented to reduces financial risk to the organisation.

They are developed to provide reasonable assurance to management that the organisation business objectives will be achieved and risk prevented, or detected and corrected.

# MEANING OF FINANCIAL CONTROL MEASURES (Cont'd)

However, financial control measures can be best summarised to the establishment and operation of an internal control system.

According to the Auditing Practices Committee in their Guideline, internal control system is the whole system of control, financial or otherwise, established by the management in order to carry on the business of the enterprises in an orderly and efficient manner, adherence to management's policies, safeguard the asset and secure as far as possible the completeness and accuracy of the records.

# MEANING OF FINANCIAL CONTROL MEASURES (Cont'd)

From the above definition, the following are the objectives of any internal control system:

## Internal Accounting Control –

Primarily directed to accounting operations such as the safeguarding of assets and the reliability of financial records and financial reporting.

## Operational Control-

Directed at day-to-day operations, functions and activities to ensure that the operation is meeting the business objectives.

## Administrative Control-

Concerned with operational efficiency in a functional area and adherence to management policies including operational controls. Described as supporting the operational controls specifically concerned with operating efficiency and adherence to organisational policy.

# MEANING OF FINANCIAL CONTROL MEASURES (Cont'd)

As earlier said that the whole financial control measures can best be explained by the implementation of an Internal Control System.

However, the following are the features of an internal control system: (PAPAMOSS)

## ✓ Physical Control:

This is concerned mainly with the custody of assets and involve procedures and security measures designed to ensure that access to assets is limited to authorised personnel. These control assume importance in the case of valuable, portable, exchange or desirable assets.

## ✓ Authorisation and Approval control:

These control set to address the importance of ensuring that no transaction is carried out or processed without the approval of by an appropriate person. It should be noted that the limit to this approval must be specified.

## ✓ Personnel Control:

These are procedures put in place to ensure that personnel have capabilities commensurate with their responsibilities. Inevitably, the proper function of any system depends on the competence and integrity of those operating it. The qualification, selection and training as well as the innate personal characteristic of the personnel are important features to be considered in setting up any control system.

# MEANING OF FINANCIAL CONTROL MEASURES (Cont'd)

## ✓ Arithmetical / Accounting Control:

These are controls within the recording function which check that the transactions to be recorded and processed have been authorised, that they are all included and that they are correctly recorded and accurately processed. Such controls may include checking the accuracy of the records, the maintenance and checking of totals, reconciliation, control accounts and trial balance.

## ✓ Management Control:

These are the controls exercised by management outside the day-to-day routine of the system. They include the overall supervisory controls exercised by management, the review of management accounts and comparison thereof with budgets, the internal audit function and other special review procedures.

## ✓ Organisational Control:

These controls address the issue of establishing an organisational plan that defines and allocate responsibilities as well as identify lines of reporting for all aspects of the enterprise's operations, including the associated controls. The delegation of authority and responsibility should be clearly specified.

# MEANING OF FINANCIAL CONTROL MEASURES (Cont'd)

## ✓ SEGREGATION OF DUTIES:

One of the prime means of control is the separation of those responsibilities or duties which would, if combined, enable one individual to record and processed a complete transaction. Segregation of duties reduces the risk of intentional manipulation or error and increases the element of checking. Function which should be separated include those of authorisation, execution, custody, recording and in the case of computer based accounting system, systems development and daily operation.

## ✓ SUPERVISION CONTROL:

This type of control sets to address the issue of supervision of any system of internal control put in place by responsible officials of day-to-day transactions and the recording thereof.

# FINANCIAL CONTROL MEASURES CLASSIFICATIONS

Control measures can be broadly categorised into three:

- Preventive
- Detective
- Corrective

See the next slide for the exhibit

# FINANCIAL CONTROL MEASURES CLASSIFICATIONS

CLASS	FUNCTION	EXAMPLES
Preventive	<ul style="list-style-type: none"> <li>•Detect problems before they arise</li> <li>•Monitor both operation and input</li> <li>•Attempt to predict potential problems before they occur and make adjustments</li> <li>•Prevent an error, omission or malicious act from occurring.</li> </ul>	<ul style="list-style-type: none"> <li>•Employ only qualified staff</li> <li>•Segregate duties (deterrent factor)</li> <li>•Control access to physical facilities</li> <li>•Use well designed document (prevent errors)</li> </ul>
Detective	<ul style="list-style-type: none"> <li>•Use controls that detect and report the occurrence of an error, omission or malicious act.</li> </ul>	<ul style="list-style-type: none"> <li>•Duplicate checking of calculations</li> <li>•Past due account reports</li> <li>•Internal audit functions</li> </ul>
Corrective	<ul style="list-style-type: none"> <li>•Minimise the impact of threat</li> <li>•Remedy problems discovered by detective control</li> <li>•Identify the cause of a problem</li> <li>•Correct errors arising from a problem.</li> </ul>	<ul style="list-style-type: none"> <li>•Contingency planning</li> <li>•Backup procedures</li> </ul>

# CSF OF FINANCIAL CONTROL MEASURES

Before any control measure can be put in place, an organisation must ensure that a friendly environment for its implementation is created. This could be through:

- ❖ The development of good attitude to the controls envisaged by both management and employees.
- ❖ Creation of a good organisational structure i.e. having a good reporting structure
- ❖ Segregating of at least the following function:
  - Initiation of transaction
  - Custody of the underlying asset
  - Recording of transaction

# EXAMPLES OF FINANCIAL CONTROL MEASURES

Financial control can be applied in virtually all aspect of any business. These following are examples of areas where financial control could be applied:

Bank account (Bank reconciliation statement preparation)

Sales

Purchases

Cash and cheques

Fixed Assets

Payroll – Salaries and wages

Stock , amongst others.

# EXAMPLES OF FINANCIAL CONTROL MEASURES

Bank account (Bank reconciliation statement preparation):

This serves as a means of carrying out a periodical check on the activities carried out for the particular period. This is done by comparing the monthly bank statement sent by the bank to the organisation with the similar record maintained by the company for the same period. Any discrepancy is reconciliated so as to have the same balance in both record. These discrepancies may be caused by any of the party.

# EXAMPLES OF FINANCIAL CONTROL MEASURES

## Payroll – Wages & Salaries Control:

Responsibilities for the preparation of the wage sheets should be delegated to suitable person, and adequate staff appointed to assist him. The extent to which the staff could perform other duties should be specified clearly.

Other Key controls are:

Staffing and Segregation of duties

Authorisation of the following:

- Engagement and discharge of employees

- Changes in pay rate

- Overtime

- Non-Statutory deduction

- Advances of pay

Recording of changes in personnel and pay rates

Recording and review of hours worked.

Recording of advances of pay

Holiday pay arrangement.

# EXAMPLES OF FINANCIAL CONTROL MEASURES

Cash control system:

This aspect of financial control is very broad and important. But for the purpose of this seminar, it will be restricted to transaction recording, lodgement into bank and cash and bank balances.

The most important control here is a good segregation of duty control. This means that ensuring that the critical factor earlier mentioned is considered i.e. Receipt, custody and recording of cash transaction.

The followings are how controls could be put in place in the areas mentioned in the first paragraph.

# EXAMPLES OF FINANCIAL CONTROL MEASURES

TRANSACTION RECORDING: (Segregation of duty controls)

- Maintenance of record
- Limitation of duties of receiving cashiers
- giving and recording of receipts:
  - Retained copies
  - Serially numbered receipts books
  - Custody of receipts books
  - Comparison with cash records and bank paying slips

# EXAMPLES OF FINANCIAL CONTROL MEASURES

## LODGEMENT INTO BANK:

- Daily banking of takings
- Make-up and comparison of pay-in-slips against initial receipts records and cash book.
- Banking of receipts intact/control of disbursements

# EXAMPLES OF FINANCIAL CONTROL MEASURES

## CASH AND BANK BALANCES

- Restriction on opening new bank accounts
- Limitation on cash floats held
- Restrictions on payments out of cash received
- Restrictions on access to cash registers and offices
- Independent checks on cash floats
- Surprise cash counts
- Custody of cash outside office hours
- Safeguarding of IOUs, cash in transits
- Insurance arrangement
- Control of funds held in trust for employees.
- Bank reconciliation.

# EXAMPLES OF FINANCIAL CONTROL MEASURES

## STOCK CONTROLS:

Stocks may be susceptible to irregularities as cash and indeed, in some circumstances the risk of loss may be materially higher.

Stock control procedures should ensure that stocks held are adequately protected against loss or misuse, are properly applied in the operations of the business, and are duly accounted for.

Other controls are:

- Segregation of duties; custody and recording of stocks
- Reception, checking and recording of goods inwards
- Custody of stocks
- Precaution against theft, misuse and deterioration
- Control of stock levels
- Maintenance of stock records such as stock ledger, bin card etc
- Carrying out stock taking.

# EXAMPLES OF FINANCIAL CONTROL MEASURES

## -FIXED ASSET CONTROL:

Key controls are:

- Segregation of duties; authorisation, custody and recording
- Authorisation of capital expenditure
- Authorisation of sales scrapping or transfer of fixed asset
- Maintenance of accounting records (including distinction between capital and revenue expenditure)
- Maintenance of plant and property registers
- Inspection of fixed assets to ensure properly maintained and used
- Calculation and checking of depreciation rates
- Identification of income producing assets.



# QUESTION

- Based on the seminar on Financial Control Measure you just attended, prepare a report to your superior, highlighting the control measures you have observed in your department currently operating. Also, explain in your report those controls that you think are yet to be put in place, explaining the risk and threat as well as the importance and how to put such controls in place.