

Internal Control over the followings is included in the syllabus:

- **INTERNAL CONTROL OVER SALES**

- **INTERNAL CONTROL OVER PURCHASE**

- **INTERNAL CONTROL OVER INVENTORY**

- **INTERNAL CONTROL OVER CASH PAYMENTS**

- **INTERNAL CONTROL OVER CASH RECEIPTS**

- **INTERNAL CONTROL OVER PAYROLL**

- **INTERNAL CONTROL OVER REVENUE & CAPITAL EXPENDITURE**

Internal Control over Sales

Assertion	Control objectives	Controls	Tests of controls
Occurrence and existence	<ul style="list-style-type: none"> One person is not responsible for taking orders, recording sales and receiving payments. <hr/> <ul style="list-style-type: none"> Recorded sales transactions represent goods shipped. Goods and services are only supplied to customers with good credit ratings. 	<ul style="list-style-type: none"> Segregation of duties. <hr/> <ul style="list-style-type: none"> Sales recorded only approved sales order form and shipping documentation. Accounting for numerical sequences of invoices. Monthly customer statements sent out and customer queries and complaints handled independently. Authorization of credit terms to customers (senior staff authorization, references/credit checks for new customers, regular review of credit limits) Authorization by senior 	<ul style="list-style-type: none"> Observe and evaluate whether proper segregation of duties is operating. <hr/> <ul style="list-style-type: none"> Test a sample of sales invoices for authorized sales order form and shipping documentation. Examine application controls for authorization. Review and test entity's procedures for accounting for numerical sequences of invoices. Review entity's procedures for sending out monthly statements and dealing with customer queries and complaints. Review entity's procedures for granting credit to customers.

	<hr/> <ul style="list-style-type: none"> • Goods and services are provided at authorized prices and on authorized terms. • Customers are encouraged to pay promptly. 	<p>staff required for changes in other customer data such as address etc.</p> <ul style="list-style-type: none"> • Orders not accepted unless credit limits reviewed first. <hr/> <ul style="list-style-type: none"> • Authorized price lists and specified terms of trade in place. 	<ul style="list-style-type: none"> • Examine a sample of sales orders for evidence of proper credit approval by the appropriate senior staff member. • Examine application controls for credit limits. • Review all new customer files to ensure satisfactory credit reference have been obtained. <hr/> <ul style="list-style-type: none"> • Compare prices and terms on a sample of sales invoices to the authorized price list and terms of trade. • Examine application controls for authorized prices and terms.
<p>Completeness</p>	<ul style="list-style-type: none"> • All revenue relating to goods dispatched is recorded. <hr/> <ul style="list-style-type: none"> • All goods and services sold are correctly invoiced. 	<ul style="list-style-type: none"> • Accounting for numerical sequences of invoices. <hr/> <ul style="list-style-type: none"> • Shipping documentation is matched to sales invoices. • Sales invoices are reconciled to the daily 	<ul style="list-style-type: none"> • Review and test entity's procedures for accounting for numerical sequences of invoices. <hr/> <ul style="list-style-type: none"> • Trace a sample of shipping documents to the sales invoices and ledger. • Review a sample of reconciliations

		<p>sales report.</p> <ul style="list-style-type: none"> An open-order file is maintained and reviewed regularly. 	<p>performed.</p> <ul style="list-style-type: none"> Inspect the open-order file for unfiled orders.
Accuracy	<ul style="list-style-type: none"> All sales and adjustments are correctly journalized, summarized and posted to the correct accounts. 	<ul style="list-style-type: none"> Sales invoices and matching documents required for all entries. 	<ul style="list-style-type: none"> Vouch recorded sales to supporting documents.
Cut-off	<ul style="list-style-type: none"> Transactions have been recorded in the correct period. 	<ul style="list-style-type: none"> All shipping documentation is forwarded to the invoicing section on a daily basis. Daily invoicing of goods shipped. 	<ul style="list-style-type: none"> Compare dates on sales invoices with dates of correspondence shipping documentation. Compare dates on sales invoices with dates recorded in the sales ledger.
Classification	<ul style="list-style-type: none"> All transactions are properly classified in accounts. 	<ul style="list-style-type: none"> Charts of accounts in place. Codes in place for different types of products or services. 	<ul style="list-style-type: none"> Review sales ledger for proper classification. Examine a sample of sales invoices for proper classification. Test application controls for proper codes.

Internal Control over Purchases

Assertion	Control objective	Controls	Tests of controls
Occurrence and existence	<ul style="list-style-type: none"> Recorded purchases represent goods and services received. 	<ul style="list-style-type: none"> Authorization procedures and policies in place for ordering goods and services. Segregation of duties. Purchase orders raised for each purchase and authorized by appropriate senior personnel. Approved purchase order for each receipt of goods. Staff receiving goods; check them to the purchase order. Stores clerks sign for goods received. Purchase orders and GRNs are matched with the suppliers' invoices. 	<ul style="list-style-type: none"> Inspect policies and procedures and inquire about them. Observe and evaluate segregation of duties. Examine a sample of purchase orders to ensure they have been appropriately authorized. Review the delegated list of authority for purchases. For a sample of orders, examine the goods received note (GRN) and match it to the order. Observe receipt of goods by staff to confirm whether the check is done. Inspect a sample to confirm whether stores staff undertakes this check. Examine supporting documentation for a sample of invoices.
Completeness	<ul style="list-style-type: none"> All purchase transactions that occurred have been recorded. 	<ul style="list-style-type: none"> Purchase orders and GRNs are matched with the suppliers' invoices. Periodic accounting for 	<ul style="list-style-type: none"> Examine supporting documentation for a sample of invoices. Review entity's

		<p>pre-numbered GRNs and purchase orders.</p> <ul style="list-style-type: none"> • Independent check of amount recorded in the purchase journal. 	<p>procedures for accounting for pre-numbered documents.</p> <ul style="list-style-type: none"> • Examine application controls. • Examine documentation for evidence of this check.
Rights and obligations	<ul style="list-style-type: none"> • Recorded purchases represent the liabilities of the entity. 	<ul style="list-style-type: none"> • Purchase orders and GRNs are matched with the suppliers' invoices. 	<ul style="list-style-type: none"> • Examine supporting documentation for a sample of invoices.
Accuracy, classification and valuation	<ul style="list-style-type: none"> • Purchase transactions are correctly recorded in the accounting system. 	<ul style="list-style-type: none"> • Purchase orders and GRNs are matched with the suppliers' invoices. • Mathematical accuracy of the supplier's invoice is verified. • Amount posted to general ledger is reconciled to the purchase ledger. • Chart of accounts in place. 	<ul style="list-style-type: none"> • Examine supporting documentation for a sample of invoices. • Recalculate the mathematical accuracy of a sample of suppliers' invoices. • Review reconciliations for evidence of this check. • Review purchases journal and general ledger for reasonableness.
Cut-off	<ul style="list-style-type: none"> • Purchase transactions are recorded in the correct accounting period. 	<ul style="list-style-type: none"> • All goods received reports forwarded to accounts payable department daily. • Procedures in place that require recording of purchases as soon as possible after goods/services received. 	<ul style="list-style-type: none"> • Compare dates on reports to dates on relevant vouchers. • Compare dates on vouchers with dates they were recorded in the purchase journal.

Internal Control over Inventory

Assertion	Control objectives	Controls	Test of controls
Occurrence and existence	<ul style="list-style-type: none"> All inventory movements are authorized and recorded. <hr/> <ul style="list-style-type: none"> Inventory included on the statement of financial position physical exists. 	<ul style="list-style-type: none"> Pre-numbered documentation such as GDNs and GRNs in use. Reconciliations of inventory records with general ledger. Segregation of duties. <hr/> <ul style="list-style-type: none"> Physical safeguards in place to ensure inventory is not stolen. Separate responsibilities for maintenance of records and custodianship. Inventory counted regularly. 	<ul style="list-style-type: none"> Review documentation in use. Review a sample of reconciliations to confirm they are performed and then reviewed by an independent person. Observe and evaluate proper segregation of duties. <hr/> <ul style="list-style-type: none"> Review security systems in place (e.g. locked warehouse, CCTV etc). Review policies and procedures in place; discuss procedures with relevant staff. Review procedures for counting inventory. Attend inventory count.

<p>Completeness</p>	<ul style="list-style-type: none"> • All purchases and sales of inventory have been recorded in the accounting system. 	<ul style="list-style-type: none"> • Procedures in place to include inventory held at third parties and exclude inventory held on consignment for third parties. • Reconciliations of accounting records with physical with physical inventory. 	<ul style="list-style-type: none"> • Review entity's procedures relating to consignment inventory. • Review reconciliations performed and whether reviewed by independent person.
<p>Rights and obligations</p>	<ul style="list-style-type: none"> • Inventory records only include items that belong to the entity. 	<ul style="list-style-type: none"> • Procedures in place to include inventory held at third parties and exclude inventory held on consignment for third parties. 	<ul style="list-style-type: none"> • Review entity's procedures relating to consignment inventory.
<p>Accuracy, classification and valuation</p>	<ul style="list-style-type: none"> • Inventory quantities have been accurately determined. • Inventory is properly stated at the lower of cost and net realizable 	<ul style="list-style-type: none"> • Periodic or annual comparison of inventory with amounts shown in continuous (perpetual) inventory records. • Standard costs reviewed by management. 	<ul style="list-style-type: none"> • Review and test entity's procedures for taking physical inventory. • Review and test entity's procedures for developing standard costs.

	value.	<ul style="list-style-type: none"> Review the cost accumulation and variance reports. Inventory managers review inventory regularly to identify slow-moving, obsolete and excess inventory. 	<ul style="list-style-type: none"> Inspect variance reports produced. Discuss with inventory managers how this is done. Observe the procedures being performed.
Cut-off	<ul style="list-style-type: none"> All purchases and sales of inventory are recorded in the correct accounting period. 	<ul style="list-style-type: none"> All dispatch documents processed daily to record the dispatch of finished goods. All goods inwards reports processed daily to record the receipt of inventory. Reconciliations of inventory records with general ledger. 	<ul style="list-style-type: none"> Inspect documentation to confirm daily processing. Inspect documentation to confirm daily processing. Review reconciliations performed.
Presentation and disclosure assertions	<ul style="list-style-type: none"> Inventory transactions and balances are properly identified and classified in the financial statements. Disclosures relating to classification and 	<ul style="list-style-type: none"> Orders for materials and production data forms used to process goods through manufacturing. Approvals by finance director. 	<ul style="list-style-type: none"> Review entity's procedures and documentation used to classify inventory. Review entity's working papers for

valuation are
sufficient.

evidence.

Internal Control over Payroll

Assertion	Control objectives	Controls	Tests of controls
Occurrence and existence	<ul style="list-style-type: none"> Payment is made only to bona fide employees of the entity. 	<ul style="list-style-type: none"> Segregation of duties between HR and payroll functions. Personnel files held for all employees. Authorization procedures for hiring, terminating, time worked, wage rates, overtime, benefits etc. Any changes in employment status of employees (e.g. maternity, special leave etc) informed to Human Resources department. Use of time clocks to record time worked. Clock cards approved by supervisor. Only employees with valid employee numbers are paid. 	<ul style="list-style-type: none"> Observe and evaluate proper segregation of duties. Review a sample of starters and leavers in the year to ensure correct documentation is in place. Review and test authorization procedures in place. Review policies and procedures in place for charging status and consider whether adequate. Review personnel files for a sample of employees whose status changed in the year. Observe employees' use of time clock. Inspect a sample of clock cards for evidence of approval by appropriate level managers. Review and test procedures for entering and removing employee numbers

		<ul style="list-style-type: none"> • Payroll budgets in place and reviewed by management. 	<p>from the payroll master file.</p> <ul style="list-style-type: none"> • Review budgeting procedures.
<p>Completeness</p>	<ul style="list-style-type: none"> • All payroll costs are recorded for work done by employees. 	<ul style="list-style-type: none"> • Pre-numbered clock cards in use. • Segregation of duties. • Authorization of wage cheque cashed <ul style="list-style-type: none"> ➤ Encashment of cheque. ➤ Security of pay packets. ➤ Security of transit. ➤ Security and prompt banking of unclaimed wages. • Verification of distributions. • Preparation and authorization of cheques and bank transfer lists. • Comparison of cheque and bank transfer list with payroll. • Maintenance and reconciliation of wages and salaries bank account. • Preparation and authorization of cheque and bank transfer list. • Comparison of cheques 	<ul style="list-style-type: none"> • Review numerical sequence of clock cards. • Observe and evaluate proper segregation of duties. <p><i>If wages are paid in cash</i></p> <ul style="list-style-type: none"> • Attend the pay-out of wages to confirm that the official procedures are being followed. • Before the wages are paid compare payroll with wages packets to ensure all employees have a wage packet. <ul style="list-style-type: none"> • Examine receipts given by employees; check unclaimed wages are recorded in unclaimed wages book. • Observe whether any employee receive more than one wage packet. • Inspect the unclaimed wages book entries

		<p>and bank transfer list with payroll.</p> <ul style="list-style-type: none">• Maintenance and reconciliation of wages and salary bank account.	<p>with the entries on the payroll to ensure they agree.</p> <ul style="list-style-type: none">• Check that unclaimed wages are banked regularly by inspection of bank statements and supporting documentation.• Inspect that unclaimed wages books to check it shows reasons why wages are unclaimed.• Review pattern of unclaimed wages in unclaimed wage book; variations may indicate failure to record. <p><i>Holiday pay</i></p> <ul style="list-style-type: none">• Verify a sample of payments with the underlying records and check the calculation of the amounts paid by recalculation.• For salaries, review whether comparisons are being made between payment records.• Examine paid cheques or a certified copy of the bank list for employees paid by cheque or bank
--	--	--	--

			transfer.
Accuracy, classification and valuation	<ul style="list-style-type: none"> All benefits and deductions (tax, pension etc) are computed correctly. <hr/> <ul style="list-style-type: none"> Payroll transactions correctly recorded in the accounting system. 	<ul style="list-style-type: none"> Verification of payroll amounts and benefits calculations. Payroll budgets in place and reviewed by management. Agreement of gross earnings and total tax deducted with taxation returns. <hr/> <ul style="list-style-type: none"> Changes to master payroll file verified through before and after reports. Payroll master file reconciled to general ledger. 	<ul style="list-style-type: none"> Recalculate benefits and deductions for a sample of employees. Review budgeting procedures. Inspect documentation for evidence of management's review. <hr/> <ul style="list-style-type: none"> Review reconciliation before and after reports to payroll master file. Review reconciliation payroll master file to general ledger. Confirm whether discrepancies are followed-up promptly and resolved.
Cut-off	<ul style="list-style-type: none"> Payroll transactions are recorded in the correct accounting period. 	<ul style="list-style-type: none"> All starters, leavers, changes to salaries and deductions are reported promptly to payroll department and changes are updated to the payroll master file promptly. 	<ul style="list-style-type: none"> Review entity's procedures for reporting changes to the payroll department. Check sample of starters and leavers.
Presentation and disclosure assertions	<ul style="list-style-type: none"> Payroll transactions are properly classified in the financial statements. 	<ul style="list-style-type: none"> Chart of accounts. Independent approval and review of accounts charged to payroll. Payroll budgets in place 	<ul style="list-style-type: none"> Review chart of accounts. Review procedures for classifying payroll costs. Review budgeting

		and reviewed by management.	procedures.
--	--	--------------------------------	-------------

Internal Control over Cash Receipts

Assertion	Control objectives	Controls	Tests of controls
Occurrence	<ul style="list-style-type: none"> All valid cash receipts are received and deposited. 	<ul style="list-style-type: none"> Segregation of duties. Use of electronic cash receipts transfer nor received or deposited. Monthly bank reconciliations performed and independently reviewed. Use of cash registers or point-of-sale devices. Periodic inspections of cash sales procedures. Restrictive endorsement of cheque immediately on receipt. Mail opened by two staff members. Immediate preparation of cash box or list of mail receipts. Independent check of agreement of cash/cheques to be deposited at bank with register totals and receipts listing. Independent check of agreement of bank deposit slip with daily 	<ul style="list-style-type: none"> Observe and evaluate proper segregation of duties. Examine application controls for electronic cash receipts transfer. Review monthly bank reconciliations to confirm performed and reviewed. Observe cash sales procedures. Inquire of managers about results of inspections. Observe mail opening, including endorsement of cheques. Observe mail opening procedures. Observe preparation of cash receipts' records. Review documentation for evidence of independent check. Review documentation for evidence of independent check.

<p>Completeness</p>	<ul style="list-style-type: none"> • All cash receipts are recorded. 	<p>cash summary.</p> <ul style="list-style-type: none"> • Segregation of duties. • Use of electronic cash receipts transfer not received or deposited. • Monthly bank reconciliations performed and independently reviewed. • Daily cash receipts listing reconciled with posting to customer accounts. • Customer statements prepared and sent out on a regular basis. 	<ul style="list-style-type: none"> • Observe and evaluate proper segregation of duties. • Examine application controls for electronic cash receipts transfer. • Review monthly bank reconciliations to confirm performed and reviewed. • Review reconciliation. • Inquire of management about handling of customer statements. • Examine a sample of customers and note frequency of statements.
<p>Accuracy, classification and valuation</p>	<ul style="list-style-type: none"> • Cash receipts recorded at correct amounts. <hr/> <ul style="list-style-type: none"> • Cash receipts posted to correct receivables accounts and to the 	<ul style="list-style-type: none"> • Daily remittance report reconciled to control listing of remittance advices. • Monthly bank statement performed and reviewed independently. <hr/> <ul style="list-style-type: none"> • Daily remittance report reconciled daily with postings to cash 	<ul style="list-style-type: none"> • Review reconciliations. • Review reconciliations for evidence they were performed and independently reviewed. <hr/> <ul style="list-style-type: none"> • Review reconciliations.

	general ledger.	receipts journal and customer accounts. <ul style="list-style-type: none"> • Monthly customer statements sent out. • Monthly cash receipts journal agreed to general ledger postings. • Receivables' ledger reconciled to control account. 	<ul style="list-style-type: none"> • Review entity's procedures for sending out statements. • Review journal and posting to general ledger. • Review reconciliations.
Cut-off	<ul style="list-style-type: none"> • Cash receipts are recorded in the correct accounting period. 	<ul style="list-style-type: none"> • Bank reconciliation at period-end. 	<ul style="list-style-type: none"> • Review and test reconciliation.
Presentation and disclosure assertions	<ul style="list-style-type: none"> • Cash receipts are charged to the correct accounts. 	<ul style="list-style-type: none"> • Chart of accounts. 	<ul style="list-style-type: none"> • Review cash receipts journal for unusual items. • Trace cash receipts from listing to cash receipts journal for proper classification,

Internal Control over Cash Payments

Assertion	Control objectives	Controls	Test of controls
Occurrence	<ul style="list-style-type: none"> Only valid cash payments are made. 	<ul style="list-style-type: none"> Segregation of duties. Supplier statements independently reviewed and reconciled to trade payments records. Monthly bank reconciliations prepared and reviewed. Only authorized staff can make electronic cash payments and issue cheques. Electronic cash payments and cheques prepared only after all source documents have been independently approved. 	<ul style="list-style-type: none"> Observe and evaluate proper segregation of duties. Review procedures for reconciling supplier statements. Review reconciliations to confirm whether undertaken and reviewed. Review delegated list of authority for cash payments. Inspect relevant documentation for evidence of approval by senior personnel.
Completeness	<ul style="list-style-type: none"> All cash payments that occurred are recorded. 	<ul style="list-style-type: none"> Segregation of duties. Supplier statements independently reviewed and reconciled to trade payable records. Monthly bank reconciliations prepared and reviewed. 	<ul style="list-style-type: none"> Observe and evaluate proper segregation of duties. Review procedures for reconciling supplier statements. Review reconciliations to confirm whether undertaken and independently

		<ul style="list-style-type: none"> • Reviewed manager before release. • Daily cash payments reconciled to posting to payables accounts. • Use of pre-numbered cheques. 	<p>reviewed.</p> <ul style="list-style-type: none"> • Inspect sample of listings for evidence of senior review. • Review a sample of reconciliations for evidence that they have been done. • Examine evidence of use of pre-numbered cheques.
<p>Accuracy, classification and valuation</p>	<ul style="list-style-type: none"> • Cash payments recorded correctly in the ledger. <hr/> <ul style="list-style-type: none"> • Cash payments posted to correct payable accounts and to the general ledger. 	<ul style="list-style-type: none"> • Reconciliation of daily payments report to electronic cash payment transfers and cheques issued. • Supplier statements reconciled to payable accounts regularly. • Monthly bank reconciliations of bank statements to ledger account. <hr/> <ul style="list-style-type: none"> • Supplier statements reconciled to payable accounts regularly. • Agreement of monthly cash payments journal to general ledger posting. <ul style="list-style-type: none"> • Payable accounts reconciled to general ledger control account. 	<ul style="list-style-type: none"> • Review reconciliation to ensure performed, reviewed and any discrepancies followed up on a timely basis. • Review reconciliations for a sample of accounts. • Review bank reconciliations for evidence it was done and independently reviewed. <hr/> <ul style="list-style-type: none"> • Review reconciliations for a sample of accounts. • Review postings from journal to general ledger. <ul style="list-style-type: none"> • Review reconciliation, to ensure performed reviewed and any discrepancies followed

			up on a timely basis.
Cut-off	<ul style="list-style-type: none"> Cash payments are recorded in the correct accounting period. 	<ul style="list-style-type: none"> Reconciliation of electronic funds transfers and cheques issued with postings to cash payments journal and payable accounts. 	<ul style="list-style-type: none"> Review reconciliation and check it is carried out regularly.
Presentation and disclosure assertions	<ul style="list-style-type: none"> Cash payments are charged to the correct accounts. 	<ul style="list-style-type: none"> Chart of accounts. Independent approval and review of general ledger account assignment. 	<ul style="list-style-type: none"> Review cash payments journal to assess reasonableness of charging of accounts. Review assignment of general ledger account.

Internal Control over Revenue and capital expenditure

Assertion	Controls	Tests of control
Authorization	<ul style="list-style-type: none"> • All expenditure is authorized. • Orders for capital items should be authorized by appropriate levels of management. • Order should be requisitioned on appropriate (different to revenue) documentation. • Invoices should be approved by the person who authorized the order. • Invoices should be marked with the appropriate general ledger code. 	<ul style="list-style-type: none"> • Review policies and procedures in place. • Examine a sample of orders for appropriate authorization.
Classification	<ul style="list-style-type: none"> • All expenditure is classified correctly in the financial statements as capital or revenue expenditure. • All the standard controls over purchases are relevant here (see section 2). 	<ul style="list-style-type: none"> • See section 2.
Completeness	<ul style="list-style-type: none"> • All non-current assets are correctly recorded in the accounting system. • Capital items should be written up in the non-current asset ledger. • The non-current asset register should be reconciled regularly to the general ledger and any differences investigated and resolved promptly. 	<ul style="list-style-type: none"> • Review reconciliation to ensure it is regularly carried out, review by a more senior person, and that all discrepancies are followed up and resolved on a timely basis.