

LAHORE DIOCESAN BOARD OF EDUCATION **THE SYSTEM OF INTERNAL CONTROLS**

PART 1 GENERAL PRINCIPLES

INTRODUCTION

The System of Internal controls is defined as the whole system of controls, financial or otherwise, established by the Management of Lahore Diocesan Board of Education in order to

- (a) Run the affairs of the Board and its component institutions in an orderly and efficient manner;
- (b) ensure compliance to management policies;
- (c) safeguard the assets; and
- (d) Secure as far as possible the completeness and accuracy of the records.

TYPES OF INTERNAL CONTROLS

The following are the main types of controls which are expected to be found in the various institutions under the management of the Lahore Diocesan Board of Education.

(a) Organizational

The LDBE should have a plan of its organization, which clearly defines and allocates responsibilities to the Chairman, Coordinator, Treasurer, Principals, Vice-Principals and other staff.

The plan should clearly identify lines of reporting for all aspects of the Board's operations and specify without any ambiguity, the delegation of authority and responsibility.

(b) Segregation of duties

Segregation of duties is one of the prime means by which the processing and recording of a complete transaction by one individual is avoided; this reduces the risk of intentional manipulation or error and increases the element of checking.

(c) Physical

These are procedures and security measures designed to ensure that access to assets (e.g. cash, Motor vehicles, furniture, Computer equipment) is restricted to authorized personnel only)

(d) Authorization and Approvals

All transactions should require authorization and approval by an appropriate responsible person. Furthermore, the Board should specify the limits for

authorizations and approvals (e.g. Capital expenditure above a certain amount may need to be approved by the Board of management).

(e) Accounting

There should be clearly laid down controls to ensure that the transactions which are to be recorded have been authorized, that they are all correctly recorded and accurately processed.

(f) Personnel

These are procedures designed to ensure that personnel have the capabilities commensurate with their responsibilities.

(g) Supervision

These are controls to ensure that the day to day transactions and their recording is supervised by responsible officials.

(h) Management

These include the overall supervisory functions exercised by the Board of management constituted by the LDBE, the review of periodical management accounts and their comparison with budgets, the internal audit function and other procedures for review of operations of the institutions.

PART 2
EXAMPLES OF CONTROLS IN VARIOUS AREAS OF OPERATIONS

Purchasing and Expenditure in general

CONTROL

Management Should define and communicate to the heads of various institutions criteria for selecting suppliers (e.g. Stationery, furniture)

These may include specification of standards with respect to:

- Ability to provide quality, quantity, timely delivery and service
- Price competitiveness with respect to both unit prices, volume discounts, transportation costs and credit terms.

EXAMPLES OF RISKS IF CONTROL NOT ACHIEVED

1. Purchases may be made from unacceptable suppliers; this could result in purchase of sub-standard items of furniture for example.
2. purchases may be made from suppliers who offer kickbacks; this could result in purchases at higher prices.

CONTROL

Management Should define and communicate to the heads of various institutions criteria for determining the types, estimated quantities, prices and terms of goods and services to be purchased.

Criteria may specify the following;

- Types of goods and services to be purchased, including quality standards.
- Methods of establishing quantities to be purchased (e.g. the capital expenditure budget, reorder points).
- Prices to be paid (e.g. Lowest bid price in case of quotation received for repair and maintenance of School building)

EXAMPLES OF RISKS IF CONTROL NOT ACHIEVED

1. Goods or services that are not needed may be ordered
2. Goods may be purchased too far in advance, thereby straining working capital.
3. Goods may be purchased on unacceptable terms; this could result in an adverse effect on operating results.

Payroll

CONTROL

Management Should define and communicate to the heads of various institutions criteria for hiring employees.

Selection criteria may specify standards with respect to

- Planned personnel levels
- Experience of teachers and minimum education
- Experience of staff and minimum education
- Personal integrity

EXAMPLES OF RISKS IF CONTROL NOT ACHIEVED

1. The institution may employ individuals who do not meet management's criteria. This could result in
 - (a) Unqualified employees
 - (b) Irregularities
2. The Institutions may have an inadequate or excessive staffing.

CONTROL

Management Should define and communicate to the heads of various institutions criteria for establishing rates of pay and deductions.

Criteria may specify the following:

- Authorized pay scales, overtime policies and overtime rates to be paid
- Eligibility for benefits
- Provident fund contributions
- Staff advances
- Expense reimbursement

EXAMPLES OF RISKS IF CONTROL NOT ACHIEVED

1. Employees may be paid amounts that are not acceptable to management; this could result in excessive payroll costs, uncollectible employee advance accounts.
2. Accruals for Provident fund contributions, payments in lieu of leave etc. may be incorrectly calculated; this could result in unrecorded liabilities.

Cash and bank balances

CONTROL

Management Should define and communicate to the heads of various institutions criteria for the nomination of individuals handling cash, their responsibilities, and ensuring as far as possible that there is segregation of duties between the recording and custodian functions.

- Subjection of petty cash to an imprest system
- The amount of cash float keeping in view the size of the institution

- Independent counting and reconciliation on a regular basis of petty cash balances
- cash payments to be made only against authorized vouchers and the vouchers then cancelled to prevent duplicate payments
- Bank reconciliations to be prepared at least on a monthly basis and checked by the principal or Vice-principal.
- Items appearing in the reconciliation statement which are more than one month old to be thoroughly investigated to establish that they are genuine

EXAMPLES OF RISKS IF CONTROL NOT ACHIEVED

1. cash may be misappropriated for example through duplicate payments.
2. Un-authorized transfers may be made out of the bank account

Fee Income

CONTROL

All students of an institution should be accurately and promptly billed for Tuition and other fee and all billings should be received on a timely basis

the controls may include:

- Record of students on the rolls of the institution should be kept upto date
- Attendance registers should be in conformity with the master Record of students
- Periodical billings should be checked with the Attendance registers
- Periodical reconciliation of billings for a particular period with the previous period
- Periodical reconciliation of the amounts banked with the amounts billed

EXAMPLES OF RISKS IF CONTROL NOT ACHIEVED

1. Students attending classes may never be billed; this could result in an understatement of income, receivables.
2. Students may be attending classes without payment of fee
3. Students may leave the institution without clearance of their dues

PART 3
SOME OF THE WEAKNESSES IN INTERNAL CONTROLS
FOUND IN THE VARIOUS INSTITUTIONS OF THE LAHORE
DIOCESAN BOARD OF EDUCATION AND THE IMPACT

1. Lack of segregation of duties between the person responsible for custody of cash and the person recording the transaction; this allowed one individual to process complete transactions and therefore lead to non existent expenditure being recorded in the books.
2. Bank book was in one case not maintained on a regular basis and as such Bank reconciliation statements not prepared with the result that bank had charged certain amount to the institution without the knowledge of the Management.
3. lack of Physical control over cash e.g independent checks of cash and agreement with the cash book resulted in withdrawals of cash from bank in the presence of heavy cash balances.
4. Absence of up to date record of fixed assets and Physical controls over the custody of fixed assets resulted in no knowledge of certain old furniture which was sought to be replaced.
5. Absence of controls in the areas of Payroll resulted in increments to certain employees which were not authorized.
6. Absence of controls over expenditure on repairs and maintenance, (e.g criteria for selection of contractors) resulted in contracts being awarded without calling quotations and as such it was not possible to confirm that excess payments have not been made.