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**ASSIGNMENT Number 01**

***QN1. Explain the Generally Accepted Accounting Principles (GAAP), that are appropriate for internal controls***

**Internal controls are policies and procedures put in place to ensure the continued reliability of accounting systems. Accuracy and reliability are paramount in the accounting world. Without accurate accounting records, managers cannot make fully informed financial decisions, and financial reports can contain errors.**

#### **The Internal controls are designed to prevent fraud and clerical errors that may compromise the accuracy of a company's financial statements. Solid internal controls can also reduce losses from theft of company assets and identify underperforming employees. These controls should be implemented by the company before any financial information is given to external auditors, lenders or investors. Internal control procedures in accounting can be broken into seven categories, each designed to prevent fraud and identify errors before they become problems. They run as follows.**

**Segregation of Duties**

**Separation of duties involves splitting responsibility for bookkeeping, deposits, reporting and auditing. The further duties are separated, the less chance any single employee has of committing fraudulent acts. For small businesses with only a few accounting employees, sharing responsibilities between two or more people or requiring critical tasks to be reviewed by co-workers can serve the same purpose.**

**Separating duties among different employees reduces the opportunity for any one person to commit fraud. It also creates double-check procedures to cut down on clerical errors. The employee who handles record keeping should not have physical custody of the asset. For example, the person responsible for bank reconciliations should not also receive payments from customers or prepare the bank deposits.**

**Access control**

**Controlling access to different parts of an accounting system via passwords, lockouts and electronic access logs can keep unauthorized users out of the system while providing a way to audit the usage of the system to identify the source of errors or discrepancies. Robust access tracking can also serve to deter attempts at fraudulent access in the first place.**

**Physical controls ensure that only authorized employees may access company assets. Some common controls include lockboxes for petty cash, key cards for warehouses and unique passcodes for employees using cash registers. These controls may also be digital, such as requiring a password to access the company's computer system.**

## ****Approval Authorization****

## **Requiring specific managers to authorize certain types of transactions can add a layer of responsibility to accounting records by proving that transactions have been seen, analyzed and approved by appropriate authorities. Requiring approval for large payments and expenses can prevent unscrupulous employees from making large fraudulent transactions with company funds, for example.**

**Specific written procedures for financial transactions, including a list of the people with authority to approve each type of transaction. You can list standard transactions and acceptable amounts, that require manager approval not to exceed these limits. Approvals should be reviewed to ensure managers are not permitting fraudulent transactions. Major transactions may require approval from more than one person. For example, you may permit all employees to execute purchase orders under $5,000 and require manager approval for any amount over this. The level of seniority required for approval should rise as the dollar amount increases.**

### ****Record Keeping/ Standardized Documentation****

**Standardizing documents used for financial transactions, such as invoices, internal materials requests, inventory receipts and travel expense reports, can help to maintain consistency in record keeping over time. Using standard document formats can make it easier to review past records when searching for the source of a discrepancy in the system. A lack of standardization can cause items to be overlooked or misinterpreted in such a review.**

**All financial statements should be backed up by general ledger reports, these documents/forms should be sequentially numbered so that one can identify missing forms in the sequence or new forms used to backdate a previously undocumented transaction.**

### ****Trial Balances****

**Using a double-entry accounting system adds reliability by ensuring that the books are always balanced. Even so, it is still possible for errors to bring a double-entry system out of balance at any given time. Calculating daily or weekly trial balances can provide regular insight into the state of the system, allowing you to discover and investigate discrepancies as early as possible.**

### ****Periodic Reconciliations****

**Occasional accounting reconciliations can ensure that balances in your accounting system match up with balances in accounts held by other entities, including banks, suppliers and credit customers. For example, bank reconciliation involves comparing cash balances and records of deposits and receipts between your accounting system and bank statements. Differences between these types of complementary accounts can reveal errors or discrepancies in your own accounts, or the errors may originate with the other entities.**

### ****Verification/ Physical Audits****

## **Physical audits include hand-counting cash and any physical assets tracked in the accounting system, such as inventory, materials and tools. Physical counting can reveal well-hidden discrepancies in account balances by bypassing electronic records altogether. Counting cash in sales outlets can be done daily or even several times per day. Larger projects, such as hand counting inventory, should be performed less frequently, perhaps on an annual or quarterly basis.**

**A supervisor should periodically review all key general ledger accounts for accuracy. The supervisor must be an employee who was not involved in preparing the report. Some companies also employ internal auditors to verify the supervisor's approval. The reviewing employee must sign and date the document as proof of his approval. Supervisors should also look at relevant financial metrics to find areas that may be experiencing efficiency problems. This may be an indication of fraud or improperly recorded transactions.**

**QN2. Why is it important to have annual audits in any organization?**

**Auditing is a means of evaluating the effectiveness of a company's internal controls. Maintaining an effective system of internal controls is vital for achieving a company's business objectives, obtaining reliable financial reporting on its operations, preventing fraud and misappropriation of its assets, and minimizing its cost of capital. Both internal and independent auditors contribute to a company's audit system in different thus its important run as follows.**

### ****Risk of Misstatement****

**Auditors assess the risk of material misstatement in a company's financial reports. Without a system of internal controls or an audit system, a company would not be able to create reliable financial reports for internal or external purposes. Thus, it would not be able to determine how to allocate its resources and would be unable to know which of its segments or product lines are profitable and which are not. Additionally, it could not manage its affairs, as it would not have the ability to tell the status of its assets and liabilities and would be rendered undependable in the marketplace due to its inability to consistently produce its goods and services in a reliable fashion**

### ****Fraud Prevention****

**Internal audit serves an important role for companies in fraud prevention. Recurring analysis of a company's operations and maintaining rigorous systems of internal controls can prevent and detect various forms of fraud and other accounting irregularities. Audit professionals assist in the design and modification of internal control systems the purpose of which includes, among other things, fraud prevention. An important part of prevention can be deterrence, and if a company is known to have an active and diligent audit system in place, by reputation alone it may prevent an employee or vendor from attempting a scheme to defraud the company.**

### ****Cost of Capital****

**The cost of capital is important for every company, regardless of its size. Cost of capital is largely comprised of the risk associated with an investment, and if an investment has more risk, an investor will require a higher rate of return to invest. Strong audit systems can reduce various forms of risk in an enterprise, including its information risk (the risk of material misstatement in financial reporting), the risk of fraud and misappropriation of assets, as well the risk of suboptimal management due to insufficient information on its operations.**

**Gives the chance to get feedback**

**Feedback is a key to protecting your financial statement, an ounce of prevention is worth a pound of cure. If you’re not aware of any potential issues or glaring gaps, you have no power to fix them. This is the key to an audit’s value and could even make the vital difference between the success or failure of your business.**

**Can help to boost credit rating and value.**

**Regular or continuous auditing of financial statements is an attractive part of any business package for lenders, creditors, and**[**investors**](https://www.clarkhowes.com/shares-and-investment)**. It can help to stabilize the credit rating of a business, provide assurance to would-be investors, and even keep the bank onside in the event you need to take out an unexpected loan.**

***QN3. Explain the four financial statements for Non-Profit Organizations, indicating and justifying their frequency of preparation***

**A complete set of financial statements is used to give readers an overview of the financial results and condition of a business. The financial statements are comprised of four basic reports, which are as follows:**

* [**Income statement**](https://www.accountingtools.com/articles/2017/5/11/income-statement)**.**

**This presents the revenues, expenses, and profits/losses generated during the reporting period. This is usually considered the most important of the financial statements, since it presents the operating results of an entity.**

* [**Balance sheet**](https://www.accountingtools.com/articles/2017/5/11/balance-sheet)**.**

**This records the assets, liabilities, and equity of the entity as of the reporting date. Thus, the information presented is as of a specific point in time. The report format is structured so that the total of all assets equals the total of all liabilities and equity (known as the**[**accounting equation**](https://www.accountingtools.com/articles/2017/5/17/the-accounting-equation)**). This is typically considered the second most important financial statement, since it provides information about the liquidity and capitalization of an organization.**

* [**Statement of cash flows**](https://www.accountingtools.com/articles/2017/5/17/statement-of-cash-flows-overview)**.**

**This is the cash inflows and outflows that occurred during the reporting period. This can provide a useful comparison to the income statement, especially when the amount of profit or loss reported does not reflect the cash flows experienced by the business. This statement may be presented when issuing financial statements to outside parties.**

* [**Statement of retained earnings**](https://www.accountingtools.com/articles/2017/5/17/statement-of-retained-earnings)**.**

**Presents changes in equity during the reporting period, the report format varies, but can include the sale or repurchase of stock, dividend payments, and changes caused by reported profits or losses. This is the least used of the financial statements, and is commonly only included in the**[**audited financial statement**](https://www.accountingtools.com/articles/2017/5/7/audited-financial-statements)**package.**

***QN4. When handling funds, conflicts are expected because of the need of scoring personal goals. Assuming you encounter the same, explain in detail the procedure you will adopt to solve the same***

A "conflict of interest" arises when a person in a position of authority in an organization, such as a director, officer, expert volunteer or key staff member, may benefit personally from a decision he or she could make.

**A conflict of interest in business normally refers to a situation in which an individual's personal interest’s conflict with the professional interests owed to his employer or the company in which he is invested.**

**A conflict of interest arises when a person chooses personal gain over the duties to an organization in which he is a**[**stakeholder**](https://www.investopedia.com/terms/s/stakeholder.asp)**. For example, all board members have**[**fiduciary**](https://www.investopedia.com/terms/f/fiduciary.asp)**duties and a**[**duty of loyalty**](https://www.investopedia.com/terms/d/duty-loyalty.asp)**to the corporations they oversee. If one of the board members chooses to take an action that benefits him at the detriment of the firm, he is harming the company with a conflict of interest.**

**Procedures an employee and institution should take the following steps to prevent actual conflicts of interest:**

* **Distribution of Policy and Procedures**

This policy shall be presented and discussed annually for the information and guidance of directors, officers, committee members and senior staff who are serving or employed by the Foundation. Annually a Disclosure and Attestation Statement shall be furnished to and completed by each officer, director, committee member and senior staff member. Any new directors, officers, committee members or senior staff shall be advised by the Compliance Officer of this policy and furnished a disclosure statement upon undertaking the duties of such office.

* **Disclose all potential conflicts of interest.**

**Disclose both financial interests and participation in the sponsor or licensee company as an employee, officer or director as required by your company internal policies.**

In connection with any actual or possible conflict of interest, an interested person must disclose the existence of the financial interest and be given the opportunity to disclose all material facts to the Board members or members of committees considering the proposed transaction or arrangement. The NKF's Disclosure and Attestation Statement is provided for this purpose.

* **Determining Whether or Not a Conflict of Interest Exists**

After disclosure of the financial interest and all material facts, and after any discussion with the interested person, he/she shall leave the Board or committee meeting while the potential of a conflict of interest is discussed and determined. The remaining Board or committee members shall decide if a conflict of interest exists. The minutes of the meeting shall note that this procedure was followed and the group’s determination.

* **Identify factors that may mitigate the likelihood of actual conflicts of interest.**

**For instance, whether a sponsor or licensee is publicly or privately held can affect the employee's status as a "key" employee. Also, a significant difference between the research emphasis of the sponsor or licensee and that of the employee may reduce the likelihood of actual conflicts of interest.**

* **Duty of Loyalty:**

The responsibility to place the best interests of the APA above other interests (including your own) when the two compete.  The Duty of Loyalty prohibits self‐interested transactions that are not in the best interests of the APA and prohibits an APA Representative from competing with the APA.

* **Duty of Care:**

The requirement that the APA Representative to discharge duties in good faith and in a manner they reasonably believe to be in the best interests of the organization.

* **Implement effective management strategies to minimize development of actual conflicts of interest.**  
  -- Assign independent departmental personnel to monitor the employee's research activities.  
    
  -- Require administrative review and approval of the employee's research projects that are subject to potential conflicts of interest.  
    
  -- Require modification of research plans or transfer portions of research to independent researchers, if necessary, to avoid actual conflicts of interest.  
    
  -- Consider divestiture or withdrawal from conflicted activity, if necessary, to avoid actual conflicts of interest where management appears unlikely to succeed.
* **Carefully review sponsorship and license terms.**

**Be aware of indications that the arrangement may not be an arm's length transaction. Look for the following:   
  
-- grants of an equity interest to an employee that provide disproportionate compensation: (a) relative to the standard share of royalties a faculty member might receive for technology licensed to an unrelated company, or (b) relative to the services provided;   
  
-- licensing of inventions covering basic research that may cause the licensee to compete with the institution for grant funding;   
  
-- the present or near-term capacity to perform the essential functions outlined in the company's business plan;   
  
-- contracts-back to the institution of development work, which suggests that the technology could not have been licensed to a company in an arm's length transaction (exception: unique facilities).**

***QN5. What are some of the Malpractices which may be curbed by whistle blowing? Explain your answer briefly.***

**Nature and Types of Malpractices in Banks.   
Broadly speaking, malpractices are categorized into those committed by bank staff, those committed by bank customers, and those committed through the collusion of bank staff and customers. Thus Common types of malpractices committed by staff and resulted in whistle blowing include the following:**

**Self-dealing  
This refers to a situation where insiders (bank staff/directors) put their own self-interest above those of the bank. These may manifest in any of the following ways:  
(i) Uses his or her authority to grant loans to oneself: or a related business, at preferential terms or using lower credit standards, with the interest of making profit in that business;  
(iii) Putting friends and relatives on the bank’s payroll;  
(iv) Directing the bank’s business to friends and relatives;  
(v) unwarranted fringe benefits to insiders, payment for personal trips overseas; and interest waivers on his/her loans and related loans.  
(Vi) Kickbacks from customers in return for granting loans or low interest rate on loans;  
concerned.**

**Granting of Unauthorized Overdrafts and Loans  
Cases abound in some banks where facilities are granted by officers other than those who have the authority either to grant such facilities or to grant so much. This form of malpractice ranges from accommodating cheques running into millions, when it is known that there are insufficient funds, to unauthorized credits granted by branches without the knowledge of the Head Office or approved by individual(s) not capable of authorizing such facilities by virtue of their nature and or magnitude. In such circumstances, it has been discovered that there were collaboration between directors and or top management to hide the accounts, restructure the overdrafts to loans, waive more than 50 per cent of the accumulated interest on such facilities, etc.  
Fraudulent Transfers and Withdrawals  
This occurs when an account is opened with fictitious names, usually with the collaboration of a bank staff. Money is then transferred to and drawn from such accounts. Withdrawals may also be made from dormant accounts.**

**Alteration, Diversion and Suppression of Cash Vouchers and or Cheques  
This form of malpractice takes many forms ranging from delay in sending cheques for clearing when it is known that there is insufficient funds in the accounts while credit is given to outright defalcation of cheques. Whichever form it takes, the aim is to fraudulently grant unauthorized credit to the customer or owner of the cheque. In these instances, the cash vouchers or cheques are usually kept away and delayed beyond the clearing days until, presuming that the cheque has cleared, credit is given.**

**Malpractices in Foreign Exchange Operations  
These have been noticed to be a fertile ground for sharp practices. Such practices have been observed to take the following forms  
(i) banks may sell forex at a premium which is usually more than the percentage mark-up stipulated by the CBN,  
(ii) illegal transfer of forex by banks which is personally utilised by the members of the board and or the management team;  
(iii) management who are purportedly lot of unsecured, indirect credit to have naira cover for their bids;  
(iv) bank’s funds from FEM are usually used by some bank’s directors for private purposes that are not allowed officially;  
(v) use of forex meant for eligible in ineligible transactions;  
(vi) sale of repatriated forex in the black market;  
(vii) non-repatriation of interest  
(viii) diversion of export proceeds; etc.  
Other Forms of Sharp Practices  
(i) posting of fictitious credit;  
(ii) under-quoting of the volume of deposit to evade insurance premium;  
(iii) carrying on another business apart from the business of banking, e.g trading; and  
(iv) granting loans without collateral security or with defective security or with inadequate security or failure to perfect the security.**

**Advanced Fee Fraud   
Advanced Fee Fraud is a situation where an agent, approaching a bank, an individual or a company with very favourable terms, offer access to large funds at below market interest rate often for long term period. The purported source of such funds is not specifically identified as the only way to have access to it is through the agent who must receive a fee or commission “in advance.” As soon as the agent collects the fee, he disappears into thin air and the loan never comes through. Any bank desperate for funds, especially the distressed banks and banks needing huge funds to bid for foreign exchange, can easily fall victim of this type of fraud. When the deal fails and the fees paid in advance are lost, these victims are not likely to report the losses to the police or to other authorities. Advance fee fraud can be very dangerous, especially those that are international in nature. Bank can suffer significant losses and find recovery and legal redress to be quite difficult.**

**Cheque kiting  
As defined by the US Comptroller of the Currency’s Policy Guidelines for National Bank Directors, kiting is “a method whereby a depositor utilises the time required for cheque to clear to obtain an unauthorised loan without any interest charge.” Cheque kiting involves the authorised use by depositors of uncollected funds in their accounts. Uncollected funds are cheque lodgements accepted by a bank for which it cannot fully guarantee collectibility until the institution on which each cheque is drawn has determined that h are available to cover the item. The goal of the cheque kiter may be to use these uncollected funds, interest-free, for a short time to overcome a temporary cash shortage or to withdraw the funds permanently for personal use. Competition among banks in the era of deregulation encourages them to make funds available before actual collection in order to attract customers, especially business accounts.**

**Account Opening Malpractice  
this involves the deposit and subsequent cashing of fraudulent cheques. It usually starts when a person not known to the bank asks to open a transaction account such as current and savings account with false identification but unknown to the bank. The person opens the account with a small initial deposit of cash or cheque. Generally, within a few days, the person will deposit a number of cheques and obtain cash in return either by cashing the fraudulent items outright or by withdrawing cash as soon as funds are available. The bad cheques maybe large overdraft drawn on other banks; drawn on bank accounts that are closed or never existed; stolen, counterfeit, forged or otherwise fraudulent**

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Counterfeit Securities  
counterfeiting of commercial financial instruments is one of the oldest forms of crime in the banking industry. Modern photographic and printing equipment have greatly aided criminals in reproducing good quality forged instruments. The documents may be total counterfeits or may be genuine documents that are copies, forged or altered as to amount, payout date, payee or terms of payment. A common method is to present the counterfeit notes such as treasury notes, cashier’s cheques, bankers acceptances, or certificates of deposit in counterfeit or altered form and presented to a bank for redemption. The presenter would draw out the proceeds and disappear before the financing instruments are found to be counterfeit.**

**Cheque Malpractice  
The use of cheques as a means of paying financial obligations is an essential feature of modern economy. Cheques fraud is now very common and involves millions of naira annually. Common types of cheques are personal, business, government, travellers, certified, draft and counter cheques, with each having its own characteristics and vulnerabilities for fraudulent use. The most common cheque frauds involve cheques that are stolen, forged, counterfeited or altered.**

**Computer Malpractice  
Computer fraud can remain undetected for a long time. Computer frauds can take the form of corruption of the programme of application packages and even breaking into the system via a remote sensor. Diskettes can also be tampered with to gain access to unauthorized areas or even give credit to an account for which the funds were not originally intended.**

**Additional note;   
Institutional Causes of Malpractice  
The common institutional causes of malpractice as identified by different authors and are summarized as follows:**

**(a) Poor Internal Control  
Inadequate internal control and ineffective and/or inefficient application of internal control measures create loopholes for inclined staff, customers and non-customers to commit malpractice. Ineffective audit, poor supervision and failure to duly control cash security documents, keys and other bank assets aid malpractice.**

**(b) Inadequate Staff Training and Re-training  
Lack of adequate training and re-training on both the technical and theoretical aspects of the job leads to poor performance which breeds malpractice. Failure by both management and staff to undergo on-the-job training and even relevant outside courses also lead to unsatisfactory performance which eventually creates room for malpractices**

**(c) Banking Experience of Staff  
All things being equal, malpractice in banks occur with higher frequency among staff with little experience and knowledge in banking practice. The more the experience and knowledge of a staff, the less the likelihood that malpractice would pass such staff undetected unless with his active connivance. Where professionally qualified bankers are involved in malpractice, they are more likely to swindle large sums of money than the less qualified staff.**

**(d) Staff Negligence  
In certain cases, staff negligence could give room for malpractice in banks.  
Negligence itself is a product of several factors, including poor supervision, lack of technical knowledge, apathy, pressure, etc.**

**(e) Poor Security Arrangement for Documents  
Fraudsters always have their way without detection in banks where security arrangements for valuable documents are weak, poor and vulnerable.**

**(j) Use of Sophisticated Accounting Machines  
Where sophisticated accounting machines arc in use and are manned by inadequately trained staff errors could arise and thus lead to the production of unreliable records. In the hands of dishonest staff, sophisticated accounting machines could be employed to deliberately omit entries, substitute improper calculation and posting, manipulate documents, substitute fictitious documents and alter genuine ones. All of these are different ways of committing malpractices.**

**(g) Negligence of Customers  
traditionally it is the negligence on the part of customers that provide ample opportunities for bank staff to commit malpractice. Negligence of customers takes various forms, including errors that might have been genuine but which are open to abuse, distortions and defalcations by unscrupulous staff within and outside the bank in the employment of customers.**

**(h) Frustration  
Management practices, when negative to the aspiration and development needs of staff, could result in the generality of staff being frustrated. Frustration in turn. Breeds malpractice in banks.**

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* [Sam Houston State University: Internal Control Concepts](http://www.shsu.edu/~aac_cwb/control1.htm)
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