

## Accounting Risk and Controls Notes

### Topic 1: Accounting and Information Quality

1. Discuss the nature and purpose of accounting from economic events to reporting and decision making.

**Definition** – Accounting is the of identifying, measuring and communicating economic information about an entity for decision making by a variety of users.

**Purpose** – Accounting is necessary to enable organized economic activity to take place. It enables the description of economic activity such as resource flows and exchanges, resource controlled, claims against resources and transformation of resources so as to inform decision making.

2. Define the qualitative characteristics of useful financial information (both fundamental and enhancing) established in the IASB/AASB's Conceptual Framework.

#### **Accounting conceptual framework**

- A coherent system of concepts, which are guidelines to the accounting standards used for financial reporting.
- CF Principles generally apply unless in conflict with a specific standard (but standards are meant to be based on the principles)
- The CF also specifies details of the definition and recognition of the elements of financial statements (Assets, Liabilities, Income (Revenue), Expenses) which is covered in ARA/IFA1
- Benefits: Improving accounting itself such as improving the practice of accounting and providing a basis for answers to specific accounting questions and problems.

#### **Fundamental Qualitative Characteristics**

##### **Relevance**

- It is relevant if it is capable of making a difference in the decisions made by users.
- Related to materiality whereby an information matters if its omission or misstatement could influence the economic decision of users taken on the basis of the financial reports.

##### **Faithful Representation**

- It is faithful representation if it is:
  - Complete – includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations.
  - Neutral – It is free from biases.

1. Free from error – This does not imply that the information is “exact” but the estimates are identified and made on a reasonable basis. Read and interpret a Flowchart with a view to identifying threats to information quality.

### Importance

- **Depicting how the system works**
  - Observing large AISs in action is an impractical way to learn about them.
  - The processing is electronic and therefore invisible.
  - Documentation helps explain how an AIS operates. Documentation facilitates this understanding, assists accountants in designing controls, demonstrates to managers how AISs will meet their information needs, and assists auditors in understanding the systems that they test and evaluate.
- **Training users**
  - Documentation includes user guides, manuals, and similar operating instructions that help people learn how an AIS operates.
- **Designing new systems**
  - Professional IT personnel commonly hold structured walkthroughs in which they review system documentation to ensure the integrity and completeness of their designs or to identify design flaws.
- **Controlling system development and maintenance costs**
  - Good documentation helps systems designers develop object-oriented software which contains modular, reusable code).
  - It then helps programmers avoid writing duplicate programs and facilitates changes when programs must be modified later
- **Standardising communications**
  - Documentation such as document flowcharts are standardized tools that are more likely to be interpreted the same way by all parties viewing them.
- **Auditing (accounting) Information Systems**
  - Helps auditors determine the strengths and weaknesses of a system’s controls and therefore the scope and complexity of the audit itself.
  - Helps auditors to understand a client’s system of internal controls before conducting an audit.
- **Better business decisions**
  - Documentation helps understanding business process, what controls are missing from critical organizational activities and how to improve core business activities,
- **Complying with regulations (particularly in US)**
  - Helps analysing the risks of errors, frauds, omissions, and problems with important business processes.
  - Helps auditors evaluate the controls used to mitigate such risks,
- **Establishing accountability**
  - Outlines tasks that employees should do.
- **Saving money**

## **COSO (for financial control)**

### **1. Control environment**

- the basis for all internal control practices within the organisation and impacts on how well the internal control structure operates.
- reinforces the concept that leadership comes from the top, and the example set and decisions made by those in positions of authority within an organisation will have an impact on the behaviour of those at lower levels.
- ASAE 3150 outlines the 2 key areas for assessing the control environment in an organization:
  - (i) The first area is how management, those with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behaviour.
  - (ii) The second area relates to the strengths in the control environment elements.
- **The 5 principles:**
  - (i) Demonstrates commitment to integrity and ethical values
  - (ii) Exercises oversight responsibility
  - (iii) Establishes structure, authority and responsibility
  - (iv) Demonstrates commitment to competence
  - (v) Enforces accountability

### **2. Risk assessment**

- how an organisation assesses the various risks it faces that could inhibit the successful attainment of its objectives.
- The risk could lead to a material misstatement in the financial statements and therefore impact on the attainment of reliable financial reporting. Other risks may impact on the operation of the business processes and operations and on the organisation's broader ability to achieve its objectives.
- ASAE 3150 risk assessment process includes whether the entity has a process for:
  - (i) identifying risks which threaten achievement of control objectives;
  - (ii) estimating the significance of the risks
  - (iii) assessing the likelihood of their occurrence; and
  - (iv) deciding about actions to address those risks
- **The 4 principles:**
  - (i) Specifies suitable objectives
  - (ii) Identifies and analyzes risk
  - (iii) Assesses fraud risk
  - (iv) Identifies and analyzes significant change

### **3. Control activities**

- Are performed at all levels of the organisation, at various stages of the business process and over the technology environment.
- May be preventive or detective and can be manual or automated.

### **Segregation of duties**

- Separate the duties of custody, record keeping, executing and reconciliation.
- Reduce the risk of fraud but it does not eliminate all the risk since it is still possible that collusion may happen.

### **Authorisation**

- Ensure modification or execution of transactions are carried out by people with appropriate authority.

## Topic 11: Current events – RPA

### What is RPA?

- Bots that employ scripts and rules to carry out routine operations that are otherwise carried out by humans
- Generally, these bots can work across a range of different systems and are able to interact with the different screens displayed by various applications just like a human would (if they are programmed to do so)
- As a result, they sit on top of existing organisational system rather than being integrated into those systems.
- Major players: Automation Anywhere, UiPath and BluePrism
- RPA platforms enables the development and management of bots
- In implementing RPA as a solution within a business, careful consideration needs to be given as to whether the process is suitable to be automated

### Factors to consider in implementing RPA

- Types of task:
  - Mature, well-defined, high volume
  - Operational and routine
  - Structured and consistent labelling of input data source
- Process Maturity Model – Automation Anywhere Module (Provide guidelines whether the task should be automated or not)
  - Automation pipeline (Identify and prioritize tasks that can be automated through candidate identification, top level benefit analysis and candidate prioritization)
  - Financial and technical feasibility of the implementation (Gather resources => Examine the process and note down the steps=> Understand logic => Check out for elements that can prevent automation => Verify if any elements require further testing)
  - Complexity of task/process (To estimate effort required to automate & standardise the task)
  - ROI analysis (To analyse the return of automation)
  - Automation planning (Automation opportunity => Automation design)

### Examples of task

- Processing supplier invoice – e.g. Extracting supplier invoice information and input it into accounting system
- Bank reconciliation – e.g. Extract relevant information from documentation such as bank statements and data stored to perform reconciliation. Identify any exception that need to be resolved
- Data manipulation – e.g. transferring, merging, sorting, organizing and routing the data

Benefits: more efficient (increase business process speed), improve auditability, maximize accuracy, enhance security, scale capacity on demand, maximize availability, optimize labour investment (free up employees to focus on more value-added or strategic