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MANUAL OF INTERNAL CONTROL POLICIES AND PROCEDURES

Final Report

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PREFACE TO THE MANUAL OF INTERNAL POLICIES AND PROCEDURES

This brief Manual of Internal Control Policies and Procedures was prepared for the MFIs not as a comprehensive compendium designed to cover all present and future needs of the MFIs, but rather for purposes of general guidance.

The activities of these organizations are presently heavily concentrated in the areas of loan processing and loan accounting as well as loan collection, which follows a standardized procedure in all the MFIs. Thus loans and cash procedures represent the most significant chapters in the Manual.

During the task of preparation, the actual procedure in the MFIs was evaluated on the basis of discussions with management and explanations obtained at the discussions. Aspects and areas which were observed to require strengthening for now and the future were included as Procedures

MANUAL OF INTERNAL CONTROL POLICIES AND PROCEDURES

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I- DEFINITION/NATURE OF INTERNAL CONTROL

General Outline

Internal control may be defined as the plan of organization and all the coordinate methods and measures adopted within a business organization to, among other things: safeguard its assets; check the accuracy and reliability of its accounting data; promote operational efficiency, and encourage adherence to prescribed management policies.

Put in another way, internal control may be seen as the entire structure of policies, procedures, activities, reports, documents, responsibilities and relationships that organizations use to (a) pursue their operational and administrative objectives more effectively and (b) ensure that their assets and overall interests, both immediate and long-term, are adequately safeguarded.

Effective internal control is absolutely essential. No modern business organization can be run successfully without an effective internal control system.

Where an enterprise is properly managed, the presence of internal control is seen throughout the organization even though it may not be recognized as such or felt by even those who work there. As is to be expected, there are more internal control procedures in areas where company resources are heavily concentrated. In other words, internal control is, and should be, particularly strong where the company's exposure to risk is high.

The existence of an effective internal control system in a company is a good indicator that it is being run with a high degree of responsibility and with high standards for the discharge of management's duties. It is also an indication that its reports and documents may be relied upon to evaluate its performance and financial condition as well as its plans and projections for the future.

Aspects of Internal Control

There are two distinct aspects of internal control namely,

(a) internal administrative controls (which are concerned with the decision-making process), and

(b) internal accounting controls (which are concerned with the safeguarding of assets and the reliability of financial records).

The link between these two aspects is the authorization of transactions. The decision-making process eventually leads to the authorization of transactions. Internal accounting controls begin at the point where transactions are authorized.

Objective of Internal Administrative Controls

The objective of internal administrative controls is *to ensure that the decision-making process that leads to transactions is authentic and that it complies in every respect with the policies and procedures that have been authorized by top management of the organization*-meaning the Chairman of the Board, the Chief Financial Officer.

Objectives of Internal Accounting Controls

Internal accounting controls are meant to ensure among other things that:

(a) only authorized transactions are processed;

(b) transactions are properly recorded;

(c) transactions serve as basis for preparing appropriate financial statements; and

(d) access to, and use of, assets is duly controlled.

Internal Control is therefore a kind of constitution of the organization and it is composed of physical as well as procedural means for achieving its objectives.

Simple examples of physical controls are:

- use of safes for cash and securities
- alarm systems
- flood-lighting the premises to promote detection by night, and
- a security fence around the perimeter of a factory

Examples of procedural controls are:

- segregation of duties
- organization charts
- job descriptions
- procedures manuals
- financial statements
- monthly accounting
- budgeting and budgetary control
- internal audit

- II - PRINCIPLES OF INTERNAL CONTROL

The principles of internal control are to be found throughout the segment of a business organization that is broadly referred to as "Management Procedures". Internal control is inextricably entwined with management procedure. It is generally difficult to see "internal control" and "management procedure" as distinct concepts.

It must be remembered that more than a principle, internal control is a concept. For the purposes of this Manual, the following is an illustration of general "principles" of internal control that are applied in modern, publicly held companies. The term "publicly held" refers to the generality of the investing public. The examples are taken from a representative spectrum of management procedures.

Corporate Policy

The company functions in accordance with a Code of Business Conduct, which has been developed by management and is known to, and understood, by all employees.

Structure and Governance

The basis of governance of the company is the distinction between policy making and policy implementation. This distinction is clearly set out in the by laws.

The Board of Directors is appointed or elected for a reasonable term (one or two years). Provision is made for renewal of the Board by rotation rather than by complete change. The reason for this is the need to maintain continuity of overall management policy.

Deliberations and resolutions of the Board of Directors are recorded in their entirety. Board minutes are taken and kept in safe custody by an employee who is not a member of the Board.

Functions of the Board and those of Management are clearly defined and separate from one another. The Board does not involve itself in the work of the President or Chief Operating Officer and the day to day running of the company.

Ownership

No one person has a "controlling interest" in the ownership of the organization. On the other hand, suppliers and customers are not also substantial stockholders in the company.

Business Operations

Transactions are conducted at arm's length. That is to say, in free and open dealings without recourse to special terms concerning price or payment or any other consideration that could be regarded as being outside the usual norms of doing business.

Sole Responsibility for Transactions

No person in the company is permitted to carry out all aspects of a transaction or a cycle of transactions acting entirely on his own. That is to say there must always, at some stage, be the direct intervention of, or notice to, another employee.

Segregation of Duties

Handling, recording, custody of assets (especially cash and negotiable instruments) and accounting are activities that are not concentrated in one person or group of persons.

Cash Receipts and Disbursements

Funds are accounted for and reconciled with the books on a timely basis.

Accounts Receivable

Sales personnel and those who deal directly with customers do not have access to the accounts receivable records.

Inventories

The warehouse does not have access to the unit cost records for the items in the inventory.

Fixed Assets

Additions and disposals of property, plant and equipment only take place in conformity with the company's annual capital expenditure budget or as otherwise authorized by top management.

Accounts Payable

An item cannot show up as a payable in the accounts without prior authentication.

Payroll

The payroll is processed only after due authentication.

Accounting

Access to the general ledger, blank journal entry forms, unused checks and facsimile check-writer plates is restricted.

III - RESPONSIBILITY FOR THE INTERNAL CONTROL SYSTEM

Responsibility for setting up and maintaining an adequate internal control system rests with top management.

In meeting this corporate obligation, top management is advised and apprised on pertinent matters by financial management, who bears primary responsibility for the effectiveness of internal control throughout the organization and the internal audit department. To a lesser extent the external auditors are involved but only in their capacity as advisors.

The company is cognizant of the following model of management responsibility excerpted from the Annual Report of Management of a publicly held company in the United Sates. The Report, which is in standard format and terminology, is signed by the Chairman and the Chief Financial Officer, contains the following statements:

“Responsibility for the integrity and objectivity of the financial information presented in this Annual Report rests with …… management”

“……management maintains an effective system of internal accounting control. It consists, in part, of organizational arrangements with clearly defined lines of responsibility and delegation of authority. We believe this system provides reasonable assurance that that transactions are executed in accordance with management authorization, and that they are appropriately recorded, in order to permit preparation of financial statements in accordance with generally accepted accounting principles and to adequately safeguard, verify and maintain accountability of assets. An important element of the system is an ongoing internal audit program.”

“To assure the effective administration of internal control, we carefully select and train our employees; develop and disseminate written policies and procedures; provide appropriate communication channels; and foster an environment conducive to the effective functioning of controls. We continue to believe that it is essential for the company to conduct its business affairs in accordance with the highest ethical standards, as set forth in the….. Business Conduct Guidelines. These guidelines, translated into numerous languages, are distributed to employees throughout the world, and reemphasized through internal programs to assure that they are understood and followed.”

“ The Audit Committee meets periodically and privately with the independent accountants, with our internal auditors as well as with ….management to review accounting, auditing, internal accounting controls and financial reporting matters.”

IV - FEATURES OF A GOOD INTERNAL CONTROL SYSTEM

Good internal control within an organization is characterized by certain standard, well-recognized aspects of management. Each institution is responsible for developing systems that are best suited to its requirements.

It is beyond the scope of this brief Manual to give an exhaustive list of features that are common to effective internal control systems everywhere. However the items noted below will readily be recognized as pertaining to responsible well-organized management systems wherever business is conducted in a regulated environment.

An examination of the organization should reveal the following characteristics:

- Policy setting, overview of policy implementation and follow up.

- Management efforts based on :
  - -understanding and adhering to the agreed and approved corporate policy
  - -clear directives to staff and subordinates
  - -accurate and timely record keeping
  - -real-time supervision and monitoring
  - -follow up and resolution of operating problems
  - -upward referral of significant matters affecting the organization

- Accounting and procedural controls.

- Corporate structure, organization and personnel policy well defined
  - -Duties, functions are structured in relation to feasibility and compatibility
  - -Output of management bodies and key employees is clearly defined

- Management's objectives and assumptions:
  - -corporate assets are properly safeguarded and accounted for
  - -liabilities are not incurred improperly
  - -accounting data is reliable
  - -operations are carried out efficiently
  - -corporate policy is adhered to

More specific illustrations are set out below in accordance with different levels within the organizational structure.

Institutional Level

Conflict of Interest. There are mechanisms to prevent formation and continuation of conflict of interest situations at the policy and operational levels.

Board and Executive Management. There is a distinction between their separate powers, duties and functions.

Board Meetings. There is an effective and reliable mechanism to record and report their deliberations and decisions.

Financial Reporting. This required to be done monthly.

External Audit. The books and records are audited annually by independent outside auditors.

Internal Administrative Level

Features of good control include:

-use of a well disseminated corporate policy and conduct statement
-a committed and dedicated Board of Directors
-committed and dedicated Management
-functional, regularly updated organization chart
-ongoing business planning and budgetary control
-use of regularly updated administrative policies and procedures manual
-implementation of a definite personnel administration policy
-use of updated job descriptions
-limitations on access
-limitations on use of company assets
-use of destruction and theft-proof devices and alarm or warning systems
-implementation of a mandatory vacation policy for all employees
-restrictions on the company's ability to make significant financial commitments

Accounting Level

Features of good control include:

-use of an updated accounting policies and procedures manual
-use of an updated chart of accounts
-segregation of duties in cash handling and record keeping areas
-rotation of duties
-limitations on access to certain assets, books and records
-limits on spending subject to various approval procedures
-restrictions on authority to sign checks and other financial instruments

V - MONITORING AND EVALUATION OF INTERNAL CONTROL SYSTEMS

Internal Audit

Internal audit is an independent function within the corporate structure whose task it is to evaluate the adequacy of the internal control system, establish whether or not it is being implemented in accordance with corporate policy and recommend appropriate corrective action if judged to be necessary.

The Internal Audit Department holds a mandate from top management that effectively gives it access to any and all areas and activities of the company for the purpose of carrying out its task. It does not have to request management's permission to perform its duties.

The scope of the Internal Audit Department includes:

-Financial audit work such as cash counts, bank account verification, physical counts of inventories, confirmation and verification of receivable balances, inventories of fixed assets, etc.

-Operational audit work, which is concerned with reviews of operational objectives, whether those objectives are being met and the possible other ways to meet those objectives. It is involved with the quality of output of a particular function or department.

-Reviews of internal control systems and areas of special concern to management where the auditor's training and skills may be relied upon to report on relevant matters with a high degree of objectivity.

The Internal Audit function (ideally) operates under a corporate Vice-President who reports to the President of the company and the Audit Committee of the Board of Directors. In a smaller environment the Internal Audit Department reports to the Chief Financial Officer or the President (Chief Operating Officer) and has a dotted line to the Board of Directors.

The Internal Audit Department is headed by a Director who is qualified professionally and by experience to hold the position. The Director is supported by a team of adequately qualified and trained audit managers and staff auditors.

The work of the Department is programmed by arrangement with the Heads of the Divisions/Departments whose operations are subject to audit.

Internal Audit reports are in standard format.

The Audit Committee receives a quarterly update on all activities of the Internal Audit Department.

VI - SPECIFIC APPLICATIONS OF INTERNAL CONTROL

(a) Organizational Controls

The following are examples of generally accepted organizational controls:

Organization Chart, showing direct and indirect (dotted line) reporting relationships.

Job Descriptions, for all positions shown on the corporate organization chart.

Code of Business Conduct, affirming the commitment of management and employees to live up to a high standard of conduct in their business operations.

Policy and Procedures Manual. Containing chapters on: imprest fund procedures, authorized bank accounts, authorized check signatories, limits on authorized spending, travel expense advances and reporting, employee loans, purchasing and procurement procedures, etc.

Chart of Accounts, containing comprehensive treatment of all approved accounts, explaining their purpose and application.

Personnel Administration Policy, containing procedures for recruitment, pre-hiring procedures such as background and reference checks, restrictions on hiring, performance reviews and periodic evaluations, benefits for salaried and hourly employees, etc.

Annual Operating Plans, developed by management for the full twelve months of operations and containing planned amounts for revenues, expenses, capital budget, etc.

Budgetary Control System, management by reference to actual vs. budgeted amounts for revenues and expenses,making departmental managers responsible for their performance from month to month.

(b) Cash Receipts and Disbursements

Control procedures for cash are numerous. They assume that the company handles both cash receipts and disbursements and that the staff level is sufficient to permit effective segregation of duties. However they are not all applicable to the MFIs since they do not handle cash or checks from their clients and nor do they have sufficient hands to permit an ideal internal control environment. Those procedures that are considered applicable, and therefore could be implemented by the MFIs, are set out below:

- Petty Cash

The Petty Cash fund is the personal responsibility of the individual to whom it is assigned.

The Petty Cashier does not have access to other cash-related, asset-related or record-keeping functions.

The Petty Cash fund is replenished periodically by check payable to the Petty Cashier.

The Petty Cash fund cannot be used to cash checks. If they are, the check received must be made out in the name of the Petty Cashier.

Petty Cash funds are not used to reimburse travel expenses unless they are very small.

Petty Cash funds are reconciled each time there is a replenishment.

- Miscellaneous Checks Received and Loan Repayments

Miscellaneous checks received are endorsed restrictively and deposited the same day or first thing on the next available business day.

Clients are instructed to make their loan repayments to the company only by bank deposit.

Company employees are not authorized to receive loan repayments from clients in any form whatsoever.

All deposits received from clients by bank branches in the Field are required to be transferred the same day or first thing on the next working day to the company's Head Office account in Amman.

Withdrawals from the company's accounts with bank branches in the Field can be made only by Head Office.

Bank deposits are journalized and posted daily upon receipt of the duplicate stamped deposit slips.

Bank deposits are verified each day (by computer) with the company's main bank account in Amman .

- Disbursements

The Finance Department carries out surprise counts of the Petty cash funds from time to time.

Banks are instructed not to cash checks that are payable to the company or to "Cash."

Signed checks do not return to the system; they are routed straight out of the premises.

Checks are not signed on the last working day of the week.

Checks are pre-numbered by the printers. Unused checks are inventoried, kept under lock and key and are accessible only to authorized persons.

Payment is made against original invoices only.

All documentation supporting payments is presented to the check signer for his/her review.

Payment support vouchers are canceled (by perforation) at the time the checks are signed.

Spoiled and/or voided checks are retained and filed.

Bank statements and paid checks are sent by the bank directly to the person responsible for the bank reconciliation (the Finance Manager).

Items returned or questioned by the bank are referred directly to the Finance Manager.

- Recommended Procedures

The following procedures cannot be implemented because of the small number of people employed in administration by the company. They are reproduced here for reference purposes pending their adoption at some future date.

Signed checks are not handled by custodians of cash, bookkeepers, approvers of payments or check signatories.

Bank reconciliation is done monthly by a person who is not connected with the recording of cash transactions.

Unused checks are kept by a designated person who does not (a) handle cash (b) keep or have access to the cash book, general ledger, accounts receivable ledger or other accounting records (c) reconcile the bank accounts and (d) sign checks as a sole signatory.

Persons responsible for record keeping testing their accuracy or reconciling them do not custody of cash or other assets.

(c) Loans Receivable (Loan Portfolio).

The purpose of the loan portfolio is two-fold, namely to reach out to deserving borrowers and to bring in more borrowers so as to grow the business. Lending is done as a result of personal face to face marketing efforts in which the credit agent and the loan supervisor get to know the client very well. Everything in this environment depends on a willing individual or group borrower who has had substantial contact with an MFI marketing *team. The idea is to make the loan and collect it 100% and on time so as to recycle the funds into further lending with the minimum delay.*

- Initiation

A dossier is opened and maintained on each new client or client group.

It is the duty of the Credit Agent to identify actual and potential loan prospects.

The Credit Agent's specific tasks are:
(a) review and assess the suitability of the prospective client. The review takes into account the borrower's personal circumstances and credentials, including previous record in business (if any)
(b) gather all pertinent data, prepare the loan application and all necessary supporting documentation
(c) conduct two (2) interviews with the prospective client
(d) draw up an assessment and recommendation, and
(e) submit the dossier to the Area Supervisor

The Area Supervisor's tasks are to:
(a) review and personally verify (on a spot basis) the data in the client's dossier
(b) draw up an assessment and recommendation regarding the case, and
(c) refer the case to the Loan Committee

Standard questionnaires and evaluation forms are used to assemble the information relative to the prospective borrower.

Interviews and assessments are properly documented and subject to review by the Operations or Credit Manager.

- Approval/Implementation

The Loan Committee is responsible for approving or rejecting loan applications.

The Loan Committee is drawn from a roster of persons that includes the General Manager, Operations Manager, Credit Manager, Finance Manager, Area Supervisor (whose case it is).

Members of the Board are not eligible to participate in the deliberations of the Loan Committee.

Two personal guarantors are required in the case of individual loans, while for group borrowers, each borrower is required to become jointly and severally liable for the loan.

Loans are made effective by check made out in the name of the borrower or in the case of a group loan, to the President and Treasurer of the group.

- Recording/Accounting

The client's account is created on the day the loan is made effective and a number is assigned to the loan.

The MIS Department carries the subsidiary loans receivable ledger and is the first to receive the original documentation from the bank. This department is responsible for the details appearing in each borrower's account including dates, amounts of transactions and the resulting balances outstanding.

The status of the loan portfolio is monitored everyday and it is updated on any day there is a transaction whether it is a disbursement of a new loan or a repayment on an existing loan.

The total of all individual loan balances is agreed with the total portfolio balance in the general ledger on a frequent basis. This is a joint responsibility of the MIS and Finance Departments.

Reconciliation of the company's books and the bank is carried out daily. No one in the MIS and Finance Departments is allowed to leave the office until all differences are reconciled and agreed satisfactorily.

- Repayments

Repayment is required to be made by direct deposit in a company-designated bank account

Direct deposits are accompanied by pre-printed deposit slips bearing the number of the loan account and the company's bank account.

It is the responsibility of the MIS Department to match amounts received by direct deposit against each loan receivable account in the subsidiary ledger to ensure that amounts are credited to the proper accounts.

MIS must agree totals with the Finance Department each time there is an update to the loan portfolio.

The borrower's repayment pattern and loan status is tracked and monitored by the MIS Department and details are retained on file.

- Bad Loans

It is the responsibility of the Operations or the Credit Department to follow up on delinquent loans on a timely basis.

Loan collection efforts must, if judged by management to be necessary, include invoking guarantees and eventually, legal action.

Loans that are not collected are written down to a value of JD 1 and remain on the books.

(d) Securities

Securities are defined as shares, stocks, bonds and other types of negotiable instruments. As such they may not become a concern in the business of the MFIs. The undermentioned procedures are nevertheless noted for purposes of future reference.

Details of securities on hand are contained in a Securities Register that is kept by an employee who does not have accounting functions relating to cash or accounts payable.

The Register of Securities is monitored periodically by the Finance Manager who also takes an inventory of securities from time to time.

Accounting for securities transactions is done by persons independent of: the custodianship of securities, custodianship of other assets and the accounts payable function.

If there is a securities room it may only be entered by two authorized persons.

The custodian of securities is required (like all other employees of the company) to take an annual vacation. While on vacation the custodian’s job is done by another employee.

Only authorized persons are privy to securities-related matters.

(e) Fixed Assets

Fixed assets are defined as property, plant and equipment. They represent long-term investment in costly items such as buildings, factories, vehicles, office machines and other types of equipment. Because of this the internal control objective for fixed assets is to ensure the investment is adequately protected adequately. The significance of fixed assets in the MFIs, is presently not apparent.

Expenditure on fixed assets is regulated and controlled through an annual capital expenditure budget that is developed and approved at the same time as the overall operating plan of the business.

Details of property, plant and equipment are contained in an appropriately designed Fixed Assets Register.

Additions to fixed assets are processed and evidenced on specially designed standard forms.

No additions are recorded in the Fixed Assets Register unless they are supported by a capital budget reference, authorization/approval documentation, purchase orders, contract reference numbers, invoices, receiving reports, etc. Similarly any disposals must be authenticated before they may be recorded.

Proper, regular maintenance of fixed assets is a strict management policy of the company. It is provided for in the annual operating plan and budgeted for accordingly.

Major fixed asset items (vehicles, complete machines, computers, etc.) cannot be disposed of, re-located or transferred unless authorized by top management.

Title Deeds to property are kept at the bank or by the legal department of the company. Vehicle registration books and other proofs of title are adequately safeguarded against theft, fire or otherwise unauthorized handling.

Fixed assets are inventoried annually.

Significant adjustments to the Register (and consequently) the general ledger cannot occur without the knowledge and approval of the Chief Financial Officer.

(f) Accounts Payable

The objective of internal control in the accounts payable function is to ensure that all expenditures are properly incurred, duly authorized and approved and that payments cannot be duplicated. All matters contained in the procedures mentioned below may not be relevant to the MFIs at this stage of their development.

All expenses above a certain company-defined limit are required to be supported by a Purchase Requisition and a Purchase Order.

Before a supplier’s invoice can be classified and recorded as a payable, it is matched with the corresponding Purchase Requisition, Purchase Order and Receiving Report.

Suppliers’ invoices are paid according to the approved payment cycle of the company and in accordance with the terms allowed by the suppliers. Where feasible, discounts for prompt payment are always taken.

Paid invoices are required to be canceled and removed from the system. They cannot appear for payment a second time.

Only original invoices are included in the accounts payable roster. If a duplicate or copy has to be processed, the matter must be justified to, and approved by, the Chief Financial Officer. The paid copy must state as follows " Original lost or misplaced. Payment against copy authorized by….." . The paid invoice is filed and kept separately from all other paid invoices.

Employees who are responsible for maintaining the accounts payable records do not:
(a) prepare, arrange or present documentation that supports payments;
(b) handle suppliers' statements or requests for payment;
(c) sign or handle signed checks; and
(d) have sole custody of assets

Blank Purchase Orders and Blank Purchase Requisitions are kept by a responsible employee who has no dealings with the accounts payable function.

(g) Purchasing

The internal control objectives in the area of purchasing are numerous. For the purposes of this document it is sufficient to state that they are to ensure that the activity is properly regulated, that any kind of purchasing undertaken is appropriate and that it has been authorized according to company policy. At this stage of their development, the MFIs do not have an independent purchasing function and their corporate needs are few and relatively simple. They are also largely, if not wholly, following policy guidelines stipulated by USAID. However the following procedures may be relevant at present or at some future time.

Every purchase above a certain JD value is supported by a properly authorized Purchase Order.

Only an employee of the rank of manager or above is authorized to request or to make up an executable Purchase Order.

Purchases are authorized and approved according to the value of the individual item or service in question. For very low value, day to day items, no special procedure is required. This amount is fixed for the time being at JD 50.

Above a pre-determined amount the particular purchase must be referred to two authorized persons, and above that amount, to a Purchasing Committee. These amounts are set for the time being at JD 500 and 1.000 respectively.

Members of the Board are not eligible to participate in the deliberations of the Purchasing Committee.

Purchasing is dealt with according to the nature of the expense to be incurred. For this purpose, transactions are divided up into the following categories:

1. day to day running expenses (budgeted)
2. capital additions or replacements (budgeted)
3. normal repair and maintenance of assets (budgeted)
4. unforeseen major expenditures and ad hoc items (not budgeted)

In each of the above cases internal control requires that management exercise its judgment to best meet the company's needs.

(h) Personnel and Payroll

The internal control objectives of the Personnel function are numerous. Principal among them are: to ensure that staff is recruited in accordance with the policy of the company, staff administration procedures meet current demands,, records are kept for all personnel matters in such a manner as to evidence authorizations and approvals for changes in status, benefits policy is implemented in the most efficient and courteous way, the level and quality of services provided to the company are adequate and competitive, confidentiality of personnel data is maintained and that the highest discretion and reserve are employed in dealing with difficult individual situations.

At this stage of their development the number of employees is not large enough to warrant a comprehensive human resources function at any of the MFIs. The following guidelines are relevant:

- Personnel

General and specific recruitment is done in the open market through advertising, walk-ins referrals or other means, so that all comers stand an equal chance of being considered.

A uniform procedure is used for gathering background data on candidates for employment.

References from candidates are requested and they are checked.

Hiring policy excludes bringing into the organization, close relatives of existing employees, persons related to competing organizations, persons closely connected with suppliers, etc.

A standard Employee Status Form is used for hiring. This form is designed to show the employee's career history with the company: effective dates, promotions, salary increases, transfers, etc.

Salary scales and ranges are determined and fixed by top management according to the levels of responsibility for those positions.

Employee Master Files and Employee Status Records are not accessible except to a few authorized employees.

The Personnel Department ensures that:

(1) the number of employees working for the company remains at the level determined in the annual operating plan. No incidental or back door additions are permitted; any and all exceptions to this rule must be authorized by top management.

(2) only those who are employees of the company are included in the payroll

The Personnel Department is the custodian of all individual current pay rates. There can be no change in anyone's pay without executive authorization (which is evidenced on each Employee's Status Form).

The Personnel Department ensures that employees are enrolled for all the authorized corporate benefit programs and that, if some employees have chosen particular options, these are implemented strictly.

The Personnel Department is responsible for the custody of unclaimed wages, for paying them when claimed and accounting for them if not eventually claimed.

- Payroll

Payroll administration ensures that the names and pay rates of the employees appearing in each payroll are absolutely in accordance with instructions received from the Personnel Department.

Time worked, whether normal or overtime, is authorized by a departmental Supervisor.

Each payroll is approved by the Chief Financial Officer and the General Manger.

The payroll department does not engage in other accounting functions.

The preliminary and final payroll is verified by an employee who does not: prepare the payroll, compute net pay, sign payroll checks singly, place money in payroll envelopes, handle signed checks or have custody of Employee Status Forms.

The payroll is paid through a specifically designated payroll bank account. This account is reconciled monthly.

Payroll checks are pre-numbered and their utilization is controlled/monitored at each pay period.

Paid payroll checks are routinely monitored for endorsements.

Blank payroll checks, Employee Status Records and earnings records are kept out of the reach of those who have payroll preparation, disbursement, check signing or check protector functions.

(i) Accounting

The internal control objective of Accounting is to safeguard company property virtually from all eventualities. Property in this context signifies actual as well as potential assets and liabilities.
Accounting works through a specialized record-keeping system.

Computer Records

Access to computer programs is generally restricted to those who are responsible for running those programs.

A distinction is made between authorization to access programs, enter data and/or modify data in the computer records.

Journal Entries

The least evident mechanism of the accounting system is the journal entry and it is important because it can affect the balance between any two accounts. The procedures surrounding the use of journal entries include the following:

Journal Entry forms are standardized.

The use of non-standardized journal entry forms is not authorized.

Journal entries are not passed through the books without the approval of the Chief Accounting Officer or the Chief Financial Officer.

Journal entries are posted on a timely basis.

Journal entries are not prepared by persons who are entrusted with: cash functions, account reconciliation's of any sort, preparation of invoices, write-offs of assets, inventory handling and control, payroll preparation and general ledger posting.

Blank journal entry forms are kept under lock and key by the person responsible for preparing journal entries.

The General Ledger is maintained by an individual who does not: have access to cash, other assets and asset accounts, process accounting data prior to its posting to the books or reconcile accounts.

APPENDIX

INTERNAL COMPLIANCE REMINDER/CHECK LIST

PETTY CASH

1. Update the list of authorized Petty Cashiers.
2. Update the list of Petty Cashiers' specimen signatures.
3. Ensure Petty Cash expenses fall within the company's approved expenditures.
4. Submit expense vouchers in originals only. .
5. Reconcile the Petty Cash Fund each time it is replenished.
6. Replenish petty cash by check only.
7. Obtain receipt from the Petty Cashier at each replenishment.
8. Count and reconcile petty cash funds on a rotating and surprise basis.
9. Make Petty Cash replenishment checks payable to the Petty Cashier by name.
10. Do not make checks payable to "Cash" or "Bearer" or "to the Order of "

BANKS

Miscellaneous and unusual deposits

1. Investigate origin of such deposits. Report this fact to the Finance Manager.
2. Were deposits credited to the appropriate account?
3. If money had to be returned, were the circumstances investigated? By whom?
4. Were errors and anomalies rectified promptly after investigation?

Disbursements

1. Has the transaction been authorized and approved?
2. Is the transaction properly documented? .

3. Was the item or service received by the user department? Was a receiving report filled out by the receiving department?
4. If it is a capital item, was it authorized by the Capital Expenditure Budget?
5. Was supporting documentation canceled on payment?
6. Have all paid invoices been removed from the system?
7. Are unused checks kept in a restricted area under lock and key?
8. Has the bank been instructed not to cash checks payable to the company?
9. Are voided checks accounted for and filed?
10. Are the signature plates for the facsimile check writer kept under lock and key by a responsible person?

LOAN PORTFOLIO

Initiation

1. Has all pertinent information concerning the prospective customer been noted on a standard form used for all prospective customers?

2. Did the Credit Agent complete all screening procedures?

3. Have two interviews been carried out with the borrower, including a visit to the borrower's premises?

4. Have interview results and conclusions been documented?

5. Has the application been duly filled out and completed?

6. Is there documented assurance that the borrower understands the implications of his/her commitment. If not, ensure this is rectified.

7. Is the Credit Agent's recommendation on file?

8. Have the borrower's guarantors been identified.

9. Is the Area Supervisor strongly in favor of the application?

It is the company's responsibility during the life of the loan to visit the borrower's premises to verify utilization of the loan proceeds. Has this been done?

In the case of a delinquent loan did the Operations Department take the first, second and third steps to recover the money? What still remains to be done?

Has the Finance Department been notified of the status of delinquent loans?

Loan Repayments/Deposits

1. Ensure the customer pays his dues on time.
2. Ensure that the customer pays the exact amount owed.
3. Ensure the customer's deposit is credited to the correct account.
4. Compare deposit dates per deposit slips with credit dates appearing in the bank statements and in the company's books.

Perform the above procedure manually until the company's computer network is on line and functioning.

Also perform the procedure by direct computer access to the company's bank account.

ACCOUNTS PAYABLE

1. Does the company maintain a daily log of invoices?

2 Are the invoices posted to the books from the log of invoices?

3 Has this invoice already been paid?

2. Is this a normal business purchase/expense?

3. Are authorizations and approvals valid?

4. Has the Accounts Payable Control Account in the General Ledger been compared with the accounts payable subsidiary ledger? When? By whom?

PERONNEL/PAYROLL

1. Is there formal evidence of hiring/firing for all employees?

2. Were references checked before hiring was recommended?

3. Is there a confidential personal file in use for each employee of the company?

4. Are confidential employee records kept in a restricted place?

5. Are all employee status changes reflected in their Employees Status forms?

6. Are all names appearing in the current payroll authorized by the Personnel Department?

7. Is time worked by non-exempt employees authorized by a supervisor? ("Exempt" employees are those who do not have to clock in and out when they arrive at or leave the work place)

PURCHASING

1. Is the item needed at this precise time?

2. Does the item qualify as an appropriate business expense?

3. Has the purchase been authorized?

4. Is the amount of the purchase in accordance with the spending limits fixed by management?

5. Is there documentary evidence of authorization and approval i.e. Purchase Requisition, Purchase Order as the case may be?

FIXED ASSETS

1. The inventory of the company's fixed assets is contained in an appropriate fixed assets register showing date of purchase, authorizations, cost, useful life, annual depreciation and other important data for each type of asset.

2. A Maintenance Program is in place for the company's fixed assets.

ACCOUNTING

1. Is the stock of unused journal entries kept under lock and key by a responsible employee?

2. Does accounting follow a set daily, weekly or monthly routine for recording: Loans, Collections, Expenses, Payroll, Miscellaneous Items?

3. Uncollectible loans are maintained in the books at an amount of JD 1.

4. Fully depreciated fixed assets are maintained in the books at an amount of JD 1 each until they are disposed of.