

Internal accounting systems and controls: Summary of corrections to course materials

These changes affect version V001 of the materials.

Course Notes & Questions

Pg 40	Chapter 1 – Practice example 6 (b) – Solution Inventory holding period should be: $\frac{4,350}{14,144} \times 365 = 112$ days										
Pg 89	Chapter 4 – Practice example 3 – Solution The answer should be: <table><tr><td>✓</td><td></td></tr><tr><td></td><td>The misappropriation of the business assets. This is a type of fraud.</td></tr><tr><td></td><td>The intentional misrepresentation of the financial statements. This is a type of fraud.</td></tr><tr><td></td><td>Illegal activity performed by employees of the business. This is too broad as not all illegal activity will be fraud.</td></tr><tr><td>✓</td><td>Deliberate deprivation by deceit.</td></tr></table>	✓			The misappropriation of the business assets. This is a type of fraud.		The intentional misrepresentation of the financial statements. This is a type of fraud.		Illegal activity performed by employees of the business. This is too broad as not all illegal activity will be fraud.	✓	Deliberate deprivation by deceit.
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✓	Deliberate deprivation by deceit.										
Pg 147	Chapter 7 – Practice example 3 – Solution The tick is missing from the answer box. “Preparing sales forecasts” is the correct answer, as indicated by the explanation.										

Task Bank

None

Mock Bank

None

Extra handout

Please see the extra handout at the end of this document regarding the Fraud Triangle.

AAT LEVEL 4

Internal accounting systems and controls (INAC)

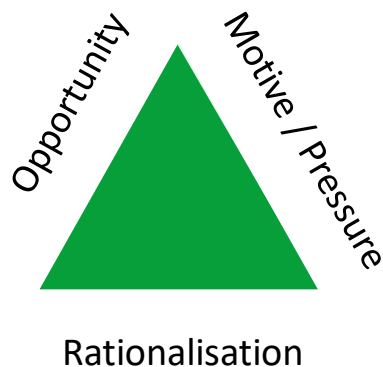
Extra notes on the fraud triangle

Chapter 6 – Fraud

The AAT have recently updated the qualification technical information to add The Fraud Triangle to this unit. These notes explain this model and its application to internal controls.

The fraud triangle

The fraud triangle is a framework commonly used to explain the reason behind an individual's decision to commit fraud.



This framework comprises three elements that increase the risk of fraud.

Opportunity

This is the chance to commit fraud without being caught.

Some examples:

Absent: where there is a lack of supervision or oversight.

Ineffective: if the supervision is ineffective.

Unenforced: if violations aren't monitored or there aren't consequences.

Unmonitored: if it is unlikely that controls will pick it up.

Motive / Pressure

Otherwise trustworthy employees might be tempted with the right motivation.

Some examples:

Survival: inability to afford life-saving medicines or to put food on the table.

Status pressure: feeling compelled to keep up with peers' earning or spending.

Sudden changes in circumstances: a partner's job loss, a surprise medical bill.

A sense of being wronged: being passed over for a promotion or denied a pay rise.

Rationalisation

Even with the motivation and the opportunity most employees will not commit fraud, this is unless they can justify it to themselves that it is ok, or they can convince themselves it is a victimless crime.

Perhaps an employee in a department sees another employee being able to travel and claim subsistence and they think it is fine to skim a few pounds here and there.

It could be an employee sees there is a lot of stock sat in the warehouse and thinks, no one would miss a box or two. Maybe the company is making large profits and the employee feels it is their right for all the hard work they have put in.

Impact on internal controls

The fraud triangle can help a business to identify why people might commit fraud within their organisation and take steps to minimise that risk.

Opportunity is the element that the business can directly influence by strengthening existing controls or implementing new controls if they were lacking in some areas.

The business should not ignore the other two factors though. A good corporate culture where employees feel valued, are treated fairly and are remunerated adequately can help to reduce the **Motive** and **Rationalisation** risks.