



Mock Exam One

AAT Level 4

Internal Accounting Systems and Controls

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This practice assessment is one of a set of five AAT mock practice assessments which have been published for this subject. They are produced by our expert AAT tutors, giving real AAT exam style and standard tasks, which ensure the very best for exam success. All practice assessments are relevant for the current syllabus.

Our AAT tutors work extensively to produce study material that is first class and absolutely focused on passing your exam. We hope very much that you enjoy this product and wish you the very best for exam success! For feedback please contact our team aatlivelearning@gmail.com or safina@acornlive.com

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Mock Exam One

AAT L4 Internal Accounting Systems and Controls

Assessment information:

You have **2 hours and 30 minutes** to complete this practice assessment.

- This assessment contains **5 tasks** and you should attempt to complete **every** task.
- Each task is independent. You will not need to refer to your answers to previous tasks.
- The total number of marks for this assessment is **100**.
- Read every task carefully to make sure you understand what is required.
- Where the date is relevant, it is given in the task data.
- Both minus signs and brackets can be used to indicate negative numbers **unless** task instructions state otherwise.
- You must use a full stop to indicate a decimal point. For example, write 100.57 **not** 100,57 or 10057.
- You may use a comma to indicate a number in the thousands, but you don't have to. For example, 10000 and 10,000 are both acceptable.

Mock exam tasks are based on the AAT scenario and reference material (Downton Instruments Ltd). You are Lindsay Wellings, an Accounting Technician working for Downton Instruments Ltd. A PDF copy of this reference material can be downloaded from the AAT website.

Task 1 (25 marks)

This task is about the purpose, structure and organisation of the accounting function.

Downton Instruments Limited is committed to using triple bottom line reporting as its sustainability framework.




(a)(i) Identify the main objective of CSR. Select one answer only.

(1 mark)

Is to maximise the benefits and value to society as a whole.	<input type="checkbox"/>
Is to maximise value for shareholders and investors.	<input type="checkbox"/>
Is to ensure CSR initiatives are always beneficial to the business.	<input type="checkbox"/>
Is to ensure a business uses green energy policies.	<input type="checkbox"/>

(a)(ii) Identify the correct category using the triple bottom line framework, for each business initiative shown below.







(3 marks)

Business initiative	Category
Ensure that our precision instruments are safe to use by our customers.	<input type="text"/> 
Ensure that all office waste from our three divisions is fully recycled.	<input type="text"/> 
Ensure our gas engineers work weekends to maximise productivity.	<input type="text"/> 

Picklist: Planet, Profit, People.

(a)(iii) Identify which business stakeholder, most likely matches each interest shown below, and if each stakeholder is an internal or external stakeholder.

(6 marks)

Interest	Stakeholder	Internal/External
Interested in the business ability to pay off its loans.	<input type="text"/> 	<input type="text"/> 
Interested in profits earned and dividend payments.	<input type="text"/> 	<input type="text"/> 
Interested in the business ability to employ more staff.	<input type="text"/> 	<input type="text"/> 

Picklist: Customer, Government, Bank, Shareholder, Internal, External.

Vikki Welch, the Financial Controller has asked if you could provide some advice on how technological changes may affect the accounting system.

(b)(i) Identify whether the following statements are true or false.

(3 marks)

	TRUE	FALSE
Blockchain is the process of examining data sets, in order to find trends and draw conclusions about information it contains.	<input type="checkbox"/>	<input type="checkbox"/>
A key feature of cloud accounting is the ability to perform tasks requiring human intelligence, such as visual perception, speech recognition and decision-making.	<input type="checkbox"/>	<input type="checkbox"/>
Process automation uses technology to automate business processes and functions.	<input type="checkbox"/>	<input type="checkbox"/>

(b)(ii) Identify THREE consequences of inaccurate entries in a cloud accounting system.

(3 marks)

Incorrect balances in the receivables and payables ledger.	<input type="checkbox"/>
Time is wasted reconciling bank statements with paper copies of supplier statements.	<input type="checkbox"/>
Profits and net assets of the business are over or understated.	<input type="checkbox"/>
Data security is more likely to be breached.	<input type="checkbox"/>
Tax maybe over or underpaid leading to penalties and interest.	<input type="checkbox"/>
The business is breaching data protection legislation and will be fined.	<input type="checkbox"/>





(b)(iii) Identify which of the following is not likely to maintain information security in a digital system.

(1 mark)

Accounting system access levels.	<input type="checkbox"/>
Security controls such as firewalls.	<input type="checkbox"/>
Integrity controls such as passwords.	<input type="checkbox"/>
Regular reconciliations of data to the bank statements.	<input type="checkbox"/>

Downton Instruments currently collects testing and calibration data from its customers. Jo Alidu, Divisional Director, has asked for advice about types of data analytics.

(c)(i) Identify each type of data analytics, based on how Downton Instruments could monitor and analyse its customer data. (4 marks)

Reporting information such as summarised testing and calibration results from customer data.	<input type="text"/> 
Using correlations from customer data to determine if customer instruments need to be tested or calibrated, before faults are likely to occur.	<input type="text"/> 
Automated advice on possible solutions a customer might take to improve the effectiveness of gas instruments used.	<input type="text"/> 
Identifying data trends and variances, compared with historical data to determine any adverse problems encountered after testing and calibration.	<input type="text"/> 

Picklist: Predictive, Diagnostic, Descriptive, Prescriptive.

(c)(ii) Identify the TWO most likely risks, if there were a breach in general data protection regulation. (2 marks)

Financial risk	<input type="checkbox"/>
Reputational risk	<input type="checkbox"/>
Fraud risk	<input type="checkbox"/>
Strategic risk	<input type="checkbox"/>

(c)(iii) Identify TWO valid principles of general data protection regulation. (2 marks)

A data controller does not need to demonstrate their compliance to data protection principles, so long as appropriate technical and organisational measures are in place.	<input type="checkbox"/>
It is lawful to indicate that personal data will simply be collected and processed without any specified purpose.	<input type="checkbox"/>
Data controllers need to ensure appropriate security and confidentiality is maintained for personal data kept.	<input type="checkbox"/>
A data controller should limit the collection of personal data to what is directly relevant and necessary.	<input type="checkbox"/>

End of Task

This task is about the types of fraud in the workplace combined with ways in which it can be detected and prevented.

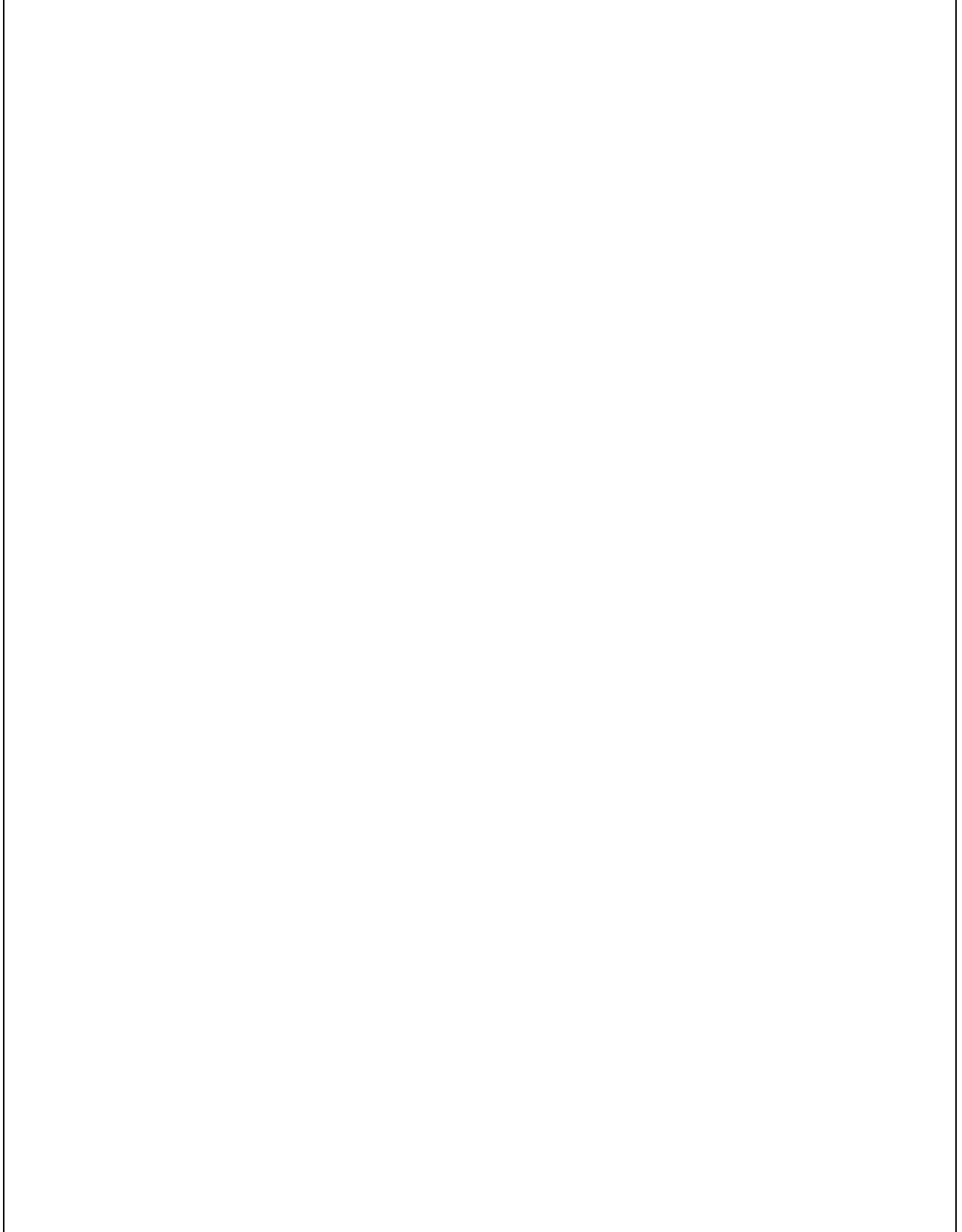
Accounts Payable Supervisor Aled Hughes has been given the HMRC and payroll system passwords to cover for Deborah Lethaby's absence, due to sickness or holiday. The Financial Controller, Vikki Welch, also holds the HMRC and payroll system passwords for safe keeping.

Sales and engineering employees regularly submit expense claims without valid invoices or receipts. Deborah regularly follows up on these claims, in some cases months after payment, in order to obtain any necessary evidence.

(a)(i) Evaluate the impact of FOUR weaknesses in the payroll system that increases the risk of fraud occurring.

(a)(ii) For each weakness, suggest an internal control to prevent or detect fraud, and explain your recommendation.





[illegible]



Divisional Director, Surju Siyani has excelled at securing new customer contracts and increasing revenue. Financial Controller Vikki Welch recently met with him to discuss ways to improve the accuracy of the sales system and monthly reporting. Vikki has asked your advice on why the following weaknesses have occurred.

(b) Identify the cause of each systemic weakness below.

(4 marks)

Systemic weakness	Cause
Greater risk of errors and fraud because sales staff input their own sales data.	<input type="text"/> 
Monthly sales reports are not required to undergo any review by the Financial Controller, Vikki Welch.	<input type="text"/> 
Sales commission payments made to Surju Siyani's sales team do not require authorisation.	<input type="text"/> 
Sales staff are hesitant to enter data into the new computerised sales system, despite its goal of improving the accuracy of sales reporting.	<input type="text"/> 

Picklist: poor implementation of controls, lack of controls, lack of leadership, lack of monitoring.

Claire Hunter was terminated from her position as Accounts Receivable Supervisor due to fraudulent activities, she had created personal bank accounts with names similar to those of legitimate customers, to deposit cheques into her personal bank accounts.

Claire's role and responsibilities included overseeing and updating customer credit accounts, also handling and recording any cheque payments received via postal services. Claire was using new cheques received in the post, to mask her previous fraudulent actions. Claire's responsibilities did not include raising sales orders, issuing sales invoices, or updating the cashbook.

Financial Controller Vikki Welch has requested that a finance team member, Paul McPherson, conduct an investigation into this issue and propose five internal controls that might have helped either prevent, or detect the fraud. Paul has approached you and asked for your advice, based on his five proposals recommended.

Internal controls proposed

- Monthly account statements are issued to customers on a regular basis.
- Bank statement reconciliations with the cash book.
- Segregation of duties.
- Supervision over handling cheques or cash received in the post.
- Sales invoices matched to sales orders, before processing customer payments.

(c)(i) Explain teeming and lading.

(2 marks)

(c)(ii) Briefly assess the effectiveness of each internal control proposed by Paul, in terms of its ability to prevent, detect, both prevent and detect, or have no effect on this fraud occurring.

(5 marks)

Paul McPherson is also curious about different types of sales accounting fraud and has asked for your advice.

(d) Identify TWO most likely types of sales accounting fraud.

(2 marks)

Identity theft	<input type="checkbox"/>
Asset misappropriation	<input type="checkbox"/>
Time theft	<input type="checkbox"/>
High volume of credit notes	<input type="checkbox"/>
Stealing goods	<input type="checkbox"/>
Ghost suppliers	<input type="checkbox"/>

End of Task

Task 3 (10 marks)

This task is about the effectiveness of internal controls.

Vikki Welch, the Financial Controller is presently evaluating how well the company's internal controls are functioning. She has requested your assistance with the following matter.

(a) Identify the specific purpose served by each of the following internal controls.
(4 marks)

Clearly defined staff roles and responsibilities, prioritising tasks based on importance and urgency, to ensure efficient and effective completion of work.	<input type="text"/>
Access to sensitive areas and assets are restricted, allowing entry only to designated personnel through key cards and security systems.	<input type="text"/>
Processes exist to maintain data accuracy and integrity, such as bank reconciliations, review and approval of final reports and comprehensive data validation checks.	<input type="text"/>
Regular review and update of business and accounting policies and procedures.	<input type="text"/>

Picklist: Safeguard assets, Compliance, Facilitate operations, Quality of external reporting.

Jim Jewel, Managing Director wants to assess how a strong system of internal controls can promote ethical standards in the company. He has proposed the following ideas.

(b) Evaluate whether each of the following internal controls would, or would not effectively promote ethical behaviour.
(4 marks)



Internal control introduced	Promote ethical behaviour
Recognise and value the contributions our staff make to the company's performance, as doing so enhances morale and motivation.	<input type="text"/>
Establish a company culture in which employees can confidently voice their concerns, free from apprehension of any potential retaliation.	<input type="text"/>
The implementation of new policies and procedures for expense tracking, approval, and reimbursement to effectively manage and regulate company expenditure.	<input type="text"/>
A comprehensive disciplinary code will be established to clearly define the expected standards of staff behaviour.	<input type="text"/>

Picklist: would, would not.

Jim Jewel, Managing Director is interested in how different types of internal controls best suit the nature of company purchase transactions. He has sought your advice.

(c) Identify the most appropriate type of purchase transaction for each of the following internal controls.

(2 marks)

Internal control	Type of transaction
Robust cybersecurity measures, access controls and transaction monitoring.	<input type="text"/> 
Limits on the amount of cash available to help minimise potential losses from theft or misuse.	<input type="text"/> 

Picklist: cash-based, credit-based, online.

End of Task

This task is about the monitoring of accounting systems and how they work in practice.

Matt's duties include:

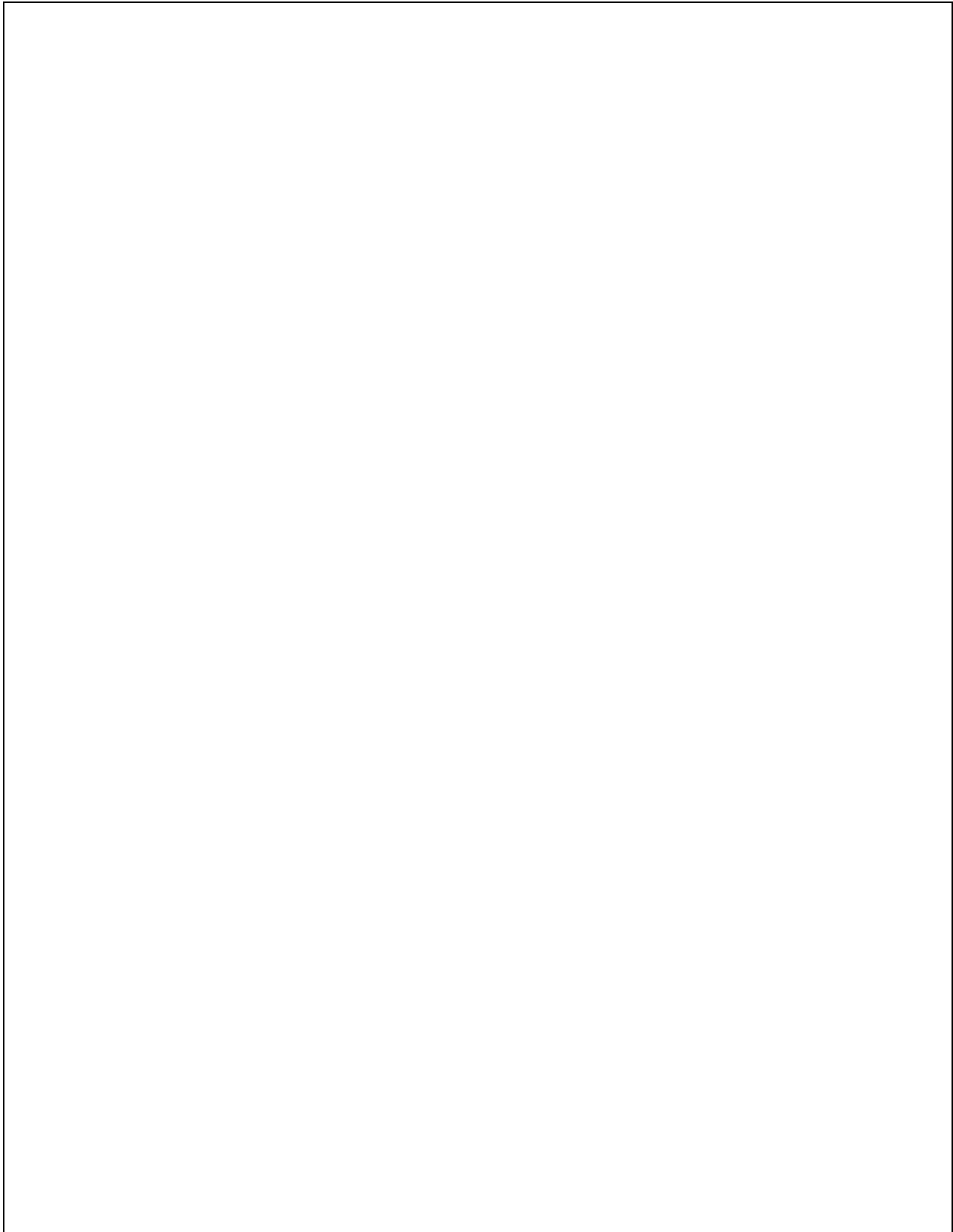
- Matt's use of documentation in his role is very limited. He writes any payment details on the cheque book stubs, and informs the Accounts Receivable department by e-mail, whenever a credit customer has paid an invoice.

Vikki Welch, the Financial Controller is Matt's supervisor, but is rarely present in the office, due to meetings and other staff queries. She is yet to provide comprehensive training to Matt on the accounting procedures and use of cashbook software. The computerised cashbook system has not been updated for over three years.

(5 marks)

(5 marks)

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General Accounts Clerk Matt Sinton, will shortly be taking on the responsibility for maintaining the non-current asset register, encompassing information such as unique asset number, asset description, acquisition cost, depreciation method, and asset location.

A key aspect of Matt's role will involve the accurate recording of assets within the accounting system. Matt wants to know whether the following controls would help detect errors in the accounting system.

(b) Assess whether each of the following internal controls would, or would not help detect errors in the accounting system.

(5 marks)

Internal control	Would detect errors	Would not detect errors
CCTV surveillance systems and secure storage facilities are employed for the protection and safekeeping of valuable assets.	<input type="checkbox"/>	<input type="checkbox"/>
Comprehensive documentation of all non-current assets is maintained within the accounting system.	<input type="checkbox"/>	<input type="checkbox"/>
Regularly reconciling asset records with physical assets and carrying out thorough observations and inspections.	<input type="checkbox"/>	<input type="checkbox"/>
Employee background checks and provide regular training on ethical conduct.	<input type="checkbox"/>	<input type="checkbox"/>
Engage a third party or an independent internal audit function to examine and test asset management procedures and assess any areas of potential vulnerability.	<input type="checkbox"/>	<input type="checkbox"/>

End of Task

This task is about the analysis of internal controls with recommendations to improve whilst considering the impact on users.

The company intends to set up a manufacturing and sales operation in Country Z, where the current government is providing tax incentives and low-interest rate loans to assist foreign enterprises to directly invest in the country. This initiative is aimed at supporting the government's objectives of job creation and economic development.

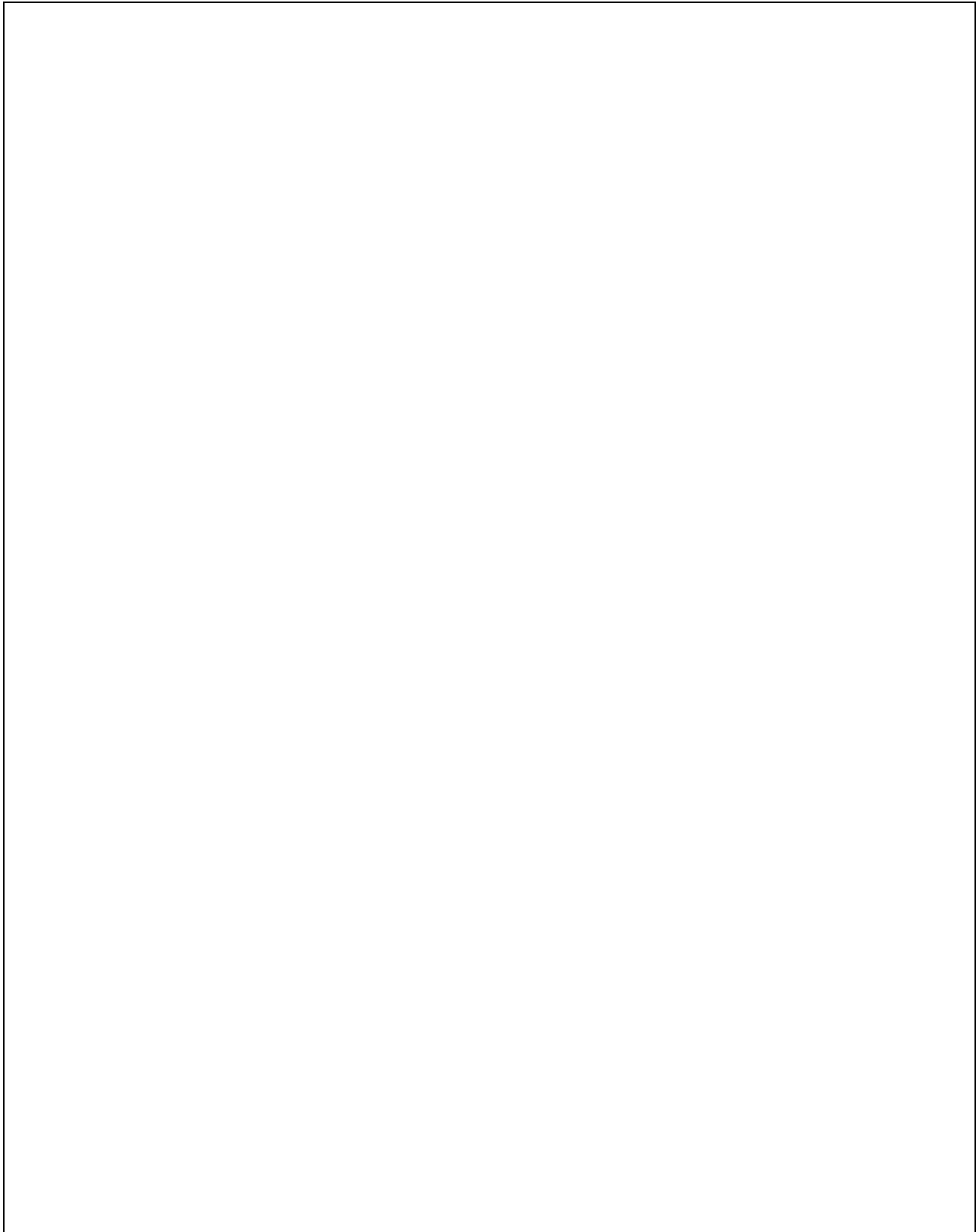
An upcoming political election in Country Z brings uncertainty regarding the formation of the next national government. Over the past two years, the country has experienced significant transformations in its contract and accounting regulations. The current government maintains that any innovation by foreign nationals is subject to national ownership, national laws do not provide for intellectual property protection.

In Country Z, government regulations regarding gas products are significantly more stringent, reflecting a heightened focus on national sustainability. This emphasis compels businesses to assess their environmental footprint closely. Moreover, consumer awareness of the environmental consequences of fossil fuels is rising, contributing to a decrease in demand for gas appliances both in households and businesses.

(a)(i) Undertake a PESTLE analysis for the new business opportunity to expand into Country Z.

(a)(ii) Evaluate how each PESTLE factor may potentially impact on the accounting system, or its financial reporting.





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Jim Jewel, the Managing Director, is trying to evaluate the different methods of support that can be given to users of the new accounting system required for the new business opportunity. He knows you have studied system changeover methods and has sought your advice regarding the circumstances when different methods should be used.

(b) Identify for each of the circumstances shown below, the most appropriate system changeover method to implement.

(4 marks)

Circumstances	System changeover method
Reduced interruptions and thorough troubleshooting required during the implementation of each system module or stage.	<input type="text"/> 
Implementation of a business system where risk mitigation is of the utmost importance.	<input type="text"/> 
Requires the testing and identification of potential issues prior to a full and comprehensive rollout.	<input type="text"/> 
Implementation is for an outdated or unreliable legacy system, or the new system lacks critical importance to business operations.	<input type="text"/> 

Picklist: Pilot running, Direct changeover, Parallel running, Phased implementation.

Jim Jewel is going to use cost-benefit analysis to evaluate the new accounting system.






(c) Identify whether each of the following statements regarding cost-benefit analysis is true or false.

(4 marks)

	TRUE	FALSE
A major strength of this technique is that future benefits and costs assessed will always be accurate.	<input type="checkbox"/>	<input type="checkbox"/>
Determining the monetary value of all associated benefits and costs presents a significant challenge.	<input type="checkbox"/>	<input type="checkbox"/>
It facilitates the efficient allocation of resources by identifying decisions that give the highest return on investment.	<input type="checkbox"/>	<input type="checkbox"/>
It constitutes a structured method for assessing solely the tangible benefits and costs of a decision, typically quantified in monetary terms.	<input type="checkbox"/>	<input type="checkbox"/>

(d) Undertake a SWOT analysis based on the detailed description provided about the current accounting system.

(5 marks)

Analysis of the accounting system	SWOT factor
Recruitment of qualified accounting professionals with specialised knowledge is a major challenge.	<input type="text"/> 
Obsolete software features and functionalities which impedes overall operational efficiency.	<input type="text"/> 
Transitioning to a cloud-based accounting system will significantly enhance scalability and accessibility.	<input type="text"/> 
Capability to produce diverse financial reports essential for informed analysis and decision-making.	<input type="text"/> 
Cyberattacks present a substantial risk to the security of financial data.	<input type="text"/> 

Picklist: Strength, Weakness, Opportunity, Threat.

End of Task



Mock Exam One - Solutions

**AAT L4 Internal
Accounting Systems
and Controls**

Task 1 (25 marks)

This task is about the purpose, structure and organisation of the accounting function.

(a)(i) Identify the main objective of CSR. Select one answer only.

(1 mark)

Is to maximise the benefits and value to society as a whole.	<input checked="" type="checkbox"/>
Is to maximise value for shareholders and investors.	<input type="checkbox"/>
Is to ensure CSR initiatives are always beneficial to the business.	<input type="checkbox"/>
Is to ensure a business uses green energy policies.	<input type="checkbox"/>

(a)(ii) Identify the correct category using the triple bottom line framework, for each business initiative shown below.

(3 marks)

Business initiative	Category
Ensure that our precision instruments are safe to use by our customers.	People
Ensure that all office waste from our three divisions is fully recycled.	Planet
Ensure our gas engineers work weekends to maximise productivity.	Profit

(a)(iii) Identify which business stakeholder, most likely matches each interest shown below, and if each stakeholder is an internal or external stakeholder.

(6 marks)

Interest	Stakeholder	Internal/External
Interested in the business ability to pay off its loans.	Bank	External
Interested in profits earned and dividend payments.	Shareholder	Internal
Interested in the business ability to employ more staff.	Government	External

(b)(i) Identify whether the following statements are true or false.

(3 marks)

	TRUE	FALSE
Blockchain is the process of examining data sets, in order to find trends and draw conclusions about information it contains.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
A key feature of cloud accounting is the ability to perform tasks requiring human intelligence, such as visual perception, speech recognition and decision-making.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Process automation uses technology to automate business processes and functions.	<input checked="" type="checkbox"/>	<input type="checkbox"/>

- The first statement is false. Data analytics (not blockchain) is the process of examining data sets, in order to find trends and draw conclusions about information it contains.
- The second statement is false. A key feature of artificial intelligence (not cloud accounting) is the ability to perform tasks requiring human intelligence, such as visual perception, speech recognition and decision-making.
- The third statement is true. Process automation uses technology to automate business processes and functions.

(b)(ii) Identify THREE consequences of inaccurate entries in a cloud accounting system.

(3 marks)

Incorrect balances in the receivables and payables ledger.	<input checked="" type="checkbox"/>
Time is wasted reconciling bank statements with paper copies of supplier statements.	<input type="checkbox"/>
Profits and net assets of the business are over or understated.	<input checked="" type="checkbox"/>
Data security is more likely to be breached.	<input type="checkbox"/>
Tax maybe over or underpaid leading to penalties and interest.	<input checked="" type="checkbox"/>
The business is breaching data protection legislation and will be fined.	<input type="checkbox"/>

(b)(iii) Identify which of the following is not likely to maintain information security in a digital system.

(1 mark)

Accounting system access levels.	<input type="checkbox"/>
Security controls such as firewalls.	<input type="checkbox"/>
Integrity controls such as passwords.	<input type="checkbox"/>
Regular reconciliations of data to the bank statements.	<input checked="" type="checkbox"/>

(c)(i) Identify each type of data analytics, based on how Downton Instruments could monitor and analyse its customer data.

(4 marks)

Reporting information such as summarised testing and calibration results from customer data.	Descriptive
Using correlations from customer data to determine if customer instruments need to be tested or calibrated, before faults are likely to occur.	Predictive
Automated advice on possible solutions a customer might take to improve the effectiveness of gas instruments used.	Prescriptive
Identifying data trends and variances, compared with historical data to determine any adverse problems encountered after testing and calibration.	Diagnostic

Different types of data analytics:

- Descriptive e.g. reporting information.
- Diagnostic e.g. trends and variances analysed to identify problems.
- Predictive e.g. accurate forecasting.
- Prescriptive e.g. decision making.

(c)(ii) Identify the TWO most likely risks, if there were a breach in general data protection regulation.

(2 marks)

Financial risk	<input type="checkbox"/>
Reputational risk	<input checked="" type="checkbox"/>
Fraud risk	<input checked="" type="checkbox"/>
Strategic risk	<input type="checkbox"/>

(c)(iii) Identify TWO valid principles of general data protection regulation.

(2 marks)

A data controller does not need to demonstrate their compliance to data protection principles, so long as appropriate technical and organisational measures are in place.	<input type="checkbox"/>
It is lawful to indicate that personal data will simply be collected and processed without any specified purpose.	<input type="checkbox"/>
Data controllers need to ensure appropriate security and confidentiality is maintained for personal data kept.	<input checked="" type="checkbox"/>
A data controller should limit the collection of personal data to what is directly relevant and necessary.	<input checked="" type="checkbox"/>

Task 2 (25 marks)

(a)(i) Evaluate the impact of FOUR weaknesses in the payroll system that increases the risk of fraud occurring.

(4 marks)

(a)(ii) For each weakness, suggest an internal control to prevent or detect fraud, and explain your recommendation.

(8 marks)

Marking scheme:

- 1 mark each to evaluate the impact of each weaknesses. Maximum 4 marks.
- 1 mark each to suggest an internal control. Maximum 4 marks.
- 1 mark each to explain your recommendation. Maximum 4 marks.

For revision purposes, the proposed solution outlines more than four weaknesses. Any additional valid comments will also be awarded credit.

Weakness

There is a lack of segregation of duties in the payroll system, which increase the risk of fraud. Deborah manages several critical functions related to payroll processing, including modifying payroll records and accessing the business bank account. This situation creates opportunities for fraud, such as the creation of ghost employees, fictitious or non-existent staff, which are created on the payroll records and enable the fraudulent collection of wages.

Internal control and reason

The tasks of entering payroll data and processing payments should be divided to ensure that no single person can complete the payroll cycle, without any oversight. Human resources should be responsible for processing new employees and removing employees who have left the company. Such controls will reduce significantly the potential of fraud.

Weakness

Paper forms that record overtime, monthly commissions and expenses are entered into the payroll system manually. Manual processes are susceptible to human error, lack efficiency and any audit trail poses a significant challenge. Also, it seems there is no authorisation involved in the process of employees submitting their forms.

This exposes the company to the risk of frauds such as time theft, commission fraud, and expense reimbursement fraud, all can result in considerable financial losses to the company.

Internal control and rationale

Automated systems may incur initial implementation costs and could potentially lead to job displacement. Nevertheless, it is essential for data entry to be completely automated and to utilise individual employee codes, to guarantee that each employee is accurately reporting their own information.

Furthermore, the process must incorporate a review of any forms by line managers and require authorisation from them, before forms can be forwarded to payroll, this process can be automated. Employee handbooks should explicitly outline the correct procedure for submitting forms, including deadlines, as well as the repercussions for inaccurately entering payroll information. The automation of forms will serve as a prevention control and authorisation as a detection control, to reduce the likelihood of payroll fraud.

Weakness

The Financial Controller, Vikki Welch, reviews by exception reporting, any monthly net salary payments that exceed £5,000 for any single employee. There does not seem to be any other process of management review. A failure to review detailed payroll information by Vikki Welch, or by any other individual in a higher authority, could result in fraudulent payments to employees, as well as non-compliance with PAYE regulations, which may remain undetected for many years.

Internal control and reason

Prior to printing live payslips and arranging bank payments, the payroll system must produce a set of reports that can be reviewed for accuracy. A separate individual or department not involved in payroll processing, should conduct a preview of these reports.

Typically, those who manage to embezzle significant sums of money do so gradually over time. There needs to exist an internal audit role, to perform an internal payroll audit at least once every quarter. Regularly scheduled and publicly announced audits, may serve to discourage dishonest employees from devising fraudulent schemes and minimising financial losses for the company.

Another internal control would be the regular matching of staff headcount to the number of individuals on the company's payroll, including both full-time and part-time staff. This reconciliation process is crucial for detecting ghost employees.

Weakness

Employees in engineering and sales, regularly file expense claims without accompanying valid receipts or invoices. Even months after expense payments have been made, Deborah routinely follows up on these claims to get the required receipts or invoices. Manual processes, ambiguous policies and a lack of technology to support this process, seems to be the main factors causing fraud risk.

Internal control and reason

A new staff policy needs to be clearly communicated to staff, which is “no receipt or invoice, then no reimbursement”. This would be a preventative control to ensure any reimbursement of expenses in future is bona fide and reduces the possibility of fraud.

Employee handbooks should explicitly outline the correct procedure for submitting expense forms, including deadlines and repercussions for inaccurate information, or lack of any supporting evidence.

Weakness

There are serious security and compliance issues when passwords are shared. It can result in a lack of accountability, data breaches, and makes it challenging to identify who accessed or changed the data. This practice raises the possibility of unauthorised access, fraud and possible misuse of payroll data.

Internal control and reason

In addition to the segregation of duties issue I previously addressed, Deborah shouldn't be granted access to the online business bank account password.

Password internal controls are essential for preserving security and avoiding unauthorised access, which lowers the possibility of fraud. Strong password policies, multi-factor authentication, frequent password changes, and prevention of unauthorised attempts are some of the controls.

(b) Identify the cause of each systemic weakness below. (4 marks)

Systemic weakness	Cause
Greater risk of errors and fraud because sales staff input their own sales data.	lack of monitoring
Monthly sales reports are not required to undergo any review by the Financial Controller, Vikki Welch.	lack of leadership
Sales commission payments made to Surju Siyani's sales team do not require authorisation.	lack of controls
Sales staff are hesitant to enter data into the new computerised sales system, despite its goal of improving the accuracy of sales reporting.	poor implementation of controls

(c)(i) Explain teeming and lading. (2 marks)

(c)(ii) Briefly assess the effectiveness of each internal control proposed by Paul, in terms of its ability to prevent, detect, both prevent and detect, or have no effect on this fraud occurring. (5 marks)

Marking scheme:

- 2 marks maximum to explain teeming and lading.
- 1 mark for each proposed internal control. Maximum 5 marks.
- Any additional valid comments will also be awarded credit.

Teeming and lading

Teeming and lading, is a fraudulent accounting practice whereby an employee misappropriates customer payments and then covers up any shortfalls. The employee takes money received for one payment and uses it to cover a prior payment, then uses a later payment to cover the next subsequent shortage, and so on, creating a cycle of theft and concealment.

Internal controls

- Regular monthly customer statements help customers spot (detect) fraud or errors by allowing them to review transactions and identify discrepancies, which can reveal activities like teeming and lading.
- Bank reconciliations compare bank statements with internal records to identify discrepancies. This process serves as a detective control by detecting errors after they have occurred, rather than preventing them. In cases where missing customer funds are not recorded in the cashbook, such discrepancies may not impact the current bank balance and will be more difficult to detect.
- Segregating duties makes it harder to conceal errors or fraud by involving multiple people. In this case, accounting tasks are already well-divided among staff for sales and payment transactions, however in Claire's case she should not be the same person who handles cheques, if she also updates customer credit accounts, this may have helped prevent this fraud from occurring.
- Supervision involves both detecting and preventing fraud. Regular oversight helps spot suspicious transactions early for prompt intervention. However, if a supervisor is complicit in the fraud, supervision will lose its effectiveness.
- Matching sales invoices to sales orders helps prevent some types of fraud, but it won't stop teeming and lading. This scheme manipulates cash receipts by applying one customer's payment to another customers account, and invoice matching does not directly address this.

(d) Identify TWO most likely types of sales accounting fraud.

(2 marks)

Identity theft	<input type="checkbox"/>
Asset misappropriation	<input checked="" type="checkbox"/>
Time theft	<input type="checkbox"/>
High volume of credit notes	<input checked="" type="checkbox"/>
Stealing goods	<input type="checkbox"/>
Ghost suppliers	<input type="checkbox"/>

- Identity theft occurs when someone uses another person's name and personal details without permission, to obtain credit, loans, or other benefits.
- Asset misappropriation e.g. pocketing cash received from sales, or teeming and lading.
- Time theft occurs when an employee receives compensation for hours not actually worked.
- High volume of credit notes could indicate fraudulent activity e.g. customer pays in full, employee keeps the cash from the sale and raises a credit note.
- Stealing goods is generally considered theft, not fraud. Both involve dishonesty, but theft focuses on the unauthorised taking of property, while fraud involves deception to gain something, often financial benefit, by unlawful means.
- Ghost suppliers are false suppliers or shell companies that exist on paper, but lack any physical presence, an employee can use this fraud to send false invoices and misappropriate payments from their employer.

Other types of fraud in a sales accounting system includes, overcharging customers and keeping the difference, revenue recognition fraud (overstating revenue), fraudulent customer refunds, chargeback fraud (customer falsely disputes a legitimate transaction, gets a refund and then keeps the goods), lapping (using one customers payment to cover another customers outstanding balance), skimming (stealing cash from sales before the transaction is recorded in the accounting system) and even a high volume of irrecoverable and doubtful debts (customer pays in full, employee keeps the cash and writes off the debt).

Task 3 (10 marks)

(a) Identify the specific purpose served by each of the following internal controls. (4 marks)

Clearly defined staff roles and responsibilities, prioritising tasks based on importance and urgency, to ensure efficient and effective completion of work.	Facilitate operations
Access to sensitive areas and assets are restricted, allowing entry only to designated personnel through key cards and security systems.	Safeguard assets
Processes exist to maintain data accuracy and integrity, such as bank reconciliations, review and approval of final reports and comprehensive data validation checks.	Quality of external reporting
Regular review and update of business and accounting policies and procedures.	Compliance

- Facilitate operations, internal controls ensure that business processes and operations are executed efficiently and effectively.
- Safeguard assets, internal controls protect business assets from theft, misuse and unauthorised access.
- Ensure the quality of external reporting, internal controls ensure the accuracy, reliability and integrity of financial information.
- Compliance, internal controls help adhere to applicable laws, regulations and internal policies.

(b) Evaluate whether each of the following internal controls would, or would not effectively promote ethical behaviour.

(4 marks)

Internal control introduced	Promote ethical behaviour
Recognise and value the contributions our staff make to the company's performance, as doing so enhances morale and motivation.	would not
Establish a company culture in which employees can confidently voice their concerns, free from apprehension of any potential retaliation.	would
The implementation of new policies and procedures for expense tracking, approval, and reimbursement to effectively manage and regulate company expenditure.	would not
A comprehensive disciplinary code will be established to clearly define the expected standards of staff behaviour.	would

(c) Identify the most appropriate type of purchase transaction for each of the following internal controls.

(2 marks)

Internal control	Type of transaction
Robust cybersecurity measures, access controls and transaction monitoring.	online
Limits on the amount of cash available to help minimise potential losses from theft or misuse.	cash-based

Task 4 (15 marks)

(a)(i) Identify FIVE deficiencies in the cashbook accounting system.

(5 marks)

(a)(ii) Evaluate the potential impact of each deficiency you have identified.

(5 marks)

Marking scheme:

- 1 mark maximum for each identified deficiency in the cashbook accounting system. Maximum 5 marks.
- 1 mark maximum for the potential impact discussion of each deficiency you have identified. Maximum 5 marks.

For the purpose of revision, the proposed solution outlines six specific deficiencies within the cashbook system, further credit would be granted for any other valid remarks which it does not address.

Reliance on outdated software

The potential impact of outdated software on the company could be increased unreliability or inefficiency of the system, which may lack cost-effectiveness. Furthermore, obsolete systems could increase the likelihood of errors, cybersecurity vulnerabilities, and non-compliance with laws and regulations.

Receipts or payments not matched to any documentation

Unmatched receipts or payments to any documentation can result in substantial issues, such as inaccurate financial records, challenges in tracking transactions, and potential legal complications. The absence of proper documentation hinders the verification of transaction legitimacy, leading to impact such as discrepancies and fraud.

Relying on informal methods, such as emailing the Accounts Receivable department to update them about customer receipts, heightens the risk of errors and reputational damage, caused by disputes by customers, if errors or missed payments occur.

Authorisation limit for cheque payments is set too high

Establishing excessively high authorisation limits can greatly heighten the potential for financial losses attributed to fraud or errors, particularly by increasing vulnerability to unauthorised transactions. It is essential to reduce the financial threshold for issuing a cheque and mandate the signature of a third party, not directly involved in the payment process. This deficiency could result in substantial impact, particularly the potential financial consequences associated with a £50,000 limit.

Lack of any segregation of duties

It is essential that cash handling, banking deposits, transaction recording, and bank statement reconciliation are not entrusted to a single individual. Segregation of duties is critical for preventing and detecting fraud, as well as authorising and verifying each step of the accounting process, this can minimise the risk of errors and help ensure staff compliance.

Insufficient staff training

Employees lacking sufficient training in accounting procedures and software are prone to errors and misunderstandings, negatively affecting staff productivity and efficiency, resulting from delays and inaccuracies. Such lapses in quality of work can also harm relationships with customers and suppliers, ultimately damaging the business's reputation.

Furthermore, inadequate support and training given to staff may contribute to declining morale and motivation, prompting employees to look for job opportunities elsewhere, which increases recruitment expenses.

Lack of supervision

Inadequate oversight substantially raises the likelihood of fraud, erroneous financial reporting and non-compliance. The absence of proper supervision leads to unnoticed errors and a lack of accountability amongst employees.

(b) Assess whether each of the following internal controls would, or would not help detect errors in the accounting system.

(5 marks)

Internal control	Would detect errors	Would not detect errors
CCTV surveillance systems and secure storage facilities are employed for the protection and safekeeping of valuable assets.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Comprehensive documentation of all non-current assets is maintained within the accounting system.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Regularly reconciling asset records with physical assets and carrying out thorough observations and inspections.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Employee background checks and provide regular training on ethical conduct.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Engage a third party or an independent internal audit function to examine and test asset management procedures and assess any areas of potential vulnerability.	<input checked="" type="checkbox"/>	<input type="checkbox"/>

- CCTV surveillance systems and secure storage facilities are employed for the protection and safekeeping of valuable assets. This may help prevent or detect theft or misappropriation of assets, but it would not help detect errors in the accounting system.
- Comprehensive documentation of all non-current assets is maintained within the accounting system. Just documentation of records itself is unlikely to help detect errors. Reviewing and checking documentation may help detect errors.
- Regularly reconciling asset records with physical assets and carrying out thorough observations and inspections. This would help detect errors and discrepancies, whether intentional or unintentional, by matching physical assets with the records maintained in the asset register.

- Employee background checks and provide regular training on ethical conduct. This would help maintain a staff culture of honesty and help to prevent fraud, but it is unlikely to help detect errors.
- Engage a third party or an independent internal audit function to examine and test asset management procedures and assess any areas of potential vulnerability. This would help detect errors and discrepancies, whether intentional or unintentional, through extensive testing of documents, transactions and balances.

Task 5 (25 marks)

(a)(i) Undertake a PESTLE analysis for the new business opportunity to expand into Country Z.

(6 marks)

(a)(ii) Evaluate how each PESTLE factor may potentially impact on the accounting system, or its financial reporting.

(6 marks)

Marking scheme:

- 1 mark maximum for each PESTLE factor. At least one example for each factor in the PESTLE framework must be identified to gain 6 marks maximum.
- 1 mark maximum for each PESTLE factor to explain the impact on the accounting system, or its financial reporting. Maximum 6 marks.
- Further credit would be granted for any other valid comments which have not been addressed by the suggested solution.

Political

- Government regulations for gas products are more stricter.
- Political election and uncertain government.

Impact

Political instability can result in economic uncertainty, which may affect investment values in our accounts and potentially undermine the reliability of our financial forecasts.

Economic

- High inflation and interest rates.
- Volatile fluctuations in exchange rate.

Impact

High inflation and a volatile exchange rate poses the risk of adversely affecting the value of international assets and liabilities, necessitating revisions to asset valuation and impairments. Additionally, fluctuations in exchange rates may warrant modifications to the reporting of foreign currency transactions and the translation of our financial statements.

Social

- Increasing consumer awareness of the environmental impact of fossil fuels.
- Business practices vary in different regions of Country Z.

Impact

Changes in consumer behaviour, such as a growing preference for sustainable products, have the potential to significantly impact business strategies and necessitate modifications in accounting practices to accurately reflect the associated costs and revenues.

Technology

- Automated testing and calibration of equipment.

Impact

Technological advancements could affect our sales forecasts and necessitates revisions to our business strategies, to appropriately account for any associated costs and revenues.

Legal

- Complex contract and accounting laws.
- There is no protection of intellectual property.

Impact

We might need to reassess how we account for the value of patents, trademarks, and other intangible assets, as the current accounting method may not suffice. This situation poses a significant threat due to the complexities involved in demonstrating our international ownership if inventions or discoveries are developed in Country X.

Environmental

- Growing emphasis on sustainability.

Impact

The increasing focus on sustainability necessitates the implementation of environmental impact reporting and the consideration of related costs. Consequently, our accounting systems might require modifications to effectively track and report our environmental performance, ensuring compliance with regulatory requirements.

(b) Identify for each of the circumstances shown below, the most appropriate system changeover method to implement.

(4 marks)

Circumstances	System changeover method
Reduced interruptions and thorough troubleshooting required during the implementation of each system module or stage.	Phased implementation
Implementation of a business system where risk mitigation is of the utmost importance.	Parallel running
Requires the testing and identification of potential issues prior to a full and comprehensive rollout.	Pilot running
Implementation is for an outdated or unreliable legacy system, or the new system lacks critical importance to business operations.	Direct changeover

- Direct changeover involves immediately switching from the old system to the new one after thorough testing. Suitable for situations where the old system is outdated, unreliable, or when the new system is not business critical.

- Parallel running involves both the old and new systems operate simultaneously for a period, ideal for business critical systems where minimising risk is crucial.
- Phased Implementation involves gradually replacing the old system in stages or modules, ideal to minimise disruption and allow for troubleshooting and adjustments at each phase. Suitable for complex systems requiring careful testing and user adaptation.
- Pilot running involves a small scale preliminary test before a full-scale launch or implementation, normally the new system is first implemented in a small part of the organisation e.g. a specific department or location. This allows for testing and identifying potential issues before a full rollout.

(c) Identify whether each of the following statements regarding cost-benefit analysis is true or false.

(4 marks)

	TRUE	FALSE
A major strength of this technique is that future benefits and costs assessed will always be accurate.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Determining the monetary value of all associated benefits and costs presents a significant challenge.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
It facilitates the efficient allocation of resources by identifying decisions that give the highest return on investment.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
It constitutes a structured method for assessing solely the tangible benefits and costs of a decision, typically quantified in monetary terms.	<input type="checkbox"/>	<input checked="" type="checkbox"/>

- It relies on assumptions about the future, which may not always be accurate, and the process of assigning monetary values will involve some degree of subjectivity.
- Wherever possible, benefits and costs are assigned a monetary value to facilitate comparison, this can be challenging for intangible benefits or intangible costs e.g. the social or environmental impact of a decision.
- It helps allocate resources efficiently by identifying decisions that offer the best return on investment.
- It is a systematic process for evaluating both the tangible and intangible benefits and costs of a decision, often in monetary terms.

(d) Undertake a SWOT analysis based on the detailed description provided about the current accounting system.

(5 marks)

Analysis of the accounting system	SWOT factor
Recruitment of qualified accounting professionals with specialised knowledge is a major challenge.	Threat
Obsolete software features and functionalities which impedes overall operational efficiency.	Weakness
Transitioning to a cloud-based accounting system will significantly enhance scalability and accessibility.	Opportunity
Capability to produce diverse financial reports essential for informed analysis and decision-making.	Strength
Cyberattacks present a substantial risk to the security of financial data.	Threat

A SWOT analysis applied to an accounting system identifies the system's internal strengths and weaknesses, and external opportunities and threats.