

professionals join hands to serve small businesses

■ Often, laymen in the community see accountants as purely number crunchers, dealing with figures and spending hours and minutes at their desks working on profits and loss accounts. But it is certainly more than that. Apart from dealing with calculations and figures, the work of accountants involves issues on internal control, tax, corporate governance, financial planning, as well as management and business operations. Below is a case study that shows how a small practitioner (“the SMP”) can assist SME business owners to improve their internal controls, so as to safeguard their assets, and to improve their operational efficiency and effectiveness.

CASE STUDY

After reviewing and observing the business operations and financial information of the company, which is a Club of more than 400 members (“the SME”), the SMP gave its comments and recommendations. The recommendations are divided into a number of areas: the structure of the Accounts Department, the financial control over capital expenditure, inadequate control over member debtors, and the high risk for misappropriation of cash.

THE STRUCTURE OF THE ACCOUNTS DEPARTMENT

After careful observation, the SMP finds that the SME does not have a qualified and

well-experienced professional accountant to head the accounts department, and there are no stated job descriptions for each accounting staff. There is also no visible evidence of any written guidelines or accounting manuals prepared to ensure adequate and consistent accounting for transactions.

The SMP recommends the SME to hire a professionally qualified and well-experienced Financial Controller to head the accounts department, taking into account the increasing amount of funds to be managed. The Financial Controller should establish adequate policies and procedures to ensure consistent accounting treatment of transactions. In addition, there should be clear job descriptions for every accounting staff. There should also be proper segregation of duties for different areas of operations.

FINANCIAL CONTROL OVER CAPITAL EXPENDITURE

In the SME, the Accounts Department does not take the practice to prepare the annual performance budget for budget controls. In particular, there are no expenditure budgets for implementing capital projects. The lack of up-to-date financial information means that the management team cannot properly evaluate the performance of the company. These weaknesses may render it difficult for management to make proper business

decisions.

The SMP suggested that the SME should prepare monthly capital expenditure budgets, with any major variances properly explained. Time and cost budgets should also be prepared for each project, reporting the progress of each project every month.

INADEQUATE CONTROL OVER MEMBER DEBTORS

The SMP finds that it is the SME’s Administrative Manager who prepares the list of long outstanding member debtors over a period of three months, and to chase for the outstanding debts. There is no independent checking of the preparation of the list. There is also a high risk for misappropriation of cash due to the lack of segregation of duties.

To ensure that the member debtor account is accurate, the SMP recommends that independent confirmations should be sent to all members to ascertain the current status. In the future, there should also be proper segregation of duties for cash handling and account recording and other related work, and the General Manager should review the list of outstanding member debtors on a regular basis.

A HIGH RISK FOR MISAPPROPRIATION OF CASH

The SMP noted that the cash in hand is banked in on an irregular and infrequent

basis. Membership fees received in cash and the sales of cash coupons is the major source of cash inflow of the company.

To minimise the risk of misappropriation of funds, the SMP suggests that management should bank in cash receipts on a daily basis. Regarding the sales of cash coupons, the SMP recommends that a computer log should be used to control the number of cash coupons issued. A stamp to validate cash coupons should be kept by an independent officer and a logbook should be kept.

Apart from the above, other malpractices and weaknesses of the

SME have been spotted by the SMP, such as issues related to computer system control and documentation, the food and beverage operating system, and the control over staff allowance and duty roster. Recommendations to improve operations in these areas have also been given.

As we can see, the SMP gives a thorough and all-round review, and professional advice is given on all areas of the business. The scheme provides the opportunity for SME business entrepreneurs to lift their businesses to the next level, with the ultimate goal to provide better service and reap profits. ■

The SME Sub-committee of ACCA Hong Kong wishes to invite ACCA members to contribute articles about their success stories of acting as consultants of SMEs. For enquiries, please contact Vincent Ng at ACCA Hong Kong on 2524 4988 or send an e-mail to vincent.ng@hk.accaglobal.com.