

## ETHICS AND INTERNAL CONTROLS

14 FEBRUARY 2013

### Lesson Description:

In this lesson we will:

- Understand some key ethical concepts
- Understand the principles of internal control
- Explain the difference between external and internal auditors
- Apply ethical and control measures to solve accounting problems
- Analyse a bank reconciliation statement

### Key Concepts

#### Ethics:

- Code of ethics
- Transparency
- Accountability
- Due care
- Integrity
- Avoiding conflict of interests
- Whistle-blowing
- Insider trading
- Fraud
- Corruption

#### Controls:

- Reason for controls – to try to limit unethical behaviour in business

#### Types of controls:

- Detective – allows you to identify when unethical behaviour is occurring
- Preventative – stops unethical behaviour completely – may be expensive or inconvenient
- Corrective – reverses the effects of unethical behaviour
- Directive – tries to change people's mindsets so that they do not engage in unethical behaviour
- Difference between internal and external auditors
- The role of an auditor in business

**Tip:** Ethics and controls are usually asked as part of another question! Your answer must make sense and be justified – be specific and think carefully and logically!

## Questions

### Question 1:

#### Bank Reconciliations

You are provided with the bank reconciliation statement of Tijuana Traders below. Study the statement and answer the questions that follow.

#### BANK RECONCILIATION STATEMENT ON 29 FEBRUARY 2012

Balance as per bank statement (Cr)	7600
Outstanding deposit	1450
Outstanding cheques:	
No. 5060	500
No. 7688	1220
No. 7689	980
Balance as per bank account	?

- a.) Calculate the balance of the bank account in the books of Tijuana Traders on 29 February 2012. Indicate whether this is a favourable or an unfavourable balance. (3)
- b.) Tijuana Traders owes a supplier R10 500 for stock purchased on credit on 31 January. Assuming that the business has an overdraft facility with the bank of R5 000, can it afford to pay the supplier in full? Perform a calculation to support your answer. (4)
- c.) What would you advise Tijuana Traders to do about the outstanding amount due to the supplier? Justify your answer. (5)
- d.) Provide a possible reason for why the first outstanding cheque is numbered 5060 and the last two are consecutive. (4)
- e.) Cheque 5060 was for stock purchased from a supplier, Loaded Ltd. The bookkeeper of Loaded Limited phones Tijuana Traders to explain that she has lost the cheque and asks Tijuana Traders to issue a new one. The manager of Tijuana Traders says that he does not want to issue a new cheque because he has already paid for the stock with cheque 5060. Do you think that the manager's actions are ethical? Why or why not? (4)
- f.) The office clerk of Tijuana Traders claims that she deposited the cheque for R1 450 that is reflected in the outstanding deposit before the end of the month. However, the manager of the business is worried that she may have stolen the cheque for herself and wants to fire her. Should he do so, in your opinion? Justify your answer with a valid reason. (3)
- g.) What action should the manager of Tijuana Traders take regarding the outstanding deposit? (2)

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