

**DIRECTORS' REPORT ON INTERNAL CONTROL  
SELF-ASSESSMENT SCHEDULES ON INTERNAL CONTROL**

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Section 1 Overall assessment of Internal Financial Control AREA OF CONTROL/AVAILABLE PROCEDURES	ACTUAL CONTROL	WEAKNESS/CORRECTIVE ACTION
<p>1) A COMMITMENT TO COMPETENCE AND INTEGRITY</p> <ul style="list-style-type: none"> <li>• A personnel function under suitably qualified manager</li> <li>• Documented employment policies</li> <li>• Contracts of employment</li> <li>• Personnel procedures manual</li> <li>• Documented recruitment procedures</li> <li>• References and proof of qualifications of recruits obtained</li> <li>• Staff development and training programme</li> <li>• Staff grading structure</li> <li>• Non-executive directors of suitable standing overseeing directors' remuneration and the general area of corporate governance</li> <li>• Directors' approval of loans to and use of company resources by managers</li> <li>• Disclosure of gifts, loans and conflicts of interest of directors</li> <li>• Staff appraisal system</li> <li>• Quality assurance standards and accreditation</li> </ul>		

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<p>2) <b>COMMUNICATION OF ETHICAL VALUES AND CONTROL CONSCIOUSNESS TO MANAGERS AND EMPLOYEES</b></p> <ul style="list-style-type: none"> <li>• Written codes of conduct or ethical statement</li> <li>• Procedures to report unethical behaviour</li> <li>• Formal disciplinary process</li> <li>• Staff appraisal covers control aspects</li> <li>• Internal control policy</li> <li>• Internal control manual</li> <li>• Use of management/staff meetings to communicate ethical/control issues</li> <li>• Use of staff newsletters and bulletins</li> </ul>		
<p>3) <b>MAINTENANCE OF AN APPROPRIATE ORGANISATION STRUCTURE</b></p> <ul style="list-style-type: none"> <li>• Documented organisation charts, including group or divisional overview</li> <li>• Prompt and controlled updating of organisation charts</li> <li>• Definition of areas of authority and responsibility levels from board downwards</li> <li>• Formally defined elements of management information</li> <li>• Adequate and appropriate information systems</li> </ul>		

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<p>4) APPROPRIATE DELEGATION OF AUTHORITY WITH ACCOUNTABILITY</p> <ul style="list-style-type: none"> <li>● Job descriptions for all staff</li> <li>● Documented authority levels cover <ul style="list-style-type: none"> <li>* acquisitions and disposals</li> <li>* capital expenditure</li> <li>* purchase ordering</li> <li>* payments</li> <li>* legal commitments</li> <li>* guarantees and warranties</li> <li>* foreign exchange and banking transactions</li> <li>* share and derivatives dealing</li> <li>* credit approval</li> <li>* cash disbursements</li> <li>* contract tendering</li> <li>* bonding</li> <li>* treasury management action</li> </ul> </li> <li>● A clear policy on the principals of separation of responsibilities [different personnel covering the handling of goods and management of services/contract negotiations and award/invoice approval/accounting and recording, etc., etc.]</li> <li>● Bonuses and promotion related to performance</li> </ul>		

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<p>5) <b>A PROFESSIONAL APPROACH TO FINANCIAL REPORTING WHICH COMPLIES WITH GENERALLY ACCEPTED ACCOUNTING PRACTICE</b></p> <ul style="list-style-type: none"> <li>• Finance director and senior accounts staff with appropriate qualifications</li> <li>• Audit committee meeting regularly and considering developments in accounting practice</li> <li>• Accounting policy manual which is regularly updated as required</li> <li>• Compliance with UK GAAP (and US GAAP if applicable)</li> <li>• Updates to finance staff on new financial reporting standards and regular training to ensure knowledge current</li> <li>• Regular liaison with external auditors</li> <li>• Expert Treasury and Tax functions</li> <li>• Reconciliation of Management and Statutory accounts</li> <li>• Procedures to ensure that all Group Company results incorporated in accounts and that acquisitions and disposals promptly notified to Head Office</li> </ul>		

Section 2 Detailed Assessment of Internal Financial Control Risk	Available Control	Actual Control	Weakness/ Corrective Action
<p>1) <b>CONTRACTS</b></p> <p>Inaccurate accounting for contract results, failure to promptly recover all amounts due from customer, and losses arising on contracts due to inaccurate estimating, poor performance, unplanned events, onerous contract terms, failure of client, etc., etc.</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Investigation of customer's financial standing</li> <li>• Bank guarantees, parent Company guarantees and escrow arrangements obtained where necessary</li> <li>• Review at least monthly of status, progress and current expected profitability of all contracts; participation in this by senior general, financial and commercial management</li> <li>• Reconciliation at least monthly of amounts billed to and received from customers on each contract against full contract valuation; this reviewed by senior general, financial and commercial management</li> <li>• Reconciliation at least monthly of receipts from customers against amounts paid to sub-contractors</li> <li>• Director authorisation needed to proceed with tender</li> <li>• Senior management authorisation of tenders prior to issue</li> <li>• Authority levels for contract signature [director level]</li> <li>• Independent check of arithmetic, etc. on estimates</li> </ul> <p>Controls to ensure non-omission of any items within tender [e.g. contingency provision in DMC].</p> <ul style="list-style-type: none"> <li>• Monitoring of cash receipts against monthly certificates from clients' quantity surveyors.</li> <li>• Written procedures and allocation of responsibilities</li> </ul> <p><b>Other controls:</b></p>		

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<p>2) <b>SUB-CONTRACTS</b></p> <p>Insolvency or default of sub-contractor, billing for goods or services not received, charges not in accordance with agreement, unfavourable contract terms, etc.</p> <p>Probability L/M/H</p>	<ul style="list-style-type: none"> <li>• Financial standing of sub-contractors investigated</li> <li>• Monthly comparison of expected - v - actual costs by senior management</li> <li>• Selection of sub-contractor from authorised list only</li> <li>• Check on sub-contractor's insurances</li> <li>• All significant sub-contracts awarded by tender</li> <li>• Contract signature/approval by senior manager</li> <li>• Contract award by staff other than site/project personnel</li> <li>• Performance bonds or parent company guarantees where appropriate</li> <li>• Retention and holding back of value where possible</li> <li>• Critical sub-contracts under seal or deed [12 year latent liability guarantee] where main contract in this form</li> <li>• General reputation investigated [e.g. trade references</li> <li>• No services provided without written requisition by site managers</li> <li>• Charges checked against site requisitions, evidence of value received and contract rates</li> <li>• Invoice approval by site management plus manager independent of site</li> </ul> <p>Procedures for checking numbers of men on site for labour only [e.g. clocking-in system]</p> <ul style="list-style-type: none"> <li>• Check on 'independent contractor' status via tax deduction exemption certificate [714 registration] and other evidence [e.g. questionnaire to sub-contractors or contact with previous customers, etc.]</li> <li>• Check on sub-contractor's VAT status and VAT numbers annually or on contract renewal</li> </ul> <ul style="list-style-type: none"> <li>• Certification that sub-contractors own any materials they supply and agreement that ownership passes to contractor on payment</li> <li>• Inspection of off-site materials supplied by sub-contractor and directive to avoid purchasing off-site materials where possible</li> <li>• Written procedures and allocation of responsibilities</li> </ul> <p><b>Other controls:</b></p>		

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<p><b>3) PURCHASES</b></p> <p><b>3.1 Ordering</b></p> <p>Incorrect goods ordered, unfavourable prices paid, undesirable supplier used</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• All purchase orders require authorisation/approval</li> <li>• Financial and general standing of new suppliers checked</li> <li>• Authorised list of suppliers</li> <li>• Supplier price and discount list held</li> <li>• Use of 'national' purchasing agreements to obtain bulk discount/lowest prices</li> <li>• Use of standard order forms strictly enforced</li> <li>• Supplier confirmation of orders required</li> <li>• Competitive tenders used to select suppliers/goods</li> <li>• Quotations from alternative suppliers compared and retained</li> <li>• Orderer does not also handle goods and is remote from user site</li> <li>• Written procedures and allocation of responsibilities</li> </ul> <p><b>Other controls:</b></p>		
<p><b>3.2 Receipt of Goods/services</b></p> <p>Orders left unfilled, goods not in accordance with order and receipt not recorded for stock and accrual reporting purposes</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Reporting and monitoring of outstanding orders</li> <li>• Incoming Goods checked to order details</li> <li>• 'Goods received not invoiced' reporting [for accruals]</li> <li>• Use of sequential record of goods received</li> <li>• Written procedures and allocation of responsibilities</li> </ul> <p><b>Other controls:</b></p>		
<p><b>3.3 Invoicing</b></p> <p>Company billed for goods and services not received by the company or losses resulting from pricing error</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Invoice matched to goods inwards record and order</li> <li>• Invoice details arithmetic, VAT, etc. checked</li> <li>• Approval for payment by senior managers</li> <li>• Segregation of duties for handling and recording of goods - v - processing and posting of invoices</li> <li>• Written procedures and allocation of responsibilities</li> </ul> <p><b>Other controls:</b></p>		

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<p><b>3.4 Recording of Payables</b></p> <p>Incorrect recording or omission of suppliers' invoices resulting in inaccurate accounting or losses through overpayment</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Purchase ledger balance total reconciled monthly to control account balance in General Ledger</li> <li>• Reconciliation of accounts to suppliers statements</li> <li>• Monthly agreement of inter-company trading balances</li> <li>• Monthly accruals for goods and services received not invoiced</li> <li>• Computer system highlights or rejects duplicate invoice postings</li> <li>• Written procedures and allocation of responsibilities</li> </ul> <p><b>Other controls:</b></p>		

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<p><b>3.5 Payments to Suppliers</b></p> <p>Payments made for invalid items or made too early without taking available discounts</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Computer system automatically takes account of early payment discount when generating suggested payments</li> <li>• Computer generates suggested payments based on invoice due dates</li> <li>• Invoices stamped 'posted' to avoid duplication</li> <li>• Computer system highlights or rejects duplicated payments</li> <li>• Supporting documentation readily available to cheque signatory</li> <li>• Dual cheque signatories</li> <li>• Complex cheque printing to prevent forgery</li> <li>• Secure custody of unused cheques</li> <li>• Unused cheque stocks regularly checked and reconciled</li> <li>• Bank contacts company to confirm large payments</li> <li>• Written procedures and allocation of responsibilities</li> </ul> <p><b>Other controls:</b></p>		

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<p>4) <b>PAYMENTS GENERALLY</b></p> <p>4.1 <b>Use of Cheque Printing/Signing Machines</b></p> <p>Use of cheque printing/signing machine to make invalid payments from company funds</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Maximum value of any processed cheque not exceeding £20,000</li> <li>• Secure storage of cheques</li> <li>• Stores of cheque stationery regularly checked and reconciled</li> <li>• Use of register to record meter readings, cheque numbers used, total value of cheques, signature of supervising official, etc.</li> <li>• Secure storage of signature plates [remote from cheque stationery]</li> <li>• Password access to machine</li> <li>• Key protected access to machine</li> <li>• Non-re-settable meter</li> <li>• Time-out facility</li> <li>• Written procedures and allocation of responsibilities</li> </ul> <p><b>Other controls:</b></p>		

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<p><b>4.2 BACS [Bankers Automated Clearance System]</b></p> <p>Losses resulting from illicit alteration or error in BACS payment instructions</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Audit trail from source system (Bought Ledger, Payroll, etc.) showing individual BACS payment details</li> <li>• Segregation of duties vis a vis: Maintenance of relevant software; running computer programme; checking of input/ output reports plus custody of BACS labels and BACSAFE devices</li> <li>• Reported contents of BACS input file checked to source system report prior to despatch</li> <li>• Secure storage of BACS labels and BACSAFE</li> <li>• Stocks of BACS tapes and disks securely held and regularly checked</li> <li>• Secure transportation of tapes or disks to BACS</li> <li>• BACS acceptance and input reports promptly checked</li> <li>• If bureau used for BACS transmission, regular inspection and audit, plus bureau has contractual responsibility for fraud by its employees</li> <li>• Listing of all BACS payments over a certain value</li> <li>• Overall limit set on all BACS batches over a given period of time with strict instructions to BACS and bank not to relax this</li> <li>• Written procedures and allocation of responsibilities</li> </ul> <p><b>Other controls:</b></p>		

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<p><b>4.3 Electronic Banking and CHAPS [Clearing House Automated Payment System]</b></p> <p>Losses resulting from illicit fund transfers</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Call back confirmation [CHAPS]</li> <li>• Use of passwords to initiate transactions</li> <li>• 'Fixed format' payments only [i.e. fixed list of authorised payee details]</li> <li>• Limits set on maximum sum to be transferred</li> <li>• Prompt cash book entry by staff other than transaction initiator</li> <li>• Segregation of duties [i.e. no member of staff able to initiate and confirm payments from beginning to end]</li> <li>• Written procedures and allocation of responsibilities</li> </ul> <p><b>Other controls:</b></p>		
<p><b>5) SALES</b></p> <p><b>5.1 Ordering [A]</b></p> <p>Orders processed for customers who cannot or will not pay</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Credit worthiness screening of new and possibly existing customers</li> <li>• Authority required to open new accounts</li> <li>• Credit limits applied</li> <li>• Block applies to any order(s) which would take a customer over their credit limit</li> <li>• Written procedures and allocation of responsibilities</li> </ul> <p><b>Other controls:</b></p>		
<p><b>5.1. Ordering [B]</b></p> <p>Orders taken for goods at excessively high or low margins, resulting in loss of gross margin or lost sales opportunities</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Prices determined by authorised price lists or computerised price files</li> <li>• Exception reports identifying irregularly high or low margins produced in time to stop orders from proceeding</li> <li>• Authorised discounts</li> <li>• Written procedures and allocation of responsibilities</li> </ul> <p><b>Other controls:</b></p>		
<p><b>5.2 Despatch</b></p> <p>Delays in processing orders result in compromised cash flow and deterioration in customer relations</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Mechanism for reporting of all orders not yet despatched</li> <li>• Reporting of goods delivered more than a certain number of days after orders placed</li> <li>• Sequential order numbers appearing on despatch notes</li> <li>• Computerised generation of picking notes from order records</li> <li>• Written procedures and allocation of responsibilities</li> </ul> <p><b>Other controls:</b></p>		

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<p><b>5.3 Invoicing [A]</b></p> <p>Failure to invoice despatched goods or delay in invoicing results in losses to the company or compromised cash flow</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Manual matching of despatch notes with customer order and invoice</li> <li>• Computerised generation of invoices from order/ picking note details</li> <li>• Reporting of goods despatched not invoiced</li> <li>• Sequential order numbers also appearing on invoices</li> <li>• Despatch notes cannot be deleted in computer file</li> <li>• Regular reconciliation of goods despatched and goods invoiced values</li> <li>• Written procedures and allocation of responsibilities</li> </ul> <p><b>Other controls:</b></p>		
<p><b>5.3 Invoicing [B]</b></p> <p>Inaccurate invoice pricing results in erosion of gross margins</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Timely reporting of invoices carrying irregularly low margins</li> <li>• Invoice pricing driven by product price list or computerised pricing based on a selling price list or set margin over cost</li> <li>• Independent invoice checking and/or authorisation</li> <li>• Written procedures and allocation of responsibilities</li> </ul> <p><b>Other controls:</b></p>		
<p><b>5.4 Credit Notes</b></p> <p>Excessive number of credit notes issued, indicative of poor customer satisfaction levels and/or poor control over issue of credits</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Authorisation procedures</li> <li>• Restricted access to computer procedures for generating notes</li> <li>• Report generated to show numbers and value of notes issued</li> <li>• Credit notes reason codes indicate main reasons for issue and management reports analyse notes issued by reason code</li> <li>• Invoice number references appear on notes</li> <li>• Written procedures and allocation of responsibilities</li> </ul> <p><b>Other controls:</b></p>		

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<p><b>5.5 Receivables</b></p> <p>Books of account fail to reflect correct debtors position and inefficient debt collection procedures compromise company's cash flow position</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Sales ledger balance reconciled at least monthly to control account balance in General Ledger</li> <li>• Aged debtors listing based on payment due dates, reviewed at least monthly</li> <li>• Series of standard letters generated from computer system for customers overdue</li> <li>• Debt collection procedures used</li> <li>• Any factoring or prompt payment discount procedures formally approved by senior management</li> <li>• Prompt payment discounts monitored to ensure they are properly taken/granted</li> <li>• Debtor days reported to Board</li> <li>• Bad debt management reporting procedure</li> <li>• Credit controller for each ledger or ledger section</li> <li>• Written procedures and allocation of responsibilities</li> </ul> <p><b>Other controls:</b></p>		
<p><b>5.6 Receipts</b></p> <p>Theft or loss of cheques received from debtors</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Somebody independent of the accounting section and not involved in the handling or recording of stocks to record all cheques received and send list to Accounts Department</li> <li>• Regular banking of cheques in hand</li> <li>• Prompt investigation of unallocated cash postings to ledger</li> <li>• Safe storage of cash and cheques whilst on premises</li> <li>• Segregation of cheque handling/account posting functions</li> <li>• Written procedures and allocation of responsibilities</li> <li>• <b>Other controls:</b></li> </ul>		

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<p>6) Hire &amp; Rental Contracts</p> <p>6.1 Hire A</p> <p>Failure to bill customers accurately or promptly and hire rates fail to produce adequate returns, customer unable or unwilling to pay</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Customer credit status checked</li> <li>• Hire contracts require senior management scrutiny and approval prior to being signed and authority levels defined</li> <li>• Margins reported to and reviewed by senior management, job by job, with costs taking in equipment depreciation over the hire period, labour costs and all relevant overheads</li> <li>• Hire rates fixed and agreed by senior management in order to minimise scope for error and bad practice: departures from list require authorisation</li> <li>• System in place to trigger billings to customer at appropriate intervals</li> <li>• Independent invoice checking</li> <li>• System blocks new orders for customers exceeding credit limit</li> </ul> <p><b>Other controls:</b></p>		
<p>6) Hire &amp; Rental Contracts</p> <p>6.1 Hire B</p> <p>Loss of Stock</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Stock checked out of store and back into store against hire agreement</li> <li>• Customer carries risk for loss</li> <li>• Perpetual inventory checking of hire stock in our custody</li> <li>• Full stock-takes at least once per year</li> <li>• Write-downs require senior management authority</li> <li>• Regular stock loss reporting branch by branch</li> <li>• Written procedures and allocation of responsibilities</li> </ul> <p><b>Other controls:</b></p>		
<p>6) Hire &amp; Rental Contracts</p> <p>6.1 Hire C</p> <p>Poor sales performance</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Regular monitoring of ratio of hire income to total hire stock by branch</li> <li>• Comprehensive management reporting/analysis of sales figures - by customer, market, product, region, etc., etc., actual - v - budget and previous year</li> </ul> <p><b>Other controls:</b></p>		

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<p><b>6.2 Contracts. A</b></p> <p>Unprofitable contract terms, failure to bill customers promptly or accurately, customers unable or unwilling to pay.</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Management regularly review status of contracts in terms of amounts due / accrued vs. billings and in terms of current expected profit vs. budget.</li> <li>• Tenders and contracts require management signature, and authority levels defined.</li> <li>• Parameters for profit margins and customer charges set by senior management and any departures require special authority.</li> <li>• Customer credit status checked.</li> <li>• Contract valuation procedure takes account of accrual of all direct and indirect costs (e.g. labour, scaffolding depreciation, central overheads etc.)</li> <li>• Regular monitoring of ratio of stock out on contracts to total contracts stock.</li> <li>• Procedure for identifying, monitoring and billing "extra hire" situations.</li> <li>• Written procedures and allocation of responsibilities.</li> </ul> <p><b>Other controls:</b></p>		
<p><b>6.2 Contracts. B</b></p> <p>Loss of Stock.</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Systems ensure minimum time for scaffolding left on site before and after erection.</li> <li>• Procedures automatically highlight / report stock on sites awaiting erection/dismantling/collection.</li> <li>• Supervisory site spot check to ensure no stock is lying unused on site during contract or uncleared after dismantling.</li> <li>• Quantities collected from site promptly checked against contract details.</li> <li>• Scaffolding assembled for delivery picked against order documentation and loads checked by supervisor.</li> <li>• Regular management reporting of stock losses by site.</li> <li>• Write downs require management authority.</li> <li>• Perpetual inventory checking of contract stock.</li> <li>• Full stock-takes at least once per year.</li> <li>• Written procedures and allocation of responsibilities.</li> </ul> <p><b>Other Controls:</b></p>		

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<p><b>6.2 Contracts. C</b></p> <p>Poor Sales Performance.</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Comprehensive management reporting/analysis of contract business, by customer, market, product, region etc. Actual vs. Budget and previous year.</li> <li>• Regular monitoring of ratio of contract business to total contract stock by depot.</li> </ul> <p><b>Other Controls:</b></p>		
<p><b>6.2 Contracts. D</b></p> <p>Inefficient labour force results in poor contract performance or overbilling by labour sub-contractors, infringement of revenue rules.</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Sub-contract either specifies number of men and target times or quotes fixed rates for job with target times.</li> <li>• Regular monitoring of progress.</li> <li>• Independent recording of labour onto sites.</li> <li>• Check on "independent contractor" status via tax exemption certificate and other evidence (e.g. questionnaire to "subs" or contact with previous customers etc.).</li> <li>• Check on sub's VAT status and VAT numbers annually or on contract renewal.</li> </ul> <p><b>Other Controls:</b></p>		
<p><b>7) BANK</b></p> <p>Books of account fail to reflect correct bank balances, payment and receipt discrepancies not detected, action not taken to chase overdue items</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Reconciliation of all accounts from cash book to bank statements at least monthly</li> <li>• Standard reconciliation format</li> <li>• Reconciliation reviewed and initialled by appropriate manager</li> <li>• Reconciliation includes notes of follow-up action on uncleared items</li> <li>• Cash book reconciled to cash control account in general ledger at least monthly</li> <li>• Current list of standing orders maintained and checked to bank statements</li> <li>• Group Finance Director authority required and sought for opening new bank accounts</li> <li>• Bank mandate includes dual authorising signatures for all payment types</li> <li>• Written procedures and allocation of responsibilities</li> </ul> <p><b>Other controls:</b></p>		

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<p>8) <b>STOCKS</b></p> <p>8.1 <b>Valuations</b></p> <p>Incorrect stock valuation results in mis-statement of trading profit and balance sheet failing to reflect working capital value accurately</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Valuation method as close as possible to actual cost [i.e. actual item cost, moving average or FIFO] or net realisable value</li> <li>• For merchanted goods, system highlights differences between current cost and invoiced prices</li> <li>• For manufactured goods, valuation basis is standard costing data [bills of material, labour, overhead, scrap levels, etc.]</li> <li>• Computerised stock recording system compares current unit values with selling prices and reports irregular margins regularly for management attention</li> <li>• Reported stock figures include cost of getting product to its present location and condition</li> <li>• System identifies and highlights obsolete and slow moving stock and management action is taken to adjust values accordingly</li> <li>• Written procedures and allocation of responsibilities</li> </ul> <p><b>Other controls:</b></p>		

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<p><b>8.2 General Stock Control</b></p> <p>Stock leakage, inaccurate recorded quantities or under and over stocking resulting from poor control of stock levels</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Secure warehousing including alarms, minimum number of exits, security patrols, fire detectors, sprinkler systems, inspection of assembled loads, checking of vehicles entering/leaving sites</li> <li>• Scrapping approval procedures observed and scrap levels monitored</li> <li>• Restricted access to book stock records</li> <li>• Authorisation, analysis and monitoring of non-routine stock adjustments</li> <li>• Documentary systems used to issue goods from stores to production areas and for tracking flow between production areas</li> <li>• Perpetual inventory system used for fast moving or high value goods or for all stocks</li> <li>• Stock-takes at least twice per year</li> <li>• Stock-take instructions including cut-off procedures</li> <li>• Regular confirmation of stock held by third parties</li> <li>• Stock re-order calculations take account of: stock in hand; outstanding supplier orders; outstanding customer orders; recent sales levels; supplier lead time; maximum and minimum stock levels</li> <li>• Written procedures and allocation of responsibilities</li> </ul> <p>Other Controls</p>		

Section 2 Detailed Assessment of Internal Financial Control Risk	Available Control	Actual Control	Weakness/ Corrective Action
<p><b>9 Payroll</b></p> <p>Employees paid for work not done or paid an incorrect amount or fraudulent inclusion of fictitious employees in the payroll.</p> <p>Probability      L/M/H</p>	<ul style="list-style-type: none"> <li>• Senior Manager reviews payroll detail or summary detail before payment.</li> <li>• Authorisation of amendments to employee/pay details.</li> <li>• Sequential control and scrutiny of computer report which lists updates to employee/pay file.</li> <li>• Management/supervisory authorisation of overtime claims.</li> <li>• Procedure for payroll administration being notified of starters and leavers.</li> <li>• Regular reconciliation of PAYE, NI etc. returns to cumulative totals in payroll and general ledger.</li> <li>• Exception reporting from computerised payroll system including net pay exceeding a pre-set limit, excessive hours worked, etc.</li> <li>• Use of clocking in system/job cards to record hours worked/piece work</li> <li>• Supervisor certifies hours/piece work</li> <li>• All expense claim forms and allowance forms properly authorised</li> <li>• Distinct reporting of taxable and tax-free elements</li> <li>• Checking that tax-free thresholds are in accordance with regulations, and not exceeded</li> <li>• Written procedures and allocation of responsibilities</li> <li>• Personnel authorisation for starters and leavers.</li> </ul> <p>Other Controls</p>		

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<p>10) COMPUTING</p> <p>10.1 General</p> <p>Inaccurate or misleading financial or operational data, disruption of processing facilities, systems inappropriate to the needs of the business</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Use of Group Information Systems Security Standard</li> <li>• IT strategy covering hardware and software needs over the next 3 to 5 years</li> <li>• Restricted access to building</li> <li>• Fire detection and fire-fighting equipment, plus alarms</li> <li>• Uninterruptable power supply</li> <li>• Controls to detect and deter unauthorised use of computer resources</li> <li>• Secure storage of magnetic media and output reports</li> <li>• Clear policy on data retention and archiving</li> <li>• Facilities for destroying confidential output reports after use</li> <li>• Preventative maintenance of computers and ancillary equipment</li> <li>• Computer and terminal equipment in areas with restricted access</li> <li>• Password access to ensure authorised users read and/ or write to appropriate records; systems to detect and prevent violation attempts</li> <li>• Systems ensure access from authorised terminals only</li> <li>• Application system checks and database management system functions ensure the completeness, accuracy and validity of data</li> <li>• Data file contents protected against unauthorised alteration, copying or deletion</li> <li>• Virus checks regularly applied</li> <li>• Effective management of major system changes including standard system development cycle and use of project steering groups</li>   <li>• Programme and system change control and version control procedures</li> <li>• System support arrangements [including packaged software], provide for timely fixing of critical faults</li> <li>• Checks to ensure that packaged software fit for purpose and complies with Group standards</li> <li>• Controls to ensure compliance with software licences</li> <li>• Verification of financial standing and professional competence of outside bureaux and software houses and standards and guidelines covering contractual arrangements with these</li> <li>• Automatic logging of data changes, unusual activities and hardware/software errors</li> <li>• Efficient back-out and restart procedures where data error arises</li> <li>• Full data programme and documentation back-up, including off-site storage</li> <li>• Fully documented disaster recovery plan</li> <li>• Contingency plan covering failure of individual system or hardware components</li> <li>• Adequate documentation on all systems for:</li> </ul>		

Section 2 Detailed Assessment of Internal Financial Control Risk		Available Control	Actual Control	Weakness/ Corrective Action
10.2	<p>Communications</p> <ul style="list-style-type: none"> <li>● Disruption of business which relies on real time processing on a central server</li> <li>● Potential unauthorised access</li> </ul> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>● Networking: <ul style="list-style-type: none"> <li>* Resilient network design</li> <li>* Network management to enable monitoring of data flow, traffic, component performance and security</li> <li>* Logical access control over all entry points to the network</li> <li>* Physical protection of hardware and cabling</li> <li>* Written procedures and allocation of responsibilities</li> </ul> </li> <li><b>Other controls:</b></li> </ul>		

Section 2 Detailed Assessment of Internal Financial Control Risk	Available Control	Actual Control	Weakness/ Corrective Action
<p><b>11) FIXED ASSETS</b></p> <p>Assets acquired or disposed of without proper review or approval, or assets lost or misappropriated</p> <p>Probability: L/M/H</p>	<p>* Prompt entry of acquired assets in a fixed asset register showing: cost, location, depreciation, etc.</p> <ul style="list-style-type: none"> <li>● Plant or equipment numbers allocated and labels/plates attached</li> <li>● Prompt recording of assets out on site</li> <li>● Timely action to ensure return of all fixed assets once site operations terminated</li> <li>● Site security plans provide realistic and effective preventative measures in line with Group Security Standards</li> <li>● Use of security firms who meet Group Security Standards</li> <li>● Tracker devices fitted to large plant and vehicles</li> <li>● Use of approved security firms only</li> <li>● Fixed asset inventories at least once per year</li> <li>● Spot-checks throughout the year to ensure assets present in expected locations</li> <li>● Documents of title [e.g. car registration forms] securely held</li> <li>● Moveable assets securely stored when on company premises</li> <li>● Acquisitions procedures include: authorisation by directors or senior managers, purchases covered by an annual budget, expenditure proposals quote commercial and technical benefits, funding arrangements and payback period, revenue expenditure implications/alternative quotations</li> <li>● Disposal details and sale proceeds formally authorised by directors or senior managers</li> <li>● Written procedures and allocation of responsibilities</li> </ul> <p><b>Other controls:</b></p>		
<p><b>12) TREASURY MANAGEMENT</b></p> <p><b>12.1 Deposit Takers</b></p> <p>Funds lost through being deposited with a failed banking institution</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>● Surplus funds managed by Central Treasury function</li> <li>● Deposit-takers from a list approved by the Board, with approval limits for each bank</li> <li>● Directors receive report showing deposits out, on a daily basis; this report to be compiled independently from those responsible for managing funds, from information received direct from banks</li> <li>● Written procedures and allocation of responsibilities</li> </ul> <p><b>Other controls:</b></p>		

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<p><b>12.2 Fund Transfers</b></p> <p>Funds transferred fraudulently or illegally</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Bank mandate specifies minimum of two authorising signatories of seniority appropriate to the value of the transfer</li> <li>• Electronic fund transfers in 'fixed format' with named destination accounts in the name of Mowlem</li> <li>• Electronic fund transfers require authorisation codes to be inserted at both 'input' and 'authority' levels</li> <li>• Written procedures and allocation of responsibilities</li> </ul> <p><b>Other controls:</b></p>		
<p><b>12.3 Interest Rates</b></p> <p>Company fails to receive an adequate return on its funds</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Daily reports to directors of funds on deposit [see 12.1] include interest rates applicable to each deposit</li> <li>• Budgetary control and variance analysis on monthly basis</li> <li>• Treasury function monitors group balances on current account on a daily basis</li> <li>• Confirmation letters from authorising signatories quote the agreed interest rate</li> <li>• Written procedures and allocation of responsibilities</li> </ul> <p><b>Other controls:</b></p>		

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<p><b>12.4 Liquidity</b></p> <p>Group borrowings reach excessive levels or funds insufficient for our needs</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Monthly cash forecasts from operating units and divisions</li> <li>• Monthly consolidated cash forecasts reviewed by Board</li> <li>• Procedures ensure that there is a minimum sum available each day through maturing deposits or uncommitted funds; the daily balance of 'free funds', monitored by senior management</li> <li>• Undrawn borrowing lines continuously monitored and reported to the Board</li> <li>• Written procedures and allocation of responsibilities</li> </ul> <p><b>Other controls:</b></p>		
<p><b>12.5 Foreign Currency Transactions</b></p> <p>Due to exchange rate fluctuations, home currency value of foreign currency sales invoices lower than first expected or conversely home currency value of purchase invoices greater than expected</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Cover forward on a 'hedge' through Group Treasury</li> <li>• Use of currency options through Group Treasury</li> <li>• Borrowing in currencies through Group Treasury</li> <li>• Currency holding accounts through Group Treasury</li> <li>• Written procedures and allocation of responsibilities</li> </ul> <p><b>Other controls:</b></p>		
<p><b>12.6 Currency Options</b></p> <p>Losses resulting from company offering [rather than applying for] currency options in an attempt to generate additional profits</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Strict Board directive against Treasury activities being treated as a profit centre generally</li> <li>• Specific Board instructions strictly prohibiting the offering of currency options</li> </ul> <p><b>Other controls:</b></p>		

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<p><b>12.7 Overseas Assets [Group Treasury only]</b></p> <p>Loss of sterling equivalent of amounts invested in overseas countries due to exchange rate fluctuations</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Senior management and Board regularly review overseas asset values</li> <li>• Hedging arrangements in place to offset currency movement risk, and these regularly reviewed by senior management and Board</li> <li>• Written procedures and allocation of responsibilities</li> </ul> <p><b>Other controls:</b></p>		
<p><b>12.8 Performance Bonds</b></p> <p>Losses through unfair calling of on-demand bond</p>	<ul style="list-style-type: none"> <li>• Board directive to accept on-demand bonds only as a last resort.</li> <li>• Risk mitigated by introducing conditions (eg engineers certificates, authentication of signatures and notice period) which must be met before a call is valid.</li> <li>• Bond term limited by expiry date or occurrence of a specific event.</li> <li>• Approval of Divisional and Main Board Directors obtained, and bank mandate clearly reflects this.</li> <li>• Written procedures and allocation of responsibilities.</li> </ul> <p>Other Controls</p>		
<p><b>12.9 Parent Company Guarantees</b></p> <p>Losses resulting from these being recklessly granted</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Clear responsibility for authorising the granting of such guarantees at Board level</li> </ul> <p><b>Other controls:</b></p>		
<p><b>12.10 Covenants</b></p> <p>Breach of covenant resulting from failure to monitor compliance [e.g. net asset value, net gearing levels, etc., etc.]</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Regular monitoring by main Board directors</li> </ul> <p><b>Other controls:</b></p>		

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<p><b>13. Personal Expenses.</b></p> <p>Claims excessive or inaccurate and do not reflect a reasonable level of business expenditure incurred by individuals.</p> <p>Company incurs tax, NI and penalties by failing to account for taxable benefits.</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Clear and comprehensive rules widely distributed. Use of standard claims forms Amounts not refunded without supporting vouchers and adequate details of each expenditure item.</li> </ul> <p>Claims are all independently checked for:</p> <ul style="list-style-type: none"> <li>- Authorisation</li> <li>- Arithmetic (including VAT)</li> <li>- Supporting vouchers</li> <li>- Conformance to rules</li> </ul> <ul style="list-style-type: none"> <li>• Authority levels defined for each signatory.</li> <li>• Rules for claiming expenses, plus any allowances paid discussed and agreed with the tax authorities.</li> <li>• Written procedures and allocation of responsibilities.</li> </ul> <p><b>Other controls:</b></p>		

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<p><b>13. Value Added or Other Sales Tax.</b></p> <p>Failure to set off input taxes on purchases against taxes payable on sales, penalties incurred as a result of failing to properly account for taxes or make proper returns to Customs and Excise or appropriate revenue authority.</p> <p>Probability: L/M/H</p>	<ul style="list-style-type: none"> <li>• Clear guidance is available to all relevant staff.</li> <li>• Sales order processing system automatically generates correct tax values by reference to the particular customer or type of goods or service.</li> <li>• Regular independent checking and reconciliation of tax summaries and tax analyses back to total tax values processed through source systems (sales order processing etc.)</li> <li>• Tax returns promptly completed and signed by a senior financial manager.</li> <li>• VAT / Sales tax focal point within company has high level of detailed knowledge.</li> <li>• Invoices supporting expenditure all checked to ensure that they are in a valid format and that company is reclaiming input tax.</li> <li>• System for generating sales invoices allows for prompt change of tax rates, as required.</li> <li>• Need to charge tax to Group companies is avoided where possible through "tax grouping" arrangement, which is widely communicated.</li> <li>• Computer systems validates mathematical integrity of VAT numbers.</li> <li>• Suppliers' tax registration numbers checked at regular intervals</li> </ul> <p><b>Other controls:</b></p>		