

**Governance Guide on  
Internal Controls  
for Credit Co-operatives  
2018**

**Jointly issued by the Registry of Co-operative Societies  
and Singapore National Co-operative Federation**

**2 May 2018**

## Contents

Introduction .....	3
Risk Assessment.....	3
Internal Control Activities.....	4
Application of Internal Controls .....	12
Appendix A: Risk Assessment Sample .....	22
Appendix B: Sample Whistle-Blowing Policy and Procedure .....	26
Appendix C: Sample Internal Audit Terms of Reference .....	29

## Introduction

1. This guide is intended to provide guidelines on sound and prudent internal controls. It serves as a reference for the credit co-operatives (“co-ops”) to develop their own internal control systems.
2. Internal controls are the policies, procedures and processes established by the Committee of Management (“COM”) or Board of Directors and the key staff to provide reasonable assurance on the safety, effectiveness and efficiency of the co-op’s operations, the reliability of financial and managerial reporting and compliance with regulatory requirements. Hence, a system of sound and prudent internal controls is fundamental to the safe and sound management of an organisation.
3. Co-ops play a constructive social role in providing thrift and loan services to their members. Proper internal controls are important to safeguard members’ deposits and other assets of a co-op. With proper internal controls, checks and balances are put in place to prevent irregularities and fraudulent practices which could result in unexpected financial losses or damage to a co-op’s reputation. A co-op with proper internal controls can uphold members’ trust and confidence.
4. Despite the best efforts by a co-op to establish and maintain proper internal controls, errors and fraudulent practices may still happen, due to:
  - a) Wrong decisions made;
  - b) Human errors;
  - c) Ability of management to override prescribed policies or procedures; and
  - d) Collusion between internal staff and/or external third parties.
5. As the limitations are unpredictable and uncontrollable, the best that can be expected in any of system of internal control is that reasonable assurance be obtained and not absolute assurance.
6. While policies and procedures are put in place, the COM should seek to promote the values of honesty and integrity. The COM should lead by example and demonstrate its commitment to integrity and ethical values. This way, there will be less likelihood of fraudulent practices by co-op officers.

## Risk Assessment

7. Risk is the probability that an event or action will adversely affect the organisation. The primary categories of risk are errors, omissions, delay and fraud. While seeking to achieve a co-op’s goals and objectives, the associated risks must be adequately managed. As a first step, the COM should seek to identify all the risk areas applicable to their co-op. Thereafter, COM needs to effectively balance risks and controls, where control procedures need to be developed so that they decrease risk to an acceptable level.

8. After risk areas have been identified, risk assessment should be performed as follows:

- a) Assess the likelihood (or frequency) of the risk occurring.
- b) Estimate the potential impact if the risk were to occur; consider both quantitative and qualitative costs.
- c) Determine how the risk should be managed; decide what actions are necessary.

9. However, it is not feasible or cost effective to impose tight controls for all business activities. Too many controls may also result in longer lead time in serving the members. Hence, a co-op must prioritise and focus their attention and resources in managing significant risks (i.e. risks with reasonable likelihood of occurrence and high impacts).

10. For a typical co-op, the risk areas or activities include loans processing (i.e. application, review, approval and disbursement), investment, handling of members' deposits, procurement, human resource and payroll. Refer to Appendix A for a Risk Assessment Sample.

## Internal Control Activities

11. Controls can be preventive or detective. Both types of controls are essential to an effective internal control system. Preventive controls attempt to deter or prevent undesirable events from occurring. They are proactive controls that help to prevent a loss. Examples of preventive controls are segregation of duties, proper authorization, adequate documentation, and physical control over assets. Detective controls, on the other hand, attempt to detect undesirable actions or unauthorised transactions. They provide evidence or red flags that a loss has occurred but do not prevent a loss from occurring. Examples of detective controls are reviews, analyses, variance analyses, reconciliations, physical inventories and audits.

### **Policies and Procedures**

12. Policies are the COM's statement of what should be done to effect control. Procedures are the actions that implement a policy. Policies and procedures should be formalised and clearly defined. Unwritten or informal policies and procedures are easier to circumvent and result in reduced accountability, especially when there are changes in personnel.

13. Established policies and procedures ensure that:

- a) Co-op officers are clear of their roles and responsibilities;
- b) Transactions are carried out in accordance to COM's authorization;
- c) Transactions are properly recorded in a timely manner;
- d) Access to assets are restricted to authorised persons; and
- e) Recorded assets are reconciled and compared with physical assets on a regular basis.

14. To ensure the relevance and effectiveness, the policies and procedures should be reviewed and updated periodically or as warranted by circumstances. Trigger points to review policies and procedures include: audit findings, feedback from members, use of new IT system as well as changes in personnel, staff reporting structure, and regulatory requirements. While the COM may delegate the reviews to the General Manager or other officers, the COM should consider the recommendations and approve the new/revised policies and procedures.

15. When policies and processes are revised or updated, officers should be notified immediately so that they can follow the revised/updated policies and processes from the effective dates. Officers should also have easy access to the co-op's policies, procedures and processes.

### Approving Authority

16. The responsibilities and levels of authority required for the various types of activities and exposures should be clearly defined and communicated to all officers. Approving limits assigned to the co-op officers should be commensurate with their seniority and responsibilities.

17. The authorised officers and limits of approval ("LOA") should be defined. The LOA defines the limits that the authorised persons can approve, which could be in terms of scope or financials. The lack of definition may lead to irregularities and fraudulent practices. An example of approving authority matrix is as follows:

<b>Amounts</b>	<b>Signatures Required</b>
Amount of up to \$10,000	2 signatories: (1) Treasurer and (2) General Manager
Amount of more than \$10,000	2 signatories: (1) Chairman and (2) Treasurer or GM

18. The LOA should also define the authorised persons to sign on behalf of the co-op, on what matters of the business and up to what limits. The LOA should be properly documented, approved by the COM and communicated to all officers.

19. Authorisation may be general or specific. Specific authorization should be sought for non-routine transactions and transactions that exceed the limits provided by the general authorisation.

20. For key decisions that could have material impact to a co-op's operations, the COM should give the approval (instead of delegating to an authorised person) or the COM should seek members' approval at a general meeting.

### Segregation of duties

21. The segregation of duties is fundamental to mitigate risks of fraud and error. Different persons should be assigned to duties involving approval, execution, custody and recording functions, where possible. The basic rule is that the preparer should be different from the checker to mitigate the risks.

22. Some of the positions that should ideally be segregated are as follows:

<b>Role 1</b>	<b>Role 2</b>
Loan application (e.g. loan officer)	Loan evaluation
Loan evaluation	Loan approval
Membership application (e.g. front office)	Membership review and approval
Recording member details	Payment and disbursement
Recording loans details	Payment and disbursement
Cash collection	Banking in of cash
Cheque preparer	Cheque signatory

23. However, segregation may not be practical, cost effective, or feasible in certain cases. For example, smaller co-ops may lack sufficient resources to provide for adequate ideal segregation, and the cost of hiring additional staff may be prohibitive. In this case, the co-op has to depend on alternative control activities such as more frequent checking of staff work and duties by the COM or internal auditors, periodic review of the user activity log to identify any unusual or unauthorised postings and amendments in the members' data, CCTV recording over the counter to monitor behaviour or to assist in investigation.

### **Supporting Documents and Record Keeping**

24. Transactions should be supported by documentary evidence before they are checked, approved and processed. Supporting documents include, but are not limited to, documents such as working papers, invoices, bills, receipts, quotations, contracts, agreements, statements etc.

25. Supporting documents gives the checker or approver the assurance that transactions are in order and have been verified against relevant data in accordance to the internal policies. The absence of or insufficient checking of supporting documents may lead to wrong payments, illegitimate gains or inaccurate financial statements.

26. When reviewing the supporting documents, a checker or approver should also check whether the documents and contents are authentic. For example, if the information shown on an invoice was amended, the checker or approver should seek clarification from the staff or even the supplier who issued the invoice.

27. A co-op should also ensure that business documents and members' records are promptly updated and kept for a reasonable period of time. This includes records of inactive or uncontactable members, as such members or their family may still approach the co-op to seek information on their outstanding deposits or loans.

### **Reconciliation and Checks**

28. Reconciliation and checks are necessary to detect errors and irregularity in the processing of transactions. If there are any discrepancies identified, appropriate actions must be taken promptly to correct the discrepancy and address the root cause

(for example, correct an error in the formula used in Excel spreadsheet). Reconciliations and checks should be conducted in a timely manner by a personnel of a supervisory role. Early detection and correction of errors or irregularities will help to prevent more serious consequences.

29. **Bank Reconciliation:** Bank reconciliation involves an independent comparison of the balance of cash at bank recorded in the account with the balance of cash at bank shown on the bank statements received from the relevant bank. An independent co-op officer should conduct monthly bank reconciliation on a monthly basis, within a month from the close of the reporting month. Any significant variances discovered or suspected involving unusual or questionable payments should be investigated and the findings be reported to the COM accordingly.

30. **Checks:** An independent co-op officer should conduct regular and checks on key functions or activities e.g. petty cash float and disbursement of funds. Any significant discrepancies discovered or suspected involving unusual or questionable payments should be investigated and the findings be reported to the COM. Checks should also be conducted on whether co-op's policies or procedures are followed.

## Financial Review

31. The COM should conduct financial reviews regularly. The approved annual budget and monthly financial reports will facilitate prudent spending and early detection of financial or business performance issues. The COM or key staff officers can also make more informed decisions in managing the operations. If a co-op does not have the resources to prepare monthly accounts, it should engage a professional firm to handle its book-keeping and accounting.

32. **Annual Budget:** The COM should consider and approve an annual budget to forecast both income and expenditure appropriate for the co-op's operations. The preparer of the budget should explain the basis of the projections and provide justifications for increases/decreases from the previous financial year.

33. **Financial Reports:** The COM should review the monthly financial reports which comprise the Balance Sheet and Income & Expenditure Statements. Comparative budget figures should be presented with analysis and explanations for significant variances. Regular monitoring of the financial performance will enable to the COM to take early action to investigate or address any financial or business performance issue. The financial report should also state the co-op's prudential ratios on Minimum Liquid Assets ("MLA"), Capital Adequacy Ratio ("CAR") and Restricted Investments ("RI"). If any ratio does not meet the regulatory requirements (i.e. Prudential Requirements), it should be highlighted to the COM. The COM should discuss and implement measures to improve the prudential ratios. The procedures to monitor and improve the prudential ratios include monitoring the co-op's cash flows and/or market values of investments on a regular basis.

34. **Audited Accounts:** A co-op should allocate sufficient resources to prepare the year end accounts to ensure that the external audit can be completed and submitted to the Registry of Co-operative Societies by the statutory due date (i.e. 6 months from the end of financial year). The COM or Audit Committee should meet the external

auditor to review and discuss on the findings of any internal control flaws or unusual transactions uncovered by the external auditors before approving the audited financial statements. If the Registry raises any concerns regarding the audited accounts, the COM should seek to address the concerns without delay and ensure that the same issues do not recur.

### **Physical Controls**

35. Physical controls refer to the security on the premises, assets and documents of the co-op. Control of access to these physical assets would prevent tampering of documents due to a dishonest intent or theft. The physical assets should be locked or in guarded storage areas where the physical access are restricted to authorised personnel and are periodically counted and compared to control records.

36. Specific co-op officer can be designated as the key custodian to the locked areas. There should be proper hand-over of keys if the co-op officer is changed. If the keys are lost, there should be timely reporting to the COM and appropriate follow-up actions taken.

### **Computer and Data Security**

37. Computer or Information Technology (“IT”) security has become increasingly important as co-ops harness IT to support their business operations. Loss of members’ data can cause considerable distress to the affected members which may consequently erode members’ confidence in the co-op.

38. Computer security includes the physical access to the hardware (server, personal computers), system, data, backup and recovery. Access should be restricted to authorised persons through locks and passwords. A co-op should also include up-to-date protection against external threats to the network (antivirus, firewall, encryption etc.)

39. A co-op should have established policies and procedures for computer security to prevent fraud and error as well as unauthorised use of information. Members’ data (whether residing in IT system or hardcopy records) such as personal details, their deposits and loans are confidential and hence must be well protected from theft or unauthorised uses.

40. Where multiple information systems are used, the co-op should ensure that the different systems are effectively interfaced for accurate data transfer across the different information systems. Periodic review of similar data generated by the different systems can be done to reconcile the differences.

### **Management on Conflict of Interest**

41. Co-op officers should act in the best interests of the co-op and there should be no vested or personal interest or interest of third parties. Conflicts of interest may lead to dishonest or unethical acts which may affect members’ confidence.



42. In the event of conflict of interest arises, the officer who is in conflict should declare and recuse himself/herself from all participation (i.e. discussing, questioning, commenting and voting) in the matter.

43. The officer should leave the room to avoid influence the procedure (e.g. due to presence or through body language). Such conflict of interest, recusal and excused from meeting should be documented in the meeting minutes.

44. The following are some examples of conflict of interest.

- a) COM member or family member being considered for contract for services or goods, or employment
- b) COM member is an officer or executive of a potential supplier to the co-op
- c) Officer evaluating loan application of their immediate family members
- d) Loan Committee member considering loan application of their family member

45. **Related Party Transactions:** A related party transaction is a transfer of resources, services or obligations between an entity and its related parties, regardless of whether a price is charged. "Related party", in relation to a co-op, means any of its associates or subsidiaries, its parent entity or any subsidiary of its parent entity, COM members and entities which COM members have relations with. Any contract entered into with the related parties should be reviewed and approved by the COM members and key officers who do not have interests (whether directly or indirectly) in the transactions.

46. **Annual Declaration:** There should be a clear policy and a procedure for each co-op officer to make declaration on any possible conflicts of interests. The declaration should be done annually and as warranted by circumstances.

47. **Procurement Contracts:** Procurement of goods and services should be on an arm's length basis. For example, a co-op should not procure event management services from a related party on less attractive terms than could have been obtained from the open market.

## Contract Management

48. Where appropriate, the agreement and contracts to be entered into by the co-op should be reviewed by a qualified legal counsel before signing. Contract terms should be monitored regularly such that services/goods provided by vendors were of satisfactory standards and in accordance with contractual requirements. Otherwise, co-op should take steps to ensure so.

## Internal Audit

49. Internal audit ("IA") involves checking a co-op's compliance with its policies and procedures as well as regulatory requirements. Key business areas that IA should review on a regular basis includes loans processing (i.e. application, review, approval and disbursement), investment, handling of members' deposits, procurement, human resource and payroll. The Audit Committee ("AC") should ensure that regular and effective internal audits are carried out. Any weaknesses or adverse findings from the

internal audits should be immediately addressed. If a co-op does not have officers who can adequately perform the internal audit functions, the co-op should engage external internal auditors. Refer to Appendix C for a sample of Internal Audit Term of Reference and Internal Audit Plan.

50. The AC approves the hiring, removal, evaluation and fees of the internal auditors (in-house or outsourced). The Internal Auditor should have unfettered access to all the company's documents, records, properties and personnel, including access to the AC.

### **Members' Role**

51. The members of a co-op can play a part in strengthening the internal controls. When the COM seeks members' approval for key decisions and/or financial statements during a general meeting, members can raise concerns and/or ask for further information. If members feel that the COM did not exercise due diligence or provide sufficient information in making their recommendations, they can vote against the COM's proposal.

52. When members receive their statement of accounts, they should check that the recorded transactions are in order. If there are any discrepancies or suspicious transactions (e.g. transactions not made by member themselves, transaction not recorded), it may be a sign of error or fraud. Such incidents should be raised to the key staff officer or COM as soon as possible, so that full investigation can be carried out and the underlying issues can be addressed early.

### **Code of Conduct**

53. A code of conduct lays out an organisation's expectations and guiding principles for appropriate workplace behaviour. For a co-op, the code of conduct should state the ethical values of the co-op and prescribe guidelines for co-op officers to observe when discharging their duties. The code should cover areas such as conflict of interest, safeguarding confidentiality of information, acceptance of gifts and entertainment, disclosure of and restriction on personal investments. The code of conduct must be duly communicated to all officers and can be done through various means such as via office email communications or handing out of a hardcopy booklet. Upon receipt, officers are to reply with an email acknowledgement or sign off on a hardcopy document to indicate receipt and acceptance to abide by the code of conduct.

### **Training and Education**

54. The COM should be equipped with relevant knowledge and skills to lead the co-op and supervise the key staff. New COM members should attend relevant co-op or induction courses at the earliest opportunity. The COM should seek to understand the business operations and regulatory requirements so that they can be effective in enabling proper internal controls of the co-op. The COM should ensure that the new and existing staff receive adequate training to perform their roles effectively.

## Whistle-blowing

55. A co-op should put in place whistle-blowing policies and procedures for staff or any other person to, in confidence, raise concerns about possible improprieties (e.g. fraud, corrupt conduct, improper accounting or auditing practices, adverse conduct that are against the code of conduct of the co-op).

56. The policy should provide a framework to promote responsible and secure whistleblowing without fear of any adverse consequences. It also permits the co-op to address such reports by taking appropriate actions such as investigating the situation, disciplining or terminating the employment or services of those responsible, and address the lapses in the procedures.

57. The whistle-blowing policy should be made easily available such as on the co-op's webpage or at a notice board at the co-op's premises. Refer to Appendix B for a sample of whistle-blowing policy and procedures.

## Suspicious Transactions

58. Given the ongoing threat of money laundering and terrorist financing, the co-op should seek information from their members relating to their employment and income. The co-op should also put in place processes to identify and report to the relevant authorities any suspicious transactions.

59. Co-op can make a Suspicious Transactions Report ("STR") to the Suspicious Transaction Reporting Office ("STRO"), which is the central agency in Singapore for the receipt, analysis and dissemination of STRs. STR can be reported online<sup>1</sup> through Suspicious Transaction Report Online Lodging System ("STROLLS").

60. Co-op can refer to the Police Commercial Affairs Department webpage<sup>2</sup> on Suspicious Transaction Reporting for updated information on countering money laundering and terrorist financing.

61. Some red flag indicators for suspicious transactions are as follows:
- a) Questionable source for large cash deposits by a member which do not match his/her earning ability
  - b) Unexpected repayment of overdue loans without plausible explanation
  - c) Unexpected repayment of loans by a 3rd party on behalf of members
  - d) Members whose deposits contain counterfeit notes or forged instruments
  - e) Large amount of funds deposited with the co-op and immediately used as collateral for loans

<sup>1</sup> <https://strolls.police.gov.sg/istrolls/index/login.do>

<sup>2</sup> <http://www.police.gov.sg/about-us/organisational-structure/specialist-staff-departments/commercial-affairs-department/aml-cft/suspicious-transaction-reporting-office/suspicious-transaction-reporting#content>

## Mandatory Leave

62. Mandatory leave is a complementary measure to strengthen organisational resilience and help prevent and deter fraud. Staff in positions which are more susceptible to bribery and exploitation should go on leave of at least five (5) consecutive working days per calendar year. During the period of absence, the staff are not allowed to perform their official duties. There should also be clear covering arrangements in place including granting the covering staff access to relevant information and system processes. Departure from this policy should be allowed only under exceptional circumstances and should be formally approved by the Management.

63. The COM will identify and designate staff who are subject to mandatory leave. For example, staff whose core responsibilities relate to finance or procurement, or staff authorised to perform cash transactions or handling deposits and loans on a recurring and regular basis.

64. Co-ops with small staff strength could consider implementing temporary job rotations/job swaps instead of mandatory leave to minimise the impact on day-to-day operational efficiency.

## Application of Internal Controls

65. This section outlines the application of internal control activities for the common transactions and functions of a credit co-op.

### General Ledger

66. The creation of all general ledger accounts should be accompanied with justification and approved by the designated person of appropriate authority e.g. Finance Manager. The creation of account should only be performed by an IT personnel or non-Finance personnel who has no access rights to recording in the accounting system.

### Revenue and Receipts – Postal Receipts

67. Loss of incoming mails may go undetected. Inadequate internal controls may lead to misappropriation of cash or cash not accounted for.

68. *Segregation of Duties:* An officer unrelated to the accounting function should be assigned to open the mail, if possible. Periodical rotation of mail opening staff should be considered where practical.

69. *Physical Security:* Mailbags should be kept in a secure place until they are ready to be opened by authorised staff.

70. *Recording*: Incoming mail cheques and cash should be recorded immediately and be verified by someone other than the staff who perform the recording.

71. *Supporting Documents*: Mail register, letters and envelopes that contain the details of postal receipts should be filed properly for accounting and verification.

### **Revenue and Receipts – Cash Receipts**

72. A major risk in cash handling is the misappropriation before cash is recorded. Measures need to be put in place to minimise the handling of cash and misappropriation.

73. *Segregation of Duties*: Cash receipts should be counted and recorded by different officers. The staff handling cash receipts should not have access rights to amend records in the accounting system.

74. *Physical Security*: Cash receipts should be counted in a secure environment and held in a secure place before banking-in. Access to the secure place should be restricted to authorised staff.

75. *Recording*: All cash receipts should be recorded. Deductions must not be made from cash received. All incoming money banked-in should be the gross amount and no amounts should be held back for settling petty cash or payment of other expenses.

76. *Supporting Documents*: Documentary proof of cash receipts should be filed properly for accounting and verification. They include:

- a) *Receipt* that is serially numbered should be issued to payee as acknowledgement of cash received.
- b) *Cash counting form* should be prepared at the point of counting for the purpose of subsequent reconciliation with banking-in documentation. This would ensure that all money collected will be banked-in.
- c) *Bank-in slips* for cash receipts recorded and banked in as evidence that the receipt transactions have taken place and is being accounted for.

### **Revenue and Receipts – Banking**

77. Regular banking of cash receipts is necessary to minimise the risk of misappropriation.

78. *Prompt Banking*: Whenever possible, cash should be banked in immediately. Where substantial sums are involved, cash should be banked in stages and preferably by two staff. If cash cannot be banked in immediately, money should be banked in the following day if the amount is large e.g. more than \$2,000.

79. *Physical Security*: Safe custody of all valuables (cash and cheques) should be maintained at all times. Cash and cheques should not be left in an unattended environment and should be kept in a secured location. Suitable bags for banking that can prevent the cash being exposed to public view should be provided to staff on

banking duty. Personal money should not be placed together with money belonging to the co-op.

80. *Segregation of Duties:* A staff should be appointed and be the custodian of the cash and cheques and this staff should not be a cheque signatory. If a safe with key and combination is used, it would tighten controls to separate the key and safe combination custodian.

81. *Insurance:* Money insurance should be purchased for all valuables secured in office and money while in transit. Fidelity guarantee may also be purchased to cover any losses suffered arising from act of fraud or dishonesty committed by staff.

82. *Reconciliation:* At the earliest possible date, reconciliation should be performed on the bank-in slips with the prepared income summary. Where practical, this should be undertaken by staff independent of counting and banking, to ensure that all money collected is banked-in. Bank reconciliation should be conducted on a monthly basis. Staff not involved in cash receipt and payment should perform the duties.

83. *Supporting Documents:* Documentary records should be filed properly. They include:

- a) *Bank-in slips and bank statements* – for cash and cheques banked in as evidence that the receipt transactions had actually taken place and is accounted for.
- b) *Bank reconciliation statement* – to account for the differences between the bank balances as recorded in the cashbook and bank statement.

### **Purchasing and Payments – Purchasing**

84. The COM should approve documented procedures for purchasing to ensure transparency, fair competition and value for money.

85. *Approving Authorities:* Authorised officers and limits of approval for purchases should be incorporated in the purchasing policies and made available to all the staff. Purchases can only be made and approved in accordance to these established authority levels.

86. *Quotation, Tender and Contract:* Purchases should be made in writing and supported by competitive quotations for amounts considered large by the co-op. For purchases above amounts set by the COM, competitive quotations should be provided.

- a) Guidelines should be set for verbal quotations, written quotations and tenders. This should be made available to staff.
- b) Quotations obtained for more than 6 months should not be used. Fresh quotations should be obtained.
- c) Quotations obtained from regular vendors should be reviewed annually to ensure fair prices and quality.
- d) Maximum period for any contract should be 3 years. A longer or unlimited period should not be allowed.



87. *Purchase/Service order*: The purchase order form should contain description of goods and/or services, quantity, prices and the name of the supplier's name and address. Purchase order form should be pre-numbered and signed by authorised personnel. The original is sent to the supplier. Attention should be given to purchases orders that are not closed after the target delivery date.

88. *Goods/Service Received*: Staff receiving the goods and services should ensure goods delivered are according to the description and quantities stated in the order form. Damaged goods should be refused and returned to suppliers. Acceptance of goods/services should be indicated and signed on the delivery orders.

89. *Segregation of duties*: There should not be an officer who may request purchase, approve purchase and receive of goods/services. These tasks should be handled by different officers, where possible (e.g. One officer to request purchase and receive goods/service while another officer to approve purchase). This is to detect if an officer is making purchases for their personal use (paid by co-op).

90. *Supporting documents*: Documentary records to be filed include:

- a) Invitation for quotation,
- b) Quotations received,
- c) Tender notice,
- d) Tender submission,
- e) Purchase/service order,
- f) Delivery order, and
- g) Service report.

### **Purchasing and Payments – Payments**

91. The lack of controls in payments may lead to unauthorised payments or undetected wrongful payments. Payments are to be handled in such a manner to ensure:

- a) Expenses incurred are for authorised purposes,
- b) Payments are made on a timely basis and in accordance with the purchase orders and contracts, and
- c) Payments are charged and recorded under appropriate accounts.

92. *Processing of Invoices*: The item description, quantity and price in the supplier's invoice must be matched with the purchase/service order and delivery order or service report where applicable. Supplier's invoice should be processed for payment by the stated due date.

93. *Processing of Payment Vouchers*: The payment vouchers with the original invoices must be submitted for approval by the authorised approving officer. Invoice computations and pricing should be verified before payment approval. Upon obtaining approval from the authorised approving officer, the processed payment vouchers and supporting documents must be stamped "PAID", with particulars of dates and payment mode, to prevent their re-submission for duplicate payment.

94. *Authorising Cheque Payments:* Bank signatories should ensure the following:
- Cheque payments are accompanied by properly approved suppliers' invoices and payment vouchers.
  - Cheque payee's name and amount match the details on the invoice.
  - Cheques to be signed must not be made payable to themselves.
  - Cheque issued without payee's name should not be signed.
  - Cash cheque should be limited only to the top up of petty cash float.
95. *Segregation of Duties:* Staff handling payments should be segregated from:
- Initiation of purchase requisition,
  - Approval of vouchers and invoices,
  - Preparation of cheques and recording of payments, and
  - Signing of cheques.
96. *Reconciliation of Accounts:* Monthly statement of accounts on amounts paid to suppliers should be reconciled with the recorded account payable balances.
97. *Review of Expenditures:* Periodic review by the COM or key staff in comparing expenses incurred with the budget can provide an effective means of controlling expense, detecting errors and deviation from policies.
98. *Proper Authorisation:* Payments are to be made by cash (only for small value purchases), cheques and Interbank GIRO. Variations and amendments made should be approved and supported by authorised signatures.

### **Purchasing and Payments – Bank Accounts**

99. The lack of controls in management of bank accounts may result in fraudulent practices that include unauthorised payments.
100. *Proper Authorisation:* The opening and closing of bank accounts have to be authorised by the COM.
101. *Dormant Bank Account:* Checks should be conducted to ensure that there are no dormant or unused bank accounts to prevent unauthorised payments which may go undetected.
102. *Bank Signatories:* The COM must appoint officers as bank signatories. One of the signatories must be the Chairman or Treasurer, who may delegate this role to another COM member or staff by a board resolution. There should be at least two bank signatories for each payment. Bank signatories should be unrelated.
103. *Physical Security:* Specimen signatures of bank signatories and monthly bank statements issued by the banks should be kept in a secured place. Access to blank cheque books should be limited to authorised staff and they should be kept in a secured place.
104. *Segregation of duties:* The preparation, signing and mailing of cheques should be handled by different officers to reduce the risk of theft or alterations.



105. *Cheque Control:* There should be proper physical control of cheques. A cheque register should be used to record movement of blank cheque books stating the date, serial number and quantity of new cheque books from bank, cheque books issued and remaining balance on hand.

106. Cheque stubs should be completed and recorded with the particulars at time of payment.

107. Unused cheques should be secured by a designated officer. They should be checked at regular intervals to account for all the cheques and tally with the records in the cheque register. Any discrepancy should be reported to management accordingly. Access to unused cheque books should be limited to authorised staff and they should be kept in a secured place. Spoilt/void cheques should be retained for audit purpose.

108. *Bank Reconciliation:* Bank reconciliation should be carried out regularly. Checks are to be made between bank statement and records of receipts and payments in the accounts.

109. *Internet Banking:* Only bank signatories should have the internet banking token and access rights to perform transactions. Finance staff that require access to the bank statements should have “view only” rights assigned to them. Staff authorised to the internet banking function must ensure that the internet banking token is safely kept. The internet banking token and password must not be shared with unauthorised personnel. There should have proper monitoring and documentation of the movement and number of internet banking tokens.

### **Purchasing and Payments – Petty Cash**

110. Policies and procedures on the management of petty cash fund and the nature and limits on the expenses should be clearly defined. The lack of checks and controls may result in undetected misuse of funds or abuse of claims (e.g. duplicated and fictitious claims).

111. *Petty Cash Fund:* This is established by transferring a specified amount of cash to a petty cash box. The fund should be in the custody of a designated staff (“custodian”) for accountability. The custodian is responsible in recording all the transactions (claims, payments and top-up) of the petty cash fund. When cash is paid out from the petty cash fund, the approved voucher and the receipt for the expense should be retained. Claims from the petty cash fund should be confined to allowable minor expenses as approved by the COM or the senior management (e.g. local transport expenses and stationary supplies).

112. *Top Up of Petty Cash Fund:* When the petty cash balance runs low, the approved vouchers will be used as supporting documents to replenish the petty cash fund to its original float. Cheque should be issued for top up of petty cash including petty cash vouchers and receipts should be stamped “PAID” in order to prevent their reuse. The staff responsible for the petty cash should also acknowledge and sign off the receipts.

113. *Reconciliation:* The petty cash fund must be reconciled monthly, against the approved vouchers, to ascertain cash movements are properly accounted for.

114. *Surprise Check:* Surprise checks should be conducted regularly by a staff not handling the petty cash. Discrepancies should be reported to the COM or key staff accordingly.

115. *Physical Security:* The petty cash box should be kept in a secure place and not left unattended.

116. *Segregation of Duties:* The person who reviews the petty cash reconciliation and the person in charge of topping up the petty cash fund should be segregated.

### **New Product Launches**

117. New products (e.g. promotional loans or deposit plans) should be approved by COM prior to launch. The justifications, financial projections (e.g. projected revenue and expenses) and approval by COM should be documented.

### **Deposits Management**

118. Placement of members' deposits can either be by cheque, cash or salary check-off. A deposit slip or receipt should be issued to the member when the deposit is successfully made via cash or cheque. All cheques and cash should be banked in when the amount collected is above stipulated threshold is met or within 3 working days, whichever earlier. For deposits by cheques, the recording of deposit should be dated on the same date as cheque received but after verifying that the cheque is cleared by the co-op's bank. For members who opt for monthly salary check-off arrangement, co-op must ensure it adheres to the employers' deduction guideline such as percentage of salary deductible. Co-op should also perform a reconciliation of the salary deductible every month and to seek clarification with the member for any discrepancy in the deducted amount.

119. Co-op should set a maximum number of deposit accounts that a member is allowed to have, recommended at a maximum of 3 accounts. The minimum placement and tenure should also be clearly stated in the deposit application form. The required documents from a member making a deposit includes NRIC, cash or cheque, and deposit application form.

120. Co-op should issue a fixed deposit certificate stating all the terms and conditions of the fixed deposit including interest rate, tenure and any automatic rollover. Members should be notified timely of matured deposits for instruction to withdraw or rollover the amount to new fixed deposit.

121. Members should fill in a deposit withdrawal form for any withdrawal. The co-op should issue a withdrawal confirmation slip to member upon withdrawal.

## Membership Management

122. For opening of membership account, application form should be filled up by members. Co-op should obtain relevant documents such as proof of identification, bank account details (e.g. bank account number, bank account name), proof of occupation, declaration of criminal/litigation records and any other documents deemed necessary by the co-op in considering the admission of the member. The application form and all with the supporting documents (photocopies) should be kept by co-op.

123. Co-op should ensure that membership records are kept up-to-date by sending reminder (e.g. SMS, email or letter) at least on an annual basis to remind members to update their personal particulars. The co-op may establish a webpage for members to update their particulars online as and when required. In the event that the members cannot be reached through existing contact details, the co-op may attempt to contact the member's employer or family members for further information.

## Inactive or Dormant Account

124. Co-op should determine the period of inactivity necessary to consider the member account as inactive or dormant. Most financial institutions classify an account as inactive/dormant if there are no customer-initiated instructions and/or transactions in the account over a 12-month period. Inactive or dormant accounts should be suspended and the member should notify in writing to re-activate the suspended account. For reactivation of such accounts, the authenticity of the customer-initiated instruction and/or transaction should be subjected to independent verification procedures.

125. For prolonged inactive or dormant account, a confirmation notice in writing should be provided to the members to inform them about the closing of their membership account. Interest should not accrue on any account unless the co-op specifically agrees, or on any unclaimed balance on a closed or dormant account. For more transparency, the policy on the treatment of and cessation of interest payment for inactive or dormant accounts should be approved by members at a general meeting. There should also be policies in place for members (or the executor of the estate in the case of a deceased member) to claim outstanding balances even after the closure of a dormant account.

## Common Reporting Standard

126. The Common Reporting Standard ("CRS") is an internationally agreed standard for the Automatic Exchange of Information ("AEOI"), endorsed by the OECD and the Global Forum for Transparency and Exchange of Information for Tax Purposes, to deter and detect tax evasion through the use of offshore bank accounts.

127. The CRS Regulations empower and require all financial institutions ("FIs") (including credit co-ops) to put in place necessary processes and systems to obtain CRS information from account holders (known as the "Wider Approach") that open a new account with the FIs from 1 January 2017. FIs will have to establish the tax residency status of all their account holders using the information they have and transmit to the Inland Revenue Authority of Singapore ("IRAS") in 2018 the CRS

information of account holders that are tax residents of jurisdictions that Singapore has a Competent Authority Agreement (“CAA”) for CRS with.

128. Co-op should refer to the Standard for Automatic Exchange of Financial Information in Tax Matters Implementation Handbook for further reporting obligations.<sup>3</sup>

## Human Resource Management and Development

129. Human resource policies and practices must ensure that the paid staff possess the expected integrity, ethical values and competence. This avoids the recruitment of staff without the required competencies or are related parties that may lead to conflicts of interest.

130. The roles and responsibilities of officers should be clearly defined to avoid:

- a) Duplication of work;
- b) Lack of accountability;
- c) Poor performance;
- d) Errors in work;
- e) Unauthorised transactions; or
- f) Unauthorised access to files and documents.

131. *Recruitment, Screening and Declaration:* Screening of prospective employees should include checks on candidate’s employment and financial background. Candidates should be required to declare any relationships with the COM members and/or existing employees.

132. *Employment Contract and Appraisal:* All staff should be recruited under a proper contract of employment. Annual appraisal should be conducted and documented by the staff’s supervisor to assess the staff performance.

133. *Staff Training:* A staff handbook should be given to brief new staff on the co-op’s mission, purpose, structure, values, authorisation limits, ethics and the exercising of disciplinary action (if applicable).

134. *Security:* Confidential personnel records of all co-op officers should be secured.

## Payroll

135. The lack of strict internal controls in payroll transactions may lead to unauthorised access to staff and payroll records resulting in:

- a) Leakage of confidential human resource data;
- b) Manipulation and fabrication of records for payments to fictitious employees, employees who have resigned, wrongful claiming of overtime pay or higher manpower rates than authorised.

---

<sup>3</sup> <http://www.oecd.org/tax/exchange-of-tax-information/implementation-handbook-standard-for-automatic-exchange-of-financial-information-in-tax-matters.pdf>

136. *Proper Authorisation:* Salary levels should be properly authorised and recorded. Any changes in salaries should be approved by an appropriate senior officer. Payroll changes including benefits should be recorded and distributed accurately and promptly.

137. *Supporting Documents:* Records to be maintained for verification include approval for recruitment of new staff and their salaries, changes in manpower rates, staff attendance, annual leave, medical leave, overtime, time-off, employment contract, etc.

138. *Verification:* Verification of attendance records is to be conducted by the supervisor. Payroll reports should be verified by a senior officer. Random physical checks could be done to ascertain the existence of employees in order to prevent payment to fictitious employees.

139. *Segregation of Duties:* The preparation of payroll, payment of salaries and random checks on existence of employees should be done by different officers. Cash payment for salaries should be avoided.

140. Staff compensation policy should be designed to attract and retain competent and experienced personnel. However, compensation policies for risk management, control and compliance functions should not be tied to the revenue performance of loans, deposits and other products. The co-op should also maintain proper documentation of staff appraisals for remuneration purposes.

## Appendix A: Risk Assessment Sample

S/N	Business Process	Potential Risk	Impact	Severity (H/M/L)	Likelihood (Likely/Possible/Unlikely)	Mitigating Controls	Owner	Follow-up Review
1	Loan Applications	Loans granted to members who cannot repay	Writing off of loans and financial loss	High	Likely	<ul style="list-style-type: none"> <li>Loans evaluated based on the established criteria</li> <li>Loans approved by relevant authority</li> <li>Segregation of duties for evaluation and approval</li> </ul>	Loans Department	
2	Disbursement	Disburse to incorrect or unauthorised parties	Inaccurate records or misappropriation of co-op funds and financial loss	High	Possible	<ul style="list-style-type: none"> <li>Disbursement according to supporting documents and reviewed by relevant authority</li> <li>Disbursement approved by relevant authority</li> <li>Segregation of duties for approval and disbursement preparer</li> </ul>	Finance Department	
3	Receipt of Deposits	Deposit not or incorrectly recorded	Inaccurate records or misappropriation of co-op's funds	High	Possible	<ul style="list-style-type: none"> <li>Contribution to accounts through GIRO</li> <li>Amendments to members' accounts are reconciled and reviewed</li> </ul>	Front office and Finance Department	

S/N	Business Process	Potential Risk	Impact	Severity (H/M/L)	Likelihood (Likely/Possible/Unlikely)	Mitigating Controls	Owner	Follow-up Review
						<ul style="list-style-type: none"> <li>• Segregation of duties for maintaining member's account and custody of cash received</li> <li>• Statement of accounts periodically issued to member</li> </ul>		
4	Withdrawal of members' deposits	Withdrawal not or incorrectly recorded	Inaccurate records or misappropriation of co-op's funds	High	Possible	<ul style="list-style-type: none"> <li>• Withdrawal by members are supported with supporting documents</li> <li>• Disbursement documents are reviewed and approved by relevant authority</li> <li>• Amendments to members' accounts are reconciled and reviewed</li> <li>• Segregation of duties for maintaining member's account and disbursement</li> <li>• Statement of accounts periodically issued to member</li> </ul>	Front office and Finance Department	
5	Investment	Unauthorised investment	Investment and financial loss	High	Possible	<ul style="list-style-type: none"> <li>• Investment approved by relevant authority prior to transaction</li> </ul>	Investment Officer	

S/N	Business Process	Potential Risk	Impact	Severity (H/M/L)	Likelihood (Likely/Possible/Unlikely)	Mitigating Controls	Owner	Follow-up Review
						<ul style="list-style-type: none"> <li>Investment made according to investment mandate</li> </ul>		
6	Procurement	Payment to staff instead of supplier	Misappropriation of co-ops' funds	High	Possible	<ul style="list-style-type: none"> <li>Crossing of cheques to supplier</li> <li>Restricted access in changing of supplier bank account details</li> </ul>	Finance Department	
7	Human Resource	Unauthorised recruitment/ termination/ promotion	Hiring of unsuitable candidate/ wrongful termination, breach of labour regulation/ promotion, increment, bonus given to employees without cause	High	Possible	<ul style="list-style-type: none"> <li>Recruitment is approved by relevant authorities</li> <li>CV matched to job description and interviews are conducted</li> <li>Contract is reviewed and approved by relevant authorities</li> <li>Promotion/termination is supported with appraisals, follow-up and review of employee's performance</li> <li>Performance improvement plan and consequences are communicated to employee</li> <li>Promotion/ increment/ bonus is reviewed and</li> </ul>	HR Department	



S/N	Business Process	Potential Risk	Impact	Severity (H/M/L)	Likelihood (Likely/Possible/Unlikely)	Mitigating Controls	Owner	Follow-up Review
						approved by approved by relevant authorities		
8	Payroll	Unauthorised amendments and phantom employees	Misappropriation of co-ops' funds	High	Possible	<ul style="list-style-type: none"> <li>• Segregation of duties for maintaining employee master file and payroll function</li> <li>• Amendments (add/amend/delete) to employee master file are supported with relevant documents such as signed contract, new salary, resignation letter</li> <li>• Payroll disbursement file reviewed by the relevant authorities</li> </ul>	Payroll Department	

## Appendix B: Sample Whistle-Blowing Policy and Procedure

### Introduction

This whistle-blowing policy aims to provide a framework for employees and external parties to report any concerns or complaints regarding any form of malpractice, wrongdoing or statutory non-compliance, including but not limited to questionable accounting or auditing matters, internal controls, disclosure matters, conflict of interest, collusion with competitors, unsafe work practices or any other matters involving fraud, corruption, COM member or employee misconduct.

The Policy allows for reporting by employees or external parties without fear of reprisal, discrimination or adverse consequences and also permits ABC Co-operative Society Limited ("ABC") to address such reports by taking the appropriate action, including, but not limited to, disciplining or terminating the employment and/or services of those responsible.

### Scope

Any COM member, employee, vendor, contractor, third party, applicant for employment, or member of the general public who notices, is aware of, or has any concerns about any actual or suspected wrongdoings committed by any ABC COM member, employee, staff, management, or contractor, can lodge a complaint.

Reportable incidents include, but are not limited to the following improper or unethical activities, actual or suspected:

- a. Corruption, embezzlement, cheating, theft or bribery
- b. Misuse/misappropriation of funds and resources
- c. Irregularities in financial reporting, questionable accounting or audit matters
- d. Non-compliance with laws and regulations
- e. Falsification or fraudulent alteration of documents (mandatory submissions to relevant authorities [e.g. IRAS, MCCY etc.], contractual agreements, invoices, purchase orders etc.)
- f. Abuse or misrepresentation of power or authority
- g. Conflict of interest without due disclosure
- h. Breach or circumvention of internal policies
- i. Unauthorised access or disclosure of information
- j. Concealment or wilful suppression of any malpractice or misconduct
- k. Acts to mislead, deceive, manipulate, coerce or fraudulently influence the preparation, examination, audit or review of any assets and records
- l. Unsafe work practices that endanger the health or safety of persons or environment
- m. Acts of harassment
- n. Professional malpractice, e.g. violation of intellectual property rights,
- o. Acts of retaliation, intimidation or harassment, discrimination or unfair treatment against staff who have made an allegation or assisted in the investigation of an allegation

- p. Any other conduct that may cause financial, non-financial loss or damage of ABC's reputation
- q. Aiding and abetting illegal activities or any of the above misconduct
- r. Breach of confidentiality in co-op's or members' information

ABC strongly encourages the whistle-blower to leave his/her name in his/her complaint so that the organisation can get more information, seek clarifications and investigate the matter effectively.

To the extent practicable and/or permitted by law, ABC will keep the identity of the whistle-blower confidential. All concerns or irregularities raised will be treated with confidence and every effort will be made to keep the whole process confidential.

Exceptions where the identity of the whistle-blower may need to be revealed include:

- a. It is required by law to reveal his identity,
- b. It is necessary as part of the investigation process to reveal the identity of the whistle-blower,
- c. The whistle-blower's identity is disclosed on a strictly confidential basis to professional service providers for the purpose of obtaining professional advice;  
or
- d. The whistle-blower is required to testify as a witness in a civil or criminal trial.

## Protection

The Policy is meant to protect genuine whistle-blowers from any unfair treatment as a result of their report. A genuine whistle-blower who files a complaint in good faith shall not be discriminated, intimidated or harassed, and ABC will take reasonable and appropriate action to protect all genuine whistle-blowers who file a complaint in good faith.

If an allegation is made maliciously or for personal gain, appropriate action may be taken against the whistle-blower. This may include disciplinary action (for employee), or reporting the matter to the police (for a third party).

The Policy is also not a route for taking up personal grievances. These should continue to be taken up directly with department supervisors or the HR & Admin Department.

## Procedures

1. Complaints may be raised with or information provided to:

(a) By Post

Please mark the letter "**Private & Confidential**  
For the attention of the Chairman, Audit Committee  
ABC Co-Operative Society Limited  
123 ABC Street  
#01-23  
Singapore 123456"

(b) By Email

Email Address: AuditCom@abccoop.org.sg

Please mark the subject header of the email “**Private & Confidential** for the attention of the Chairman, Audit Committee, ABC Co-Operative Society Limited”

2. To the extent feasible, the whistle-blower should provide the following information and details so that the matter can be assessed and investigated effectively. Details should include the following:
  - a. Background and history of events
  - b. Parties involved
  - c. How the impropriety was discovered
  - d. Value involved
  - e. Evidence (if any)
3. All information received will be treated with confidentiality.
4. Assessment of the concern or information shall be made with due consideration given to the following factors:
  - a. Seriousness of the issue raised
  - b. Credibility of the concern or information; and
  - c. Likelihood of confirming the concern or information from the attributable sources
5. The Audit Committee will have overall oversight of this Policy and may at its absolute discretion delegate the investigation to such person (internal or external) as it deems fit, and/or may refer the matter to the authorities or regulators as it deems appropriate.
6. Further information may be sought from the whistle-blower during the course of the investigation. When the investigation is completed, the investigating officer(s) will report the findings to the Audit Committee for its necessary action.

ABC reserves the right to modify this Policy to maintain compliance with any applicable laws and regulations and/or in light of any restructuring of ABC.

## Appendix C: Sample Internal Audit Terms of Reference

### 1. Role

- 1.1 The Internal Auditor is responsible for conducting an objective and independent appraisal of all the co-op's activities, financial and otherwise. The Internal Auditor will report to the Audit Committee ("AC") provide them with assurance or recommendations on the arrangements for risk management, control and governance. It remains the duty of management, not the Internal Auditor, to operate these arrangements, to determine whether or not to accept audit recommendations and to recognise and accept the risks of not taking action.

### 2. Responsibilities

- 2.1 The Internal Auditor's responsibilities should include (but not limited to) the following:
- a) prepare the internal audit plan for AC's approval;
  - b) evaluate the reliability, adequacy and effectiveness of the internal controls and risk management processes of the co-op;
  - c) review the internal controls of the co-op to ensure prompt and accurate recording of transactions and proper safeguarding of assets;
  - d) review whether the co-op complies with its by-laws and the relevant regulatory requirements;
  - e) review whether the co-op adheres to established policies and SOPs;
  - f) review whether the co-op has taken or is taking the appropriate steps to address control deficiencies; and
  - g) Report to the AC the findings arising from the reviews and if lapses are found, provide recommendations to the AC on the possible corrective/preventive actions.
- 2.2 The Internal Auditor may also conduct any special reviews requested by AC provided such reviews do not compromise its objectivity or independence, or achievements of the approved audit plan.

### 3. Access and Reporting

- 3.1 The Internal Auditor should have unfettered access to the AC, the COM, as well as the co-op's documents, records, properties and personnel. The Internal Auditor should have the right to seek information and explanations. The Internal Auditor reports directly to the AC. For day to day administration purposes only, the Internal Auditor reports to the General Manager of the co-op.

#### 4. Independence

- 4.1 The Internal Auditor should have no executive role, nor does it have any responsibility for the development, implementation or operation of systems. However, it may provide independent and objective advice on risk management, control and governance, value for money and related matters, subject to resource constraints.

#### 5. Standards and Approach

- 5.1 The Internal Auditor should carry out its functions according to the standards set by nationally or internationally recognised professional bodies including the **International Standards for the Professional Practice of Internal Auditing** issued by the Institute of Internal Auditors.
- 5.2 The internal audit function should be adequately resourced. The function can either be in-house, outsourced to accounting/auditing firm, or performed by internal auditors of another entity.

## 3-years Internal Audit Plan (Sample)

Audit Areas	Year 1	Year 2	Year 3
Membership, Deposit and Withdrawal	A	A	A
Loans (Including member loans, staff loans, related loans and affiliated entities)	A	A	A
Investment management	A	F	
Procurement and Payment (Including grants, awards, etc. to members)	A	A	A
Revenue and Receipt (Including grants received)		A	F
Fixed Assets		A	F
HR and Payroll		A	F
General Information Technology Controls	A	F	
Compliance with relevant laws (Including Co-operative Societies Act, subsidiary legislation and written directions)	A	A	A
Corporate Governance		A	F
Total	6 A	8A	4A

A = Audit, F = Follow-up