



the principles of  
**BUSINESS CONTROL**

# INTRODUCTION

**The purpose of this booklet is to outline the principles of sound business control for individuals attending courses delivered by Kingdom Management Training.**

**It is the responsibility of chief executives to demonstrate an appropriate framework of business controls that matches the demands of legislators and society in the area of Corporate Governance.**

*For an enterprise, in the widest sense, to function effectively it needs a clear, well-designed management system incorporating a framework of business controls appropriate to the industry, size, culture and management philosophy of that enterprise. Without such a system and framework, the enterprise and all those involved with it may be unwittingly subject to an unacceptable level of risk. In many instances, the occurrence of a major set-back to the enterprise's success is being avoided by good fortune and not management's judgement.*

The purpose of this booklet is to outline the principles of sound business control for individuals attending courses delivered by Kingdom Management Training.

Control is not an end in itself. To be "fit for purpose", controls will be neither bureaucratic and over costly nor so weak that meeting the enterprise's business objectives is threatened.

The growing demands of legislators and society in the area of Corporate Governance underlines the need to demonstrate compliance with the relevant guidelines, codes and best practice.

It is the responsibility of chief executives and managers at all levels to create, operate, demonstrate and maintain an appropriate framework of business controls which covers not only financial or administrative aspects, but also all operational, technical and commercial activities. The existence of such a framework will not of itself guarantee success but the absence of appropriate business controls, to which management is committed, is likely to lead to significant problems for an enterprise.

We hope that our course and the content of this booklet will persuade you to review your enterprise's approach to managing its business and to adopt as necessary the principles expounded therein.

**Kingdom Management Training**

# A BASIC CONTROL MODEL

*The process to obtain reasonable assurance of managing risks which would otherwise stop an enterprise meeting its objectives.*

## Control strata

**Environment**

**Planning**

**Organisation**

**Operations**

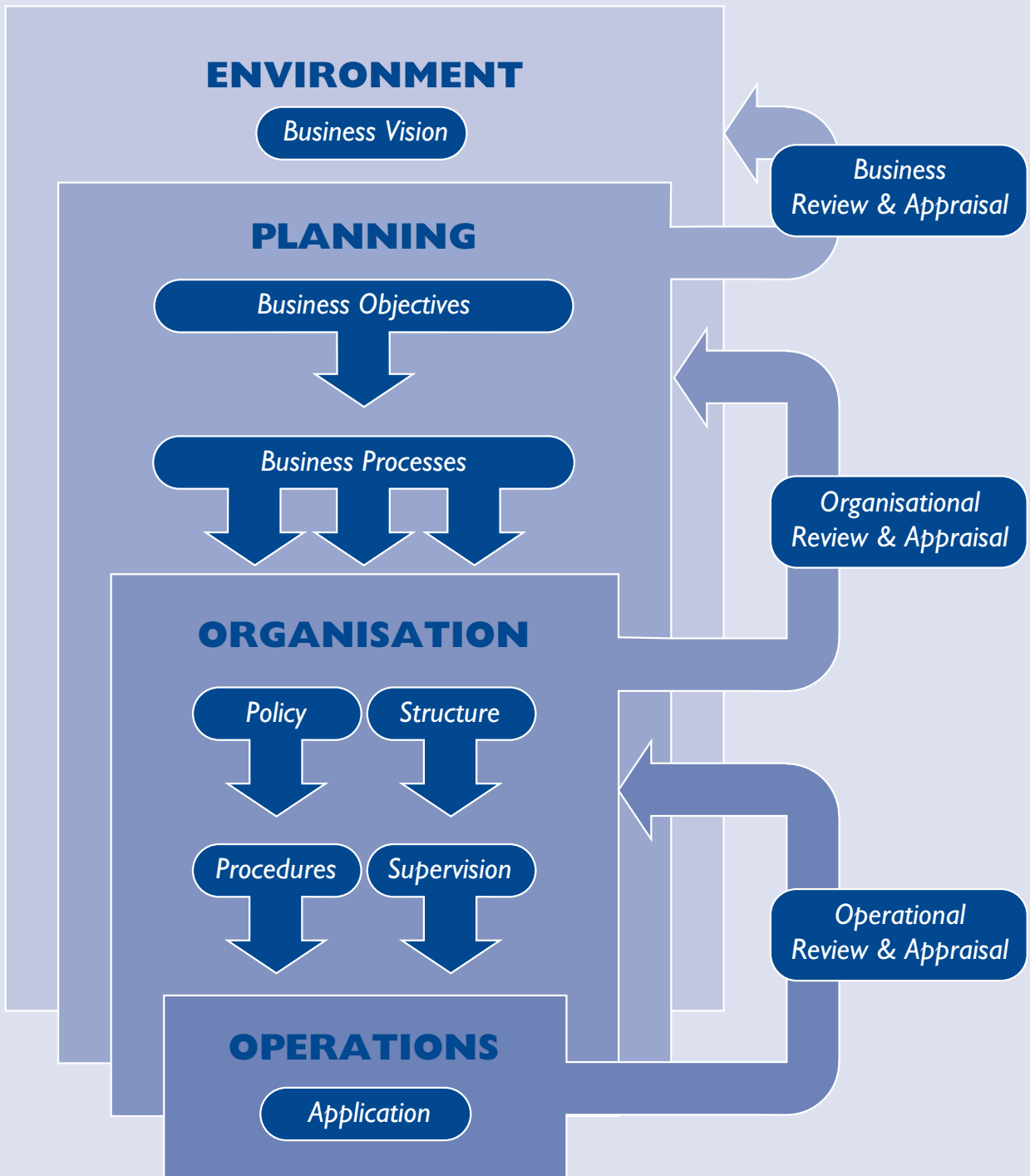
*Business Control is the process by which any enterprise's management obtain reasonable assurance of achieving their specified objectives, and discharging their responsibilities to stakeholders such as shareholders, employees, customers, suppliers and society.*

*An effective business control framework can be defined and illustrated in a number of ways (COSO, COCO, Cadbury). The strength of the model featured in KMT's courses lies in its simplicity and flexibility and its reflection of all the features of modern management systems.*

The figure opposite depicts a basic business control model which comprises four inter dependent strata: environment, planning, organisation and operations.

- All enterprises exist within a business environment which is subject to constant and increasingly rapid change, and that should affect management's business vision of risk and opportunity.
- Business objectives are the start point for all business controls and should guide all the business processes of the enterprise.
- Business process analysis includes the identification of critical success factors and risks and, therefore, which business controls are needed and how the enterprise can be organised more effectively in line with its business processes.
- Business controls for all processes can be typified under five "control mechanisms" - policy, structure, procedures, supervision, and review and appraisal.
- Business controls should be applied to business operations in an effective and efficient manner.
- Performance measurement, review and appraisal should be made from operational, organisational and business perspectives.
- Operational review and appraisal should involve quantitative and qualitative measures of performance.
- Organisational review and appraisal should confirm the appropriateness of business controls whenever operational or organisational changes are planned or environmental changes occur.
- Business review and appraisal should confirm the progress of the enterprise against its specified objectives. Changes in the business environment may mean that the enterprise's objectives need to be revised, with subsequent organisational and operational reviews of the control framework.

All business control frameworks comprise various categories of control, which themselves are rooted in good management practice. Therefore, these categories can be considered both as components of a business control system and as essential criteria for an effective management system.



# RISK AND PEOPLE

**Risk assessment is a vital management activity that enables management to knowingly accept the residual risk in their enterprise.**

## Risk Management

*Risk, broadly defined, is something which may hinder achievement of business objectives.*

- Risk assessment is a vital management activity. This does not imply that all risks can, or should, be avoided. The inability or failure to seize business opportunities may itself be a significant risk.
- An effective business control framework will be able to react to changes in risks and opportunities in the business environment or operations.
- The strategies for dealing with any particular risk are:
  - avoid or terminate the activity or situation
  - transfer the risk to, or share it with, another party
  - reduce the potential impact of the risk by applying appropriate business controls
  - knowingly accept the residual risk (when further, cost-effective control is not possible).

## The Human Factor

*How people behave in an enterprise is critical to the success of any control framework.*

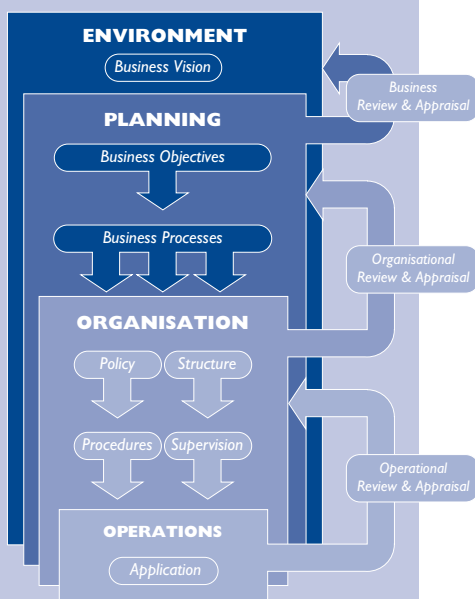
Critical success factors are:

- the tone and example set by the highest management level regarding the ethical values, standards and actions of everyone associated with an enterprise
- the quality of all levels of staff and their understanding, support and compliance with the business controls in their area
- an adequacy of time and competent resources for proper operation, maintenance and review of business controls
- good communication between individuals and between groups of people
- reliable, timely and useful information to enable staff to discharge their responsibilities efficiently and to measure their achievement of specified objectives.

# ENVIRONMENT AND PLANNING

**Management** must clearly articulate a vision which every employee can relate to from their position in the enterprise.

**Business objectives** must be communicated to those who will be responsible for delivering them.



## Business Vision

Every enterprise needs a vision of what and where it wants to be. From such a vision, management can create strategies and specify business objectives which take full account of the opportunities and constraints inherent in a range of possible business environments, the resources that should be deployed and the enterprise's existing competitive position.

## Business Objectives

Even though they are a means of realising an enterprise's vision, business objectives are not themselves controls, but rather the necessary start and end points for an integrated business control framework.

Business objectives should:

- accord with any published code of conduct
- guide the business processes of the enterprise
- apply to each level of management
- form a coherent whole and be internally consistent
- give explicit time frames for achievement of measurable results
- have wide participation in their development, and
- be communicated to and understood by all staff.

## Business Processes

Business processes are logically linked groups of activities needed to fulfil the business objectives of the enterprise.

They comprise:

- core processes, those that directly deliver the required product or service to the enterprise's customers, and
- service and control processes, those that provide the corporate infrastructure to perform the core processes.

Effective overall business control will result if an enterprise is managed as a series of core business processes and service processes, each with its own quality process for continuous improvement and business control framework.

Business process activity charts generally describe the 'what' and not the 'how' or the 'information' used, but process analysis provides a basis for control self assessment: the determination of where control accountabilities lie, identification of risks and control objectives, definition of necessary controls, authorisation to accept the residual risks and setting appropriate performance indicators.

# ORGANISATION AND OPERATIONS

**Senior management** use policy to tell their personnel how to react to the key risks of their business environment.

**Policy directs** how an enterprise intends to meet its objectives and responsibilities to stakeholders.

**A critical structural control** is “the tone from the top” - the attitudes held and example set by the senior management team.

**People** must be organised and led by having clear:

- responsibilities
- authorities
- accountabilities
- appraisal

## Policy

*Policies comprise general principles and guidelines for action which influence decisions. They define the boundaries within which the enterprise's management and staff may choose to operate.*

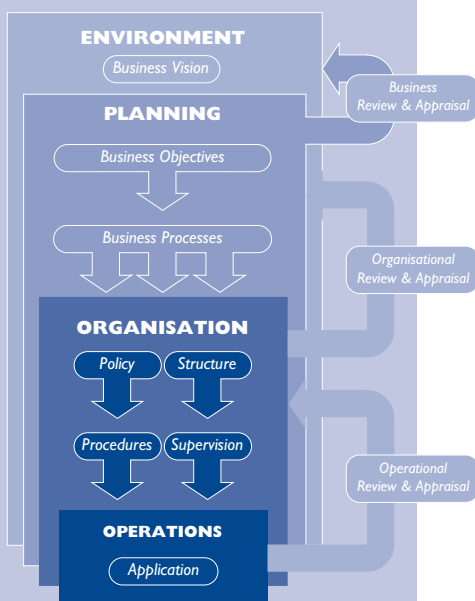
- Senior management is responsible for setting major policies in a structured way. At lower levels, actions and decisions are guided and empowered by intermediate policies and procedures which are consistent with major policies.
- General policies should always be made accessible to all staff.
- For each business process, policies are developed by:
  - considering the operating environment and the process objectives, and identifying categories of inherent risk, and
  - formulating general directives, in respect of such risks, to enable consistent lower level policies and procedures to be developed as a basis for future operations.
- Policies should be:
  - clearly and concisely expressed as a practicable proposition
  - documented and promoted in line with their relevance and importance
  - distributed to and explained to relevant staff
  - kept up-to-date as necessary.

## Structure

*Structural or organisational controls concern the creation and maintenance of the necessary fabric and resources for an enterprise to achieve its business objectives. Fabric includes assets and communication. Resources include staff, finance and information systems.*

- The attitudes held by the senior management team will set the tone for an effective framework of business controls. If management underlines its commitment to the importance of control and ethical behaviour through programmes of control awareness, a sound control framework will surely follow.
- All staff should know the code of conduct and principles of integrity expected of them by the enterprise over and above legal obligations.

**Accountability for achievement of parts of the overall business objectives is critical.**



- Individuals' or teams' responsibilities should cover all activities of the enterprise without gaps or overlaps. Every position should have clearly established and documented responsibilities, authorities and accountabilities.
  - Responsibility should lie at a level at which the time and expertise required exists.
  - No individual should have exclusive knowledge, authority or control over important transactions.
  - Financial and operational authorities, documented as needs be for all activities, should be appropriately assigned to match individuals' responsibilities.
  - A chain of accountabilities should be clearly established throughout the enterprise in order to monitor achievement of business objectives in accordance with the enterprise's business plan.
  - Realistic targets for quality and quantity should be clearly assigned and communicated to each accountable individual.
  - Accountable individuals must report to their line manager on actions taken to discharge their responsibilities, and the results thereof, and confirm the continuing effectiveness of business controls in their areas.
  - Accountable individuals are responsible for creating, operating, reviewing and improving business controls in their areas.
- Effective exercise of accountability depends on:
  - provision of adequate resources - people, finance and information - to be able to fulfil assigned targets
  - recruitment and training of competent staff appropriate to their position
  - development of competence so that responsibilities and reporting relationships can be regrouped more efficiently.
- Control over the transfer of accountability is critical.
  - Handover arrangements should make clear to incoming managers or supervisors the targets and control systems for which they will be held accountable.
  - For absences, clearly defined assignment of authorities and accountability should be approved by the absentee's supervisor.

# ORGANISATION AND OPERATIONS

**Procedural controls** may range from extensive documented procedures to less formal working instructions and localised procedures developed by staff themselves.

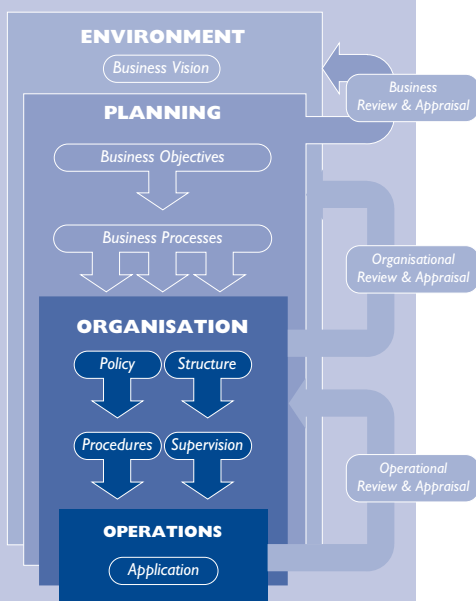
## Procedures

*Procedures describe how management require business operations to be carried out with the purpose of confirming how to address risks. Procedural controls may range from extensive documented procedures to less formal working instructions and localised procedures developed by staff themselves.*

- Managers should ascertain the extent to which activities require procedures and ensure that they are properly developed and approved. This selection process requires knowledge of the activity and its risks, appreciation of all relevant policies' purposes, and evaluation of optional treatments.
- Detailed written procedures are not necessary, generally, for activities which are not critical and have a minimal cost of failure.
- Policies, combined with competent staff, are needed for directing or guiding activities which do not warrant a procedure.
- Procedural controls should be applicable as effectively and adaptably as possible. It is sensible to adopt procedures which have already been prepared elsewhere and to use a delivery medium and context which optimise staff access to the procedures.
- Procedures should be made available and accessible to all relevant staff. Effective procedures enable staff to understand how an activity fits into the overall business process, how to do an activity, what the required standard of performance is, and what the control objectives are.

“ **Effective supervision** requires continuous confirmation that procedures and policies are followed properly and kept up to date. ”

“ **Successful supervision** requires just the right blend of direction, trust, delegation and necessary checking which is appropriate to the motivation and development of each level of staff. ”



## Supervision

*Supervisory control includes all forms of regular comparisons, reconciliations and monitoring carried out in the normal course of operations by both internal and external, manual and automated sources.*

- Effective supervision requires continuous confirmation that procedures and policies are followed properly and kept up-to-date.
- Managers at all levels responsible for supervising staff, should ensure their adherence to procedures and policies, by:
  - confirming that all staff are clear about their responsibilities and authorities, understand the procedures and policies pertinent to their work, and are competent to perform them
  - inspecting, personally, that procedures are being followed in practice. Critical, high-risk activities will require more frequent checking
  - identifying changes occurring in the enterprise whereby any controls may, or have, become redundant, ineffective and/or inefficient; encouraging staff to be similarly aware that they are often best placed to identify uncontrolled risks and can therefore suggest meaningful improvements to procedures and policies; and recognising successful suggestions
  - providing for regular reports on operations - with any financial data being integrated with or reconcilable to the corporate financial reporting system
  - investigating potential or actual breakdowns in control, and correcting the situation.
- By carrying out supervisory controls, managers are well placed to identify gaps in, and so develop the competence of their staff (including subordinate managers).
- Successful supervision requires just the right blend of direction, trust, delegation and necessary checking which is appropriate to the motivation and development of each level of staff.

