

Accounting control system 2/5/22

The Accounting Act and the Cabinet of Ministers' Rule No. 877 came into force on 1 January 2022. Because no transition period is allowed for the new requirements, this article again highlights key changes affecting the CEO's duties and responsibility for adopting control system rules that must be described in the company's accounting policy.

A system of controls

Section 31(2)(2) of the Accounting Act states that the CEO is responsible for devising and maintaining a system of accounting controls and for enforcing those controls.

Accounting controls are measures a company takes to control the accuracy and credibility of its financial records, the preservation of its property, and the accuracy of its tax calculations, and to verify the accounting information is true, comparable, timely, relevant, understandable and complete as required by section 5(1) of the Accounting Act.

Paragraph 10 of Rule No. 877 lists types of accounting controls the CEO should set up to prevent fraud and breaches in preserving the company's property, to control the accuracy of its financial records and tax calculations, and to avoid errors in its accounting data and loss of the information contained in its documents.

Rule No. 877 requires the control system to include at least two types of controls. One key control is a stocktake that involves drawing up an inventory of movable and immovable assets as well as cash and inventory balances, reconciling the stocktake results with the accounting data, analysing or investigating the causes of any discrepancies found, and updating the accounting data. The other key control involves comparing the company's balances with its suppliers, banks, or other payment service providers. For example, the company might quarterly reconcile all its accounts with an independent source, such as a bank account statement.

The Accounting Act recommends that the company should adopt other types of controls as part its control system.

One of the controls involves prescribing the rights of employees in charge to access information according to their competence levels in order to ensure that an employee who is authorised to make a business transaction and prepare a supporting document for it, is not also authorised to approve, check or enter that document in the books or financial statements.

The CEO should adopt the so-called "four eyes" principle to ensure that at least two employees take part in performing particular functions. The CEO should also appoint an employee responsible for keeping the company's cash and tangible assets, who then controls the right to access the company's property.

To make sure the company's books comply with the Accounting Act and other legislation, the CEO may introduce regular checks by appointing an employee in charge, allocating duties, and specifying relevant controls.

The CEO is also responsible for retaining, archiving and preserving the company's data, so it is important for the control system to include measures to prevent losing the information contained in the accounting documents, such as limiting access to the accounting data, appointing staff responsible for retaining the original accounting documents, copies or data images until they are archived, as well as prescribing how accounting data backups should be made and stored.

Section 31 of the Accounting Act requires the CEO not only to devise and set up a control system but also to organise the bookkeeping as follows:

- Devising documents that organise the books and enforcing relevant procedures in the company
- Laying down accounting software security rules as well as technical and organisational requirements for data protection
- Laying down rules on how accounting documents (original or electronic) should be archived and accessed

The CEO is also required to devise stocktake instructions and organise a stocktake at least for the annual closure.

The Accounting Act permits the CEO to choose a form of supporting document that fits the company's business activity, the type, content and number of accounting records and how those should be prepared (electronic or hardcopy), and to choose accounting software or information systems software in line with statutory requirements.

We encourage you to inform your CEO of their statutory duties and responsibility, and to assess whether your company has already set up appropriate controls, which must also be described in your accounting policy.