



Payment Procedures

Corruption Prevention Department

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PAYMENT PROCEDURES

Introduction

Payment for goods and services procured is an important activity of a company or organization and may bring about serious loss through fraud, corruption and other malpractice. Common abuses of the payment system include misappropriation or embezzlement of funds through falsifying records, collusion with suppliers to inflate payment amounts, bogus payment claims and diversion of payments due to suppliers for personal use. Corruption is involved if the abuses are condoned by colluding supervisors or the staff involved expedite payments to the suppliers in return for advantages.

This Best Practice Module aims to highlight the risk areas in a payment system and provide companies and organizations with a checklist of good practices in controlling payment.

Procedural Guidelines

To ensure timely and accurate payments to suppliers/contractors and consistency in payment practices, it is useful to draw up clear and comprehensive guidelines on the payment procedures for issue to staff. The guidelines should cover a number of key elements:-

- the different authorization levels for approving payments/signing cheques and their corresponding financial limits;
- the different payment methods acceptable based on the amount of transactions;
- documents required to support a claim for payment;
- provision for non-routine payments such as advance payments and conditions attached;

- the need to settle credits in accordance with the specified payment terms; and
- staff's relationship with suppliers and contractors (i.e. the need to declare conflict of interest and prohibition on acceptance of lavish or frequent entertainment from them).

The procedural guidelines should be regularly reviewed and updated to meet changing circumstances.

Payment Methods

The three most common payment methods include autopay, payment by cheque or petty cash.

Autopay

Autopay is commonly used for settling routine payments such as utility charges and regular supplies. The following measures could help reduce the risk of manipulation:-

- an autopay list should be maintained detailing the payees' particulars and the goods/services they provided;
- additions to and deletions from the autopay list should be properly verified and approved by the appropriate authorities;
- instructions on the upper payment limit, frequency and expiry date (if appropriate) of autopay should be specified for individual payees;
- autopay authorizations and any standing instructions should be verified and approved by the designated staff member before referring to banks; and
- the autopay list should be reviewed regularly to ensure the particulars of payees and payment instructions are up to date.

Cheques

Payments of goods/services procured are usually settled by cheque. The following measures are recommended to enhance control over cheque payments:-

- all cheques should be signed by at least two authorized signatories;
- the authorized signatories should not be allowed to sign cheques drawn in their favour;
- issue of cash cheques should be avoided as far as practicable and be signed by designated persons;
- cheques should be crossed and made payable to the approved suppliers only;
- signing of blank cheques in advance should not be allowed;
- payment cheques should be serially numbered and cross-referenced with the payment records (e.g. purchase orders and invoices);
- voided cheques should be cancelled and retained for audit purposes;
- blank cheque books should be kept by staff other than the signatories and each cheque issued should be accounted for; and
- a system should be in place to ensure that banks are promptly notified of the withdrawal of any cheque signatories.

Petty Cash

Petty cash is used for reimbursement of small value expenses. Since the risk of misappropriation is inherent in the handling of cash, the management should maintain effective control over petty cash. The following control measures are recommended:-

- petty cash should be maintained under an imprest system;

- petty cash should be maintained at a specified level which should be based on actual expenditure and reviewed periodically;
- petty cash claims should be made on a reimbursement basis against a written request and an invoice certified by an authorized staff member;
- specimen signatures of authorizing staff members should be maintained by the petty cash account holder;
- claimants should acknowledge receipt of payments by signature; and
- cash advance should not be allowed unless approved by authorized staff with reasons.

Payment Records

Records of payment claims should be kept in an orderly way to facilitate easy reference and audit checks. They should contain full particulars of the goods/services procured and be supported by the following documents:-

- copies of requisition authorization and purchase orders;
- suppliers' invoices/delivery notes showing details of the goods/services provided and the amount claimed; and
- certification that the goods/services have been received in good order.

Payment records are also important management information. The following measures should be adopted to ensure the proper maintenance of these records:-

- payment records should be serially numbered and cross-referenced with the respective payment account entries;
- erasures of payment records/entries should not be permitted, and any corrections/amendments should be shown and initialled by the authorizing officer and/or the payee in the records;

- unused space in these records should be crossed out to prevent insertion of unauthorized entries;
- certification should be made only on original invoices;
- a list of specimen signatures of certifying staff should be maintained by the payment staff;
- invoice receipt dates should be recorded to monitor any undue delay in payment; and
- invoices should be stamped “paid” to prevent double payments.

Control and Supervision

For effective control of payments, the following measures are recommended:-

- opening of company bank accounts and appointment of cheque signatories should be approved by the senior management;
- all cash and bank balances should be subject to general ledger control;
- general ledger accounts should be reconciled regularly with sub-ledger accounts;
- summaries of certified payments should be prepared monthly or bi-monthly for the scrutiny of the authorizing staff concerned;
- bank reconciliation statements and financial statements should be prepared regularly for examination by the management;
- expenditure reports detailing procurement costs and highlighting any discrepancies and abnormal trends should be prepared regularly for management information;

- the retention period of payment and accounting records and the authority for their disposal upon expiry of the period should be specified; and
- petty cash, payment and related accounting records should be subject to random checks.

Physical Security

To prevent unauthorized access to and loss of cheques, petty cash and accounting records, designated staff members entrusted with the custody of these items should be held accountable for their security.

Computer Security

Payment procedures are usually computerized and the related records are processed/stored in the computer database. Inadequate computer security control may open loopholes for abuse or manipulation of data for personal gains (e.g. falsification or unauthorized amendments of data). Apart from security control by the use of computer hardware and software, there should also be a system of control procedures as recommended below to ensure computer security:-

- physical access control to computer terminals and storage media (e.g. the server);
- restriction of access to computer information and functions to the appropriate level of staff through password control; and
- verification of data input to ensure accuracy of data input and checks on audit trail reports to prevent tampering of data.

Computer security is the subject of another Best Practice Module and further recommendations on computer security are provided therein.

Segregation of Duties

Clear segregation of duties enhances checks and balances and minimizes the potential for corrupt collusion. In a payment system, different officers should be assigned to handle the following functions as far as practicable:-

- administering cash accounts, including petty cash;
 - preparing cheques for issue; and
 - general and sub-ledger accounting.
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Job Rotation

To reduce the possibility of syndicated corruption, the organization should formulate a policy on staff rotation. Staff handling payments should be rotated regularly as far as practicable.

Internal Audit

Payment operations should be subject to internal audits to verify the extent of compliance with established procedures and to detect other malpractice.

Advisory Services Group

In addition to the series of Best Practice Modules, the ICAC maintains an **Advisory Services Group** to provide free and confidential corruption prevention advice to private organizations covering various aspects of their activities such as staff administration, stores management and administration of contracts. For further information, please contact the Advisory Services Group at telephone no. 2526 6363 or fax no. 2522 0505 or email address asg@cpd.icac.org.hk.



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