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## WHAT ARE RECORDS?

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*This chapter outlines the characteristics of records and two main concepts underlying the reliability of records, i.e. validity and completeness.*

“Dear Managers ... Check the records.”

## **Nature of records**

Records refer to a selection of raw data or notes of some matters in writing which may be used as a supporting evidence for those matters at a later date. Before the 1970s, records are usually kept in ledgers, books, photographs, drawings, print-outs, audio-tapes and video-tapes. With the rapid development of mainframe computers and personal computers during the 1970s-1990s, more and more records are kept in computers and centralized servers.

The emergence of internet of things and cloud storage technology over the last few years has certainly made people changing their perceptions on records. Nowadays, people expect to find most of the records in digitalized rather than paper format.

The volume of data and therefore the recording of those data have expanded exponentially in recent years compounding the efforts required to manage such massive volume of data and records. Other than for the purpose of regulatory compliance, managers of business entities require records to minimize risks and support decision-making. When things go wrong, sufficient records showing evidence of good faith or any disapproval of erroneous behaviours can help to avoid fines, penalties, law suits or reputation disasters.

Regardless of the format or storage medium, good records should be able to show the exact details of the recorded matters for the users, even without any prior knowledge of the matters, to grasp the significance of what had happened. However, not all data are records because a record is generally kept as evidence of an action, event or transaction, or for a specific purpose. Many data are created every second, some of which are in the form of drafts, rough works or duplicated copies and can be discarded without going through the system of record-keeping.

The format and storage medium of records may not be particularly relevant for the managers as long as the records are kept and can be retrieved when necessary regardless of their forms (i.e. papers or electronic forms). Records should be reasonably durable and retrievable in order to serve their purposes at later dates.

Physical controls, such as locked cabinets, and passwords and biometric security measures for access to computers and centralized servers, should be used to keep confidential and sensitive records secured. Systematic coding or indexing should be in place, so that each piece of records is readily identifiable.

Also, good records should hold the responsibility for the data integrity and the accountability to the data owners and users. Data integrity can only be maintained when a proper log exists to show all access and changes to the records.

## **Importance of checking records**

Managers, a major class of users of records whether with a view to making profits or not, may present themselves as entrepreneurs, executives, directors, department heads, accountants and company secretaries. Relevant data or information commonly used by management includes financial statements, budgets, lists of income (e.g. sales and rental income), lists of expenses (e.g. payroll and raw materials), lists of assets (e.g. receivables, inventories, fixed assets and intangibles), lists of liabilities (e.g. loans, payables and provisions) and non-financial reports (e.g. market research, database of customers and suppliers and personnel files).

All sorts of information may serve managers and other users for one or more purposes, which may be routine in nature or specific to some ad hoc projects. One of the first things coming to a manager's mind is the purpose for the information, i.e. what the information try to achieve or support.

The role of managers has the very generic characteristic - making decisions based on information available to them. Decisions may be for short-term, e.g. recommendation on cost-savings in time of inflation, to those for longer-term, e.g. community planning on labour shortage because of low birth rate.

Inevitably, such information should draw on a lot of relevant data. Those relevant data are the source underlying the validity and usefulness of the information. In other words, a decision depends how good the information is made from the source data. That would give rise to the prime concept of source documents in preparing proper records and asking the elementary question of whether the source is sound.

More often than not, data are not prepared by managers themselves but by frontline staff and lower-ranking officers along the hierarchy in an organisation who are in constant touch with those data. How well and knowledgeable the supporting staffs is and how proper they follow instructions from managers in the identification and collection of relevant raw data should therefore affect the validity and usefulness of the information to managers. This is the reason why checking of records is important.

Furthermore, there is often more than one single type of information to consider. For example, considering the level of indebtedness of a business entity may require the accounts and other information about trade creditors, bank loans and other borrowings, details of financial guarantees, claims or litigations in progress, product liabilities, insurance coverage, commercial disputes and unresolved tax enquiries. A manager has to determine whether all relevant information have been collected for the purpose on the completeness of information.

Logically before basing on a given piece of information to make a decision, a manager has to consider three basic matters:

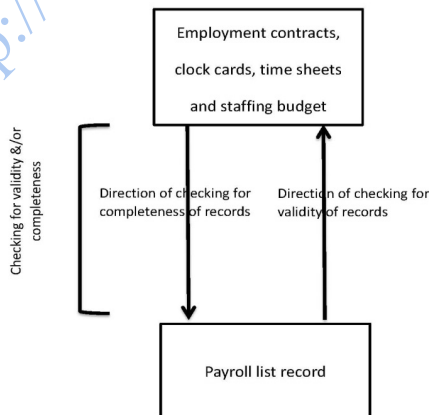
“Dear Managers ... Check the records.”

1. the purpose of the subject information - the purpose is often perceived as a mission or a target for a manager to accomplish out from the subject information;
2. the source documents making up the information - the managers have to identify and check all source documents; and
3. the completeness of all relevant information - the managers have to check from source documents and ensure that all such information, which should have been recorded, are correct and have been recorded.

### **Validity and completeness of records**

In dealing with records of information, the usual question is whether it is correct. Naturally, one would check the supporting documents, which may well be the source documents. Let's say a monthly payroll record containing the names and salaries of a number of employees. Payroll list is therefore the record, while employment contracts, clock cards and other personnel records are the source documents.

As shown in the following diagram, one would go through the payroll list and check whether everyone on the list is a staff of the employer and then the respective salary is in accordance with the amounts under the employment contracts and other personnel records. This procedure seeks to achieve that the payment under this particular payroll is correct and justified without any payment unwarranted. For instance, this procedure would detect an ex-employee whose employment has been terminated but the payee still remains in the payroll list. Then, this particular payroll is valid to pay without over-payment. How about an existing employee being omitted from this payroll list?



By following the example, even if the manager has checked all the payroll items to employment contracts and other personnel records, only the sum paid is checked against the list of employees on this particular payroll. The manager cannot find the missing employee because the manager is only looking from the payroll list on hand. The oversight is caused by the wrong assumption over the completeness of the monthly payroll.

As illustrated in the left arrow in the above diagram, the situation is different if the manager checks from the source documents to the payroll record. He would be able to find a missing employee, if any. It is not inconceivable for a new employee coming to work with all the employment documents in place while the payroll still failing to include the staff at the first time.

A common oversight in handling a record may be caused by spending too much effort in verifying the genuineness of the items on it and becoming unaware of the possible omissions in the record, i.e. the lack of completeness.

By following the same example, we can see two ways of checking of the payroll record, one is from the record itself to source documents and the other one is from the source documents back to the payroll record. Both have their own purposes to achieve.

Tracing from record to source documents verifies the validity of the items already on the record. On the other hand, tracing from source documents to record covers the completeness of items on the record. The two main concepts making a record more relevant, reliable and fit for the purpose are validity and completeness.

Sometimes, managers may only strike for a single purpose at one time, such as suspecting the possibility of any dummy employees; the checking would aim at the validity which is to check from the record to the source documents. On the other hand, checking from source documents would be relevant for the purpose of verifying the completeness. An incorrect determination of purpose of checking may just waste time and resources. It is therefore important to make clear of the use of information (validity or completeness) at the very beginning before starting the checking of records.