



Internal Control System Design & Control Techniques



Factors for IC System Design

- **Corporate Culture**
 - Management Style
 - Budget
 - Employees' behavior
 - Customers' behavior
 - Organization's rules & Regulations

- **Type of Business/ Business Segment**
 - Bank & Financial Institution (Service Industry)
 - Manufacturing Industry
 - Merchandising Industry

Factors for IC System Design

- Corporate Direction and Objectives
- Current Financial Control System
 - Manual
 - Accounting Information System
(General control & Application control)
- Quality of Human Resource
 - Qualification
 - Skill & Experience
- Quality of Current Internal Control System

Process of IC System Design and Implementation

Design Internal Control System

Establish/implement IC System

Operate IC System by each department

Review & Evaluate IC System

Revise & Improve the current IC System → Revised (new) IC System

Internal Control Techniques



- Segregation of Duties
- Dual Control + Authorize Signature
- Joint Custody
- Independent Balancing
- Limit Control
- Restricted Areas
- Reconciliation

- Code Control
- Number Control
- Symbol Control
- Mandatory Vacation
- Rotation of Duty Assignment
- Security Control
- Outside Activities of Personnel

Internal Control Techniques

- **Segregation of Duties**

- Reasons:

- Human error
- Limited competency
- Prone to fraud

- Not allow a person to do a job alone from the beginning to the end (at least 2 persons)

- Put the right man on the right job

- Promote coordination among employees

- Ex. การแบ่งแยกหน้าที่ผู้ดูแลสินทรัพย์ออกจากผู้บันทึกบัญชี

Internal Control Techniques

- **Dual Control + Authorize Signature**

- Definition: A person's work will be reviewed or approved by the other person, and both are co-responsible for the rightness of the work.

- Reasons:

- Oblivious to his/her own errors or weakness
- Prone to fraud

- Ex. การร่วมลงนามการรับเงินจากลูกค้าของหัวหน้าฝ่ายการเงิน ในกรณีที่ ยอดเงินที่ได้รับสูงกว่าวงเงินที่กำหนดไว้

Segregation of Duties & Dual Control + Authorize signature



Company Name

PCV Ref No: PCF_0001

PETTY CASH VOUCHER

Dual Control

Authorize Signature

PAYABLE TO:		DATE:
Details and purpose of expenditure:		AMOUNT in AED:
Prepared by:	Reviewed by:	Approved by:
Received by (Signature of vendor/employee over printed name):		Vendor invoice/expense claim reference no:
----- For Accounting Department's use only -----		
GL Account:	Booked by:	Date booked:

Segregation of Duties

Internal Control Techniques

- **Joint Custody**

- Definition: Assigning at least 2 persons to co-work and to have co-responsibility to a job to prevent fraud
- Ex. การกำหนดให้ผู้ดูแลการเก็บรักษาสินทรัพย์ในตู้เซฟ ประกอบด้วย ผู้ถือกุญแจเซฟจำนวน 2 คน ผู้ถือรหัส 1 คน โดยเมื่อต้องการเปิดเซฟต้องทำการเปิดร่วมกัน

- **Independent Balancing**

- Definition: Checking accounting balance by other persons
- Ex. For Petty cash → Surprise check

Internal Control Techniques

- **Limit Control**

- Reason:

Decentralization



Increase in authority



Controlled using “Limit control”

- Ex. การจำกัดวงเงินการอนุมัติสินเชื่อของผู้จัดการฝ่ายสินเชื่อในแต่ละระดับ

Internal Control Techniques

- **Restricted Areas**

- Areas:

- Confidential areas: Office of the Board of Directors or CEO
 - Dangerous areas: Factory
 - High Risk or Sensitive areas: Finance department or lab

- Procedures:

- Announcement
 - Code/Password
 - Security guard + security system

Internal Control Techniques

- **Reconciliation**
 - Ex. Bank Reconciliation
- **Code Control** → Password
- **Number Control**
 - Pre and sequence numbering (Running number)
 - Stamp “Cancelled” to prevent its re-use
- **Symbol Control**
 - Stamp Corporate symbol/logo, trademark/copyright symbol



Internal Control Techniques

- **Mandatory Vacation**

- Definition:

- Enforce employees to be absent by using vacation/annual leave
- Others will work in their positions till the leave end.
- Not allow the employees who take vacation leave to go inside the office

- Reasons:

- To detect errors and fraud
- To increase independence and reduce obstructions
- To physically and mentally refresh employees

Internal Control Techniques

- **Rotation of Duty Assignment**

- Definition:

- Enforce employees to rotate to work in other positions
- Set as a policy to rotate in every 6 or 12 months on an unannounced basis

- Advantages:

- To Prevent fraud
- To increase skill and experience of employees

Internal Control Techniques

- **Security Control** → For safety of life, assets and information Ex.
 - Security guard for B of D, CEO
 - Fire control system → fire extinguisher, sprinkler, Pull station, Smoke detector
- **Outside Activities of Personnel**
 - Follow/monitor employees' activities after work
 - Set code of ethic or some policies such as
 - Do not sign any surety contract
 - Do not involve with gambling

Just for fun

