Internal control

Chapter 3: Control Activities

1. Segregation of duties

1.1. What is 'segregation of duties'?

Segregation of duties (SoD) is an internal control designed to prevent error and fraud by ensuring that at least two individuals are responsible for the separate parts of any task.

SoD involves breaking down tasks that might reasonably be completed by a single individual into multiple tasks so that no one person is solely in control.

1. Segregation of duties

Authorization: authorizes activities and makes decisions

Custody of assets: maintians custody of assets (goods, money, data, …). Can only accept assets or release assets after approval by the authorizing function. Should deliver information to the record keeping function.

Record keeping: registrates/records all the activities taking place, independent from the persons authorizing and keeping custody

Reconciliation: checks the validity and completeness of the assignment given and reconciliate to check whether the execution was done right

1. Segregation of duties

Payroll management, for example, is an administrative area in which both fraud and error are risks. A common segregation of duties for payroll is to have one employee responsible for the accounting portion of the job and someone else responsible for signing the checks.

Although it improves security, breaking tasks down into separate components can negatively impact business efficiency and increase costs, complexity and staffing requirements. For that reason, most organizations apply SoD to only the most vulnerable and the most mission critical elements of the business.

1. Segregation of duties

1.2. Examples

- payroll
- purchasing
- IT-development
- Creation of computer ID's
- …

1.3. More than one function per person - collusion

1.4. Role analysis

2. Correct authorising and delegating

Authorisation = **approval given by management to collaborators to perform certain activities or make certain decisions**

2.1. Job descriptions

Clear and detailed description of all relative permanent aspects of a job/position/function and the responsabilities attached to this function

Useful for: selection procedure, organisation of work, salary management, evaluation process, …

2. Correct authorising and delegating

2.2. Rules for delegations/approval levels

Why?

- Delegator can perform other tasks
- Developing competences and motivation of employees
- Decisions are being made on the correct level
- Rise of efficiency and effectiveness of business processes

What?

☐ Management responsability is not being transfered! – operational responsability is being transfered ☐ control (by mgmt) is necessary!

3. Use of documents/forms

3.1. Basic requirements for documents

- Fixed lay-out – pre-printed
- Different colours for different recipients
- Pre-numbered (to be able to check completeness)

3.2. Signature policy

- Proof of intervention – proof of check being done
- Extent can differ
- Should be taken into consideration when designing documents

4. Safeguarding assets and information

4.1. Access Security

- Physical access security
- Electronical access security
  - Passwords (properties)
  - Logging
  - Firewalls and security software
  - Access policy and procedures should comply with SoD

4.2. Securing stock and data

- Wharehouse
- Electronic data

4.3. Registration of assets

- Registration number in inventory list

5. Budgetting as a control activity

- Detecting the causes of deviations

- A budget fixes objectives and outlines expenses, costs, investments that should be made to achieve these objectives ☐ it also identifies responsabilities

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