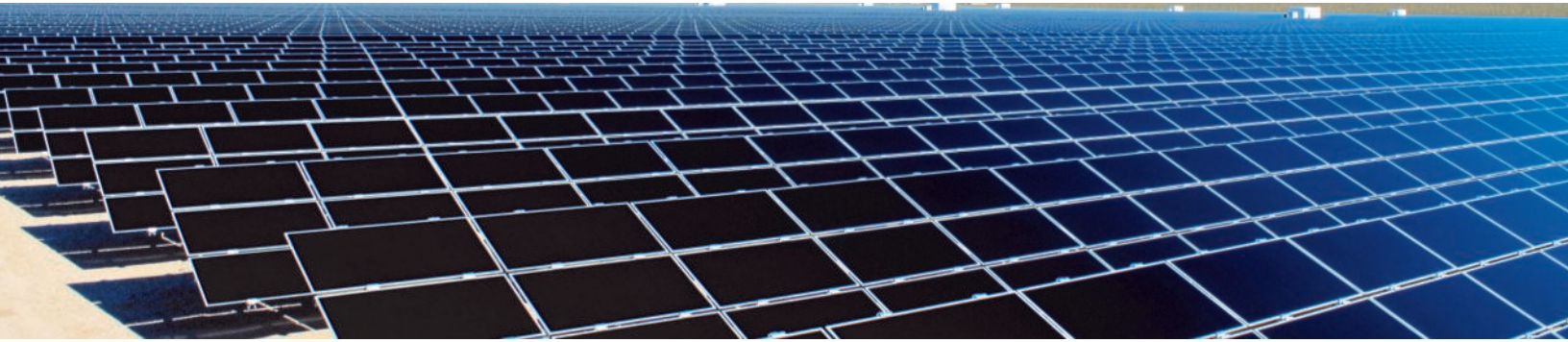




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## Internal Controls: No Best, Only Better

In February 2012, Xi Jinping, vice-president of the People's Republic of China, during his visit to the United States responded to criticism of human rights in China: "there is no best, only better".

Many CPA students are asked me: "What is the best internal controls?". I replied: "There is no best, only better".

### There is a big difference in internal controls due to size and nature of the enterprise

Most university students after graduation work in the "Big 4" or other accounting firms and are accustomed to sales invoices, delivery notes and audit practices. When they are suddenly called up to perform an internal control review on a sales cycle, they immediately go into a daze!

One time, a colleague reported that our client had no internal controls at all in his sales cycle. It appeared that my colleague had immediately asked the client to take the delivery note but the client was actually providing services.

Another time, a colleague reported that the purchasing department did not "shop around for the best deal". It appeared that the client was a representative for Ferrari!

There are standard procedures and policies in sales cycles regarding internal controls for evaluation, quotation, order confirmation, contracts, and invoices for new clients. However there is no universal rule.

### SME ≠ No internal controls

Many people think that internal controls only exist in multi-national companies. In fact, internal controls exist in all enterprises. Separation of duties is not the only thing that counts. Even in a two-person business, the owner is responsible for opening and closing the office, he will also review the work of the sole assistant. He will not be completely hands-off in order to protect his investment.

### Are internal controls the same for enterprises of a similar size and nature?

Internal controls are the result of long years of effort. It is impossible to achieve it overnight even if you put in a lot of resources. To use an educational metaphor, the big brother at secondary school and the little brother at primary school use different textbooks, although both have the goal of completing university, the teaching materials are different.

The same theory applies to enterprises both large and small. Our recommendations depend on the degree of maturity of internal controls of each enterprise. My ultimate objective is to be able to keep improving clients' internal controls.

*Leo To*