

Internal Control Sufficiency Evaluation Form

Concepts and Objectives

Good internal control is essential for a listed company or a public company as it can help preventing, managing, mitigating risks and damages that may occur to the company and the stakeholders. It is therefore a duty of the company's board of directors to ensure that the company has in place an appropriate and adequate internal control system for goals and objectives achievement, compliance with applicable laws and regulations, safeguarding of the assets from frauds and damage, and preparing reliable accounts and reports.

The Securities and Exchange Commission (the "SEC"), in cooperation with the PricewaterhouseCoopers Thailand ("PwC Thailand"), has developed this internal control sufficiency evaluation form ("evaluation form") as a guidance for companies to evaluate their internal control adequacy.

This evaluation form is based on COSO¹'s framework (The Committee of Sponsoring Organizations of the Treadway Commission) revised on May 2013. It was simplified for users to easily understand and was adjusted to be applicable for Thai listed companies. The main questionnaires in the evaluation form are classified into 5 components similar to original COSO framework and elucidated into 17 principles to clarify the concept.

Applications

The companies are recommended to use this evaluation form as a guidance for evaluating and reviewing the adequacy of the internal control at least once a year. Extra revision may be necessary in case of any incidents which have significant impacts on the companies' operations. Such assessment should be considered by the audit committee and the board of directors so that they can exchange their views, align their understandings and decide on appropriate practical guidelines for the companies.

The answers to each questionnaire should base on actual practices. If the assessment results in deficiencies in any internal control components (whether it is the reason for neither system existence nor appropriateness of the existing one), the companies should provide the explanations and solutions from such findings.

¹ COSO is a joint committee of 5 professional associations including the American Institute of Certified Public Accountants (AICPA), Financial Executives International (FEI), the American Accounting Association (AAA), The Institute of Internal Auditors (IIA), and the Institute of Management Accountants (IMA)

Control Environment

1. The organization demonstrates a commitment to integrity and ethical values.

Questions	Yes	No
<p>1.1 The board of directors and the management set up principles and guidelines based on integrity and codes of conduct in the following areas:</p> <p>1.1.1 Daily routine operation and decision making;</p> <p>1.1.2 Treatment of trade partners, clients and other parties.</p>		
<p>1.2 Following written rules are provided to ensure that executives and employees perform the duties with integrity and ethics:</p> <p>1.2.1 Appropriate code of conduct for executives and employees;</p> <p>1.2.2 Prohibitions on any actions by the executives and employees that could cause conflicts of interest with the business; and prohibitions on corruptions which will cause damages to the organization².</p> <p>1.2.3 Appropriate penalties in the case of violation of the aforementioned rules</p> <p>1.2.4 Communication of the aforementioned rules and penalties to the executives and the employees. For example: they are included in the orientation session for new employees; employees annually sign for acknowledgment of the rules and penalties; the code of conduct is publicized for employees and outsiders.</p>		
<p>1.3 There are procedures to monitor and assess whether the code of conduct is complied:</p> <p>1.3.1 Monitoring and assessment by an internal audit unit or a compliance unit;</p> <p>1.3.2 Self -assessment by executives and employees;</p> <p>1.3.3 Assessment by independent professionals ,outsiders of the organization.</p>		
<p>1.4 There is timely management upon a detection of non-compliance with rules on integrity and code of conduct.</p> <p>1.4.1 There are procedures for timely detection of the violations;</p> <p>1.4.2 There are procedures for suitable and timely punishment or management of the violations;</p> <p>1.4.3 There are timely and suitable corrections for the violations of rules for integrity and code of conduct.</p>		

² The company should specify anti-corruption measures suitable to the risk profile of the company.

2. The board of directors demonstrates independence from the management and exercises oversight of the development and performance of internal control.

Questions	Yes	No
2.1 The roles and duties of the board of directors are set separately from those of the management. The authorities of the board of directors are clearly defined.		
2.2 The board of directors oversees whether the company goals are clear and measurable to be used as guidelines for executives' and employees' operation.		
2.3 The board of directors oversees that the company follows the laws and charters in specifying roles and duties of the board of directors, the executives, the audit committee, auditors, internal auditors, and the personnel who is responsible for financial statements.		
2.4 The board of directors are knowledgeable for the company business and have expertise beneficial to the company or can seek advices from experts in a particular area.		
2.5 The board of directors comprises of independent directors who are knowledgeable, reliable and truly independent in performing the duties. For example, the independent directors should have no business relationship with the company or any relationship that could influence their judgement and independent performance.		
2.6 The board of directors oversees the development and implementation of the internal control in the organization, including creating control environment, risk assessment, control activities, information and communication, and monitoring activities.		

3. Management establishes, with board oversight, structures, reporting line, and appropriate authorities, and responsibilities in the pursuit of objectives.

Questions	Yes	No.
3.1 Top management set up the organizational structure which supports the pursuit of the company's objectives by considering appropriateness of business functions and legal requirement. There is, also effective internal control function. For example, there is a separation of duties in important business units which would result in check and balance; there is an internal audit unit which reports directly to the audit committee; there is a clear line of report..		
3.2 Top management establishes reporting line by considering appropriateness of authorities, responsibilities and communication.		
3.3 Authorities and responsibilities among the board of directors, top management, management and employees are appropriately defined and assigned.		

4. The organization demonstrates its commitment to attract, develop and retain competent individuals in alignment with objectives.

Questions	Yes	No
4.1 The company has policies and practices to recruit, develop and retain competent employees and regularly reviews such policies and practices.		
4.2 The company has evaluation process, incentives or rewards to employees with good performance, and management measures for employees who do not achieve the targets. Such processes are well informed to executives and employees.		
4.3 The company has process of timely solutions and preparation when lacking competent employees.		
4.4 The company has process of recruitment, development and retention for executives and employees such as providing mentoring system and trainings.		
4.5 The company has a succession plan for important positions.		

5. The organization hold personnel accountable for their internal control responsibilities in the pursuit of objectives.

Questions	Yes	No.
5.1 The board of directors and executives have procedures and communication tools to enforce all employees to take responsibilities in internal control and to provide corrective measure for such procedure, if necessary.		
5.2 The board of directors and executives set suitable indicators for performance appraisal, incentives and rewards with regard to code of conduct, and the company's short-term and long-term objectives.		
5.3 The board of directors and executives continuously assess the incentives and rewards by focusing on the connection between success of the performance and the compliance with the internal control .		
5.4 The board of directors and executives do not put excessive pressures on each personnel duties.		

Risk Assessment

6. The organization specifies the objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.

Questions	Yes	No
6.1 The company is able to comply with the generally accepted accounting principles which is suitable to the business at that time by presenting that transactions in financial statements exist, complete, correctly show the rights or obligations of the company, have the right value as well as properly disclosed.		
6.2 The company determines materiality of the financial statement by considering key factors including financial report users, transaction sizes, and business trends.		
6.3 Financial statements reflect true business operation activities of the company.		
6.4 The board of directors or the risk management committee approves and communicate risk management policy to executives and all employees. The policy is acknowledged and accepted for practices as a part of the organization's culture.		

7. The organization identifies risks to the achievement of the objectives across the entity and analyses risks as basis for determining how the risk should be managed.

Questions	Yes	No
7.1 The company identifies all risks which may affect business operation at levels of organization, business unit, departments, and working functions.		
7.2 The company analyzes all risks that could come from both internal and external factors, including risks from business strategies, operations, reporting, compliance with law and regulation, and information technology.		

Questions	Yes	No
7.3 Executives at all levels participate in risk management.		
7.4 The company assesses the significance of risks by considering the likelihood and the possible effects.		
7.5 The company has measures and operational plans to handle risk by either accepting, reducing, avoiding or sharing risks.		

8. The organization considers the potential for fraud in assessing risks to the achievement of the organization's objectives.

Questions	Yes	No
8.1 The company assesses the potential for fraud covering all types of fraud including fraudulent financial reporting, losses of assets, corruptions, management override of internal controls, manipulations on important financial information, unauthorized acquisition or disposition of assets etc.		
8.2 The company carefully reviews the operational objectives, considering possibility of achieving the goals. Also, incentives and rewards granted to the employees should be reasonable and would not instigate wrong doing. For example, The company does not set expected sales much higher than its capabilities so that it will lead to sales manipulation.		
8.3 The audit committee considers and inquires executives in accordance with the potential for fraud and measures that the company establishes to prevent or correct the frauds.		
8.4 The company communicates to all employees to understand and comply with the policies and guidelines.		

9. The organization can identify and assess changes that could have impacts on the system of internal control.

Questions	Yes	No
9.1 The company assesses changes of external factors which could affect the business operations, internal control, and financial reporting. Moreover, the company launches measures to deal with the changes sufficiently.		
9.2 The company assesses changes in business models which could affect business operations, internal control, and financial reporting. Moreover, the company launches measures to deal with the changes sufficiently.		
9.3 The company assesses changes of the organizational leaders which could affect the business operation, internal control, and financial reporting. Moreover, the company launches measures to deal with the changes sufficiently.		

Control Activities

10. The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of the objectives to the acceptable levels.

Questions	Yes	No
10.1 The company's control measures are suitable to the risks and specific characteristics of the organization such as the environment; the work complexity, the characteristics of work, the scope of the operations, and other specific condition		
10.2 The company has written internal control measures covering all procedures appropriately. For example, the company has policies and procedures in regard to financial transactions, procurement, and general administration. The company also gives clear scope of authorities and approval hierarchy of each management level to prevent fraudulence. For example, the company establishes: chart of authority approval to each management level to limit amounts of expenditures; project/investment approval manual; procurement and vendors selection manual; decision		

Questions	Yes	No
<p>making on procurement process manual; or equipment/tools disbursement manual. Therefore, following procedures are provided:</p> <p>10.2.1 Collection on information of major shareholders, directors, executives and related persons, as well as connected persons benefits for monitoring and reviewing on related transactions or transactions with conflict of interests. The collection will be consistently up-to-date.</p> <p>10.2.2 In case that the company has already approved transactions or entered into the contracts with long term obligations such as purchasing and selling contracts, lending, guaranteeing, the company monitors whether the conditions of the agreements are followed through the contracts periods. For example, monitoring compliance with loans repayment agreement or the contracts are regularly reviewed for appropriateness.</p>		
10.3 The company sets up suitable varieties of internal control such as manual and automated controls or preventing and monitoring controls.		
10.4 The company builds internal control throughout all level of the organization such as the group of companies, business unit, function, department, division or process.		
<p>10.5 The company conducts segregation of duties to the 3 parts as followed for check and balance purposes:</p> <p>(1) Authorization;</p> <p>(2) Recording accounting entries and information and;</p> <p>(3) Custody of assets.</p>		

11. The organization selects and develops general control activities over technology to support the achievement of objectives.

Questions	Yes	No
11.1 The company should define relationship between uses of information technology in the operation process and the general control of the information technology system.		
11.2 The company should define suitable control measures for infrastructure of technology system.		
11.3 The company should define suitable security control for the technology system.		

Questions	Yes	No
11.4 The company should define suitable control measures on process of procurement, development, and maintenance of the technology system.		

12. The organization deploys control activities through policies which establish what is expected and procedures that put the policies into action.

Questions	Yes	No
12.1 The company has strict policies to monitor that transactions made by major shareholders, directors, executives, or the related persons must be passed through approval procedures as defined in , for example, by the articles of corporation, the regulation of the Stock Exchange of Thailand and SEC etc. This is to prevent exploitation of company benefit against the use for personal gains.		
12.2 The company has a policy that a transaction must be approved by the person who has no personal interests in such transaction.		
12.3 The company has a policy to approve transactions by considering the company's best interests, and consider the transactions as at arm's length basis.		
12.4 The company has monitoring process for operations of subsidiaries or associated companies including setting guidelines to the person who is appointed as a director or an executive in the subsidiaries or associated companies. (<i>Answer this question is not required if the company does not invested in the subsidiary or associated companies</i>)		
12.5 The company assigns roles and responsibilities that executives and employees are to implement the policies and procedures in their operation.		
12.6 The company's policies and procedures are timely implemented by competent personnel including the process of operation correction.		

Questions	Yes	No
12.7 The company regularly reviews its policy and procedures.		

Information & Communications

13. The organization obtains or generates and uses relevant and quality information to support the functioning of internal control as intended.

Questions	Yes	No
13.1 The company specifies information required for business operations. The information should be from both internal and external sources, which are quality and related to the company business.		
13.2 The company reviewed cost and benefit to gain the information, including quality and accuracy of such information.		
13.3 The company provides the board of directors with essential and sufficient information for their decision-making. Examples of essential information include details of the proposed agenda, reasons and impacts on the company, and alternatives available.		
13.4 The company provides the board of directors with the invitations to the board of directors' meetings and documentation for the meetings which contain necessary and sufficient information for consideration. The documents should be delivered before the meeting date at least as minimum requirement period by the regulations.		
13.5 The company provides minutes of board of directors meeting with sufficient details in order to be used for subsequent audit on appropriateness of each director's responsibilities; such as: records of directors' questions; directors' views and remarks of the issues; their opposing views and reasons against the proposed agenda etc.		
13.6 The company has the following procedures: 13.6.1 Filling and Classification with completeness on important documents. 13.6.2 In case of report of deficiency found by the external auditor or internal auditor on deficiencies in internal control, the company fix the deficiency thoroughly.		

14. The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.

Questions	Yes	No
14.1 The company has effective process of internal communication and appropriate channels of communication to support internal control.		
14.2 The company regularly reports important information to the board of directors. The board of directors has access to information sources that are vital to the operations or to review any transactions as required. For example, the company assigned contact personnel for providing other information except those received from management; requesting information from external auditor and internal auditor; arranging meetings between the board of directors and executives as requested by the board of directors; conducting other meetings for the board of directors and executives except the regular board of directors' meetings etc.		
14.3 The company establishes whistle-blower hotline in order that personnel could safely inform information or traces of frauds or corruptions to the company.		

15. The organization communicates with external parties about matters affecting the functioning of internal control.

Questions	Yes	No
15.1 The company has effective procedures of communication with external stakeholders and appropriate channels of communication to support internal control. For example, the company sets up an investor relations officers/center or compliant center etc.		
15.2 The company establishes whistle-blower hotline in order that external stakeholders could safely inform information or traces of frauds or corruptions to the company.		

Monitoring Activities

16. The organization monitors and evaluates to ascertain whether the components of internal control are completely present and suitably functioning.

Questions	Yes	No
16.1 The company has a process to monitor the compliance with code of conduct and prohibit the executives and employees from conducting themselves in a manner is likely to cause conflicts of interest. The company, for example, assigns each individual unit to monitor operation and report to the respective supervisors. Alternatively, the company assigns the internal auditor to monitor operation and report to the audit committee etc.		
16.2 The company provides inspection on compliance with internal control procedures by self-assessment and /or by independent assessment of internal auditors.		
16.3 Frequency of monitoring and assessment activities is suitable to the company's change.		
16.4 The monitoring and assessment activities on the internal control are carried out by knowledgeable and competent personnel.		
16.5 The company specifies that the internal control evaluation is directly reported to the audit committee.		
16.6 The company encourages the internal auditors comply with International Standards for the Professional Practice of Internal Auditing (IIA).		

17. The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

Questions	Yes	No
17.1 The company evaluates and communicates internal control deficiencies and monitors for correcting immediately, in case that results of the performance significantly deviates from the target.		
17.2 The company has a reporting policy as follows : 17.2.1 Management must report to the board of directors immediately if there is an incident or a suspicion of serious fraudulence, law violation, or other unusual actions that could significantly affect the reputation and financial position of the company. 17.2.2 Significant internal control deficiencies including solutions (although the problems may have already been managed) are timely reported to the board of directors/the audit committee for consideration. 17.2.3 The progress on remedies of the significant internal control deficiencies is reported to the board of directors/the audit committee.		