

**Insights from K-SOX Expert!
The Future Direction of Korea's Accounting System through the Perspective of U.S. System.**

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Despite of economic development over the years, occupational fraud incidents (financial fraud, embezzlement, etc.) have not decreased in Korea. Ironically, these incidents are becoming increasingly sophisticated and advanced.

Each company has been putting a lot of efforts to improve control environment through systems and training, but the reality is that the incidents show no sign of decreasing.

In this newsletter, we've interviewed Mr. Jin-moo Yoo, a partner at Deloitte-Anjin, who has expertise and experience both in the United States and Korea, to discuss the future direction of Internal Control in Korea.



Please introduce your company and yourself.

Hello. I am Jin-moo Yoo, a partner at Deloitte-Anjin Accounting Firm. I have joined the firm in 2010 and have mainly engaged in external audit and ICFR services for 14 years. I was also dispatched to Deloitte in the United States.

Deloitte is a large global accounting firm operating in 177 countries around the world with approximately 400,000 employees. Deloitte-Anjin Accounting Firm is one of Deloitte's member firms which belongs to the Asia-Pacific group and provides accounting and consulting services in South Korea.

As a partner and expert at an accounting firm, what do you think of recent occupational fraud incidents such as embezzlement within companies, which have been observed from press?

In the past 2-3 years, many criminal incidents, such as embezzlement of funds, have occurred, and I have been thinking about how to prevent such incidents through 'internal control'. Although it may not be possible to completely prevent planned crimes such as an individual's intentional forgery, the opportunity for fraud can be reduced if more attention is paid to the process aspect when designing and operating controls.

Simply speaking, it is very helpful to establish control activities which ensure that approval is obtained when fund is transferred from the company. The goal is to establish essential controls over disbursement process and bank account management, and to make efforts to operate them effectively.

Another solution is to continuously promote code of ethics among the employees. Through activities such as sending ethical messages to employees and actively operating a whistle-blowing system, a company can achieve a tone at the top or a monitoring effect of 'someone is always watching you when you try to commit fraud.'

Therefore, I think we can prevent financial accidents with a high probability if we combine practical aspects with company-wide determination.



People tend to think less seriously about fraud incidents or internal control or do not consider it as their business. What is your opinion on this?

In fact, fraud accidents are caused by a small number of malicious people. Internal control is a necessary measure to prevent and detect them. However, it is true that most normal people do not have intention to commit fraud living ordinary life, so they are reluctant to be constrained or perform additional work originated from internal control practices. People think "I'm just doing my job with integrity, and this surveillance is very unnecessary". So, I believe that resolving the gap between employees and upgrading the system is one of the important missions to be solved.



You have a lot of experience working for US companies. Could you briefly share your experience and their practice regarding control activity?

What I felt from auditing U.S. subsidiaries was that in the U.S., the internal process is completely "manual-centered." For example, in Korea, fund transfers are often carried out after receiving verbal instructions and the approval process is often postponed to a later date. Whereas in the United States, the approval line is predetermined depending on the size of the transfer amount. As most of the procedures are performed based on manuals and approval will not be granted unless the process follows the manual. The advantage of this practice is that it can prevent accidents by blocking possible surprises in advance, but the disadvantage is that the speed of work process is very slow. For example, if the manual or policy requires the approval of two people when spending 1,000 dollars and if one person is absent, it is difficult to immediately process the payment and related evidence will not be provided. In other words, even if you have 90% of the evidence, you must wait until the remaining 10% is received.

Do you think this practice will be implemented to South Korea?

From the perspective of internal control, the current major trend in the Korean business environment is that the controls established by U.S. listed companies are equally applied to Korean companies. The control activities of Korean companies are becoming more sophisticated, and they are beginning to maintain appropriate evidence. Of course, fast work speed and flexibility are advantages of the Korean work environment, and it is important to maintain them. However, if standardization of work processes, construction of manuals, preparation of evidence documents are settled into the company's culture, it will also be possible to take advantage of the American work environment.

When talking about the work environment in the United States, you used approval process as an example. As the number of approvals to be processed increases, so-called 'blind confirmation' occurs, where approval is made without review. Are there a lot of blind confirmations in the U.S. and what are the ways to solve this problem?

Blind confirmation is currently a common issue across the world. It is necessary to review whether appropriate evidence is provided, but since the number of approvals carried out by the authorities is very large, blind confirmation accidents inevitably occur to process the work in time.

U.S. companies invest heavily in systems to solve this problem. By making the work process as automatic as possible, the burden on approval authorities is greatly reduced. Although it may take a lot of budgets to construct and operate the system, the most important thing is to prevent accidents by reducing the workload on employees.

Please give us a final word regarding the ICFR system.

Since the legal basis for the system was created, it seems that Korean companies have now begun to pay attention to 'control' to some extent. It seems that such an atmosphere is gaining ground, especially after reports of large-scale embezzlement. What is important in this situation seems to be our 'thoughts' in accepting it. I hope that internal control will become a natural part of work process rather than a burdensome task, and that this will serve as an opportunity for the working culture to become more mature than it is now. If appropriate control activities are naturally incorporated not only in financial accidents and embezzlement but also in various other areas such as sales, purchasing, human resources, and general affairs, we expect that the company's potential risks will be greatly reduced.

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