CULTURAL CONSIDERATIONS IN ESTABLISHING INTERNATIONAL CONTROLS

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ABSTRACT

All enterprises assume risks in achieving their goals. Risks can be controlled by establishing policies to avoid or reduce the level of risks and then instituting procedures to ensure that the policies are complied with. Changes in the business and legal environment since the Enron scandal have magnified the importance of internal control to management. The authors believe that the internal accounting control environment established by management has "a significant impact on the selection and effectiveness of a company's accounting control procedures." In turn, these procedures are influenced by the culture of the country in which the company operates. So, what we are currently using in the U.S. doesn't necessarily mean will work in other countries.

The importance of internal control was recognized as early as 1949 by the American Institute of CPAs. The institute defined the term as "the plan of organization and all of the coordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies." [1] In 1958 the AICPA clarified the definition of internal control to emphasize that it was composed of two elements, the first administrative controls, the second accounting controls. The passage of the Foreign Corrupt Practices Act (FCPA) in late 1977 prompted the SEC in early 1979 to propose some rules, subsequently withdrawn, that would effectively have required published annual reports to contain management representations and auditor attestations on internal accounting control. As a result, the Auditing Standards Board of the AICPA issued SAS 30, "Reporting on Internal Accounting Control." [2] In 1992, a significant study on internal control titled "internal control – integrated framework", was published. The study is known as COSO report. In late 1993, the auditing standards board voted to change the terminology of SAS 55 to conform to the COSO report.

The components of the internal control structure under SAS 55 are:
1. The control environment
2. Management's risk assessment
3. The accounting information and communication system
4. Control activities
5. Monitoring

It is clear that the cultural environment is influenced by the value of secrecy and transparency as well as by the power distance. We believe what is good for a U.S. public corporation is not necessarily beneficial or even justified given cultural variations for foreign companies that list their stock on U.S. exchanges. Therefore, we believe that the requirement that foreign companies registered with the SEC have to follow the same rules that are imposed by the Sarbanes-Oxley Act on U.S. corporations impinges on the cultural independence of non-U.S. companies and is inherently unfair.