

# Separation of Duties Builds Trust

## *Protecting yourself with division of duties*

In the past week I have had several examples of clients with issues regarding “separation of duties.”

What I mean by this is no one person should have total control over all of the accounting of a business; separating tasks in accounting to facilitate controls.

This is an important idea and is one of the six key elements of a strong system of internal controls. In fact, it is one of the first things an external auditor looks for when conducting an audit for financial reporting.

Separation of duties allows for transactions to be verified by at least one other person, helping to ensure the transactions are valid and properly recorded. It also helps to maintain integrity within the business.

Most employees would never consider doing something fraudulent but when faced with the temptation, the motivation and the justification, it happens more easily. If a business has a strong internal control, then the temptation factor is reduced exponentially, taking away any temptation, motivation or justification for stealing.

In an ideal world, the roles would be separated like the following:

**Approver** (Accounting function) The person who reviews each transaction for accuracy, validity, appropriateness and proper authorization. The Approver determines if a transaction should continue to be executed. For some types of transactions, there may be more than one Approver.

**Authorizer** (Authorization of transaction function) The person responsible for authorizing a transaction, such as a pre-requisition, requisition, purchase order, purchasing card transaction, journal voucher, payroll adjustment, etc.

**Cashier** (Custody of asset function) The person who receives cash or check payments on behalf of the business from external parties.

**Check Handler** (Custody of asset function) The person who handles a check to be disbursed to a vendor.

**Deposit Preparer/Reviewer** (Accounting function) The person

who consolidates and reviews cash receipts from cashiers and prepares the deposit to either a major cashiering station or the bank. This person does not directly collect cash and checks from external parties.

**Financial Report and Analysis Preparer** (Record keeping function) The person who prepares financial reports and analysis for review by management or use by staff.

**Bookkeeper** (Accounting function) The person responsible for entering a transaction into the business’s systems or tracking process. For example, could include accounting software such as Quicken or QuickBooks.

**Ledger Reviewer or Reconciler** (Accounting function) The person who reviews and reconciles the general ledger every month to identify errors or discrepancies, and either resolves them or brings them to the attention of superiors.

As I said, in a perfect world, restaurants would have the ability to have a different person for each of the above roles, but many times, it’s impossible. To minimize exposure, you want to separate custody of assets from



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