

## LETTER OF SUPERVISOR APPROVAL

I, hereby acknowledge that I have read this thesis and in my opinion , this thesis is sufficient in terms of scope and quality. This project paper is submitted to the Universiti Teknikal Malaysia Melaka, UTeM for the purpose of awarding the Bachelor Degree of Technopreneurship.

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Date : 20<sup>TH</sup> JUNE 2014

PROJECT COST CONTROL :  
DEVELOPING AN INTERNAL CONTROL SYSTEM

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This report submitted in partial fulfillment of the requirements for the Bachelor  
Degree of Technopreneurship

Faculty of Technology Management and Technopreneurship

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JUNE 2014

## DECLARATION

“ I declare that thesis entitled “Project Cost Control : Developing an Internal Control System” is my own work expect the summary and experts of each of which I have mentioned in the source.”

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Date : 20<sup>TH</sup> JUNE 2014

## **DEDICATION**

This dedication is dedicated to my lovely Abah and Umi, Baharin bin Muhamad and Melah binti Daud for being supportive and encouraged a lot to me. Not to be forgotten too, Madam Edna Buyong, my beloved supervisor that always guiding me along my completion of Final Year Projects and last but not least is my cheerful friends of „GC4. This research project would not have possible without the support of many people around.

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## ABSTRACT

Project cost control is most effective when the executive management has a thorough understanding of how projects should unfold through the project life span. They must also recognize the importance of project risk management for identifying the planning to head at least the most obvious potential risk events. The effectiveness of internal control systems will lead to an efficient project cost control in an organization. This research focuses on developing internal control systems in the Purchasing Department at Atira Development Sdn. Bhd. The purpose of this study is to identify the major problems arising from the improper internal control systems, examine the methods that can overcome the problems and provide suggestions for improvement. The researcher uses quantitative methods by distributing the questionnaires to a group of 53 respondents and 53 usable data in the company encompassing site supervisors, finance staff, purchasing personnel and project team members at the construction sites and operations. From the findings from this research, it is found that; prudent capital management, developing an internal control and risk management, respectively are contributing factors that lead towards efficient project cost control management. Notwithstanding, these success factors create an impact on cost and schedule outcomes.

**Keyword :** Internal Control System, Project Cost Control, Internal Control Failure.

## **ABSTRAK**

*Kawalan kos projek adalah yang paling berkesan apabila pihak pengurusan eksekutif mempunyai pemahaman yang menyeluruh tentang bagaimana projek-projek perlu terungkap melalui jangka hayat projek. Mereka juga perlu mengiktiraf kepentingan pengurusan risiko projek untuk mengenal pasti perancangan untuk mengetuai sekurang-kurangnya peristiwa berisiko potensi yang paling jelas. Keberkesanan sistem kawalan dalaman akan membawa kepada kawalan kos projek yang efisien dalam sesebuah organisasi. Kajian ini memberi tumpuan kepada pembangunan sistem kawalan dalaman di Jabatan Pembelian di Atira Development Sdn. Bhd Tujuan kajian ini adalah untuk mengenal pasti masalah utama yang timbul daripada sistem-sistem kawalan dalaman yang tidak betul, meneliti kaedah yang boleh mengatasi masalah dan memberi cadangan untuk penambahbaikan. Pengkaji menggunakan kaedah kuantitatif dengan mengedarkan soal selidik kepada sekumpulan 53 orang responden dan 53 data yang boleh digunakan dalam syarikat itu penyelia-penyelia tapak, kakitangan kewangan, kakitangan membeli dan ahli-ahli pasukan projek yang merangkumi di tapak pembinaan dan operasi. Dari penemuan daripada kajian ini, didapati bahawa; pengurusan modal berhemat, membangunkan kawalan dalaman dan pengurusan risiko, masing-masing adalah faktor-faktor yang membawa ke arah yang cekap pengurusan kawalan kos projek menyumbang. Walau apa pun, faktor-faktor kejayaan mencipta kesan ke atas kos dan jadual hasil.*

*Kata Kunci: Sistem Kawalan Dalaman, Kawalan Kos Projek, Kegagalan Kawalan Dalama*

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## CHAPTER 1

### INTRODUCTION

#### 1.0 Introduction

The internal control system is one of the key management system of an organization. Atria Development Sdn Bhd is also implementing the efficiency of internal control system to facilitate management of the company. This control system is closely linked to the management of projects that undertaken by the company. Hence, to make project cost control is done well, the internal management system must be working properly, transparent and more efficient. This is due to avoid any fraud or irregularities of orders occur either within or outside the company itself, especially for the purchasing department. Purchasing part has its own role in generating income and capital of a company. Thus, the purchasing department is responsible for ensuring the goods that have been ordered are in a good condition, satisfactory and up to the site at a predetermined time. Furthermore, if additional costs delays happen elsewhere, the optimization of performance at one stage of the overall process may not be beneficial, (Chris Hendrickson, 2000)

In addition, the department is also very instrumental in ensuring stock and all kinds of documentation in good condition and complete . For the stock , the department shall ensure that the supply of building materials or office goods are in adequate condition to avoid any problems that arise in the future in the management of other departments . Every material used either for the have to go through the purchasing department prior to receiving the necessary materials. Whereas, for the documentation, there are many documents that need to keep and filed as part of the job requirements. The purchase order is commonly used by the accounting department to companies that supply materials when it comes to be paid later on. Thus, the strong internal control system must be implemented in the organization. Therefore, this paper has come out with a research on developing an internal control system in purchasing department to make it more effective in its function and daily-basis-routines.

## **1.1 Background of the Study**

A study is based on the purchasing department of the construction company, Atira Development Sdn Bhd (ADSB) that is located at Kota Bharu, Kelantan and it will be conducted individually. This study focuses on the internal control system that has become a crucial thing and be a key to a good purchasing manager nowadays. Purchasing part has its own role in generating income and capital of a company, either in construction materials or office tools. The project cost control approaches are primarily proposed to pinpoint the digressions from the project plan rather than to suggest feasible areas for cost savings. Hence, this feature reflects the advanced stage, which the project cost control becomes vital.



## 1.2 Problem Statements and Research Questions

Building contractors operate a housing-construction sites where many different category of labors are working. The issue is that, the purchase materials at the site do not comply with the procedures and guidelines that have been set up by the top management. These building materials and supplies were ordered and purchased directly by site workers without proper purchase order (written document). The supplies, tools, equipments and materials are not irregular in records. Regularly, the amounts exceeded the quantity required occasionally and these supplies, tools, equipments are overtime delivered or can be said as delay in delivering. Thus, several research questions regarding to the issues have emerged which are:

1. What are the factors that lead to failures in the implementation of the internal control system in an organization?
2. What are the most effective methods used to overcome the problems of improper control systems?
3. What suggestions are most appropriate in improving the internal control systems?

## 1.3 Research Objectives

In order to fulfill the case study, there are several objectives that have been highlighted as driven elements to accomplish this research. Research objective is a clear, specific statement that examines or identifies with what are the researcher wishes to accomplish as a result of doing the research, (Saunders *et.al*, 2012). Therefore, these objectives can help in driving the pathway of this research. Hence, the research objectives of this research are as follows:

1. To identify the major problems or contributing factors to problems arising from the failure of proper internal control systems.
2. To examine methods in overcoming the problems of improper control systems.
3. To provide suggestions for improving the internal control systems.

#### **1.4 The Scope of Study**

The scope of this study is referring to the company of Atira Development Sdn. Bhd. (ADSB), the construction company, as the indicator and a prospect in order to fulfill this research. It is involved of some feedback based on this company's performance in their controlling system under purchasing department due to accomplish the aim of this research which is to develop the internal control system and improve it for a better performance in purchasing management function and project cost control.

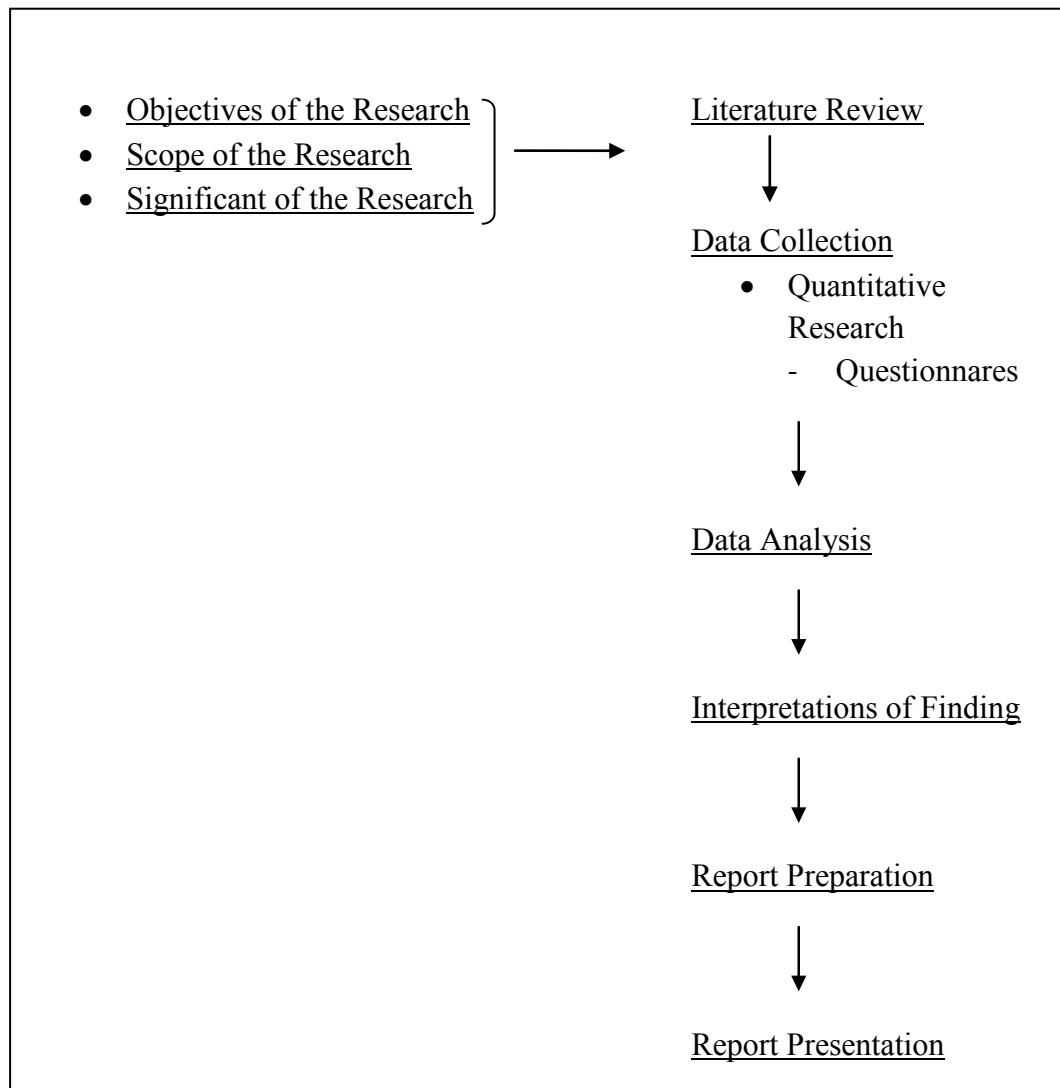
#### **1.5 The Limitation of Study**

This study only focuses on a company of Atira, (ADSB) and it will limit to all the factors that contained in the questionnaires that will be distributed to respondents.

## **1.6 The significance of the Study / Importance of the Study**

The significance of this research is to examine the major problems of improper internal control system and the implementation of the system at an accurate period of time for an organization itself. This research is aimed at achieving the goal by giving detailed about the characteristics of an effective internal control system and the concept itself by using the academic data research and empirical part of the modifying assumptions of internal control system.

## 1.7 Flow of the Study



*Figure 1.4 The Flow of the Study*

## 1.8 Summary

This chapter discusses all about the initial background of the study. All the elements such as research problems and question, research objective, scope and limitations were discussed deeply in this chapter. The discussion in this chapter served as preludes for the next chapters.

## CHAPTER 2

### LITERATURE REVIEW

#### 2.0 Introduction

A research that is based on motivation is not something isolate among the researcher. This can be seen by the numbers researcher that are conducting the studies. In order to carry out and conduct a research, literature review becomes necessary part that is crucial reference to any researcher in any related fields of research. Thus, by throughout the literature review, the researcher can find out any issues that are related to their fields. A literature review is an account of what has been circulated on a topic by accredited scholars and researchers. Instead of gaining some supported statements, the literature review has to undertake the several things related and linked directly to the thesis or research questions that are developing, merging results into a summary of what is and not known, identifying the areas of controversies in the literature and formulate the research questions. In this chapter, the researcher is focusing on several sources that support the recent research. The resources were founded through some printed materials.

## **2.1 Internal Control System**

### **2.1.1 Definition of Internal Control System**

The internal control system is a process that organized and coordinated with an ongoing task or activities. Based on COSO (2009) internal control can be defined as a process that affected by boards of entity of directors, management, and other personnel, and it is designed to provide the reasonable assurance regarding the achievement of objectives. The Investopedia also gives its definition of the internal control that can be briefly defined as the work best when the internal control is applied to multiple divisions and deal with the interactions between the various departments. There is also no system of internal control that can be said as identical, but many of philosophies regarding the financial integrity and accounting practices have become standard in management practices. Therefore, it will lead to a better performance, which the measurement system may be unique to each individual organization and reflecting the fundamental purpose and its environment (Joseph, 2005).

### **2.1.2 Weaknesses of Internal Control Systems**

Based on Choa and Foote (2012), a researcher of public company's deficiencies between 2004 and 2011, the Audit Analytic has reported that ineffective internal control in almost 20 percent of registrants over the past three years. It shows that the percentage of ineffective internal control increased in that three years from 19.03% to 19.81% and 19.54%.

Table 2.1.3 A Statistic of Ineffective Internal Control

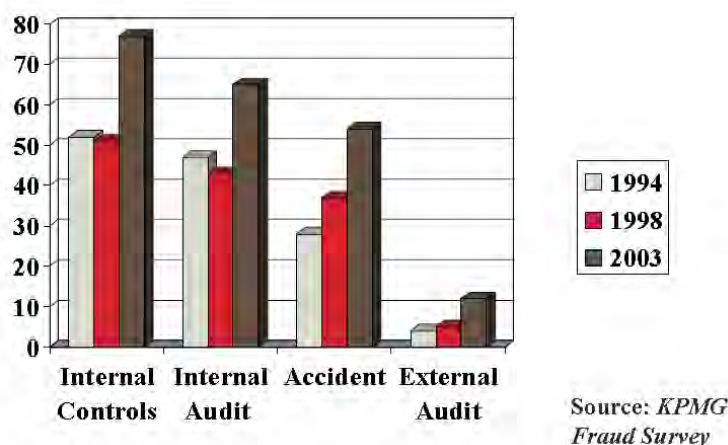
Source: Choa and Foote (2012)

	<b>Distinct</b>	<b>Ineffective</b>	
<b>Year</b>	<b>Registrants</b>	<b>Control</b>	<b>Percent</b>
		<b>Reports</b>	<b>Ineffective</b>
2010	8988	1710	19.03%
2011	8572	1698	19.81%
2012	8102	1583	19.54%

Therefore, there are factors that contribute to failure of internal control systems. The over materials ordered from site labor can be caused by the miscommunication among employees and supplier. The attitudes of internal control itself that are organized and coordinated with an ongoing task and deal with the interactions between the various departments may be lead to miscommunication. Besides that, the disciplines of employees also contribute to weakness of internal control systems in terms of documentation systems. Building materials and supplies were ordered and purchase directly by site workers without proper purchase orders. The consciousness of the procedures and guidelines that were set up by top managements do not comply strictly by employees occasionally. In addition, there are certain employees that are lack of skills in dealing with internal control systems, hence lead to weak handling internal control systems. The absence of the employee responsible for managing the system too will cause a slowdown in the control system or it can be related to other factors like tendering auditor resignations ( Randal, *et.al*, 2008). The weaknesses of internal control are also significantly related to increasing audit fees and issuing modified opinion ( Zhang, *et.al.*, 2008).

### 2.1.3 The Importance of Internal Control

The importance of internal control is very related to the risk of protecting the assets of the companies. It becomes necessary for the company towards avoiding any blurring bullets embarked the shield that acts to protect the assets (*Figure 2.3*). Therefore, it is important to companies protecting their assets by implementing the effective internal control. The effective internal control helps prevent and detect from fraud (Mark, 2008). Graph 2.1.2 shows that the statistic of companies that focused on the internal control for the Year 2003 is the highest compared to the Year 1994 (50) and Year 1998 (49).



Graph 2.1.2 The Statistic of Company that focused on internal control

Source: Mark S. Beasley (2007)

### 2.1.4 Objectives and Modifying Assumption of Internal Control

The internal control system is consists of policies, practices, and methods that were employed by the organization in order to achieve several broad objectives which are safeguarding the assets of the company, ensuring the accuracy, preciseness