

Internal Control Guide & Resources

Section 1- Internal Control Overview

Internal control involves all processes that assure achievement of an organization's objectives and that controls risks to an organization. It is a fundamental element of the Sarbanes-Oxley Act of 2002.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Integrated Framework is the most widely used internal control framework around the world. COSO is a voluntary private sector initiative dedicated to improving organizational performance and governance through effective internal control, enterprise risk management, and fraud deterrence. In May 2013, COSO released an update to modify their original framework to maintain relevance with current and future business environments. The updated framework applies to public companies, privately held companies, not-for-profit agencies and governmental entities. This Internal Control Guide provides guidance based upon this updated framework.

COSO defines internal control as “a process, effected by an entity's Board of Directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.” A more in depth review of the categories of objectives is provided below:

- *Operations Objectives* – These pertain to effectiveness and efficiency of the entity's operations, including operational and financial performance goals, and safeguarding assets against loss.
- *Reporting Objectives* – These pertain to internal and external financial and non-financial reporting and may encompass reliability, timeliness, transparency, or other terms set forth by regulators, standard setters, or the entity's policies.
- *Compliance Objectives* – These pertain to adherence to laws and regulations to which the entity is subject.

Management sets these objectives in specific and measurable terms before designing an entity's internal control system. Setting objectives establishes the criteria for setting controls which keep activities within the boundaries of what is allowed or expected by management. The process of setting objectives may be included as part of the strategic planning process.

Internal control is comprised of the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the organization. Management responsibilities for internal controls are met when:

- Programs and functions achieve their intended results (effective)

- Resource use is consistent with the agency mission (efficient)
- Laws and regulations are followed (compliance)
- Accurate and timely information is prepared (reliable reporting)

All objectives, controls, and desired levels of performance must be communicated to all personnel to ensure accountability in an internal control system. Everyone in the work place has a role in making sure that internal controls are working. It is up to managers to set them up and check that they are working, but unless every employee is aware of his/her responsibilities in the process, the control system will not be completely functional.

The following sections of OIA's Internal Control Guide will discuss the five integrated components of internal control and the 17 principles associated with them, as established by COSO's updated framework. Each component and principle is described and the applicability to management is explained.