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SERIES PRESENTATION



Lock It Down:

Smart Internal Control Basics for Every Team

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Agenda



Definition Of Internal Controls



What internal controls are and why they matter



Standards of Control



Application/Use



Q&A/Discussion

DEFINITION: INTERNAL CONTROLS



The

- Policies
- Procedures and
- Processes

an organization uses to ensure accurate financial reporting, safeguard assets, prevent fraud, and comply with law.

AS DEFINED IN ACCOUNTING AND AUDITING:

A process for assuring achievement of an organization's objectives in:

- Operational effectiveness and efficiency
- Accurate and reliable financial reporting, and
- Compliance with laws, regulations and policies





WHY INTERNAL CONTROLS MATTER

- Proactive approach to help: prevent errors and irregularities from occurring, being able to identify if they do, and having plans in place to address
- Essential for safeguarding public funds
- Protect assets (including employees)
- Minimize the opportunity for fraud
- Helps agencies be process-dependent instead of person-dependent
- Encourage and help ensure adherence to missions, policies, procedures, goals, objectives and law
- Funding
- Perception

FIVE STANDARDS FOR INTERNAL CONTROL



CONTROL ENVIRONMENT



TONE AND COMPLIANCE BEGINS AT THE TOP

Critical for upper management to endorse, support and lead by example to be successful.

WHERE TO START?



Entity Level Controls:

Organization-wide governance and oversight mechanisms that set the “tone at the top” and influence the reliability of all lower-level controls.

Consider threats that might have a pervasive effect on the entire organization

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Can you think of an example?

- Code of Conduct/Ethics Policy; Communication and enforcement of integrity and ethical values
- Corporate Governance Structure; Management's Attitude
- Risk Assessment & Management
- Management Review Process/Management Override
- IT Environment and Organization
- Whistleblower/Reporting Mechanism
- Access and Security
- Compliance Oversight
- Hiring, Training, Promotion and Retention Practices
- Policy Approval and Update Process
- Independent Monitoring and Self-Assessment

COMMON ENTITY-LEVEL CONTROLS

Entity-level controls shape the control environment, influence and design and effectiveness of process-level controls and are critical for compliance.

Weaknesses in entity-level controls can undermine the entire system.

Activity Level Controls





Are directly related to business activities

- Automated Transaction Monitoring
- Segregation of Duties
- Spending Caps, Debt Monitoring, Pre-Payment Checks
- Clear Lines of Authority & Dual Authorization
- System-Based Authorizations & Validations
- Periodic Reconciliations and Audits
- Compliance Checks
- Access Controls Tied to Specific Processes
- Inventory Reconciliations
- Training and Supervision
- Standard Operating Procedures

COMMON ACTIVITY LEVEL CONTROLS

Activity-level controls are targeted internal controls embedded within specific departments, sub-departments, or processes to identify, mitigate, and manage the risks inherent in those activities, ensuring operational integrity, compliance, and timely detection of errors or irregularities

The Fraud Triangle



RISK ASSESSMENT:

Identification and analysis of relevant risks (both internal and external) to achievement of objectives/function which forms a basis for determining how the risk should be managed.

When determining what actions are needed for a risk, consider two things:

- *How likely is the risk to happen?*
- *How serious would the impact be if it happened?*

Then decide to:

- *Avoid the risk if it is too dangerous*
- *Reduce the risk with controls (approvals, reviews, segregation of duties, monitoring, etc.)*
- *Transfer the risk to someone else (such as through insurance or contracts)*
- *Accept the risk if it is low and the cost/burden of additional controls outweighs the benefit*

CONTROL ACTIVITIES

Control activities are actions governed by **policies, procedures and actions** that help ensure objectives carried out.

First line of defense:

- People inside the trenches: those who perform day-to-day activities as part of regular duties
- Management at all levels – ensure staff follow procedures and that controls align with departmental/organizational goals

Second line of defense: risk management, compliance, legal and similar functions

- Clarify control requirements
- Develop policies
- Evaluate adherence



Third line of defense: (Internal Auditors)

- Independently assess whether controls are operating effectively
- Do not perform controls but instead evaluate and recommend change/improvements

Governing board – Provides expectations, governance, and oversight

INFORMATION AND COMMUNICATION

Information and communication systems support the **identification, capture, and exchange** of information in a form and time frame that enable management and other appropriate personnel people to carry out their responsibilities.





MONITORING:

A process that assesses the quality of internal control performance

Ongoing monitoring should be done periodically regarding the internal controls themselves

- To assure they are still effective
- Personnel should routinely obtain evidence to ensure functionality and to identify any problems

Audit Resolution:

- Management implements internal control recommendations from internal and independent auditors
- Corrects known deficiencies on a timely basis
- Responds appropriately to reports and recommendations

Internal control monitoring is the process of evaluating whether a control is operating as designed, being performed consistently, and achieving its intended purpose.



Wrap Up

Thank you

QUESTIONS?