

INTERNAL CONTROL SYSTEMS

Handouts for Video Presentation located on
website www.in.gov/sboa

INTRODUCTION

- The information on the following slides supplement and support the PowerPoint presentation on the Uniform Internal Control Standards for Indiana Political Subdivisions. This presentation is available on the State Board of Accounts website www.in.gov/sboa
- The presentation is available in webinar format to anyone who would like to review the information.

Why do we talk about internal controls then find it difficult to take action?

- Control systems are not uniform.
- They are not tangible.

They are not rocket science but in order to be effective they have to be more than just thoughts in the mind of management.

Summary of the Discussion

- Understanding Internal Control
 - 3 Categories of Objectives
 - 5 Components on Internal Control Systems
 - COSO/Green Book
 - Expanded guidance on the role of those in charge of governance in Internal Control Systems
 - Adjusted for increased dependence on IT
 - 17 principles under the 5 components
- Implementation

Definition of Effective Internal Control

An effective system of internal control requires that:

- Each of the 5 components and 17 principles are present and functioning and,
- The 5 components operate together in an integrated manner.

A major deficiency exists if the county cannot conclude that these are met.

Internal Control Framework



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Management's Objectives

- Operations
- Reporting
- Compliance



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Internal Control Components

- Control Environment
- Risk Assessment
- Control Activities
- Information & Communication
- Monitoring Activities



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Control Environment

- Set of standards, processes, and structures
- Tone at the top
- Integrity and ethical values of the political subdivision
- Includes performance measures, incentives, and rewards

Acts as the foundation for a sound system of internal control

Risk Assessment

Risk assessment requires management to consider the impact of possible changes in the external environment and within the political subdivision that may render internal control ineffective.

- Many organizations, take a risk-based approach to internal control
- Includes:
 - Risk Identification
 - Risk Analysis
 - Risk Response

Control Activities

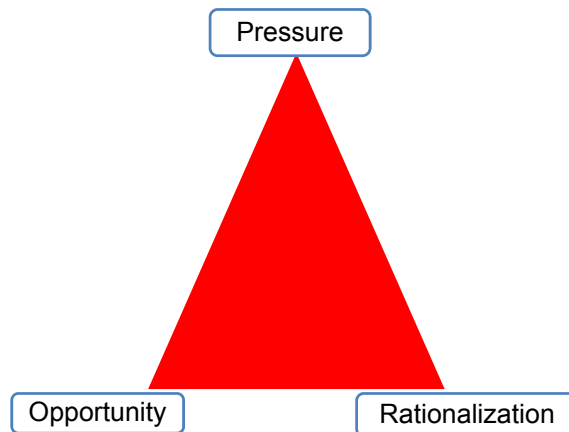
Control activities are the actions established through policies and procedures to mitigate risks to the achievement of objectives.

- Preventive or detective in nature
- Manual and automated activities
- Includes segregation of duties

Internal controls combat fraud and mistakes

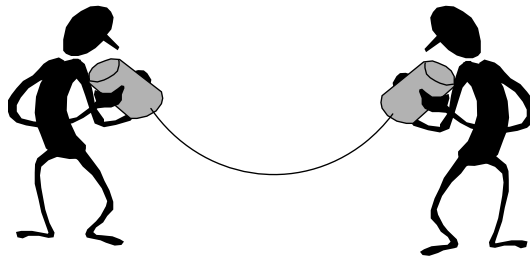
- Prevent Opportunity
- Detect Fraud, Errors and Omissions

Fraud Triangle



Information and Communication

- Emphasizes importance of quality information
- Volume and sources
- Complexity of processes
- Technology advances
- Greater interaction with 3rd party vendors



Monitoring Activities

Ongoing Evaluations

- Built into the business process at various levels
- Timely information

Separate Evaluations

- Conducted periodically
- Frequency will depend on assessment of risks and effectiveness of ongoing evaluations

New Principles

COSO/Green Book clarifies requirements for effective internal control with the 17 new principles

- Principles relate to a component of the internal control system
- Common sense

Control Environment

1. The oversight body and management demonstrate a commitment to integrity and ethical values.
2. The oversight body oversees the entity's internal control system.
3. Management establishes an organizational structure, assigns responsibility, and delegates authority to achieve the political subdivision's objectives.
4. Management demonstrates a commitment to attract, develop and retain competent individuals.
5. Management evaluates performance and holds individuals accountable for their internal control responsibilities.

Risk Assessment

6. Management defines objectives clearly to enable the identification of risks and defines risk tolerances.
7. Management identifies, analyzes and responds to risk related to achieving the defined objectives.
8. Management considers the potential for fraud when identifying, analyzing and responding to risks.
9. Management identifies analyzes, and responds to significant changes that could impact the internal control system.

Control Activities

10. Management designs control activities to achieve objectives and respond to risks.
11. Management designs the political subdivision's information system and related internal control activities to achieve objectives and respond to risks.
12. Management implements control activities through policies.

Information and Communication

- 13. Management uses quality information to achieve the political subdivision's objectives.
- 14. Management internally communicates the necessary quality information to achieve the political subdivision's objectives.
- 15. Management externally communicates the necessary quality information to achieve the entity's objectives.

Monitoring Activities

- 16. Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.
- 17. Management remediates identified internal control deficiencies on a timely basis.

Take it Step by Step and see where it leads you!

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication
5. Monitoring

Documentation

Start with documenting the 5 components in significant areas first.

- Cash handling
- Management's Goals
 - Customer Service
 - Compliance with Laws and Regulations

Find where there is risk that is not mitigated by internal control

- This is Risk identification
- Perform your risk analysis
- Respond to the risk
 - Implementing controls
 - Insurance
 - Acceptance of the Risk



Are you going to “trust” or “make sure” things are done right in your office?