

# INTERNAL CONTROL FRAMEWORK



DINWIDDIE COUNTY  
MANAGER TRAINING  
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# Why is Internal Control Important?

- Improves accountability in achieving the County's mission
- Helps the County adapt to shifting environments, evolving demands, changing risks, and new priorities
- Required by federal government for entities that receive federal funds
- Required by independent auditors as part of annual financial reporting

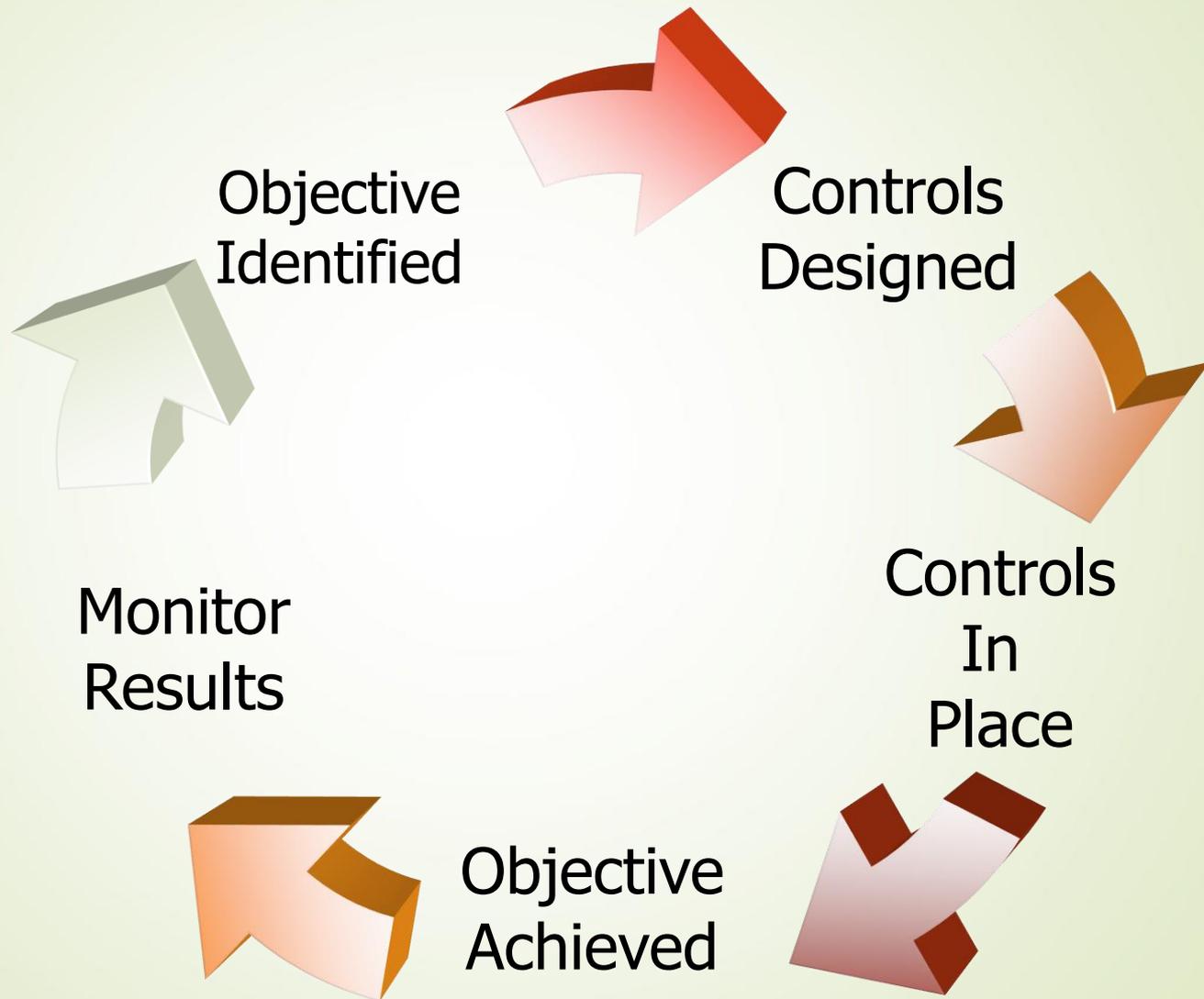


# What is Internal Control?

A **process** used by management to:

- ▶ Help the County achieve its **objectives**
- ▶ Run its **operations** efficiently and effectively
- ▶ **Report** reliable information about its operations
- ▶ **Comply** with applicable laws & regulations
- ▶ Applicable **entity-wide**, not just used by the accounting department

# Internal Control Process





# What is Internal Control?



The plans, methods, policies and procedures used to fulfill the mission, strategic plan, goals and objectives of the County



# What is Our Mission?



To ethically, efficiently serve our  
citizens and enhance the  
overall community



# What are Our Goals?

- Planned community development
  - Improved quality of life
  - A safe, secure community
  - Being good stewards of the public trust
  - Providing excellent customer service
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# What are Our Core Values?

- **Integrity:** consistently providing responsible, ethical service on personal and professional levels
- **Value-Added Customer Service:** the practice of providing solutions to problems and questions, not just responses
- **Teamwork:** Individuals sharing ideas and knowledge and uniting to work towards one mission and vision

# How Can We Better Achieve Our Mission and Goals?



Through application of the COSO Internal Control Integrated Framework Principles



# Categories of Objectives

- Operations
- Reporting
- Compliance

## Levels of Organizational Structure

- Function
- Operating Unit
- Division
- Entity



# Internal Control Components

- Control Environment
  - Risk Assessment
  - Control Activities
  - Information & Communication
  - Monitoring
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# What is the Control Environment?

- The foundation for internal control system
- Provides the discipline & structure to help the County achieve its objectives



# What are the Control Environment Principles?

- The BOS and management should demonstrate a commitment to integrity & ethical values.
- The BOS should oversee the internal control system.
- Management should establish an organizational structure, assign responsibility, and delegate authority to achieve objectives.
- Management should demonstrate a commitment to recruit, develop & retain competent individuals.
- Management should evaluate performance & hold individuals accountable for their internal control responsibilities.

# What are the Control Environment Attributes?

- Tone at the Top
- Standards of Conduct & Adherence to Those Standards
- Oversight Structure
- Oversight for the Internal Control System
- Input for Remediation of Deficiencies
- Organizational Structure
- Assignment of Responsibility & Delegation of Authority
- Documentation of Internal Control System
- Expectations of Competence
- Recruitment, Development, & Retention of Employees
- Succession & Contingency Plans & Preparation
- Enforcement of Accountability
- Consideration of Excessive Pressures

# What is Risk Assessment?

- Assessment of the risks that the County faces from both internal and external sources as it seeks to achieve its objectives
- Provides the basis for developing appropriate risk responses





# What are the Risk Assessment Principles?

- Management should define objectives clearly to enable the identification of risks and define risk tolerances.
- Management should identify, analyze, & respond to risks that:
  - Are related to achieving the defined objectives
  - Create potential for fraud
  - Cause significant changes that could impact the internal control system.



# What are the Risk Assessment Attributes?

- Definitions of Objectives
  - Definitions of Risk Tolerances
  - Identification of Risks
  - Analysis of Risks
  - Response to Risks
  - Types of Fraud
  - Fraud Risk Factors
  - Response to Fraud Risks
  - Identification of Change
  - Analysis of and Response to Change
- 



# What is Fraud?

- Types of Fraud:
    - Fraudulent financial reporting
    - Misappropriation of assets
    - Corruption
  - Fraud Risk Factors:
    - Incentive/pressure
    - Opportunity
    - Rationalization
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# What are Control Activities?

- ▶ The policies, procedures, techniques, and mechanisms that enforce management's directives
  - ▶ to achieve objectives
  - ▶ to respond to risks in the internal control system, which includes the information system





# What are the Control Activities Principles?

- Management should design control activities to achieve objectives and respond to risks.
  - Management should design the information system and related control activities to achieve objectives and respond to risks.
  - Management should implement control activities through policies.
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# What are the Control Activities Attributes?

- Response to Objectives & Risks
- Design of Appropriate Types of Control Activities at Various Levels
- Segregation of Duties
- Design of the Information System, Types of IT Control Activities, IT Infrastructure, Security Management, and IT Acquisition, Development & Maintenance
- Documentation of Responsibilities through Policies
- Periodic Review of Control Activities

# Common Categories of Control Activities

- ▶ Top-level reviews of actual performance
- ▶ Review by management at the functional or activity level
- ▶ Management of Human Capital
- ▶ Controls over Information Processing
- ▶ Physical control over vulnerable assets
- ▶ Establishment review of performance measures & indicators
- ▶ Segregation of Duties
- ▶ Proper execution of transactions
- ▶ Accurate & timely recording of transactions
- ▶ Access restrictions to & accountability for resources & records
- ▶ Appropriate documentation of transactions & internal control

# What is Information and Communication?

- Quality information supports the internal control system.
- Effective information & communication are vital in achieving objectives.
- Management needs access to relevant & reliable communication related to both internal & external events.





# What are the Information & Communication Principles?

- ▶ Management should use **quality** information to achieve objectives.
- ▶ Management should **internally** communicate the necessary quality information to achieve objectives.
- ▶ Management should **externally** communicate the necessary quality information to achieve objectives.



# What are the Information & Communication Attributes?

- Identification of Information Requirements
- Relevant Data from Reliable Sources
- Data Processed into Quality Information
- Communication Throughout the County & with External Parties
- Appropriate Methods of Communication
  - Audience
  - Nature of Information
  - Availability
  - Cost
  - Legal/Regulatory Requirements

# What is Monitoring?

- Internal control is a dynamic process that has to adapt to risks & changes that the County faces.
- Monitoring helps internal control remain aligned with changing objectives, environment, laws, resources & risks.
- Monitoring assesses the quality of performance over time & promptly resolves audit findings through corrective actions.





# What are the Monitoring Principles?

- Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.
  - Management should remediate identified internal control deficiencies on a timely basis.
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# What are the Monitoring Attributes?

- Establishment of a Baseline
  - Internal Control System Monitoring
  - Evaluation of Results
  - Reporting of Issues
  - Evaluation of Issues
  - Corrective Actions
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# Internal Control Summary

- The 5 components of internal control must be effectively designed, implemented, and operating, and also operating together in an integrated manner.
- The 17 principles support the effective design, implementation, and operation of the components.
- Documentation is required to demonstrate the design, implementation, and operating effectiveness of the internal control system.

