

Internal Controls

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People play an important role in growing the maturity of your internal controls program

"I never pick up an item without thinking of how I might improve it. I never perfected an invention that I did not think about in terms of the service it might give others."

-Thomas Edison

Internal controls are essential to any sustainable program you aim to build within your organization, and at their foundation are people. In the mindset of Thomas Edison, picking up a control and evaluating it is your opportunity to make it better and provide a service to all who use the control. It's on people to not only implement and follow internal controls, but to examine them and think about ways they can be made stronger.

To assess the maturity of the programmatic or global internal controls program at an entity, we at RF lean on the framework offered by the GAO Green Book. It lists five components that make up a strong internal controls program, and people are present throughout each of these components:

1. Control environment
2. Risk assessment
3. Control activities
4. Information and communication
5. Monitoring of each of the above components

When talking about the control environment, we are assessing an entity's commitment to integrity and ethical values, the established structure and responsibility with enforced accountability, and the commitment to competence. Is the drive for continuous improvement echoed throughout the company, from the top all the way down? Are staff held accountable for performing controls, and is risk-targeted

training being provided? Are staff positively recognized for identifying gaps and mitigating risk in an effort for continuous program improvement?

Rather than implementing internal controls in a reactive nature (such as in response to audit findings), is the entity proactively measuring and leveraging information to identify these areas of improvement? And when the entity identifies these opportunities, are they documented so they can be passed along? You may recall last year's Q2 article, ["Do You Have Documented Internal Controls?"](#), where we discussed on-the-job "fixes" and staff tribal knowledge that double as (often undocumented) internal controls.

In our evaluations of an internal controls program, we observe each entity's risk assessment. Is a periodic risk assessment – with clear, defined objectives – being performed? Does this assessment of risk include external interdependencies and quantify risk? Does it go beyond just compliance risk?

Of course, we also dive into control activities. We do this on a control-by-control basis as well, but when looking at the overall internal controls program, we have more broad questions: are the controls just in one business unit, or do they exist across the company? Are there layers of controls with measurable results that can be communicated and built upon? Are staff empowered and encouraged to improve upon processes?

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We assess the entity's information and communication strengths – again, is communication more reactive or is it proactive and periodic in nature? Is it limited to just within business units, or is data made available to appropriate personnel for opportunities to improve processes and controls? Perhaps data is aggregated across multiple business units, and the entity leverages that relevant information in helpful metrics and dashboards? Is the entity communicating not only internally, but externally? Is the entity interacting and measuring themselves with their peers, looking for best practices? Is information being collected to track potential deficiencies?

And finally, we assess the entity's monitoring activities. As mentioned previously and in the 2023 Internal Controls Workshop, relying on RF performing spot checks or audits should not be your sole monitoring activity. While it is important to ensure the entity is improving in response to CMEP activity results and in response to events, it is equally important for the entity to conduct periodic evaluations of their internal controls and internal controls program – ensuring controls are designed efficiently and are performed as expected.

When RF evaluates your internal controls program, we aren't looking to give you a violation or a PNC based on your program. A lack of established internal controls by itself does not indicate potential non-compliance. We know that internal controls are a critical component of risk-based auditing – the assurance of *continued* compliance. Your ability to demonstrate how your internal controls program makes your organization better – with the focus on always continuously improving – is what we at RF are truly looking for and want to celebrate success around.

A sustainable program built on strong internal controls starts with you. Focus on the people component of your internal controls program – people are important to establishing an active continuous improvement culture. From top executives to the individual

contributors and subject matter experts, everyone in your organization has a part to play.

If you are looking for more guidance or have an area or risk you'd like to focus on for an appraisal, please feel free to reach out to RF's Entity Engagement group.

Visit the [Contact Us](#) page on our website and select Entity Engagement from the drop-down menu to get in touch.

