

Background and Components of Internal Controls

Internal control is a process implemented by those charged with governance and management and is designed to provide reasonable assurance about the achievement of the chapter's objectives. The chapter's finance objectives fall into separate but related categories:

- Safeguarding its assets
- Checking the accuracy and reliability of its accounting data
- Promoting operational efficiency
- Encouraging adherence to policies for accounting and financial controls

This definition of internal control reflects the following fundamental concepts:

- Internal control is a process. It is not one event, but a series of ongoing actions and activities that occur throughout each chapter's operations and should be an integral part of each chapter.
- People are what make internal control work. While the responsibility for good internal control ultimately rests with chapter leadership, all chapter members play important roles.
- No matter how well designed and operated, internal control can provide only reasonable (not absolute) assurance that all chapter objectives will be met.

Each chapter, regardless of size, is required to adopt methods to periodically assess risk and to develop, implement, and review its system of internal controls. The methods should be tailored to the specific needs of the chapter.

There are five interrelated components of an internal control framework: control environment, risk assessment, control activities, information and communication, and monitoring. These components make up the minimum level of internal control a chapter needs to have in place and are the basis against which internal control is evaluated.

To implement the framework, chapter leadership develops the detailed policies, procedures, and practices to fit their chapter's operations, and ensures that they are built into and are an integral part of operations. If a chapter considers the framework components in its planning efforts and builds them into its processes, the chapter will be poised to achieve the maximum benefit for the lowest cost.

Control environment

The control environment of a chapter sets the tone of the chapter and influences the effectiveness of internal controls within it. The control environment is an intangible factor. Yet, it is the foundation for all other components of internal control, providing discipline and structure and encompassing both technical competence and ethical commitment.

Risk assessment

Risk assessment is the process of identifying risks to achieving chapter objectives; analyzing potential events, considering their likelihood of occurring and impact on achieving chapter objectives; and deciding how to respond to the risks.

Chapter Leadership should be aware of potential high-risk areas and should look for high risk where:

- There is a susceptibility to or history of waste, fraud, or errors
- Changes have occurred in the chapter's organizational structure, systems, or personnel
- Controls have not been reviewed for a substantial period of time

Control activities

Control activities help ensure risk responses are effectively carried out and include policies and procedures, approvals, authorizations, verifications, reconciliations, security over assets, and segregation of duties. These activities occur across a chapter, at all levels and in all functions, and are designed to help prevent or reduce the risk that chapter objectives will not be achieved.

Information and communication

A chapter's control structure must provide for the identification, capture and exchange of information both within the chapter and with external parties. Information communicated should be timely and accurate.

Monitoring

Monitoring evaluates the effectiveness of a chapter's internal controls and is designed to ensure that internal controls continue to operate effectively. Monitoring is effective when it leads to the identification and correction of control weaknesses *before* they **materially** affect the achievement of the chapter's objectives.

Succession Planning

As chapter leadership changes it is up to the incumbent leadership group to review with and train the incoming leaders on the control process that the chapter has adopted.