

Control Awareness Bulletin - Towards a Stronger Internal Controls System

As part of programs being initiated by the department of Risk and Internal Controls Services (RICS) to further enhance a positive control environment within the College, RICS will be sending, on need basis, Internal Control Awareness Bulletins to our colleagues at Dartmouth. We anticipate that it will support Management's intention of creating value adding control consciousness at the College.

This first bulletin in the series is intended to provide basic information on internal control, why internal control is necessary, and actions that can be taken to improve control processes in departments within the College. We expect that the contents of this bulletin will either present a new or familiar insight to our colleagues on the concept of internal control.

What is Internal Control?

Internal control is *"a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting [and] compliance with applicable laws and regulations."* (COSO control framework). The central theme of this definition is that internal control is a process designed and implemented within organizations to mitigate risks and achieve objectives. We can apply this definition to Dartmouth College and describe control as part of the risk mitigating measures implemented at the College and departmental levels to ensure the continued achievement of the vision and mission of Dartmouth College.

Internal Control Objective and Scope

According to several internal control surveys and literatures (for example, Institute of Internal Auditors publications), there is a convenient and common misconception that internal control is for individuals with accounting or control responsibilities. Contrary to this opinion, best practices have shown that an effective system of internal control is comprehensive and involve everyone throughout an entity. Controls are everyone's business and should be viewed as not a negative or policing process, but rather an inseparable companion to achievement of objectives.

Although the primary responsibility for implementing an effective control system within departments lies with the department management (directors, managers etc), it is essential from a team perspective that every member of the department become a partner in the process. The concept of internal control can be further explained from an analogy of a group of people about to travel in a car. The ability of this team to safely get to their destination (which is their objective) is dependent in part on the effective functioning of all control systems in the car (for example, the steering system for direction control). Internal controls in business environment work in the same way - they help organizations and its departments get to where they want to go while minimizing pitfalls and surprises.

Types of Controls

Building a strong system of internal control involves having adequate and effectively operated mix of preventive, detective and corrective control measures. Preventive controls are controls designed to deter unintended events (e.g. errors, omissions, irregularities, fraud, ineffective business decision making and noncompliance with laws and regulations) from occurring. Detective controls help to identify or discover undesirable events that have already occurred (that is, that were not adequately prevented) while corrective control are measures implemented to address gaps or lapses that resulted in occurrence of unintended events. Although all these types of controls are important, preventive controls are the most effective form of control.

Examples of these types of controls that should be implemented include: documented policies and procedures, adequate segregation of duties and responsibilities, a culture of high ethics and integrity, adequate documentation of transactions and records, proper authorization of transactions and activities, physical and logical controls over records and assets and adequate supervisory checks (verification, comparison and reconciliation activities).

Upcoming Opportunities

In addition to control awareness bulletins, RICS will soon announce the commencement of process improvement focused training sessions on Control and Audit related topics that will be available on the College event calendar for sign-up by interested employees and departments. These are additional consultative measures RICS is taking to proactively reinforce our collective responsibility, ownership and accountability in strengthening our internal controls system at Dartmouth.

We welcome questions, comments and any other input regarding this bulletin. Also, if there are any areas of your process that constitute a concern for you and/or your department and you think the office of RICS can help, please email or call any member of our team listed below.

Thank you for your time and attention.

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