

CONCEPT: FIVE COMPONENTS OF INTERNAL CONTROLS

- **Internal Controls** safeguard assets, make financial information more reliable, and ensure compliance with laws
 - The **COSO framework** provides a guide to creating effective internal controls

Five Components of Effective Internal Control

1. **Control Environment** – management must make it clear that the company values integrity
 - Organizational Structure; Management Operating Style “_____”; Employee Code of Conduct
2. **Risk Assessment** – identifying factors that create internal and external risks to the company
 - Competitive threats; Changes in regulation; weaknesses in Internal Controls
3. **Control Activities** – policies and procedures that address specific company risks
 - Physical Controls (safe, locks); Documentation Procedures (numbered documents)
 - *Separation of duties* – more than one person is necessary to complete a task
 - _____ and _____ custody of assets should be separated to different people
4. **Monitoring** – continually checking that internal controls are working correctly
5. **Information and Communication** must be captured in the system correctly and in a timely manner