



How internal control works in the real world

- **Internal control functions best as an integrated part of the business process.**
- **Management must value and endorse internal control for it to be effective.**
- **It takes time to get internal control right.**

You can read a textbook to learn about the theory behind internal control, but applying this theoretical knowledge to real world business processes is a separate, often more difficult, challenge.

Internal control functions best when it is integrated into the business process, and not considered a separate exercise. For instance, it is better for each employee to perform related control activities before moving on to the next step in the process, rather than have a manager perform all verifications after the process is complete. Both scenarios may mitigate the risk, but the embedded control activities are usually of higher quality and easier to sustain. As a result, everyone in the organization must understand and be able to apply internal control theory to their specific situation.

Management must value and endorse internal control for it to work effectively. Management support and direction in evaluating and influencing control environment and in encouraging business process risk assessments is the best way to promote strong internal controls throughout the organization. Employees responsible for daily control activities cannot succeed if they have conflicting priorities. Critical control activities should be identified and given higher work priority. Also, special attention to monitoring by managers will maintain strong controls for the long term.

Those looking for an easy answer to implementing internal control theory may be tempted simply to follow a checklist based on the COSO framework. However,

approaching internal control evaluation only through a checklist often results in a one-time exercise that may be incomplete and is difficult to sustain. To be effective, controls must be tailored to fit your process. Successful implementation of internal control in the real world is measured by the functionality and sustainability of the process, and not merely by the completion of a checklist.

It takes time to get internal control right. Managers should resist the urge to quickly throw together risk assessment documentation for compliance sake. They must do thorough work to identify key areas in which to start, get the right people to work on the assessment, and periodically reevaluate the effectiveness of the controls; all of which will take time and resources. The good news is that improving internal control in the real world results in real success.

Suggested action steps: Think about your business processes. Are control activities integrated into your business processes? Do they work well? Is there a plan in place to determine if controls are functioning as intended? Can internal control be sustained in these areas in the long run?

If you have questions, please contact Brennan Coatney at (651) 201-8127 or Brennan.Coatney@state.mn.us.