What is Internal Control?

Internal control is a method used by an institution's managers and personnel to maintain control over the work they perform. It is a comprehensive set of controls established to ensure that—in accordance with the administration's objectives, established policies, and legislation—

- activities are conducted effectively, economically, and efficiently,
- assets and resources are safeguarded,
- accounting records are maintained accurately and completely, and
- financial information and management systems generate timely and reliable data.

Furthermore, it is a dynamic process involving the entire administration and its employees, encompassing the administration's organizational structure, operations, duties, authorities, responsibilities, and decision-making processes.

What is the Purpose of Internal Control?

- To ensure the effective, economical, and efficient management of public revenues, expenditures, assets, and liabilities,
- To ensure that public administrations operate in compliance with laws and other regulations,
- To prevent irregularities and corruption in all types of financial decisions and transactions,
- To ensure the availability of regular, timely, and reliable reports and information for decision-making and monitoring,
- To prevent the misuse of assets and waste.

Legislation Regarding Internal Control

- Public Financial Management and Control Law No. 5018 (2003)
- Procedures and Principles Regarding Internal Control and Ex-Ante Financial Control (2005)
- Communiqué on Public Internal Control Standards (2007)
- Guide to the Action Plan for Compliance with Public Internal Control Standards (2009)

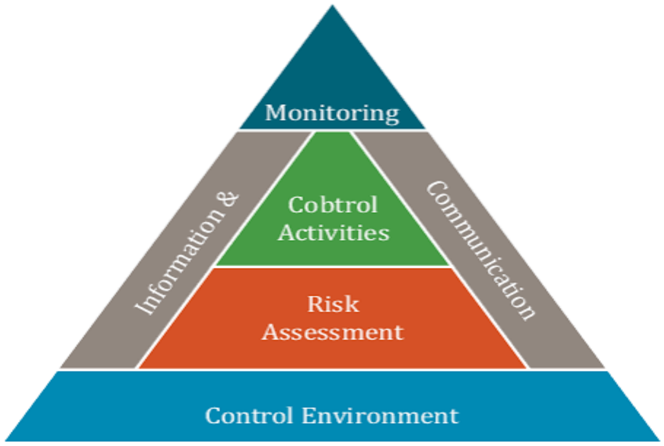
- ❖ Circular on Compliance with Public Internal Control Standards (2013)
- ❖ Public Internal Control Guide (2014)

The COSO Model of Internal Control

The COSO Model is the most widely recognized and internationally accepted model for internal control systems. (COSO: Committee of Sponsoring Organizations, 1992, Internal Control – Integrated Framework Report)

In the COSO Model, the internal control system consists of five interrelated components. These are:

1. Control environment
2. Risk assessment
3. Control activities
4. Information and communication
5. Monitoring



Source: COSO (1992)
Figure 1. Internal Control Integrated Framework

The COSO Pyramid

- ❖ The control environment provides a suitable foundation for a robust internal control system.
- ❖ By implementing control activities determined based on risk assessment results, obstacles to the organization's objectives are eliminated or minimized.
- ❖ Information and communication channels support all components and provide necessary information to management and staff.
- ❖ The system is improved through monitoring by management.