INTOSAI on A3

The **control environment** sets the tone of an organisation, influencing the control consciousness of its staff. It is the foundation for all other components of internal control, providing discipline and structure. Elements of the control environment are:
(1) the personal and professional **integrity** and **ethical** values of management and staff, including a supportive attitude toward internal control at all times throughout the organisation;
(2) **commitment** to competence;
(3) the "**tone at the top**" (i.e. management's philosophy and operating style);
(4) organisational **structure**;
(5) **human resource** policies and practices.

Risk assessment is the process of identifying and analysing relevant risks to the achievement of the entity's objectives and determining the appropriate response.
It implies:
(1) risk **identification**;
(2) risk **evaluation**;
(3) **assessment** of the risk appetite of the organization;
(4) development of **responses**.

Control activities are the policies and procedures established **to address risks** and to achieve the entity's objectives. To be effective, control activities must be appropriate, function consistently according to plan throughout the period, and be cost effective, comprehensive, reasonable and directly relate to the control objectives.
Control activities occur throughout the organisation, at all levels and in all functions. They include a range of detective and preventive control activities. Entities should reach an **adequate balance** between detective and preventive control activities. Corrective actions are a necessary complement to control activities in order to achieve the objectives.

Information systems imply specific types of control activities. Therefore information technology controls consist of two broad groupings:
(1) **General** Controls
(2) **Application** Controls
General and application controls are interrelated and both are needed to help ensure complete and accurate information processing. Because information technology changes rapidly, the associated controls must **evolve constantly** to remain effective.

Information
A precondition for reliable and relevant information is the prompt recording and proper classification of transactions and events. Pertinent information should **be identified, captured and communicated** in a form and timeframe that enables staff to carry out their internal control and other responsibilities (timely communication to the right people). Therefore, the internal control system as such and all transactions and significant events should be fully documented.
Information systems produce reports that contain operational, financial and non-financial, and compliance-related information and that make it possible to run and control the operation. They deal not only with internally generated data, but also information about external events, activities and conditions necessary to enable decision-making and reporting.
Management's ability to make appropriate decisions is affected by the quality of information which implies that the information should be appropriate, timely, current, accurate and accessible.
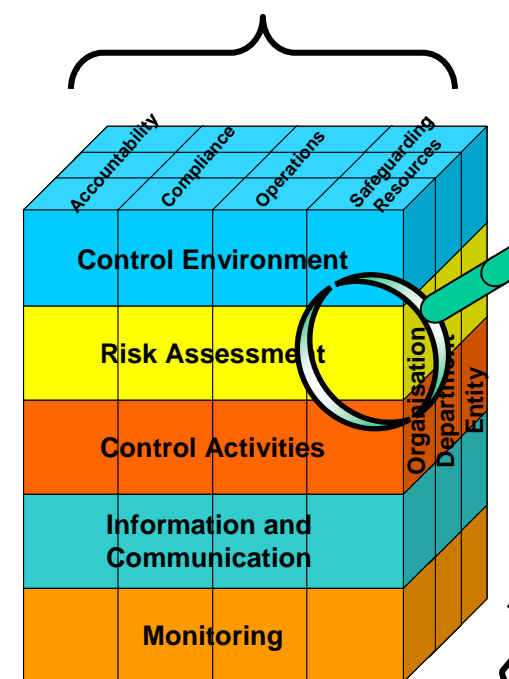
Communication
Effective communication should flow **down, across, and up** the organisation, throughout all components and the entire structure. All personnel should receive a clear message from top management that control responsibilities should be taken seriously. They should understand their own role in the internal control system, as well as how their individual activities relate to the work of others.
There also needs to be effective communication with external parties.

Internal control cannot by itself ensure the achievement of the general objectives defined earlier.

Internal control is an integral **process** that is effected by an entity's **management** and **personnel** and is designed to address **risks** and to provide **reasonable assurance** that in pursuit of the entity's **mission**, the following general **objectives** are being achieved:
- executing orderly, ethical, economical, efficient and effective **operations**;
- fulfilling **accountability** obligations;
- **complying** with applicable laws and regulations;
- **safeguarding resources** against loss, misuse and damage.

Internal control consists of five interrelated **components**:
- **control environment**
- **risk assessment**
- **control activities**
- **information and communication**
- **monitoring**

One can focus on any of the matrix's cells.

Internal control is not only relevant to an entire organisation but also to an individual department. This **relationship** is depicted by the third dimension, which represents
- entire **organisations**,
- **entities** and
- **departments**.

Internal control systems should be **monitored** to **assess the quality of the system's performance** over time. Monitoring is accomplished through:
(1) **Ongoing monitoring**
(2) **Separate evaluations**
or a combination of both.
The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Specific separate evaluations cover the evaluation of the effectiveness of the internal control system and ensure that internal control achieves the desired results based on predefined methods and procedures.
Internal control deficiencies should be **reported** to the appropriate level of management.
Monitoring should ensure that audit findings and recommendations are adequately and promptly **resolved**.