System of Internal Control and Company Policies

There are many specific definitions of *internal control*, which take slightly different meanings depending on which group of functions is involved. At the same time, the words frequently carry a narrow meaning of the accounting and auditing discipline. Conceptually, however, the idea of internal control has a wider significance, which can be summed up in this way: *internal control encompasses all steps to be taken by a company to make sure it doesn’t fail.* Even the standard accounting definition of internal control’s objectives, provided in Statement on Auditing Standards No. 55, issued by Audited Standards Board of American Institute of Certified Public Accountants (AICPA), goes outside narrow professional scope and includes:

- reliability of financial reporting;
- laws and regulation compliance; and
- operational effectiveness and efficiency.

Therefore, it is appropriate to use the term in its broadest context and include in the internal control structure all policies and procedures established...
within an organization, regardless of which aspect of the company’s activity they address.

The idea of control as an active process consists of five universally applicable components, which can be utilized in virtually any supervised structure:

- Creating a control environment, where people understand that they can rely on and must follow the system of monitored rules, which is achieved by delivering policies and procedures to employees.
- Assessing risk, which is not limited just to direct dangers, such as fraud, accidents, or violations of laws, but also includes isolating important tasks that need to be regulated to assure successful execution of a company’s strategies.
- Defining and implementing policies and procedures as guiding devices.
- Developing information-processing and communication systems that digest data and enable the delivery of vital results to interested parties.
- Designing monitoring mechanisms and applied control instruments that test the conformity, efficiency, and accuracy of all parts and players in the structure.

As central parts of the internal control architecture, *policies* are fundamental principles and rules that provide members of your organization with guidelines for the course of actions to be taken under certain circumstances and assist them in making decisions. They don’t actually outline the steps to follow, but instead give a general idea about the company’s stand on a particular issue. It is important that policies are explicitly defined, clearly explained, and diligently adapted by everyone. A well-formed policy should be useful in the normal course of business as well as in case of extraordinary events.

*Procedures*, on the other hand, are intended to detail how, when, and where the described tasks must be performed. Hence, they have to be designed as a series of steps intended to take a person through the process from the beginning to the end, accomplishing the desirable results. Procedures are formulated for repetitive tasks and together comprise the methodology of how business is conducted in your enterprise.

A great thing about policies and procedures is that they serve a dual purpose. They provide employees with the support system that removes uncertainty from their daily activities and instills a sense of confidence. At the same time, as part of the internal control framework, these rules and guides