

# Internal Controls and Management Information Systems

# What Are Internal Controls?

- Processes designed to provide reasonable assurance
  - Prevent and detect errors (including the safeguarding of assets)
  - Reliable financial reporting
  - Compliance with laws and regulations

# Basic Internal Control Functions

- Active and informed board
- Strong Audit Committee comprised of outside Directors
- Segregation of duties
- Rotation of personnel
- Enforced vacation policy
- Accurate accounting system

# Why Is An Internal Control System Important?

- Ensure accurate information
- Allow for sound decisions to be made
- Limit personal liability

# Effective Audit Program

- Enhances the credibility of financial statements
- Functions in-house or outsourced
- Provides direct and regular reports for the committee or board
- Establishes a culture that insists on strong controls

# Audit Committee Responsibilities

- Establish and approve the audit program
- Review findings
- Establish timeframes for corrective actions
- Follow up on recommendations

## Internal Audit – Red Flags

- Audits not directly reported to the committee or board
- Management influence over the scope of the auditor's work
- Management constraints on resources
- Reduction or increased turnover in internal audit staff

## Internal Audit – Red Flags Continued

- Adverse findings rarely noted
- Substantial differences between internal and external findings
- Failure to correct or address deficiencies
- Findings edited by management prior to approval



# Management Information Systems (MIS)

- Refers to reports reviewed and the system that supplies the data
- Information from various sources for users with diverse needs
- Quality, quantity and timeliness determine effectiveness

## Remember . . .

- Internal controls and audit function are essential
- Internal controls allow directors to remain well-informed
- Establishment and oversight are the responsibility of the board
- MIS provides pertinent, concise and meaningful information